

Edgar Filing: UNISYS CORP - Form 10-Q

UNISYS CORP
Form 10-Q
August 07, 2008

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 June 30, 2008

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

Number of shares of Common Stock outstanding as of June 30, 2008
359,564,203.

Edgar Filing: UNISYS CORP - Form 10-Q

Part I - FINANCIAL INFORMATION

Item 1. Financial Statements.

UNISYS CORPORATION CONSOLIDATED BALANCE SHEETS (Millions)

	June 30, 2008 (Unaudited)	December 31, 2007
	-----	-----
Assets		

Current assets		
Cash and cash equivalents	\$ 471.4	\$ 830.2
Accounts and notes receivable, net	991.1	1,059.2
Inventories:		
Parts and finished equipment	90.6	91.9
Work in process and materials	73.5	79.2
Deferred income taxes	18.0	18.0
Prepaid expenses and other current assets	155.9	133.7
	-----	-----
Total	1,800.5	2,212.2
	-----	-----
Properties	1,374.8	1,336.9
Less-Accumulated depreciation and amortization	1,057.9	1,004.7
	-----	-----
Properties, net	316.9	332.2
	-----	-----
Outsourcing assets, net	380.2	409.4
Marketable software, net	254.0	268.8
Prepaid postretirement assets	570.5	497.0
Deferred income taxes	93.8	93.8
Goodwill	203.7	200.6
Other long-term assets	134.4	123.1
	-----	-----
Total	\$3,754.0	\$4,137.1
	=====	=====
Liabilities and stockholders' equity		

Current liabilities		
Notes payable	\$.1	\$.1
Current maturities of long-term debt	3.2	204.3
Accounts payable	373.3	419.6
Other accrued liabilities	1,162.2	1,272.0
	-----	-----
Total	1,538.8	1,896.0
	-----	-----
Long-term debt	1,060.3	1,058.3
Long-term postretirement liabilities	406.1	420.7
Other long-term liabilities	358.4	395.5
	-----	-----
Stockholders' equity		
Common stock, shares issued: 2008; 361.8		
2007, 356.1	3.6	3.6
Accumulated deficit	(2,503.3)	(2,465.9)
Other capital	4,047.7	4,011.8
Accumulated other comprehensive loss	(1,157.6)	(1,182.9)
	-----	-----

Edgar Filing: UNISYS CORP - Form 10-Q

Stockholders' equity	390.4	366.6
	-----	-----
Total	\$3,754.0	\$4,137.1
	=====	=====

See notes to consolidated financial statements.

3

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

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
	----	----	----	----
Revenue				
Services	\$1,197.0	\$1,208.6	\$2,334.1	\$2,361.5
Technology	143.0	167.1	307.2	362.2
	-----	-----	-----	-----
	1,340.0	1,375.7	2,641.3	2,723.7
Costs and expenses				
Cost of revenue:				
Services	954.4	992.2	1,876.6	1,986.1
Technology	81.8	84.1	167.7	180.8
	-----	-----	-----	-----
	1,036.2	1,076.3	2,044.3	2,166.9
Selling, general and administrative	251.0	247.4	483.5	492.0
Research and development	30.2	49.5	62.9	91.9
	-----	-----	-----	-----
	1,317.4	1,373.2	2,590.7	2,750.8
	-----	-----	-----	-----
Operating profit (loss)	22.6	2.5	50.6	(27.1)
Interest expense	21.2	18.7	42.8	37.6
Other income (expense), net	(11.8)	(8.7)	(17.8)	16.8
	-----	-----	-----	-----
Loss before income taxes	(10.4)	(24.9)	(10.0)	(47.9)
Provision for income taxes	3.6	40.6	27.4	14.0
	-----	-----	-----	-----
Net loss	\$ (14.0)	\$ (65.5)	\$ (37.4)	\$ (61.9)
	=====	=====	=====	=====
Loss per share				
Basic	\$ (.04)	\$ (.19)	\$ (.10)	\$ (.18)
	=====	=====	=====	=====
Diluted	\$ (.04)	\$ (.19)	\$ (.10)	\$ (.18)
	=====	=====	=====	=====

See notes to consolidated financial statements.

4

Edgar Filing: UNISYS CORP - Form 10-Q

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

	Six Months Ended June 30	
	2008	2007
Cash flows from operating activities		
Net loss	\$ (37.4)	\$ (61.9)
Add (deduct) items to reconcile net loss to net cash provided by (used for) operating activities:		
Employee stock compensation	11.9	5.5
Company stock issued for U.S. 401(k) plan	23.9	23.0
Depreciation and amortization of properties	53.7	56.9
Depreciation and amortization of outsourcing assets	83.9	70.6
Amortization of marketable software	60.9	62.1
Disposals of capital assets	5.6	.3
Gain on sale of assets	-	(23.1)
Decrease in receivables, net	89.4	136.0
Decrease (increase) in inventories	9.8	(9.0)
Decrease in accounts payable and other accrued liabilities	(207.2)	(250.5)
Decrease in other liabilities	(16.6)	(50.9)
Increase in other assets	(80.8)	(39.9)
Other	5.2	(.2)
	-----	-----
Net cash provided by (used for) operating activities	2.3	(81.1)
	-----	-----
Cash flows from investing activities		
Proceeds from investments	3,276.9	3,942.4
Purchases of investments	(3,306.5)	(3,941.0)
Investment in marketable software	(45.4)	(48.9)
Capital additions of properties	(32.1)	(39.8)
Capital additions of outsourcing assets	(58.6)	(78.5)
Purchases of businesses	(1.8)	(1.6)
Proceeds from sale of businesses	-	27.7
	-----	-----
Net cash used for investing activities	(167.5)	(139.7)
	-----	-----
Cash flows from financing activities		
Net reduction in short-term borrowings	-	(.6)
Proceeds from exercise of stock options	-	11.3
Payment of long-term debt	(200.0)	-
Financing fees	(.8)	-
	-----	-----
Net cash (used for) provided by financing activities	(200.8)	10.7
	-----	-----
Effect of exchange rate changes on cash and cash equivalents	7.2	11.5
	-----	-----
Decrease in cash and cash equivalents	(358.8)	(198.6)
Cash and cash equivalents, beginning of period	830.2	719.3
	-----	-----
Cash and cash equivalents, end of period	\$ 471.4	\$ 520.7
	=====	=====

Edgar Filing: UNISYS CORP - Form 10-Q

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 that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates and assumptions.

