Niels Christensen, VP, Investor Relations

- Thank you operator. Good morning everyone, and thank you for joining us.
- About an hour ago, Unisys released its third quarter 2009 financial results. With us this morning to discuss our results are Ed Coleman, our CEO, and Janet Haugen, our CFO. Before we begin, I want to cover just a few housekeeping details.
- First, today’s conference call and the Q&A session are being webcast via the Unisys Investor Website.
- Second, you can find the earnings press release and the presentation slides that we will be using this morning to guide our discussion on the Unisys Investor Website. These materials are available for viewing as well as downloading and printing.
- Finally, I’d like to remind you that all forward-looking statements made during this conference call are subject to various risks and uncertainties that could cause actual results to differ materially from expectations. These factors are discussed more fully in the earnings release and in the company’s SEC filings. Copies of these SEC reports are available from the SEC and from the Unisys Investor Website.

Ed Coleman, CEO

- Thanks, Niels. Hello, everyone. Thank you for joining us today to discuss our third-quarter 2009 financial results.
- A year ago we outlined to you a four-part turnaround program for Unisys. The four elements of that plan are to:
  Concentrate our resources on fewer markets and offerings;
  Create clear, differentiated value propositions;
  Ensure we have a highly utilized, cost-competitive services labor pool;
  And simplify the organization and significantly reduce expenses.
- The objective is to create a consistently and predictably profitable company that generates free cash flow … and one that delivers exceptional levels of customer service.
- While we recognize we have much more work to do, we’ve made good progress as shown in our third-quarter results. Please turn to Slide 1 of the presentation.
- Our profit margins increased significantly in the quarter as we continue to make progress in streamlining our operations and reducing our cost base. Our technology business had a good ClearPath quarter which contributed to a strong profit performance. Overall, we more than tripled our operating profit over the prior year and reported an operating margin of 10.2 percent for the quarter. For the second consecutive quarter, the company was solidly profitable. We reported net income of $61 million, which was a $96 million improvement over a $35 million loss a year ago.
- Equally important, we generated free cash flow -- $46 million in the quarter. Through nine months, we are now free cash flow positive, and we have improved our free cash flow by more than $130 million over the first nine months of 2008. At the top line, our revenue declined 12% in the quarter … 7% in constant currency … as we continue to work through a difficult economic environment.
- We saw positive signs in our orders. Our service orders grew substantially in the third quarter, driven by large outsourcing contract renewals as well as signings with new clients such as Henkel, the U.S. Federal Emergency Management Administration, and the city of Santa Clara in California.
- We also made progress in strengthening our balance sheet – another important element of our turnaround program. During the quarter we completed our debt exchange, which reduced our overall debt and reduced our March 2010 debt maturities to $65 million from $300 million. Overall, the improvement we’re seeing in our financial results is encouraging. We’ve made this progress while working through a difficult economic climate, and this is a testament to the hard work, dedication, and talent of our employees around the world. But there’s much more to do, and we’re not letting up.
- To keep the progress going, we will continue to execute against our four business priorities I mentioned earlier, which you can see on Slide 2.
• Our first two priorities are about laying a foundation for profitable growth by tightly focusing our resources and by providing differentiated, value-added solutions to our clients in our four focus areas, which are data center transformation and outsourcing; end user outsourcing and support services; application modernization; and security.

• I hope you’ve been seeing some of the innovative services and solutions we’ve been announcing this year.

• In the areas of data center transformation and end-user outsourcing, for example, we have essentially refreshed our entire solution portfolio. We’ve announced innovative new offerings for cloud computing … for security … for applications modernization … for end user productivity … for converged remote infrastructure management … and for our ClearPath family of mainframes.

• So a lot of good work is happening to make Unisys a more focused and differentiated company in the marketplace. It will take some time for these initiatives to yield results in terms of profitable revenue growth, but we’re encouraged by the client interest we are seeing in our new portfolio and the relevance of our offerings to the challenges being faced in the market. Most important, we must continue to focus on enhancing customer service and satisfaction, which are the ultimate drivers of our profitability and success in the marketplace.

• Our second two priorities are about driving cost efficiency and margin improvement by enhancing our labor model and reducing overhead expenses. Here, too, we’ve made a great deal of progress, as you can see in our third-quarter profit margins. But we still have a lot of ground to cover to achieve our gross margin and expense-reduction goals.

• Slide 3 shows those goals. In our services business, our goal is to reduce our cost of services delivery by $250 million.

• You can see the benefit of our actions to date in our service gross margins, which were up over two hundred basis points year-over-year in the quarter. But we have at least another $60 million of services delivery costs to get out of the business, and that is really just to get us to competitive levels. To achieve this, it’s critical that we expand our use of lower-cost services delivery resources, both offshore and onshore, and increase service delivery automation.

