Niels Christensen, VP, IR

- Thank you operator. Good afternoon everyone, and thank you for joining us.
- Earlier today, Unisys released its fourth quarter and full year 2010 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 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 our investor website. These materials are available for viewing as well as downloading and printing.
- Third, today’s presentation, which is complementary to the earnings press release, includes some non-GAAP financial measures. These have been provided in an effort to give investors additional information. The non-GAAP measures have been reconciled to the related GAAP measures and we have provided reconciliation charts at the end of the presentation.
- 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.
- Now I’d like to turn the call over to Ed.

Ed Coleman, CEO

- Thanks, Niels. Hello, everyone. We appreciate you joining us today. Please turn to Slide 1 which summarizes a number of the highlights for 2010 that I will be referencing to in my comments.
- Before Janet takes us through the numbers for the fourth quarter and full year, I’d like to make some observations about where we are, who we are and where we are going.
- It’s an exciting time to be at Unisys. We made continued progress against our priorities in 2010 and enter 2011 in what we believe is a strong competitive position.
- First, having divested a number of non-core businesses, we have a sharpened focus, with outstanding solutions for our clients in the areas of security, data center transformation and outsourcing, end user outsourcing and application modernization.
- These solutions are enabling us to win exciting new engagements to help our clients deal with the disruptive trends associated with cloud computing, cybersecurity, mobile computing, social computing, smart computing and IT appliance offerings. For instance, in cloud computing, we are the prime contractor partnering with Google to build a new cloud-based email and collaboration system for the General Services Administration – a first of its kind cloud implementation in the U.S. federal government. We’ve also recently announced contracts to build advanced cloud-based solutions for the city of Minneapolis, Colt Communications, and the University of Salford in the U.K.
- Second, we have invested in building world-class IT outsourcing, system integration and technology skills, infrastructure, and products to enhance our services and solutions that are delivered around the world.
- Slide 2 highlights our global service delivery network, which includes more than 30 centers and over 17,000 service and delivery professionals. Our delivery model is based on ITIL service standards and we believe we are the first global player to achieve ISO 20000 certification in all of its operational centers.
- As a result, we can provide consistent levels of service and support to our clients regardless of where they are located around the world. This commitment has resulted in improved client satisfaction, new customers and a growing reputation for service excellence.
- In our technology business, we have significantly enhanced our flagship ClearPath platform to expand the market for what we believe is the most reliable and secure open enterprise server on the market. Recent innovations include secure partitioning for the Intel Xeon platform and integrated support for Apple iPhones.
Third, at the same time we made these investments, we grew our 2010 operating profit by 14 percent and improved our operating margin to 9.3 percent. And for the second consecutive quarter, we achieved a services operating margin within our targeted 8 to 10 percent range. We also increased pre-tax income from continuing operations to $223 million for the full year on lower revenue.

We have also continued to strengthen our balance sheet. Slide 3 shows the improvement we’ve made over the past two years. As you can see, we have reduced debt while steadily increasing our cash position to $828 million at year-end 2010. In the past twelve months, we’ve reduced our net debt by $368 million, and we achieved a milestone by ending 2010 with more cash than debt.

All of this adds up to a company that we believe is establishing a leadership position in many important and growing areas of the IT industry as we strive to meet the strategic financial objectives that I outlined last quarter.

Those objectives, which you can see in Slide 4, over the next three years, are: to increase our annual pre-tax profit to $350 million in 2013, assuming no change in pension income or expense from 2010; reduce our remaining debt by 75 percent by the end of 2013; and consistently achieve an 8 to 10 percent services operating margin.

To do that, we are focused on growing our IT outsourcing and system integration services at market rates, adjusted for the fact that we no longer have the TSA revenue in 2011, while maintaining flat technology revenue over the three year period.

I’m pleased that we made headway against these revenue growth targets in 2010. We grew our non-US federal IT outsourcing business by 6 percent and our technology revenue was flat as we grew sales of our ClearPath servers by 5 percent.

