

UNISYS CORP
Form 10-Q
August 01, 2012

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, 2012

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

For the transition period from to .

Commission file number 1-8729

UNISYS CORPORATION

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

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

801 Lakeview Drive, Suite 100

Blue Bell, Pennsylvania
(Address of principal executive offices)

19422
(Zip Code)

Registrant's telephone number, including area code: (215) 986-4011

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer (Do not check if a smaller reporting company)

Smaller Reporting Company

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

Number of shares of Common Stock outstanding as of June 30, 2012: 43,956,801.

Part I - FINANCIAL INFORMATION

Item 1. Financial Statements.

UNISYS CORPORATION

CONSOLIDATED BALANCE SHEETS (Unaudited)

(Millions)

	June 30, 2012	December 31, 2011
Assets		
Current assets		
Cash and cash equivalents	\$ 659.7	\$ 714.9
Accounts and notes receivable, net	610.3	673.0
Inventories:		
Parts and finished equipment	31.5	38.1
Work in process and materials	27.4	26.7
Deferred income taxes	27.3	27.1
Prepaid expenses and other current assets	108.7	123.6
Total	1,464.9	1,603.4
Properties	1,255.2	1,257.2
Less-Accumulated depreciation and amortization	1,076.3	1,065.9
Properties, net	178.9	191.3
Outsourcing assets, net	124.4	137.9
Marketable software, net	129.5	129.8
Prepaid postretirement assets	14.2	43.9
Deferred income taxes	181.8	181.5
Goodwill	191.4	192.5
Other long-term assets	112.8	131.9
Total	\$ 2,397.9	\$ 2,612.2
Liabilities and deficit		
Current liabilities		
Current maturities of long-term debt	\$.6	\$.9
Accounts payable	228.4	241.6
Deferred revenue	397.7	448.1
Other accrued liabilities	375.1	425.5
Total	1,001.8	1,116.1
Long-term debt	291.8	358.8
Long-term postretirement liabilities	2,081.9	2,224.0
Long-term deferred revenue	119.3	120.3
Other long-term liabilities	93.1	104.0
Commitments and contingencies		
Deficit		
6.25% mandatory convertible preferred stock, net of issuance costs, shares issued: 2012; 2.6, 2011; 2.6	249.7	249.7

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Common stock, shares issued: 2012; 44.3, 2011; 43.8	.4	.4
Accumulated deficit	(1,968.5)	(2,036.6)
Treasury stock, shares at cost: 2012; .4, 2011; .3	(48.8)	(48.1)
Paid-in capital	4,228.1	4,217.4
Accumulated other comprehensive loss	(3,659.9)	(3,700.9)
Total Unisys stockholders' deficit	(1,199.0)	(1,318.1)
Noncontrolling interests	9.0	7.1
Total deficit	(1,190.0)	(1,311.0)
Total	\$ 2,397.9	\$ 2,612.2

See notes to consolidated financial statements.

UNISYS CORPORATION

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(Millions, except per share data)

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Revenue				
Services	\$ 815.7	\$ 842.7	\$ 1,638.7	\$ 1,643.0
Technology	105.6	94.5	211.0	205.4
	921.3	937.2	1,849.7	1,848.4
Costs and expenses				
Cost of revenue:				
Services	645.9	676.1	1,314.5	1,330.6
Technology	32.2	47.4	66.2	95.9
	678.1	723.5	1,380.7	1,426.5
Selling, general and administrative	142.0	147.2	283.4	293.2
Research and development	22.2	18.4	42.2	38.7
	842.3	889.1	1,706.3	1,758.4
Operating profit	79.0	48.1	143.4	90.0
Interest expense	7.9	13.3	17.2	39.2
Other income (expense), net	4.1	(49.4)	(9.1)	(73.2)
Income (loss) before income taxes	75.2	(14.6)	117.1	(22.4)
Provision (benefit) for income taxes	22.1	(9.2)	44.1	19.0
Consolidated net income (loss)	53.1	(5.4)	73.0	(41.4)
Net income attributable to noncontrolling interests	2.4	2.2	4.9	5.6
Net income (loss) attributable to Unisys Corporation	50.7	(7.6)	68.1	(47.0)
Preferred stock dividends	4.1	4.0	8.1	5.4
Net income (loss) attributable to Unisys Corporation common shareholders	\$ 46.6	\$ (11.6)	\$ 60.0	\$ (52.4)
Earnings (loss) per common share attributable to Unisys Corporation				
Basic	\$ 1.06	\$ (.27)	\$ 1.37	\$ (1.22)
Diluted	\$.99	\$ (.27)	\$ 1.33	\$ (1.22)

See notes to consolidated financial statements.