• As I’ve mentioned in the past, we are behind our competition in the use of lower cost labor. While part of this is because of the amount of public sector work that we do, we have the capabilities and the opportunities to expand our use of lower-cost resources.

• Having recently visited our offshore facilities in India, I continue to be impressed with our people and capabilities at our sites there, as well as at our other global sourcing centers in China and Hungary, and at our lower-cost delivery subsidiaries in a number of countries around the world, including the United States. These are first-class global sourcing operations with strong capabilities. We have initiatives underway across the business to expand use of these global sourcing capabilities in our service delivery … and we will continue to make this a priority in the months ahead.

• In terms of overhead expenses, our goal is to reduce our annualized SG&A expenses by $250 million. We have made significant progress on this SG&A reduction goal. To date, we’ve taken actions to reduce our annualized SG&A expenses by about $205 million. We will continue to be vigilant in exploring opportunities to further streamline and simplify the business and reduce expenses.

• Moving to Slide 4 … to wrap up my comments this morning, overall this was a quarter of tangible progress for Unisys in our turnaround program.

• We’ve seen results at the bottom line. We have reported two consecutive quarters of solid profitability … and our margins and cash flow have improved significantly. We’ve made a great start, but we have a way to go to achieve our goal of consistent and predictable profitability. And we are doing this work in what continues to be an uncertain economic environment. So it’s imperative that we remain focused on executing against the four priorities for the business I’ve outlined in this and previous calls. And that’s what we are committed to doing.

• Thank you again for joining us this morning. Now, here’s Janet to take you through the quarter results in more detail.

Janet Haugen, CFO

• Thanks, Ed. Hello, everyone. This morning, I will take you through our financial results for the quarter. In addition, I will give a brief update on our pension plans and summarize the results of our debt exchange.

• Starting with orders, please turn to Slide 5 for an overview of orders in the quarter. Our services orders grew substantially over the year-ago quarter, and also increased sequentially for the second consecutive quarter. The year-over-year order growth included outsourcing contract renewals, including a large contract extension at our UK iPSL joint venture, as well as new client outsourcing wins and order increases for Federal systems integration projects. Geographically, year-over-year order increases in the U.S., Europe, and Latin America were partially offset by order declines in Asia Pacific. The U.S. order gains were driven by growth in U.S. Federal orders.
We closed the third quarter with $6.4 billion in services backlog, which was up about 8% from services backlog at June 30, 2009. The increase in services backlog was driven by the outsourcing contract renewals. On a constant currency basis, services backlog was up about 6% from June 30.

Slide 6 summarizes our financial results in the third quarter.

At the top line … we reported revenue of $1.16 billion, a decline of 12% year over year. Foreign currency exchange had a 5-point negative impact on revenue this quarter. On a constant currency basis, revenue was down 7%. Based on today’s rates, we anticipate currency to have a 4-5 percentage-point positive impact on revenue in the fourth quarter of 2009.

Total gross profit dollars increased slightly on lower revenue volume. Our overall gross profit margin improved by 420 basis points from a year ago, reflecting more cost-efficient services delivery as well as a stronger mix of high-end enterprise server sales in our technology business. Operating expenses declined 26% year over year, driven by significant reductions in SG&A expenses and a 4 percentage-point benefit from currency.

As was the case in the second quarter, our operating profit more than tripled year-over-year to $118.0 million. We reported an operating profit margin of 10.2%, which was up 730 basis points from the year-ago period. At the tax line, we had a $26.2 million tax provision in the quarter, compared with a tax provision of $45.1 million in the year-ago quarter. As a reminder, our tax provision continues to be highly variable from quarter to quarter depending on the geographic distribution of our income.

At the bottom line after taxes, we reported $61.1 million in net income for the third quarter of 2009. This compared with a net loss of $34.7 million a year ago.

We completed a one for ten reverse stock split and our stock began trading on a post split basis effective on Monday. As we mentioned in our earnings release, our financial statements reflect the impact of the reverse split on a retroactive basis.

Slide 7 shows our third-quarter revenue by geography.

Our U.S. revenue declined 3% in the quarter despite mid single-digit growth in our U.S. federal government revenue. Overall, the U.S. represented 47% of our revenue in the quarter. International revenue declined 18% and represented 53% of revenue in the quarter. On a constant currency basis, international revenue declined 11%, reflecting declines in all regions.

Slide 8 provides more detail on our third-quarter revenue by business offering.

We saw year-over-year revenue declines in all of our service and technology offerings. On a constant currency basis, enterprise server revenue was up slightly but declines were in the low to mid-single digits in outsourcing and systems integration.

Moving to margins, please turn to Slide 9 …

Despite lower revenue, we were able to significantly improve margins in both our services and technology businesses as a result of cost reduction actions, and a stronger mix within our technology business. Services gross margins improved by 210 basis points year over year to 19.7 percent. Service operating margins increased 460 basis points to 7.7 percent.