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, 2007 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, 2007.

a. The following table shows how loss per share was computed for the three and six months ended June 30, 2008 and 2007 (dollars in millions, shares in thousands):

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
	----	----	----	----
Basic Loss Per Share				
Net loss	\$ (14.0)	\$ (65.5)	\$ (37.4)	\$ (61.9)
	=====	=====	=====	=====
Weighted average shares	358,167	348,958	356,482	347,690
	=====	=====	=====	=====
Basic loss per share	\$ (.04)	\$ (.19)	\$ (.10)	\$ (.18)
	=====	=====	=====	=====
Diluted Loss Per Share				
Net loss	\$ (14.0)	\$ (65.5)	\$ (37.4)	\$ (61.9)
	=====	=====	=====	=====
Weighted average shares	358,167	348,958	356,482	347,690
Plus incremental shares from assumed conversions				

Edgar Filing: UNISYS CORP - Form 10-Q

of employee stock plans	-	-	-	-
	-----	-----	-----	-----
Adjusted weighted average shares	358,167	348,958	356,482	347,690
	=====	=====	=====	=====
Diluted loss per share	\$ (.04)	\$ (.19)	\$ (.10)	\$ (.18)
	=====	=====	=====	=====

At June 30, 2008 and 2007, 34.3 million and 39.6 million, respectively, of employee stock options were not included in the computation of diluted earnings per share because either a loss was reported or the inclusion of stock options in the computation would have been antidilutive.

b. In October 2005, the company announced a plan to reduce its cost structure. As part of this plan, during the three months ended June 30, 2007, the company consolidated facility space and committed to an additional reduction of 551 employees. This resulted in a pretax charge in the quarter of \$33.3 million. The charge related to work force reductions of \$19.8 million is broken down as follows: (a) 425 employees in the U.S. for a charge of \$12.0 million and (b) 126 employees outside the U.S. for a charge of \$7.8 million. The facility charge of \$13.5 million principally relates to leased property that the company ceased using as of June 30, 2007. The facility charge represents the fair value of the liability at the cease-use date and was determined based on the remaining lease rental payments, reduced by estimated sublease rentals that could be reasonably obtained for the property. The pretax charge was recorded in the following statement of income classifications: cost of revenue-services, \$6.8 million; cost of revenue-technology, \$.5 million; selling, general and administrative expenses, \$16.5 million; research and development expenses, \$9.7 million; and other income (expense), net, \$.2 million. The income recorded in other income (expense), net relates to the minority shareholders' portion of the charge related to majority owned subsidiaries which are fully consolidated by the company.

6

For the six months ended June 30, 2007, pretax charges of \$66.0 million were recorded in the following statement of income classifications: cost of revenue-services, \$31.8 million; cost of revenue-technology, \$.5 million; selling, general and administrative expenses, \$18.6 million; research and development expenses, \$15.9 million; and other income (expense), net, \$.8 million.

There were no additional cost-reduction charges recorded during the three and six months ended June 30, 2008; however, a \$2.5 million change in estimate was recorded as expense in the current quarter compared with \$9.5 million recorded as income in the year-ago period, and a \$.8 million change in estimates was recorded as income in the current six-month period compared with \$15.7 million recorded as income in the year-ago six-month period. In addition, during the three months ended June 30, 2008, the company recorded a pretax charge of \$5.5 million in selling, general and administrative expense related to a lease guarantee.

A breakdown of the individual components of these costs follows (in millions of dollars):

	Headcount	Total	Work-Force Reductions		Idle Lease Cost
			U.S.	Int'l.	
	-----	-----	-----	-----	-----
Balance at December					
31, 2007	727	\$ 92.0	\$ 21.1	\$ 31.1	\$ 39.8
Utilized	(453)	(36.4)	(12.8)	(15.5)	(8.1)

Edgar Filing: UNISYS CORP - Form 10-Q

Changes in estimates and revisions	(141)	(.8)	1.2	(3.4)	1.4
Translation adjustments	-	1.1	-	.9	.2
	-----	-----	-----	-----	-----
Balance at June 30, 2008	133	\$ 55.9	\$ 9.5	\$ 13.1	\$ 33.3
	=====	=====	=====	=====	=====
Expected future utilization:					
2008 remaining six months	133	\$14.6	\$ 5.3	\$ 3.8	\$ 5.5
Beyond 2008		41.3	4.2	9.3	27.8

c. Net periodic pension expense (income) for the three and six months ended June 30, 2008 and 2007 is presented below (in millions of dollars):

	Three Months Ended June 30, 2008			Three Months Ended June 30, 2007		
	Total	U.S. Plans	Int'l. Plans	Total	U.S. Plans	Int'l. Plans
	-----	-----	-----	-----	-----	-----
Service cost	\$ 7.9	\$ -	\$ 7.9	\$ 11.0	\$ -	\$ 11.0
Interest cost	106.0	71.1	34.9	100.3	69.6	30.7
Expected return on plan assets	(142.6)	(101.6)	(41.0)	(133.3)	(97.3)	(36.0)
Amortization of prior service cost	.2	.2	-	.1	-	.1
Recognized net actuarial loss	18.2	14.9	3.3	33.3	24.4	8.9
Curtailement loss	1.5	-	1.5	-	-	-
	-----	-----	-----	-----	-----	-----
Net periodic pension expense (income)	\$ (8.8)	\$ (15.4)	\$ 6.6	\$ 11.4	\$ (3.3)	\$ 14.7
	=====	=====	=====	=====	=====	=====

7

	Six Months Ended June 30, 2008			Six Months Ended June 30, 2007		
	Total	U.S. Plans	Int'l. Plans	Total	U.S. Plans	Int'l. Plans
	-----	-----	-----	-----	-----	-----
Service cost	\$ 16.2	\$ -	\$ 16.2	\$ 21.8	\$.1	\$ 21.7
Interest cost	210.9	141.9	69.0	200.1	139.0	61.1
Expected return on plan assets	(285.3)	(203.7)	(81.6)	(266.5)	(194.9)	(71.6)
Amortization of prior service cost	.5	.4	.1	.3	-	.3
Recognized net actuarial loss	35.9	28.7	7.2	66.3	48.7	17.6
Curtailement loss	1.5	-	1.5	-	-	-
	-----	-----	-----	-----	-----	-----
Net periodic pension expense (income)	\$ (20.3)	\$ (32.7)	\$ 12.4	\$ 22.0	\$ (7.1)	\$ 29.1
	=====	=====	=====	=====	=====	=====

In April 2008, the company adopted changes to certain of its U.K. defined benefit pension plans whereby effective June 30, 2008 all future accruals of

Edgar Filing: UNISYS CORP - Form 10-Q

benefits under the plans ceased. As a result of this change, the company recorded a pretax curtailment loss of \$1.5 million in the second quarter of 2008. In addition, the company has enhanced its contributions to certain U.K. defined contribution plans, effective July 1, 2008. The changes to the U.K. plans are part of a global effort by the company to provide a competitive retirement program while controlling the level and volatility of retirement costs.

The company currently expects to make cash contributions of approximately \$82 million to its worldwide defined benefit pension plans in 2008 compared with \$78.7 million in 2007. For the six months ended June 30, 2008 and 2007, \$38.5 million and \$34.3 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 2008.

The expense related to the company's match to the U.S. 401(k) plan for the six months ended June 30, 2008 and 2007 was \$26.7 million and \$26.0 million, respectively. During the three months ended June 30, 2008 and 2007, the company recorded an expense for a true-up match related to the prior year in the amount of \$3.5 million and \$1.0 million, respectively.

Net periodic postretirement benefit expense for the three and six months ended June 30, 2008 and 2007 is presented below (in millions of dollars):

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
	-----	-----	-----	-----
Service cost	\$.1	\$ -	\$.4	\$ -
Interest cost	3.1	3.1	6.5	6.1
Expected return on assets	(.1)	(.2)	(.2)	(.3)
Amortization of prior service cost	.3	-	1.2	-
Recognized net actuarial loss	1.1	1.3	2.2	2.6
	-----	-----	-----	-----
Net periodic postretirement benefit expense	\$4.5	\$4.2	\$10.1	\$ 8.4
	=====	=====	=====	=====

The company expects to make cash contributions of approximately \$28 million to its postretirement benefit plan in 2008 compared with \$24.4 million in 2007. For the six months ended June 30, 2008 and 2007, \$10.2 million and \$16.7 million, respectively, of cash contributions have been made.

8

d. In February 2007, the company sold its media business for gross proceeds of \$27.7 million and recognized a pretax gain of \$23.1 million, which is included in other income (expense).