But we have a great deal more work to do. We recognize that we must not only sustain the progress we have made in IT outsourcing and technology, but also grow our system integration business.

In 2011, we will be focused on extending the successes we’ve seen in IT outsourcing and technology into our systems integration business. Driving that, we see key growth opportunities for Unisys in the years ahead based on the six disruptive trends I referred to earlier and the capabilities and portfolio that we bring to market.

As we drive toward our stated three-year goals, we will also continue to closely manage expenses and work to further improve the cost efficiency of our delivery model. To that end, in 2010, we increased our use of lower-cost labor resources to 29 percent of our employee base at year end, up from 20 percent at the beginning of the year.

As we look at the market, we believe we have the right skills, infrastructure and a strengthened portfolio to meet growing market requirements for today’s disruptive technologies … we have a strong client base and are known for service excellence and quality … and, because of the work we’ve done, we have an improved cost structure and balance sheet that enables us to compete more effectively. I look forward to reporting on our progress over the year ahead.

I’d like to thank you again for joining us today. Now, here’s Janet to take you through our results in more detail, and then we will be happy to take your questions.

Janet Haugen, CFO

Thanks, Ed. Hello, everyone.

We closed out 2010 with strong fourth quarter margin and cash flow performance demonstrating our continued discipline in enhancing our cost efficiency and optimizing cash across the company.

We saw some encouraging improvements in the top line as our ITO revenue outside of our US Federal business, rose by about 6 percent for the year and our Technology revenue was stable for the full year with our ClearPath revenue growing 5 percent.

We also saw continued progress in our efforts to strengthen our balance sheet and capital structure … and we are focused on extending that progress in 2011.

This afternoon, I will provide more details on our fourth-quarter results as well as full-year 2010 financial results. I will also update you on capital and pension funding expectations for 2011. To start our financial review, please turn to Slide 5 for an overview of order trends in the quarter.

We closed 2010 with $5.8 billion in services backlog, which was flat sequentially from September 30, 2010 and down 1 percent from December 31, 2009. Currency had no impact on the year over year comparison.

Approximately $725 million of the December 31, 2010 services backlog is anticipated to convert into first quarter 2011 services revenue. Over the past 8 quarters, we typically have between 87 to 93 percent of our quarterly services revenue in our opening backlog. The balance of our services revenue comes from sell-and-bill business during the quarter.

Fourth quarter services orders declined 17 percent year over year. This decline was primarily attributable to lower ITO orders after two consecutive quarters of sequential double-digit orders growth.
We had orders growth in Business Process Outsourcing (BPO) and Infrastructure Services due primarily to the renewal of contracts with several large customers.

In terms of geographic trends, we saw good services order growth in our Asia Pacific and European regions during the fourth quarter. Orders in our Latin American and North American regions, including our U.S. federal business, were down.

Internationally, on a constant currency basis, our services orders were up 5 percent with order growth in both Europe and Asia Pacific.

**Slide 6** highlights our financial results in the fourth quarter.

At the top line, we reported total revenue of $1.04 billion in the quarter, which was down 10 percent year over year. Two percentage points of the decline are attributable to divested businesses.

Currency also had a 2 percentage-point negative impact on our revenue in the quarter. Based on today’s rates, we anticipate currency to have about a 1 to 2 percentage-point positive impact on revenue in the first quarter of 2011.

We reported operating income of $134.6 million in the quarter which was about flat with the year-ago quarter’s operating income of $134.1 million. Improved gross profit margin and continued reductions in operating expenses resulted in an improved operating profit margin of 12.9 percent on lower revenue, up from 11.6 percent a year ago.

Pre-tax income from continuing operations increased to $103.2 million from $98.0 million in the year ago quarter.

At the tax line, we had a $6.1 million tax provision in the quarter compared with a $12.6 million tax benefit in the year-ago quarter. As I have said previously, 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 $99.2 million net income in the quarter, down $15.3 million from $114.5 million in the year ago quarter, from the swing in taxes.