As expected, and mentioned in our second quarter earnings call, our service gross margins were down about 130 basis points compared with the second quarter of 2009, reflecting the anticipated seasonality. However, due to significant reductions in expenses, we were able to largely offset the seasonal impact on our services gross margins through lower operating costs.

In our technology business, our gross margins improved by 770 basis points to 55.2 percent. This reflected a stronger mix of high-end enterprise servers. As a result of the improvement in gross margin and reductions in operating expenses, we reported a technology operating margin of 21.2 percent, up from 11.0 percent a year ago.

Moving to Slide 10 … a key contributor to our operating margin progress this quarter and the year to date has been the work we’ve done to reduce SG&A expenses by streamlining and simplifying our operations. As you can see in the slide, we’ve steadily reduced SG&A expenses both on an absolute dollar basis and as a percentage of revenue. In the third quarter, we reduced SG&A expenses to 14% of revenue. Overall, year to date in 2009 we have reduced our annualized SG&A expenses by about $205 million on a constant currency basis … against our stated target of $250 million of annualized expense savings. So while we’ve made good progress, we are not done. We continue to actively explore expense reduction opportunities across the company.

Now, please turn to Slide 11 for an overview of cash flow in the quarter.

Starting with cash from operations … we generated $94 million of cash from operations in the quarter, which was down $20 million from a year ago. We had stronger Ebitda in 3Q09 compared to 3Q08. However cash from operations is down year over year because 3Q08 benefited from a significant sequential improvement in days sales outstanding (DSO). We have continued to maintain the improved levels of DSO through 3Q09.

Capital expenditures declined to $48 million from $78 million a year ago as we continue to closely manage cap ex. After capital expenditures, we generated $46 million of free cash in the quarter compared with $36 million a year ago. Year to date, operating
• After cap ex, for the first nine months of 2009, we have generated $33 million of free cash flow compared to free cash usage of $98 million for the first nine months of 2008. It is about a $130 million improvement in free cash flow year over year. Depreciation and amortization was $82 million in the quarter, down from $98 million last year – reflecting a lower cap ex base and currency translation. Year-to-date, D&A is $256 million, down $40 million from the same period of 2008. For the full year of 2009, we look for capital expenditures in the $200 - $225 million range compared with $295 million in 2008. We look for D&A in the $325 to $350 million range in 2009 compared with D&A of $418 million in 2008.

• We ended the third quarter with $474 million of cash on hand. In the quarter we used $55 million of cash for payments to note holders, interest and fees as part of the debt exchange that we completed this quarter.

• Turning to the subject of pensions, I’d like to briefly update you on our anticipated cash funding. We continue to expect cash contributions of approximately $100-$105 million to our worldwide defined benefit pension plans in 2009. No cash contributions are required in 2009 for our frozen U.S. qualified defined benefit pension plan, and we do not currently anticipate any will be required in 2010.

• Funding requirements for this plan are governed by the Pension Protection Act of 2006 (PPA), which sets minimum funding requirements. Modifications to the Act are currently under legislative review. Based on market performance to date in 2009, pension plan asset values have increased. However, declines in interest rates used to discount future obligations are expected to result in an increased present value for pension plan liabilities. However, under PPA, contributions to fund any deficit at December 31, 2009 would be deferred beyond 2010.

• At the end of the year, we will go through our normal review of our worldwide pension assets and liabilities, including asset performance and assumptions for discount rates used in calculating plan liabilities. I will provide more details about 2010 expected pension income or expense as well as funding expectations on our year end results call.

• Moving to Slide 12, I’d like to update you on the final results of the debt exchange that we completed during the third quarter and the impact this transaction has had on our balance sheet. Through the private debt offers, we were able to successfully exchange much of our previously outstanding unsecured senior debt with new secured notes as well as cash and common stock. The exchange has helped us strengthen our balance sheet and address pending debt maturities in March 2010 and 2012. Overall, as you’ll see in our September 30 balance sheet, we reduced long-term debt to $911 million. In the exchange, we issued approximately 5.2 million shares of the company’s common stock on a post-split basis).

• Slide 13 compares our debt maturity schedule before and after the debt exchange. As you can see, prior to the exchange, we had $300 million of debt maturing in March 2010 and another $400 million of senior notes maturing in 2012. The debt exchange reduced our 2010 debt maturities to $65 million and our 2012 debt maturities to $68 million. We are planning to address the remaining $65 million of March 2010 senior notes from cash generated through improved operations, and proceeds from asset sales.

• In summary, while we recognize we have more work to do, we are pleased by the cost discipline we continued to show in the quarter in reducing expenses, increasing our profitability, and generating free cash flow.

• Thank you for your time.