In March 2007, the company settled an income tax audit in the Netherlands and as a result, recorded a tax benefit of \$39.4 million.

e. Under the company's stockholder approved stock-based plans, stock options, stock appreciation rights, restricted stock and restricted stock units may be

Edgar Filing: UNISYS CORP - Form 10-Q

granted to officers, directors and other key employees. As of June 30, 2008, the company has granted non-qualified stock options and restricted stock units under these plans. At June 30, 2008, 22.0 million shares of unissued common stock of the company were available for granting under these plans.

For the six months ended June 30, 2008, 168,000 stock options were granted; there were no stock options granted during the six months ended June 30, 2007. The company currently expects that any future grants of stock option awards will be principally to newly hired individuals.

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:

	Six Months Ended June 30,	
	2008	2007
	-----	-----
Weighted-average fair value of grant	\$1.64	N/A
Risk-free interest rate	3.63%	N/A
Expected volatility	45.28%	N/A
Expected life of options in years	3.67	N/A
Expected dividend yield	-	-

For periods after January 1, 2006, the company has granted an annual restricted stock unit award to officers, directors and other key employees in lieu of an annual stock option grant. The restricted stock unit awards granted can contain both time-based units and performance-based units. 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 share-based expense in selling, general and administrative expense.

During the six months ended June 30, 2008 and 2007, the company recorded \$11.9 million and \$5.5 million of share-based compensation expense, respectively, which is comprised of \$11.6 million and \$5.3 million of restricted stock unit expense and \$.3 million and \$.2 million of stock option expense, respectively.

9

A summary of stock option activity for the six months ended June 30, 2008 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, 2007	37,452	\$16.99		
Granted	168	4.34		
Forfeited and expired	(3,358)	18.36		

Outstanding at June 30, 2008	34,262	16.78	2.67	\$ -
	=====			

Edgar Filing: UNISYS CORP - Form 10-Q

Vested and expected to vest at June 30, 2008	34,262 =====	16.78	2.67	-
Exercisable at June 30, 2008	33,784 =====	16.94	2.66	-

The aggregate intrinsic value represents the 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 June 30, 2008. 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 six months ended June 30, 2008 was zero since no options were exercised and the amount for the six months ended June 30, 2007 was \$2.8 million. As of June 30, 2008, \$0.6 million of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 1.8 years.

A summary of restricted stock unit activity for the six months ended June 30, 2008 follows (shares in thousands):

	Restricted Stock Units -----	Weighted- Average Grant Date Fair Value -----
Outstanding at December 31, 2007	4,346	\$7.65
Granted	6,517	4.12
Vested	(195)	7.14
Forfeited and expired	(1,201)	6.26

Outstanding at June 30, 2008	9,467 =====	5.41

The fair value of restricted stock units is determined based on the stock price of the company's common shares on the date of grant. The weighted-average grant-date fair value of restricted stock units granted during the six months ended June 30, 2008 and 2007 was \$4.12 and \$8.32, respectively. As of June 30, 2008, there was \$36.2 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 1.8 years. The total fair value of restricted share units vested during the six months ended June 30, 2008 and 2007 was \$0.8 million and \$2.9 million, respectively.

Common stock issued upon exercise of stock options or upon lapse of restrictions on restricted stock units are newly issued shares. Cash received from the exercise of stock options for the six months ended June 30, 2008 and 2007 was zero and \$11.3 million, respectively. The company is currently not recognizing any tax benefits from the exercise of stock options or upon issuance of stock upon lapse of restrictions on restricted stock units in light of its tax position. Tax benefits resulting from tax deductions in excess of the compensation costs recognized are classified as financing cash flows.

10

f. 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;

Edgar Filing: UNISYS CORP - Form 10-Q

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 June 30, 2008 and 2007 was \$5.7 million and \$1.3 million, respectively. The amount for the six months ended June 30, 2008 and 2007 was \$11.2 million and \$1.8 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. Therefore, the segment comparisons below exclude the cost reduction items mentioned in note (b).

A summary of the company's operations by business segment for the three and six month periods ended June 30, 2008 and 2007 is presented below (in millions of dollars):

	Total -----	Corporate -----	Services -----	Technology -----
Three Months Ended				
June 30, 2008				

Customer revenue	\$1,340.0		\$1,197.0	\$ 143.0
Intersegment	-	\$ (51.0)	2.7	48.3
	-----	-----	-----	-----
Total revenue	\$1,340.0	\$ (51.0)	\$1,199.7	\$ 191.3
	=====	=====	=====	=====
Operating income (loss)	\$ 22.6	\$ (9.6)	\$ 39.2	\$ (7.0)
	=====	=====	=====	=====
Three Months Ended				
June 30, 2007				

Customer revenue	\$1,375.7		\$1,208.6	\$ 167.1
Intersegment	-	\$ (47.4)	3.6	43.8
	-----	-----	-----	-----
Total revenue	\$1,375.7	\$ (47.4)	\$1,212.2	\$ 210.9
	=====	=====	=====	=====
Operating income (loss)	\$ 2.5	\$ (27.0)	\$ 30.7	\$ (1.2)
	=====	=====	=====	=====
Six Months Ended				
June 30, 2008				

Edgar Filing: UNISYS CORP - Form 10-Q

Customer revenue	\$2,641.3		\$2,334.1	\$ 307.2
Intersegment	-	\$ (94.7)	5.4	89.3
	-----	-----	-----	-----
Total revenue	\$2,641.3	\$ (94.7)	\$2,339.5	\$ 396.5
	=====	=====	=====	=====
Operating income (loss)	\$ 50.6	\$ (9.9)	\$ 65.9	\$ (5.4)
	=====	=====	=====	=====

11

Six Months Ended
June 30, 2007

Customer revenue	\$2,723.7		\$2,361.5	\$ 362.2
Intersegment	-	\$ (87.5)	7.5	80.0
	-----	-----	-----	-----
Total revenue	\$2,723.7	\$ (87.5)	\$2,369.0	\$ 442.2
	=====	=====	=====	=====
Operating income (loss)	\$ (27.1)	\$ (53.1)	\$ 19.2	\$ 6.8
	=====	=====	=====	=====

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

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
	----	----	----	----
Total segment operating income	\$ 32.2	\$ 29.5	\$ 60.5	\$ 26.0
Interest expense	(21.2)	(18.7)	(42.8)	(37.6)
Other income (expense), net	(11.8)	(8.7)	(17.8)	16.8
Cost reduction charges	-	(33.3)	-	(66.0)
Corporate and eliminations	(9.6)	6.3	(9.9)	12.9
	-----	-----	-----	-----
Total loss before income taxes	\$ (10.4)	\$ (24.9)	\$ (10.0)	\$ (47.9)
	=====	=====	=====	=====

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

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
	----	----	----	----
Services				
Systems integration and consulting	\$ 389.4	\$ 370.8	\$ 733.5	\$ 713.4
Outsourcing	520.2	504.7	1,014.7	973.8
Infrastructure services	191.9	224.2	393.6	458.8
Core maintenance	95.5	108.9	192.3	215.5
	-----	-----	-----	-----
	1,197.0	1,208.6	2,334.1	2,361.5

Edgar Filing: UNISYS CORP - Form 10-Q

Technology				
Enterprise-class servers	114.6	127.5	243.4	277.9
Specialized technologies	28.4	39.6	63.8	84.3
	-----	-----	-----	-----
	143.0	167.1	307.2	362.2
	-----	-----	-----	-----
Total	\$1,340.0	\$1,375.7	\$2,641.3	\$2,723.7
	=====	=====	=====	=====