**Slide 7** outlines some of our key profitability metrics over the past several quarters.

Gross margin dollars decreased year-over-year due to lower revenue. However, despite lower revenue in the quarter, the gross margin percentage increased from 29.4 percent to 29.8 percent due to improved cost efficiencies.

Operating expenses declined $29 million from the year-ago quarter and were 17 percent of sales.

Operating margins continued to benefit from the impact of cost reduction efforts.

EBITDA was 18 percent of revenue for the fourth quarter 2010.

Additional evidence of our improved profitability over the past twelve months can be seen on **Slide 8**, where our trailing twelve month operating income for 2010 increased by 14% from a year ago and now represents 9.3 percent of our trailing twelve month revenue versus 7.5 percent for 2009.

Moving to our fourth-quarter revenue and margins by portfolio.

On **Slide 9**, you can see, as we reshape our revenue profile to a more profitable business, Services revenue declined 11 percent year-over-year. Two percent of the change was attributable to the impact of divested businesses and two percent related to currency changes.

Services gross profit margin, as a percentage of revenue, increased year-over-year and for the third consecutive quarter. Services gross margin improved to 21.9 percent from 19.4 percent in the fourth quarter of 2009.

For the second consecutive quarter, services operating margin was 8.0 percent and was within our targeted services operating margin range of 8 – 10 percent. Services operating margin also improved by 80 basis points year-over-year.

Across our services portfolio we saw year over year revenue declines primarily reflecting lower demand for project based services and the continued reshaping of our services portfolio into one that we believe will be more differentiated and more profitable.

Against this challenging revenue picture, a particular bright spot was our ITO revenue outside of our US Federal business. It continued to grow, increasing by about 4 percent year-over-year.

Moving on to Technology on **Slide 10**, Technology revenue decreased 4 percent - 3 of the 4 percentage point decline related to divestitures made during the past twelve months.

We reported a technology gross margin of 56.6 percent, down from 61.0 percent a year ago driven by lower ClearPath sales. However, our technology operating margin only declined by one percentage point to 30.5 percent compared with 31.5 percent in the fourth quarter of 2009 because of cost reductions in year-over-year operating expenses.

**Slide 11** shows our fourth-quarter revenue by geography and industry.
Our North America revenue represented 41 percent of our revenue in the quarter and declined 12 percent in the quarter. Divested operations were 4 percentage points of the decline. Within North America, our revenue from the U.S. federal government represented 19 percent of total Unisys revenue in the fourth quarter, and declined 9 percent year-over-year due to the ending of our TSA contract in November as well as the impact of the US Federal budget timing.

International revenue declined 9 percent in the quarter due to lower revenue in our European and Asia Pacific regions. On a constant currency basis, international revenue declined 6 percent.

From an industry perspective, Public Sector remained our largest single industry revenue source.

Revenue from Commercial industry customers represented 32% of our 4Q10 revenue while Financial Sector was 24%.

Turning to Slide 12 You can see the changes in our revenue mix as we reshape our business for improved profitability and cash flow generation. As we leverage our capabilities in systems integration, IT outsourcing and technology, we expect the shift to continue over time.

Slide 13 summarizes our financial results for the full year of 2010.

At the top line, we reported revenue of $4.02 billion in 2010, which was down 8 percent from 2009. Two percentage points of the decline are attributable to divested businesses. Currency had a one percentage point positive impact on revenue in 2010 versus 2009.

Our gross profit was slightly down year-over-year on lower revenue. However, as a percentage of revenue, our gross profit margin improved 130 basis points in 2010 versus 2009.

Operating expenses declined 11 percent year over year.

After expenses, we reported an operating profit of $375.7 million, or 9.3 percent of revenue, compared with operating profit of $330.0 million, or 7.5 percent of revenue, in 2009. This was an increase of 180 basis points.

We reported pre-tax income from continuing operations of $222.9 million compared with $218.2 million in the fourth quarter of 2009.