UNISYS CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(Millions)

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Consolidated net income (loss)	\$ 53.1	\$ (5.4)	\$ 73.0	\$ (41.4)
Other comprehensive income				
Foreign currency translation	(31.5)	11.6	(4.5)	25.4
Postretirement adjustments, net of tax of \$(3.9) and \$(6.9) in 2012 and \$.5 and \$(3.1) in 2011	28.7	22.0	47.4	27.9
Total other comprehensive income (loss)	(2.8)	33.6	42.9	53.3
Comprehensive income	50.3	28.2	115.9	11.9
Less comprehensive income attributable to noncontrolling interests	(2.8)	(2.8)	(6.8)	(8.1)
Comprehensive income attributable to Unisys Corporation	\$ 47.5	\$ 25.4	\$ 109.1	\$ 3.8

See notes to consolidated financial statements.

UNISYS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Millions)

	Six Months Ended June 30	
	2012	2011
Cash flows from operating activities		
Consolidated net income (loss)	\$ 73.0	\$ (41.4)
Add (deduct) items to reconcile consolidated net income (loss) to net cash provided by operating activities:		
Loss on debt extinguishment	7.5	77.5
Employee stock compensation	8.9	9.4
Company stock issued for U.S. 401(k) plan	6.2	6.7
Depreciation and amortization of properties	28.7	34.3
Depreciation and amortization of outsourcing assets	30.7	33.9
Amortization of marketable software	28.9	34.8
Disposal of capital assets	3.1	.7
(Gain) loss on sale of businesses and assets	(10.6)	.3
Decrease in deferred income taxes, net	13.4	11.4
Decrease in receivables, net	43.1	148.2
Decrease in inventories	4.8	16.5
Decrease in accounts payable and other accrued liabilities	(85.8)	(231.4)
Decrease in other liabilities	(125.6)	(27.7)
Decrease (increase) in other assets	65.7	(8.6)
Other	(1.5)	(.7)
Net cash provided by operating activities	90.5	63.9
Cash flows from investing activities		
Proceeds from investments	1,631.8	173.7
Purchases of investments	(1,630.5)	(171.3)
Restricted deposits	1.6	10.3
Investment in marketable software	(28.6)	(23.3)
Capital additions of properties	(17.9)	(24.0)
Capital additions of outsourcing assets	(18.7)	(25.0)
Net proceeds (payments) from sale of businesses and assets	2.7	(10.1)
Net cash used for investing activities	(59.6)	(69.7)
Cash flows from financing activities		
Proceeds from issuance of preferred stock, net of issuance costs		249.7
Payments of long-term debt	(75.0)	(460.3)
Dividend paid to noncontrolling interests	(4.5)	(.4)
Dividends paid on preferred stock	(8.1)	(4.1)
Proceeds from exercise of stock options	.3	1.4
Financing fees		(2.2)
Net cash used for financing activities	(87.3)	(215.9)
Effect of exchange rate changes on cash and cash equivalents	1.2	18.4
Decrease in cash and cash equivalents	(55.2)	(203.3)
Cash and cash equivalents, beginning of period	714.9	828.3

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Cash and cash equivalents, end of period	\$ 659.7	\$ 625.0
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See notes to consolidated financial statements.