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 June 30		Six Months Ended June 30	
	2008	2007	2008	2007
	-----	-----	-----	-----
United States	\$ 571.8	\$ 590.8	\$1,108.7	\$1,194.7
United Kingdom	200.1	226.9	409.6	447.2
Other international	568.1	558.0	1,123.0	1,081.8
	-----	-----	-----	-----
Total	\$1,340.0	\$1,375.7	\$2,641.3	\$2,723.7
	=====	=====	=====	=====

12

g. Comprehensive income (loss) for the three and six months ended June 30, 2008 and 2007 includes the following components (in millions of dollars):

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
	-----	-----	-----	-----
Net loss	\$ (14.0)	\$ (65.5)	\$ (37.4)	\$ (61.9)
Other comprehensive income (loss)				
Cash flow hedges				
Loss	(.1)	(.2)	(.6)	(.4)
Reclassification adj.	.2	.3	.5	.4
Foreign currency translation adjustments	13.5	24.3	-	29.4
Postretirement adjustments	19.4	23.2	25.4	55.4
	-----	-----	-----	-----
Total other comprehensive income	33.0	47.6	25.3	84.8
	-----	-----	-----	-----
Comprehensive income (loss)	\$ 19.0	\$ (17.9)	\$ (12.1)	\$ 22.9
	=====	=====	=====	=====

Accumulated other comprehensive income (loss) as of December 31, 2007 and June 30, 2008 is as follows (in millions of dollars):

		Cash Flow Hedges	Postretirement Plans
Total	Translation Adjustments		

Edgar Filing: UNISYS CORP - Form 10-Q

Balance at December 31, 2007	\$ (1,182.9)	\$ (595.3)	\$ -	\$ (587.6)
Change during period	25.3	-	(.1)	25.4
Balance at June 30, 2008	\$ (1,157.6)	\$ (595.3)	\$ (.1)	\$ (562.2)

h. 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 customers 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 quarterly assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. Presented below is a reconciliation of the aggregate product warranty liability (in millions of dollars):

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Balance at beginning of period	\$ 5.8	\$ 8.5	\$ 6.9	\$ 8.2
Accruals for warranties issued during the period	.7	1.1	1.4	2.5
Settlements made during the period	(.7)	(1.4)	(1.4)	(3.8)
Changes in liability for pre-existing warranties during the period, including expirations	(.7)	.4	(1.8)	1.7
Balance at June 30	\$ 5.1	\$ 8.6	\$ 5.1	\$ 8.6

13

i. Cash paid during the six months ended June 30, 2008 for income taxes was \$25.0 million compared with net cash refunds received during the six months ended June 30, 2007 of \$30.1 million, respectively.

Cash paid during the six months ended June 30, 2008 and 2007 for interest was \$38.2 million and \$41.8 million, respectively.

During the six months ended June 30, 2007, the company financed \$22.7 million of internal use software licenses.

Edgar Filing: UNISYS CORP - Form 10-Q

j. Effective January 1, 2008, the company adopted Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements. Accordingly, SFAS No. 157 does not require any new fair value measurements. In February 2008, the FASB deferred the effective date for one year for certain nonfinancial assets and nonfinancial liabilities. Adoption of SFAS No. 157 did not have an impact on the company's consolidated results of operations and financial position.

Effective January 1, 2008, the company adopted Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reportable in earnings. Adoption of SFAS No. 159 did not have an impact on the company's consolidated results of operations and financial position.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), "Business Combinations" (SFAS No. 141R). SFAS No. 141R replaces SFAS No. 141, "Business Combinations," and establishes 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. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, which is January 1, 2009 for the company. An entity may not apply it before that date. The company will adopt SFAS No. 141R for business combinations, if any, after January 1, 2009.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, "Noncontrolling Interest in Consolidated Financial Statements" (SFAS No. 160). SFAS No. 160 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. SFAS No. 160 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 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. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, which is January 1, 2009 for the company. Earlier adoption is prohibited. SFAS No. 160 shall be applied prospectively as of the beginning of the fiscal year in which the statement is initially applied, except for the presentation and disclosure requirements which shall be applied retrospectively for all periods presented. The company is currently assessing the impact of the adoption of SFAS No. 160 on its consolidated results of operations and financial position.

Edgar Filing: UNISYS CORP - Form 10-Q

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" (SFAS No. 161). SFAS No. 161 requires enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, which is January 1, 2009 for the company.

k. 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. In accordance with SFAS No. 5, "Accounting for Contingencies," 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 company is working cooperatively with the Civil Division. The company does not know whether the Civil Division will pursue the matter, or, if pursued, what effect this might have on the company.

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

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

Edgar Filing: UNISYS CORP - Form 10-Q

design for the new system and seeks approximately 21.4 million euros in damages. Unisys Germany believes it has valid defenses and has filed its defense and counterclaim in the amount of 1.5 million euros.

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 June 30, 2008, it has adequate provisions for any such matters.

15

1. The company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes," which requires 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. SFAS No. 109 also requires 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 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 has used 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 quarter to quarter depending on the geographic distribution of income.

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

Since late 2005, the company has been implementing a comprehensive, multi-year program to significantly enhance its profitability and competitive position in the information technology market. The repositioning program has involved fundamental changes to the company's business, from its strategic focus, to its sales and marketing efforts, to its cost structure and service delivery model. The program has also involved divestitures of non-core business areas, with the proceeds used to fund the cost-reduction efforts. In addition, in recent months, the company has been working with its Board of Directors on evaluating portfolio rationalization options to unlock value in the company's business and drive growth and success in the marketplace.

Edgar Filing: UNISYS CORP - Form 10-Q

The company has made significant progress in enhancing its profitability as a result of the repositioning program. For the first half of 2008, the company reported operating profit of \$50.6 million compared with an operating loss of \$27.1 million in the year-ago period. Services operating profit percent was 2.8% for the first half compared with 0.8% in the year-ago period. However, in the second quarter of 2008, the company's revenue and profitability have been impacted by a weaker economic environment, particularly in the financial services industry, as well as the ending of \$18.8 million of quarterly royalty revenue from a 2005 intellectual property agreement with Nihon Unisys Ltd. (NUL) that ended on March 31. In addition, in June 2008, the company learned of the decision by the U.S. Transportation Security Administration (TSA) that it had not selected the company to continue on to Phase 2 of the procurement for TSA's Information Technology Infrastructure Program (ITIP) contract providing for the establishment of secure information technology environments in airports. The company has filed a protest disputing this decision. The company began working for the TSA shortly after the agency was established and was instrumental in creating and managing the IT infrastructure that enabled the TSA to be mission-ready by November 2002. For 2007 the company recognized revenue of approximately \$225 million from the TSA.

16

RESULTS OF OPERATIONS COMPANY RESULTS

Revenue for the three months ended June 30, 2008 was \$1.34 billion compared with \$1.38 billion for the three months ended June 30, 2007, a decrease of 3% from the prior year. This decrease was due to a 1% decrease in Services revenue and a 14% decrease in Technology revenue. Foreign currency fluctuations had a 4-percentage-point positive impact on revenue in the current period compared with the year-ago period. U.S. revenue declined 3% in the second quarter compared with the year-ago period. International revenue declined 2% in the current quarter compared with the year-ago period principally due to declines in Europe and Japan, offset in part by increases in Latin America, Brazil, Asia and South Pacific. On a constant currency basis, international revenue declined 10% in the three months ended June 30, 2008 compared with the three months ended June 30, 2007.