After taxes, we reported net income from continuing operations of $158.9 million compared with $172.2 million in 2009.

The year-over-year reduction in net income from continuing operations was attributable to the change in taxes.

Now I’ll briefly cover details on our full-year 2010 revenue and margins by portfolio.

Slide 14 shows that our 2010 services revenue declined by 10 percent from 2009.

Despite the lower revenue reflecting reduced demand for project based work and the continued reshaping of our services portfolio, margins increased as a percentage of revenue. Services gross margin improved to 20.1 percent from 19.2 percent in 2009. Our services operating margin of 6.7 percent improved by 50 basis points from the prior year.

Within Outsourcing, ITO revenue was flat for the year. ITO revenue from the US Federal government is down for the year due to reduced revenue on the TSA contract. Outside of the U.S. Federal government, ITO revenue rose by 6 percent year-over-year.

Systems integration and consulting revenue declined 10 percent year-over-year.

Business Process Outsourcing (BPO) revenue declined 18 percent in 2010.

Infrastructure services revenue declined 16 percent in 2010, with approximately 4 percentage points of the decline resulting from the sale of our check reader and sorter equipment business.

Core maintenance revenue declined 25 percent year-over-year. Approximately 12 percentage points of the decline is the impact of divested businesses.

As shown on Slide 15, Technology revenue was flat for the year but was up 4 percent excluding the impact of divestitures made during the past twelve months. ClearPath sales increased 5 percent in 2010.

The higher ClearPath sales contributed to an increase in Technology gross margins for the full year. We reported a technology gross margin of 55.1 percent, up from 49.6 percent a year ago. On higher gross margin and significant reductions in year-over-year operating expense, our 2010 technology operating margin improved by 920 basis points to 21.6 percent from 12.4 percent in 2009.

Slide 16 outlines our revenue profile by geography and industry.

North America revenue, including our U.S. Federal government business, represented 44 percent of our revenue for the year and declined 13 percent in 2010. Divested operations were 4 percentage points of the decline.
International revenue declined 4 percent – 6 percent in constant currency – and represented 56 percent of revenue in 2010. Our Latin American region grew 7 percent year-over-year while Asia Pacific revenue was flat and we saw a 9 percent decrease in revenue in Europe.

Looking at revenue by our customers’ industry, our largest industry remained the public sector, which includes our U.S. federal government business as well as revenue from other government agencies worldwide, represented 45 percent of 2010 revenue with our U.S. Federal business representing 21 percent of total revenue. Overall, Public Sector revenue fell 8 percent while US Federal revenue declined by 9 percent.

Our Commercial customers represented 33% of our 2010 revenue and declined 4 percent for the year.

Our financial services customers represented 22% of our 2010 revenue and declined 15 percent.

**Slide 17** provides more detail on the performance of our federal government business in 2010.


Civilian represents our single largest revenue base within the U.S. federal government, accounting for about 40 percent of our overall U.S. federal government revenue.

Revenue from Homeland Security agencies represents about 34 percent of our overall U.S. federal government revenue.

Revenue from agencies within the U.S. Department of Defense represents about 26 percent of overall Federal government revenue.

As you can see in the slide, our overall U.S. federal revenue declined 9 percent in 2010 to $842 million. From a quarterly perspective, we had seen some improvement in revenue during the first three quarters of 2010 but in the fourth quarter revenue declined sequentially due largely to the end of the TSA contract effective November 30 as well as impact from the US federal government budgetary situation.

We ended 2010 with about $396 million of U.S. federal services backlog, which was down 8 percent compared to the prior-year end. The ending of our TSA contract was the primary reason for this decline.

Please turn to **Slide 18** for an overview of our cash flow performance in the quarter and full year.

We generated $187 million of cash from operations in the fourth quarter of 2010, compared to $215 million a year ago.

As part of our ongoing focus to reduce the cash requirements of our business model, capital expenditures were $41 million in the fourth quarter of 2010, down from $52 million a year ago.

