Niels Christensen, VP, Investor Relations

- Thank you operator. Good afternoon everyone, and thank you for joining us.

- Earlier today, Unisys released its second quarter 2011 financial results. With us this afternoon 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 afternoon 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. Thank you for joining us today to discuss our second-quarter 2011 financial results.

- Please turn to Slide 1 to begin our discussion.

  - As you saw in our earnings release, we reported a net loss in the quarter, driven by the previously announced debt reduction charge. On a non-GAAP basis, diluted earnings per share were 93 cents and we generated adjusted EBITDA of $106 million.

  - We made progress in the second quarter toward our three-year financial goals despite continued weakness in the U.S. Federal government market and lower revenue in our technology business.

  - In our services business, we continued to be impacted by lower revenue in our U.S. Federal business, due to the ending of the TSA contract and the uncertainties in Washington. Outside the U.S. Federal business, our overall services revenue was essentially flat year over year in the quarter, helped by currency.

  - We were able to improve the profitability of the services business in the second quarter, even with the lower revenue, driven by continued improvements in service delivery execution.

  - We reported a services operating profit margin of 7.1 percent in the quarter, up from 6.1 percent a year ago and up from 4 percent in the first quarter of this year.

  - As you may recall, one of our goals is to drive a consistent 8 to 10 percent operating profit margin in our services business. While we’re not there yet, I’m pleased with the progress we’ve been making toward the goal.

  - In our technology business, our revenue in the quarter was impacted by lower sales of ClearPath systems against a strong quarter a year ago.

  - As you know, our ClearPath sales can vary significantly from quarter to quarter, which is why we believe the best way to measure this business is on an annual basis. We grew our ClearPath sales in the first quarter of this year and for
We also continued progress during the quarter in strengthening the balance sheet. We completed a cash tender offer that reduced our debt by $179 million – another major step toward our stated goal of cutting our debt by 75 percent from September 2010 levels.

The debt reduction actions we took over the past two quarters have cut our annualized interest expense in half, which is key to reaching our pre-tax profit goals for 2013.

I want to take a moment to highlight the balance sheet improvement we’ve made. Slide 2 shows the balance sheet journey we’ve taken over the past two and a half years.

When we started, we had $1.1 billion of debt.

Today, our debt is under $450 million and our financial position is significantly improved as cash exceeds our debt by $178 million.

Turning to Slide 3 … from a top-line perspective, while our overall revenue declined in the second quarter due to the lower U.S. Federal and technology revenue, there were encouraging points of progress in the quarter.

As you may recall, our three-year financial goals are based on growing our IT outsourcing and systems integration services revenue at market rates, adjusted for the fact that we no longer have the TSA revenue in 2011, while maintaining flat technology revenue over this same period.

Against these goals, we saw continued growth during the second quarter in our IT outsourcing business. Outside the U.S. Federal business, we grew our IT outsourcing revenue 7 percent. This represents the sixth consecutive quarter of year-over-year revenue growth in this business.

We’ve done work in recent years to enhance our portfolio of outsourcing solutions and to focus on providing world-class levels of service and support, and these efforts are paying off in a stronger deal pipeline and improved customer satisfaction.

In fact, about a third of the IT outsourcing orders we’ve received in 2011 have been for expanded work from existing clients – which speaks to the quality of our services and our customer relationships.

In our project-based systems integration business, while we’ve not yet turned the corner on revenue growth, I’m encouraged that we’ve seen two consecutive quarters of year-over-year order growth.

Our commercial systems integration business has historically been tied to vertical industry services and solutions based on our own technology and software applications.

To grow this business, we are making investments in our industry solutions while also pursuing new growth opportunities to help clients address, and take advantage of, disruptive technology trends that are changing the way people work and do business today.

For example, in the area of cloud computing, we are applying our expertise in complex, mission-critical systems integration to help clients integrate and build their own secure cloud computing environments and applications. As part of this effort, we’ve recently announced alliances with CA Technologies and BMC to work as their systems integration partner on cloud projects.

We are also working to expand the market for our industry solutions by offering them through a software-as-a-service model. We’ve seen success doing this with our cloud-based air cargo solution, where we continue to add new clients. We are pursuing similar initiatives, working in tandem with our clients, for some of our financial services solutions.

In the area of security, in addition to the work we do in identity management and credentialing, fraud detection, and airport and seaport security for organizations around the world, we are applying our consulting and integration skills to help clients protect their networks against cyber attacks and secure the exploding number of mobile devices and social applications being used within the enterprise. We also see commercial and government growth opportunities for our Stealth network technology, which was recently certified by the National Security Agency to protect classified government data.