During the three months ended June 30, 2007, the company consolidated facility space and committed to an additional reduction of 551 employees. This resulted in a pretax charge in the quarter of \$33.3 million. The charge related to work force reductions of \$19.8 million is broken down as follows: (a) 425 employees in the U.S. for a charge of \$12.0 million and (b) 126 employees outside the U.S. for a charge of \$7.8 million. The facility charge of \$13.5 million principally relates to leased property that the company ceased using as of June 30, 2007. The facility charge represents the fair value of the liability at the cease-use date and was determined based on the remaining lease rental payments, reduced by estimated sublease rentals that could be reasonably obtained for the property. The pretax charge was recorded in the following statement of income classifications: cost of revenue-services, \$6.8 million; cost of revenue-technology, \$.5 million; selling, general and administrative expenses, \$16.5 million; research and development expenses, \$9.7 million; and other income (expense), net, \$.2 million. The income recorded in other income (expense), net relates to the minority shareholders' portion of the charge related to majority owned subsidiaries which are fully consolidated by the company.

There were no additional cost-reduction charges recorded during the three months ended June 30, 2008; however, a \$2.5 million change in estimates was recorded as expense in the current quarter compared with a \$9.5 million change in estimate

Edgar Filing: UNISYS CORP - Form 10-Q

recorded as income in the year-ago period.

During the three months ended June 30, 2008, the company recorded a pretax charge of \$5.5 million in selling, general and administrative expense related to a lease guarantee (see note (b)).

For the three months ended June 30, 2008 pension income was \$8.8 million compared with pension expense of \$11.4 million for the three months ended June 30, 2007. The change in pension expense in 2008 from 2007 was principally due to increases in worldwide discount rates and prior years' higher returns on plan assets worldwide. The company records pension income or expense, as well as other employee-related costs such as payroll taxes and medical insurance costs, in operating income in the following income statement categories: cost of revenue; selling, general and administrative expenses; and research and development expenses. The amount allocated to each category is based on where the salaries of active employees are charged.

Total gross profit margin was 22.7% in the three months ended June 30, 2008 compared with 21.8% in the three months ended June 30, 2007. Included in the gross profit margin in 2007 were cost reduction charges of \$7.3 million. The change in gross profit margin excluding these charges principally reflects the benefits derived in 2008 from the prior-years' cost reduction actions as well as a decline in pension expense of \$15.0 million (income of \$6.6 million in 2008 compared with expense of \$8.4 million in 2007).

Selling, general and administrative expenses were \$251.0 million for the three months ended June 30, 2008 (18.7% of revenue) compared with \$247.4 million (18.0% of revenue) in the year-ago period. Included in selling, general and administrative expense in 2008 was \$5.5 million of expense related to the lease guarantee, discussed above, as well as higher pre-sales costs related to a number of large federal and public sector engagements. Included in 2007 were cost reduction charges of \$16.5 million. The change in selling, general and administrative expense also reflects the benefits derived in 2008 from the prior-years cost reduction actions as well as a decline in pension expense of \$3.8 million (income of \$.6 million in 2008 compared with expense of \$3.2 million in 2007).

17

Research and development (R&D) expenses in the second quarter of 2008 were \$30.2 million compared with \$49.5 million in the second quarter of 2007. The company continues to invest in proprietary operating systems, enterprise server operating systems, middleware and in key programs within its industry practices. Included in R&D expense in 2007 were cost reduction charges of \$9.7 million. The reduction in R&D in 2008 compared with 2007 excluding these charges principally reflects the benefits derived in 2008 from the prior-years' cost reduction actions.

For the second quarter of 2008, the company reported an operating profit of \$22.6 million compared with \$2.5 million in the second quarter of 2007. The principal items affecting the comparison of 2008 with 2007 are discussed above.

Interest expense for the three months ended June 30, 2008 was \$21.2 million compared with \$18.7 million for the three months ended June 30, 2007. The increase in interest expense was primarily due to increased interest rates related to the refinancing of the \$200 million 7 7/8% notes due 2008 with the company's \$210 million 12 1/2% notes due 2016.

Other income (expense), net, which can vary from period to period, was an expense of \$11.8 million in the second quarter of 2008, compared with expense of \$8.7 million in 2007. The change was principally due to foreign exchange gains

Edgar Filing: UNISYS CORP - Form 10-Q

and losses; a \$1.4 million gain was incurred in the three months ended June 30, 2007 compared with a \$2.5 million loss for the three months ended June 30, 2008.

Income (loss) before income taxes for the three months ended June 30, 2008 was a loss of \$10.4 million compared with a loss of \$24.9 million in 2007. The provision for income taxes was \$3.6 million in the current quarter compared with \$40.6 million in the year-ago period. Included in the current period tax provision is a benefit of \$5.1 million related to prior years' intercompany royalties. The net loss for the three months ended June 30, 2008 was \$14.0 million, or \$.04 per share, compared with a net loss of \$65.5 million, or \$.19 per share, for the three months ended June 30, 2007.

As discussed in note (1), the company accounts for income taxes in accordance with SFAS No. 109, "Accounting 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.

Revenue for the six months ended June 30, 2008 was \$2.64 billion compared with \$2.72 billion for the six months ended June 30, 2007, a decrease of 3% from the prior year. This decrease was due to a 1% decrease in Services revenue and a 15% decrease in Technology revenue. Foreign currency fluctuations had a 5-percentage-point positive impact on revenue in the current period compared with the year-ago period. On a constant currency basis, international revenue declined 8% in the six months ended June 30, 2008 compared with the six months ended June 30, 2007.

For the six months ended June 30, 2008 pension income was \$20.3 million compared with pension expense of \$22.0 million for the six months ended June 30, 2007.

Total gross profit margin was 22.6% in the six months ended June 30, 2008 compared with 20.4% in the six months ended June 30, 2007. Included in the gross profit margin in 2007 were cost reduction charges of \$32.3 million. The change in gross profit margin reflects the benefits derived in 2008 from the prior-years' cost reduction actions as well as a decline in pension expense of \$32.0 million (income of \$15.7 million in 2008 compared with expense of \$16.3 million in 2007).

Selling, general and administrative expenses were \$483.5 million for the six months ended June 30, 2008 (18.3% of revenue) compared with \$492.0 million (18.1% of revenue) in the year-ago period. Included in selling, general and administrative expense in 2008 was \$5.5 million of expense related to a lease guarantee (discussed above), as well as higher pre-sales costs related to a number of large federal and public sector engagements. Included in 2007 were cost reduction charges of \$18.6 million. The change in selling, general and administrative expense also reflects the benefits derived in 2008 from the prior-years cost reduction actions as well as a decline in pension expense of \$7.4 million (income of \$1.2 million in 2008 compared with expense of \$6.2 million in 2007).

18

Research and development (R&D) expenses in the first half of 2008 were \$62.9 million compared with \$91.9 million in the first half of 2007. Included in R&D expense in 2007 were cost reduction charges of \$15.9 million. The reduction in

Edgar Filing: UNISYS CORP - Form 10-Q

R&D in 2008 compared with 2007 excluding these charges principally reflects the benefits derived in 2008 from the prior-years' cost reduction actions.

For the first half of 2008, the company reported an operating profit of \$50.6 million compared with an operating loss of \$27.1 million in the first half of 2007. The principal items affecting the comparison of 2008 with 2007 are discussed above.

Interest expense for the six months ended June 30, 2008 was \$42.8 million compared with \$37.6 million for the six months ended June 30, 2007. The increase in interest expense was primarily due to increased interest rates related to the refinancing discussed above.