Unisys Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

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

The company's accounting policies are set forth in detail in note 1 of the notes to the consolidated financial statements in the company's Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission. Such Annual Report also contains a discussion of the company's critical accounting policies. The company believes that these critical accounting policies affect its more significant estimates and judgments used in the preparation of the company's consolidated financial statements. There have been no changes in the company's critical accounting policies from those disclosed in the company's Annual Report on Form 10-K for the year ended December 31, 2011.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Basic Earnings (Loss) Per Common Share				
Net (loss) income attributable to Unisys Corporation common shareholders	\$ 46.6	\$ (11.6)	\$ 60.0	\$ (52.4)
Weighted average shares	43,905	43,106	43,758	42,971
Total	\$ 1.06	\$ (.27)	\$ 1.37	\$ (1.22)
Diluted Earnings (Loss) Per Common Share				
Net income (loss) attributable to Unisys Corporation common shareholders	\$ 46.6	\$ (11.6)	\$ 60.0	\$ (52.4)
Add preferred stock dividends	4.1		8.1	
Net income (loss) attributable to Unisys Corporation for diluted earnings per share	\$ 50.7	\$ (11.6)	\$ 68.1	\$ (52.4)
Weighted average shares	43,905	43,106	43,758	42,971
Plus incremental shares from assumed conversions				
Employee stock plans	426		439	
Preferred stock	6,913		6,913	
Adjusted weighted average shares	51,244	43,106	51,110	42,971

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Total	\$.99	\$ (.27)	\$ 1.33	\$ (1.22)
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In the six months ended June 30, 2012 and 2011, the following weighted-average number of stock options and restricted stock units were antidilutive and therefore excluded from the computation of diluted earnings per share (in thousands): 2,281 and 3,265, respectively. In the six months ended June 30, 2011, the following weighted-average number of mandatory convertible preferred stock were antidilutive and therefore excluded from the computation of diluted earnings per share (in thousands): 4,647.

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

	Three Months Ended June 30, 2012			Three Months Ended June 30, 2011		
	Total	U.S. Plans	Int 1. Plans	Total	U.S. Plans	Int 1. Plans
Service cost	\$ 2.2	\$	\$ 2.2	\$ 2.4	\$	\$ 2.4
Interest cost	91.4	62.7	28.7	98.1	65.5	32.6
Expected return on plan assets	(105.3)	(71.3)	(34.0)	(118.3)	(83.5)	(34.8)
Amortization of prior service cost		.2	(.2)		.2	(.2)
Recognized net actuarial loss	38.5	30.1	8.4	26.5	19.8	6.7
Curtailement gain	(5.7)		(5.7)			
Net periodic pension expense	\$ 21.1	\$ 21.7	\$ (.6)	\$ 8.7	\$ 2.0	\$ 6.7

	Six Months Ended June 30, 2012			Six Months Ended June 30, 2011		
	Total	U.S. Plans	Int 1. Plans	Total	U.S. Plans	Int 1. Plans
Service cost	\$ 4.2	\$	\$ 4.2	\$ 6.1	\$	\$ 6.1
Interest cost	181.4	124.4	57.0	196.0	132.0	64.0
Expected return on plan assets	(210.6)	(142.9)	(67.7)	(237.1)	(168.7)	(68.4)
Amortization of prior service cost	.3	.4	(.1)	.2	.4	(.2)
Recognized net actuarial loss	77.2	59.9	17.3	52.5	39.2	13.3
Curtailement gain	(5.7)		(5.7)			
Net periodic pension expense	\$ 46.8	\$ 41.8	\$ 5.0	\$ 17.7	\$ 2.9	\$ 14.8

On July 6, 2012, legislation was signed into law in the U.S., which among other things, provides defined benefit plan sponsors with funding relief. The legislation includes provisions regarding interest rate stabilization for pension plans as well as amendments regarding an increase in future Pension Benefit Guarantee Corporation premiums. Final funding requirements cannot be determined until the Internal Revenue Service publishes the rates to be utilized. The company estimates that the new guidelines will reduce cash funding requirements in 2012 for the company's U.S. qualified defined benefit pension plan from the previous estimate of \$143 million to approximately \$110 million.

In 2012, the company estimates that it will make cash contributions of approximately \$200 million to its worldwide defined benefit pension plans, which is comprised of \$110 million for the company's U.S. qualified defined benefit pension plan and \$90 million primarily for non-U.S. defined benefit pension plans. In 2011, the company made cash contributions of \$82.7 million to its worldwide defined benefit pension plans. For the six months ended June 30, 2012 and 2011, \$118.8 million and \$42.8 million, respectively, of cash contributions have been made.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Service cost	\$.1	\$.1	\$.2	\$.2
Interest cost	2.3	2.5	4.5	4.9
Expected return on assets	(.2)	(.2)	(.3)	(.3)
Amortization of prior service cost	.4	.5	.9	.9
Recognized net actuarial loss	1.1			