Finally, as I mentioned to you in our last call in April, to drive profitable revenue growth we are focused on improving our sales execution and productivity.

In addition to strengthening our sales leadership, we are adding experienced, talented sales personnel across the world with the consultative selling capabilities needed to represent our enhanced solution portfolio.

Year to date we have refreshed about 15 percent of our global sales force through this process, and we anticipate that percentage to grow to 25 to 30 percent by year end.
In summary, turning to Slide 4, in a quarter where we had a challenging Federal marketplace and lower technology revenue, I am pleased we were able to make the continued progress toward our three-year financial goals in the second quarter.

I am encouraged by the margin improvement we made in our services business … further progress in strengthening the balance sheet … and continued revenue growth in IT outsourcing outside the U.S. Federal market.

As we build on our strengths as a mission-critical provider of IT solutions and services, we continue to see growth opportunities in the market for both long-term outsourcing and project-based services.

In our technology business, we continue to enhance our flagship ClearPath server platform with innovative, open system capabilities, and of course we are focused on closing key sales opportunities. During the quarter we announced our most powerful ClearPath models ever, as well as support for mobile devices such as Apple iPads, Androids and BlackBerrys.

In our U.S. Federal business, while we work through the continued uncertainties in Washington, we are retooling our business model to respond to changes happening within the Federal market in terms of how agencies are buying and the new types of solutions they need to reduce costs and be more responsive to citizens.

We can see this shift occurring, for instance, with the government’s increasing interest in cloud-based solutions, where Unisys is doing innovative work with GSA, the National Oceanic and Atmospheric Administration, and other agencies.

As we look to the second half, we are focused on executing our strategy and continuing progress against our stated goals.

Thanks 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.

As Ed said, our second quarter results were impacted by the continued weakness in the US Federal marketplace and the lower year-over-year ClearPath sales.

However, we were encouraged by the improving services operating margins which improved to 7.1 percent for the quarter – up from 4% in the first quarter of 2011 and moving closer to our targeted range of 8 – 10 percent.

We continued our discipline in controlling operating expenses which were down 9 percent from the second quarter of last year; down 14 percent at constant currency rates.

As we have previously disclosed, in April we further reduced debt by $179 million. We incurred a $45.7 million charge in the quarter for the debt redemption. On a non-GAAP basis, excluding the debt retirement charge and the impact of the old Brazilian above the line tax item, Unisys had net income from continuing operations of $47.0 million in the quarter.

We generated positive free cash flow during the second quarter of 2011 and ended the quarter with cash net of debt of $178 million – a $518 million improvement from June 30, 2010.

We ended the quarter with $625 million of cash.

I will now provide more details on our second quarter results.

We ended the second quarter with $5.7 billion in services backlog, which was down 1 percent from December 31, 2010 and about 5 percent on a constant currency basis. Year over year, services backlog was up 3 percent but down 5 percent at constant currency rates.

Second quarter services orders declined by double digits versus the second quarter of 2010. This decrease was attributable to lower year-over-year orders in Outsourcing. These declines more than offset orders growth in Systems Integration and Infrastructure Services.

In terms of geographic trends in the second quarter, we saw year-over-year services order growth in our North American region, excluding U.S. Federal and in our Asia Pacific region. Orders in our U.S. Federal business and other geographic regions were down versus the second quarter of 2010.

Slide 5 highlights our financial results in the second quarter.

At the top line, we reported total revenue of $937 million in the quarter, which was down 10 percent year-over-year. This decline was driven by lower revenue from the US Federal government and in our technology business.
Currency had a 5 percentage-point favorable impact on our revenue in the quarter. And based on today’s rates, we anticipate currency to have about a 5 to 6 percentage-point positive impact on revenue in the third quarter of 2011.

We reported an operating profit of $48.1 million in the quarter compared to the year-ago operating profit of $106.5 million. Declines in our gross profit margin related to the lower Technology revenue which more than offset improved gross profit margins in our services business the continued reductions in operating expenses. As a result, our operating profit margin was 5.1 percent, down from 10.3 percent a year ago.

Other expense for the second quarter of 2011 was $49.4 million which included the $45.7 million charge related to the April debt reduction.

For the second quarter of 2011 our pension expense increased $9.9 million compared to the second quarter of 2010. We continue to expect approximately $33 million in pension expense in 2011, compared with pension income of about $3 million in 2010.