Other income (expense), net was an expense of \$17.8 million for the six months ended June 30, 2008, compared with income of \$16.8 million in 2007. Other income (expense) for the six months ended June 30, 2007 principally reflects a gain of \$23.1 million on the sale of the company's media business (see note (d)). In addition, for the six months ended June 30, 2008, other income (expense) includes foreign exchange losses of \$2.8 million compared with gains of \$6.3 million in the year-ago period.

Income (loss) before income taxes for the six months ended June 30, 2008 was a loss of \$10.0 million compared with a loss of \$47.9 million in 2007. The provision for income taxes was \$27.4 million in the current period compared with \$14.0 million in the year-ago period. Included in the current period tax provision is a benefit of \$5.1 million related to prior years' intercompany royalties. The tax provision in the prior year six-month period included a \$39.4 million benefit related to the Netherlands income tax audit settlement (see note (d)).

For the six months ended June 30, 2008, the company reported a net loss of \$37.4 million, or \$.10 per share, compared with a net loss of \$61.9 million, or \$.18 per share, for the six months ended June 30, 2007. The prior year six-month period includes pretax charges relating to cost reduction actions of \$66.0 million.

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 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 agreements. The amount of such profit included in operating income of the Technology segment for the three months ended June 30, 2008 and 2007 was \$5.7 million and \$1.3 million, respectively. The amount for the six months

Edgar Filing: UNISYS CORP - Form 10-Q

ended June 30, 2008 and 2007 was \$11.2 million and \$1.8 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. Therefore, the segment comparisons below exclude the cost reduction items mentioned above.

19

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

	Total -----	Elimi- nations -----	Services -----	Technology -----
Three Months Ended June 30, 2008 -----				
Customer revenue	\$1,340.0		\$1,197.0	\$ 143.0
Intersegment	-	\$ (51.0)	2.7	48.3
Total revenue	\$1,340.0 =====	\$ (51.0) =====	\$1,199.7 =====	\$ 191.3 =====
Gross profit percent	22.7% =====		19.2% =====	39.2% =====
Operating profit (loss) percent	1.7% =====		3.3% =====	(3.7)% =====
Three Months Ended June 30, 2007 -----				
Customer revenue	\$1,375.7		\$1,208.6	\$167.1
Intersegment	-	\$ (47.4)	3.6	43.8
Total revenue	\$1,375.7 =====	\$ (47.4) =====	\$1,212.2 =====	\$210.9 =====
Gross profit percent	21.8 % =====		17.3 % =====	43.3 % =====
Operating profit (loss) percent	.2 % =====		2.5 % =====	(.6)% =====

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

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

	Three Months Ended June 30 -----		Percent Increase (Decrease) -----
	2008 ----	2007 ----	
Services			
Systems integration			

Edgar Filing: UNISYS CORP - Form 10-Q

and consulting	\$ 389.4	\$ 370.8	5.0 %
Outsourcing	520.2	504.7	3.1 %
Infrastructure services	191.9	224.2	(14.4)%
Core maintenance	95.5	108.9	(12.3)%
	-----	-----	
	1,197.0	1,208.6	(1.0)%
Technology			
Enterprise-class servers	114.6	127.5	(10.1)%
Specialized technologies	28.4	39.6	(28.3)%
	-----	-----	
	143.0	167.1	(14.4)%
	-----	-----	
Total	\$1,340.0	\$1,375.7	(2.6)%
	=====	=====	

In the Services segment, customer revenue was \$1.20 billion for the three months ended June 30, 2008 down 1.0% from the three months ended June 30, 2007. Foreign currency translation had a 4-percentage-point positive impact on Services revenue in current quarter compared with the year-ago period.

Revenue from systems integration and consulting increased 5.0% from \$370.8 million in the June 2007 quarter to \$389.4 million in the June 2008 quarter.

Outsourcing revenue increased 3.1% for the three months ended June 30, 2008 to \$520.2 million compared with the three months ended June 30, 2007, led by an increase in information technology outsourcing (ITO).

20

Infrastructure services revenue declined 14.4% for the three month period ended June 30, 2008 compared with the three month period ended June 30, 2007 due to weakness in demand for network design and consulting projects and the shift of project-based infrastructure work to managed outsourcing contracts, all of which is expected to continue.

Core maintenance revenue declined 12.3% in the current quarter compared with the prior-year quarter. The decline in core maintenance was due to the secular decline in core maintenance as well as lower maintenance on high-volume, high-margin check sorting equipment. The company expects the high single-digit secular decline of core maintenance to continue.

Services gross profit was 19.2% in the second quarter of 2008 compared with 17.3% in the year-ago period. Services operating profit percent was 3.3% in the three months ended June 30, 2008 compared with 2.5% in the three months ended June 30, 2007. The increase in Services margins was principally due to the benefits derived from the cost reduction actions as well as a decline in pension expense in gross profit of \$14.6 million (income of \$6.1 million for the three months ended June 30, 2008 compared with expense of \$8.5 million in the year-ago period) and a decline in pension expense in operating income of \$17.8 million (income of \$6.5 million for the three months ended June 30, 2008 compared with expense of \$11.3 million in the year-ago period).

In the Technology segment, customer revenue was \$143 million in the current quarter compared with \$167 million in the year-ago period for a decrease of 14.4%. The decline in Technology revenue reflects the NUL revenue decline beginning in the current quarter due to expiration of the one-time fixed royalty fee of \$225 million under an agreement executed in 2005. 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

Edgar Filing: UNISYS CORP - Form 10-Q

this royalty from NUL contributed almost 11 percentage points of the technology segment's 14% decline in revenue. Foreign currency translation had a positive impact of approximately 5-percentage points on Technology revenue in the current period compared with the prior-year period.

Revenue for the company's enterprise-class servers, which includes the company's ClearPath and ES7000 product families, decreased 10.1% for the three months ended June 30, 2008 compared with the three months ended June 30, 2007. The company expects the secular decline of enterprise-class servers to continue.

Revenue from specialized technologies, which includes the company's payment systems products, third-party technology products and royalties from the company's agreement with NUL, decreased 28.3% for the three months ended June 30, 2008 compared with the three months ended June 30, 2007. The decline was principally due to the ending of the NUL royalties, discussed above.

Technology gross profit was 39.2% in the current quarter compared with 43.3% in the year-ago quarter. Technology operating loss percent was (3.7)% in the three months ended June 30, 2008 compared with (.6)% in the three months ended June 30, 2007. The decline in operating profit margin in 2008 compared with 2007 primarily reflects the NUL revenue decline, discussed above, as well as the continuing secular decline in enterprise servers.