We generated $146 million of free cash flow in the fourth quarter. This compared to free cash flow of $163 million in the fourth quarter of 2009.

Overall for 2010, we generated $337 million of cash flow from operations which included a $100 million reduction in the usage of our accounts receivable securitization facility to zero during 2010. This compared to $397 million in cash flow from operations during 2009 which included a $41 million reduction in the usage of our US securitization facility from December 31, 2008 levels.

For the full year of 2010, capital expenditures of $203 million were essentially flat versus 2009. For full year 2011, we anticipate capital expenditures in the range of $200 to $225 million.

Including the impact of the reduction in the use of the accounts receivable securitization facility, free cash flow was $134 million for the full year 2010 compared to free cash flow of $196 million for 2009.

Depreciation and amortization was $61 million in the quarter and $251 million for the full year of 2010. For year 2011, we expect D&A of around $200 million.

Cash increased by $181 million year-over-year. We ended 2010 with a cash balance of $828 million which exceeds our debt balance of $824 million.

Turning to **Slide 19** … for an update on our balance sheet and capital structure.

We repaid $65 million in debt maturities in March 2010. We also made selective debt repurchases during the second and fourth quarters. These actions reduced debt by $88 million during 2010.

As I mentioned in my comments about our cash flow, we did not utilize our US accounts receivable securitization facility in 2010 in contrast to 2009 when we ended the year with $100 million in receivables sold under this facility.

Consistent with the longer-term strategic objectives we have outlined, we plan to reduce debt by 75% or approximately $625 million, by the end of 2013.
Turning to Slide 20, I would now like to provide an update on our worldwide pension plans, funding position, and expected cash funding levels.

Driven by the recovery in the financial markets in 2010, the assets in our U.S. pension plan – which is the largest of our worldwide pension plans – returned 14.69 percent last year.

The obligations under this plan are present-valued at a discount rate defined by US GAAP. The 12/31/2010 discount rate was 5.68%. This rate is lower than the December 31, 2009 discount rate of 6.11%, reflective of the changes in interest rates from last year end. The lower discount rate has increased the present value of our US pension plan liabilities at year-end 2010.

Taking into account the increase in both pension assets and pension liabilities, we ended 2010 in an underfunded position in our US plans of $963 million which was approximately the same as year-end 2009.

A change of 25 basis points in the US discount rate causes an approximate $113 million change in the pension obligation. All things being equal, a two to two and a half point increase in the discount rate at December 31, 2010 would result in a fully funded pension obligation on a US GAAP basis.

From a cash funding perspective, we were not required to make cash contributions to our U.S. qualified defined benefit pension plan in 2010. For 2011, there is no cash contribution required for this plan.

Based on current legislation and our underfunded position at year-end 2010, we expect to be required to make contributions of approximately $100 million to this plan in 2012. This estimate could change depending on actual asset returns, discount rates in 2011, and/or legislative changes.

For our international plans, we contributed $82 million of cash in 2010. In 2011, we anticipate contributing approximately $115 million of cash primarily to our international pension plans.

The underfunded position of the international plans at December 31, 2010 improved by approximately $150 million from the prior year-end.

In terms of US GAAP pension expense … we expect approximately $36 million in pension expense in 2011, compared with pension income of about $3 million in 2010.

As we announced in our last earnings call, effective January 1, 2011, we reinstated the Company’s U.S. 401k matching contributions but at a lower rate than when we suspended these contributions on January 1, 2009. We are funding the match in Unisys common stock and we estimate that our matching contributions will be approximately $14 million during 2011.

In closing, we made progress during the quarter and full year in stabilizing our Technology revenue, driving market levels of growth in our non-US Federal ITO business, reducing expenses to get our cost structure more competitive, getting our services operating margins within our targeted range, generating significant free cash flow, and achieving zero net debt.

As we move through 2011, we will remain focused on extending our success as we continue to make progress towards our longer-term financial goals that Ed discussed earlier.

Thank you for your time.