At the tax line, we had a $9.2 million tax benefit in the quarter compared with a $13.3 million tax provision in the year-ago quarter. The second quarter 2011 tax benefit reflects the impact of settling two European tax cases which benefitted our tax provision by $30.3 million. Offsetting these favorable events is the negative impact of not reporting a tax benefit on losses for some of our legal entities that have full valuation allowances. In addition, as I have said previously, our tax provision continues to be highly variable from quarter to quarter depending upon the geographic distribution of our income.

We reported a net loss from continuing operations before preferred stock dividends of $7.6 million in the quarter, versus net income of $59.2 million in the year ago quarter.

Excluding the impact of the $45.7 million debt reduction charge and the $13.5 million charge related to the Brazilian tax case, Unisys generated adjusted EBITDA of $105.5 million for the quarter.

The second quarter 2011 loss per common share was 27 cents. Excluding the impact of the debt reduction charge and the Brazilian tax item, our non-GAAP diluted EPS was 93 cents per share.

In the second quarter 2010, we reported diluted EPS from continuing operations of $1.36.

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

On Slide 6, services revenue declined 6 percent year-over-year. Outside of Federal business, services revenue was essentially flat. Currency had a 6 percentage point favorable impact on revenue in the quarter.

Improved service delivery execution across our Services business drove higher gross profit margin as a percentage of revenue. Services gross profit margin increased 80 basis points year-over-year to 20.1 percent from 19.3 percent in the second quarter of 2010.

Reflecting the higher gross margins and lower operating expenses, our services operating margin improved by 100 basis points year-over-year to 7.1 percent, and was up sequentially from 4 percent in the first quarter 2011.

Systems integration and consulting revenue declined 15 percent year-over-year.

Within Outsourcing, ITO revenue was down 3 percent versus the second quarter of 2010. ITO revenue from the US Federal government was down for the quarter principally due to the loss of revenue from ending of the TSA contract which ended effective November 30, 2010. The TSA contract represented 10 percent of ITO revenue in the second quarter of 2010. Outside of our business with the U.S. Federal government, ITO revenue rose by 7 percent year-over-year.

Infrastructure services revenue increased 13 percent compared to the second quarter of 2010 due to deal specific third-party sales and new business wins in our private label maintenance business.

Core maintenance revenue declined 3 percent year-over-year.

Business Process Outsourcing (BPO) revenue declined 5 percent versus the second quarter of 2010.

Approximately $750 million of the June 30, 2011 services backlog is anticipated to convert into third quarter 2011 services revenue. Over the past 10 quarters, we have typically 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.

Moving on to Technology on Slide 7 - Technology revenue decreased 35 percent due to lower ClearPath sales.

We reported a technology gross margin of 49.0 percent, down from the prior year principally because of lower ClearPath volume. Our technology operating margin declined to 2.4 percent compared with 26.8 percent in the second quarter of 2010.
As we have said previously, because ClearPath sales can vary greatly from quarter to quarter, we believe the best way to measure this business continues to be on an annual basis. We remain focused on achieving our goal of maintaining essentially flat ClearPath revenue compared to 2010 levels.

Slide 8 provides more detail on the performance of our federal government business over the past six quarters.

As a reminder, our Federal Systems business serves three primary sectors of the U.S. Federal government: Civilian, Homeland Security, and Department of Defense.

Civilian agencies represent our single largest revenue base within the U.S. federal government, accounting for about 50 percent of our overall U.S. federal government revenue in the second quarter.

Revenue from agencies within the U.S. Department of Defense and various Intelligence agencies represent about 28 percent of overall U.S. Federal government revenue, or about 4.5 percent of overall Unisys revenue.

With the end of the TSA contract late last year, revenue from Homeland Security agencies has declined significantly as a percentage of our total Federal revenue and in the second quarter of 2011 represented about 22 percent of our overall U.S. federal government revenue.

As you can see in the slide, our overall U.S. federal revenue declined $62 million or approximately 29 percent in the second quarter of 2011 to $152 million with about half of that decline due to the end of the TSA contract. We were also impacted by the continued weakness in the US federal government marketplace.

We ended the second quarter of 2011 with about $300.0 million of U.S. federal services backlog, which was down 17 percent compared to the second quarter of 2010. Excluding the impact of the TSA contract, Federal services backlog declined by about 8.5 percent year-over-year.

Slide 9 shows our second-quarter revenue by geography and industry.