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

	Total -----	Elimi- nations -----	Services -----	Technology -----
Six Months Ended June 30, 2008 -----				
Customer revenue	\$2,641.3		\$2,334.1	\$ 307.2
Intersegment	-	\$ (94.7)	5.4	89.3
	-----	-----	-----	-----
Total revenue	\$2,641.3	\$ (94.7)	\$2,339.5	\$ 396.5
	=====	=====	=====	=====
Gross profit percent	22.6%		18.8%	41.1%
	=====		=====	=====
Operating profit (loss) percent	1.9%		2.8%	(1.4)%
	=====		=====	=====

21

Six Months Ended June 30, 2007 -----				
Customer revenue	\$2,723.7		\$2,361.5	\$362.2
Intersegment	-	\$ (87.5)	7.5	80.0
	-----	-----	-----	-----
Total revenue	\$2,723.7	\$ (87.5)	\$2,369.0	\$442.2
	=====	=====	=====	=====
Gross profit percent	20.4 %		16.2 %	43.3 %
	=====		=====	=====
Operating profit (loss) percent	(1.0)%		.8 %	1.5%
	=====		=====	=====

Edgar Filing: UNISYS CORP - Form 10-Q

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

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

	Six Months Ended June 30		Percent Increase (Decrease)
	2008	2007	
Services			
Systems integration and consulting	\$ 733.5	\$ 713.4	2.8 %
Outsourcing	1,014.7	973.8	4.2 %
Infrastructure services	393.6	458.8	(14.2)%
Core maintenance	192.3	215.5	(10.8)%
	-----	-----	
	2,334.1	2,361.5	(1.2)%
Technology			
Enterprise-class servers	243.4	277.9	(12.4)%
Specialized technologies	63.8	84.3	(24.3)%
	-----	-----	
	307.2	362.2	(15.2)%
	-----	-----	
Total	\$2,641.3	\$2,723.7	(3.0)%
	=====	=====	

In the Services segment, customer revenue was \$2.34 billion for the six months ended June 30, 2008 down 1.2% from the six months ended June 30, 2007. Foreign currency translation had a 5-percentage-point positive impact on Services revenue in current period compared with the year-ago period.

Revenue from systems integration and consulting increased 2.8% from \$713.4 million in the first half of 2007 to \$733.5 million in the first half of 2008.

Outsourcing revenue increased 4.2% for the six months ended June 30, 2008 to \$1,014.7 million compared with the six months ended June 30, 2007, led by an increase in information technology outsourcing (ITO).

Infrastructure services revenue declined 14.2% for the six month period ended June 30, 2008 compared with the six month period ended June 30, 2007 due to weakness in demand for network design and consulting projects and the shift of project-based infrastructure work to managed outsourcing contracts, all of which is expected to continue.

Core maintenance revenue declined 10.8% in the current period compared with the prior-year period. The company expects the secular decline of core maintenance to continue.

Services gross profit was 18.8% in the first half of 2008 compared with 16.2% in the year-ago period. Services operating profit percent was 2.8% in the six months ended June 30, 2008 compared with .8% in the six months ended June 30, 2007. The increase in Services margins was principally due to the benefits derived from the cost reduction actions as well as a decline in pension expense in gross profit of \$31.1 million (income of \$14.6 million for the six months ended June 30, 2008 compared with expense of \$16.5 million in the year-ago period) and a decline in pension expense in operating income of \$37.2 million (income of \$15.4 million for the six months ended June 30, 2008 compared with expense of \$21.8 million in the year-ago period).

In the Technology segment, customer revenue was \$307 million in the current period compared with \$362 million in the year-ago period for a decrease of 15.2%. The decline in Technology revenue reflects the NUL revenue decline of \$18.8 million per quarter beginning in the June 2008 quarter, as discussed above. Foreign currency translation had a positive impact of approximately 5-percentage points on Technology revenue in the current period compared with the prior-year period.

Revenue for the company's enterprise-class servers, which includes the company's ClearPath and ES7000 product families, decreased 12.4% for the six months ended June 30, 2008 compared with the six months ended June 30, 2007. The company expects the secular decline of enterprise-class servers to continue.

Revenue from specialized technologies, which includes the company's payment systems products, third-party technology products and royalties from the company's agreement with NUL, decreased 24.3% for the six months ended June 30, 2008 compared with the six months ended June 30, 2007. The decline was principally due to the ending of the NUL royalties, discussed above.

Technology gross profit was 41.1% in the six months ended June 30, 2008 compared with 43.3% in the six months ended June 30, 2007. Technology operating profit (loss) percent was (1.4)% in the current period compared with 1.5% in the year-ago period. The decline in operating profit margin in 2008 compared with 2007 primarily reflects the NUL revenue decline discussed above as well as the continuing secular decline in enterprise servers.

NEW ACCOUNTING PRONOUNCEMENTS

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

FINANCIAL CONDITION

Cash and cash equivalents at June 30, 2008 were \$471.4 million compared with \$830.2 million at December 31, 2007.

During the six months ended June 30, 2008, cash provided by operations was \$2.3 million compared with cash usage of \$81.1 million for the six months ended June 30, 2007. The improvement in operating cash flow was primarily driven by a lower net loss and working capital management. In addition, the prior year period included a tax refund of approximately \$58 million. Cash expenditures in the current-year period related to cost-reduction actions (which are included in operating activities) were approximately \$43 million compared with \$87 million for the prior-year period. Cash expenditures for prior year cost-reduction actions are expected to be approximately \$15 million for the remainder of 2008, resulting in an expected cash expenditure of approximately \$58 million in 2008 compared with \$151.7 million in 2007.

Cash used for investing activities for the six months ended June 30, 2008 was \$167.5 million compared with cash usage of \$139.7 million during the six months ended June 30, 2007. Items affecting cash used for investing activities were the following: Net purchases of investments were \$29.6 million for the six months ended June 30, 2008 compared with net proceeds of \$1.4 million in the prior-year period. Proceeds from investments and purchases of investments

Edgar Filing: UNISYS CORP - Form 10-Q

represent derivative financial instruments used to manage the company's currency exposure to market risks from changes in foreign currency exchange rates. In addition, in the current period, the investment in marketable software was \$45.4 million compared with \$48.9 million in the year-ago period, capital additions of properties were \$32.1 million in 2008 compared with \$39.8 million in 2007 and capital additions of outsourcing assets were \$58.6 million in 2008 compared with \$78.5 million in 2007. Cash used for investing activities in the six months ended June 30, 2007 included \$27.7 million of proceeds from the sale of the company's media business. During the six months ended June 30, 2007, the company financed \$22.7 million of internal use software licenses.

Cash used for financing activities during the six months ended June 30, 2008 was \$200.8 million compared with \$10.7 million of cash provided during the six months ended June 30, 2007. The change 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 June 30, 2008, total debt was \$1.06 billion, a decrease of \$199.1 million from December 31, 2007.

23

The company has a three-year, secured revolving credit facility which expires in May 2009 that provides for loans and letters of credit up to an aggregate of \$275 million. Borrowings under the facility bear interest based on short-term rates and the company's credit rating. The credit agreement contains customary representations and warranties, including no material adverse change in the company's business, results of operations or financial condition. It also contains financial covenants requiring the company to maintain certain interest coverage, leverage and asset coverage ratios and a minimum amount of liquidity, which could reduce the amount the company is able to borrow. The credit facility also includes covenants limiting liens, mergers, asset sales, dividends and the incurrence of debt. Events of default include nonpayment, failure to perform covenants, materially incorrect representations and warranties, change of control and default under other debt aggregating at least \$25 million. If an event of default were to occur under the credit agreement, the lenders would be entitled to declare all amounts borrowed under it immediately due and payable. The occurrence of an event of default under the credit agreement could also cause the acceleration of obligations under certain other agreements and the termination of the company's U.S. trade accounts receivable facility, discussed below. The credit facility is secured by the company's assets, except that the collateral does not include accounts receivable that are subject to the receivable facility, U.S. real estate or the stock or indebtedness of the company's U.S. operating subsidiaries. As of June 30, 2008, there were letters of credit of \$64.5 million issued under the facility and there were no cash borrowings.

In addition, the company and certain international subsidiaries have access to uncommitted lines of credit from various banks. Other sources of short-term funding are operational cash flows, including customer prepayments, and the company's U.S. trade accounts receivable facility.

On May 16, 2008, the company entered into a new three-year, U.S. trade accounts 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. The facility replaces the company's U.S. trade accounts receivable facility that was scheduled to terminate on May 28, 2008. Under the new facility, receivables are sold at a discount that reflects, among other things, a yield based on LIBOR. The new 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

Edgar Filing: UNISYS CORP - Form 10-Q

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 company's 6.875% Senior Notes due 2010 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 both June 30, 2008 and December 31, 2007, the company had sold \$140 million of eligible receivables.

At June 30, 2008, 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 believes that it will have adequate sources and availability of short-term funding to meet its expected cash requirements.

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 a registration statement covering \$440 million of debt or equity securities, which enables the company to be prepared for future market opportunities.

Stockholders' equity increased \$23.8 million during the six months ended June 30, 2008, principally reflecting an improvement of \$25.4 million in the funded status of the company's defined benefit plans and \$35.8 million from share-based plans. Partially offsetting these increases was a net loss of \$37.4 million.

24

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 CHANGES IN GENERAL ECONOMIC AND BUSINESS CONDITIONS. The company is currently facing a difficult economic environment that has affected its business. In particular, weakness in the financial services industry contributed to the decline in the company's revenue in the second quarter of 2008. In addition, the company continues to face a highly competitive business environment. If the level of demand for the company's products and services declines in the future, the company's business could be adversely affected. The company's business could also be affected by acts of war, terrorism or natural disasters. Current world tensions could escalate, and

Edgar Filing: UNISYS CORP - Form 10-Q

this could have unpredictable consequences on the world economy and on the company's business.

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 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.

THE COMPANY'S FUTURE RESULTS WILL DEPEND ON THE SUCCESS OF ITS REPOSITIONING STRATEGY. The company's future results will depend in part on the success of its efforts to control and reduce costs through the development and use of low-cost subsidiaries and low-cost offshore and global sourcing models. Future results will also depend in part on the success of the company's focused investment and sales and marketing strategies. These strategies are based on various assumptions, including assumptions regarding market segment growth, client demand, and the proper skill set of and training for sales and marketing management and personnel, all of which are subject to change. Furthermore, the company's institutional stockholders may attempt to influence these strategies.

THE COMPANY'S 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 due to 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.

25

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,

Edgar Filing: UNISYS CORP - Form 10-Q

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

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

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

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 repositioning actions. 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 new 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. In addition, future results will depend, in part, on the company's ability to generate new customers and increase sales of the Intel-based ES7000 line. The company believes there is growth potential in the market for high-end, Intel-based servers running Microsoft and Linux operating system software. However, the company's ability to succeed will depend

Edgar Filing: UNISYS CORP - Form 10-Q

on its ability to compete effectively against enterprise server competitors with more substantial resources and its ability to achieve market acceptance of the ES7000 technology by clients, systems integrators and independent software vendors. Future results of the technology business will also depend, in part, on the successful execution of the company's arrangements with NEC.

26

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, accounting, compensation and management information systems. Any costs found to be overcharged or improperly allocated to a specific contract 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

Edgar Filing: UNISYS CORP - Form 10-Q

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. For example, in September 2007, an article in the Washington Post alleged that the FBI is investigating the company in connection with its alleged failure to detect cyber intrusions at the Department of Homeland Security, a client of the company, and its alleged failure to disclose these security breaches once detected. The company disputed the allegations made in the article. 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. The company has announced that alliance partnerships with select IT companies are a key factor in the development and delivery of the company's refocused portfolio. 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.

27

THE COMPANY IS SUBJECT TO THE RISKS OF DOING BUSINESS INTERNATIONALLY. More than half of the company's total revenue is derived from international operations. The risks of doing business internationally include foreign currency exchange rate fluctuations, 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 ACQUISITIONS OR DISPOSITIONS. As part of the company's business strategy, it may from time to time consider acquiring complementary technologies, products and businesses and disposing of existing technologies, products and businesses that may no longer be in alignment with its strategic direction, including transactions of a material size. 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. 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. Further, with respect to both acquisitions and dispositions, management's attention could be diverted from other business concerns. The risks associated with acquisitions and dispositions 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 acquisitions or

Edgar Filing: UNISYS CORP - Form 10-Q

dispositions 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 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.

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 June 30, 2008. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were not effective as of June 30, 2008 due to the material weakness at December 31, 2007, described below. To address the material weakness referenced below, the Company performed additional analysis and performed other procedures in order to prepare the unaudited quarterly consolidated financial statements in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). Accordingly, management believes that the consolidated financial statements included in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented.

28

As previously reported in the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on February 29, 2008, in connection with Company's assessment of the effectiveness of its internal control over financial reporting at the end of its last fiscal year, management identified the following material weakness in the Company's internal control over financial reporting as of December 31, 2007 that is in the process of being remediated as of June 30, 2008: it did not have a sufficient number of personnel with an appropriate level of U.S. GAAP knowledge and experience commensurate with its financial reporting requirements. This section of Item 4, "Controls and Procedures," should be read in conjunction with Item 9A, "Controls and Procedures," included in the Company's Form 10-K for the year ended December 31, 2007, for additional information on Management's Report on Internal Controls Over Financial Reporting.

Management is working to address the material weakness and is committed to remediate the material weakness as timely as possible. The Company plans to remediate its material weakness through the following actions:

Edgar Filing: UNISYS CORP - Form 10-Q

* The Company has hired a new corporate controller and reassigned responsibilities among key accounting personnel,

* The Company has added and will add additional personnel with an appropriate level of U.S. GAAP tax knowledge and experience to its income tax accounting function and provide additional income tax accounting training to personnel responsible for its foreign subsidiaries,

* The Company will add personnel with an appropriate level of U.S. GAAP accounting knowledge and experience in two locations, and

* The Company will continue to supplement existing resources with consultants where needed.

Management believes that the above actions, when fully implemented, will be effective in remediating this material weakness. However, the Company's material weakness will not be considered remediated until the above personnel are in place for a period of time and the controls are tested and management concludes that these controls are properly designed and operating effectively.

The evaluation discussed above identified a change in the Company's internal control over financial reporting regarding the implementation, as of January 1, 2008, of a financial management and project accounting system, in the Company's Federal government group. This system is expected to increase the efficiency of processing transactions and produce more accurate and timely information to address the various operational and compliance needs of the Company's Federal government group. The Company conducted and will continue to conduct post-implementation monitoring to ensure internal control over financial reporting is properly designed and operating effectively. To date, the Company has not experienced any significant difficulties in connection with the implementation or operation of this system.

Part II - OTHER INFORMATION

Item 1 Legal Proceedings

Information with respect to litigation is set forth in note (k) of the notes to financial statements, and such information is incorporated herein by reference.

Item 1A. Risk Factors

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

Item 6. Exhibits

(a) Exhibits

See Exhibit Index

SIGNATURES

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

UNISYS CORPORATION

Date: August 7, 2008

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	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)
10.1	Governance and Cooperation Agreement, dated May 20, 2008, by and among Unisys Corporation, MMI Investments, L.P., MCM Capital Management, LLC, Clay B. Lifflander and Charles B. McQuade (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K dated May 20, 2008)
12	Statement of Computation of Ratio of Earnings to Fixed Charges
31.1	Certification of Joseph W. McGrath required by Rule 13a-14(a) or Rule 15d-14(a)
31.2	Certification of Janet Brutschea Haugen required by Rule 13a-14(a)

Edgar Filing: UNISYS CORP - Form 10-Q

or Rule 15d-14(a)

- 32.1 Certification of Joseph W. McGrath 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