Our North America revenue represented 40 percent of our revenue in the quarter and declined 19 percent. Within North America, our revenue from the U.S. federal government represented 16 percent of total Unisys revenue in the second quarter, and, as we noted earlier, declined 29 percent year-over-year due to the absence of our TSA contract revenues as well as the impact of the challenging US Federal marketplace. Excluding the US Federal Government business, our North America revenue declined by 10 percent due to lower technology sales.

International revenue declined 2 percent in the quarter due to lower revenue in our Asia Pacific and European regions. On a constant currency basis, international revenue was down 12 percent.

From an industry perspective, Public Sector remained our largest single industry revenue source. The 9 percent decline in Public Sector revenue year-over-year was driven by the decline in our US Federal government revenue. The balance of our Public Sector business revenue grew 9 percent compared to the second quarter of 2010.

Revenue from Commercial industry customers was down 16 percent versus the prior year and represented 34 percent of our second quarter revenue. The Financial Sector, which had flat year-over-year revenue, represented 22 percent of revenue.

Turning to Slide 10 You can see our revenue mix as we reshape our business. As we leverage our capabilities in systems integration, IT outsourcing and technology and continue to invest in those areas, our goal remains to drive growth at market rates in our ITO and systems integration business adjusting for the ending of the TSA contract, while holding Technology revenue stable.

Please turn to Slide 11 for an overview of our cash flow performance in the quarter.

We generated $36 million of cash from operations in the second quarter of 2011 compared to $52 million in the year-ago quarter.

As part of our ongoing focus to reduce the cash requirements of our business model, capital expenditures were $29 million in the second quarter of 2011, down $19 million from $48 million in the second quarter of 2010.

Our free cash flow was $7 million in the second quarter of 2011 versus $4 million for the same period last year.

Depreciation and amortization was $50 million in the quarter down from $63 million in the second quarter of 2010. For the full year 2011, we expect depreciation and amortization of around $200 million.

We contributed $20.6 million in cash principally to our international pension plans in the second quarter of 2011. For the full year, we continue to anticipate contributing approximately $115 million of cash to these pension plans.

Our cash balance of $625 million at June 30, 2011 was up $128 million from June 30, 2010 with $389 million less debt at June 30, 2011 compared to June 30, 2010.

Turn to Slide 12 for an update on our balance sheet, capital structure and liquidity.
During the second quarter we took a significant step toward our debt reduction goal with the use of $221 million of cash on hand in April to complete a tender offer for some of our high coupon debt.

We remain focused on our three year goal of reducing debt by approximately 75 percent or approximately $625 million from September 30, 2010 levels.

Our long term debt levels are now about 53 percent of what they were at September 30, 2010. Through the first half of 2011, we have achieved about 60 percent of our three-year debt reduction goal.

Lower leverage was one of the key factors cited by both S&P and Fitch for raising their credit ratings to BB- during the second quarter. We view this as positive evidence of our continuing success in strengthening the balance sheet.

The initial benefit in lower interest was evident in the second quarter results as we reported interest expense of $13.3 million versus $25.3 million of interest expense in the second quarter of 2010.

Our first half 2011 actions to reduce debt have reduced our annualized interest expense by approximately $53 million. We expect about $37 million of interest expense savings in 2011 from these actions.

From a cash perspective, this benefit is partially offset by the payment of $16 million in dividends annually on the mandatory convertible preferred stock during the three years until it converts into common stock.

On June 23rd 2011 we entered into a $150 million five year secured revolver that replaces the backup liquidity provided by our former accounts receivable securitization facility.

This revolver is secured primarily by our US accounts receivable and has a junior interest in certain other assets of the company second to the 2014 and 2015 secured notes.

Similar to our prior A/R securitization facility, the borrowing limits are based on the amount of eligible US accounts receivable. And interest is based on LIBOR and Prime rates.

In addition to providing additional liquidity as a loan facility the revolver also allows for the issuance of up to $100 million in letters of credit. Our former accounts receivable securitization facility did not allow for the issuance of letters of credit. This will enable us over time to free up cash collateral currently securing existing letters of credit.

We are pleased with the level of interest from the banks and their level of support -- some of whom are also long-term customers of Unisys.

In closing, this was a bit of a mixed quarter. We had continuing weakness in the US Federal government market and a different quarterly pattern of Clear Path revenue as compared to last year. But we made important progress towards our three-year goals:

- The Services Operating margin was up sequentially and year over year to 7.1 percent.
- We demonstrated continued discipline over operating expenses which declined again.
- We generated Free Cash Flow
- And we strengthened the balance sheet.

We remain focused on making quarter by quarter progress towards achieving our three-year financial goals.

Thank you for your time.