Niels Christensen, VP, Investor Relations

- Thank you operator. Good afternoon everyone, and thank you for joining us.
- Earlier today, Unisys released its third 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 third-quarter 2011 financial results.
- This was a strong quarter for Unisys. We grew our revenue and tripled EPS from continuing operations as we benefitted from the foundational work we’ve been doing to strengthen our competitive and financial profile.
- Page 4 of the slides summarizes our results in the quarter. Our revenue grew 6 percent despite lower revenue in our U.S. Federal business, where we continue to be impacted by the ending of the TSA contract last November and budget uncertainties in that market. Excluding the U.S. Federal business, our overall revenue grew 14 percent.
- Services revenue grew 2 percent – 12 percent excluding the U.S. Federal business. Within services, we grew revenue in both of our strategic growth areas of IT outsourcing and systems integration.
  - Excluding U.S. Federal, IT outsourcing revenue grew 12 percent, marking the seventh consecutive quarter of growth in this business.
  - Excluding U.S. Federal, systems integration revenue grew 21 percent, reflecting higher sales of industry solutions.
- In technology, we grew revenue 36 percent driven by significantly higher ClearPath sales.
- As I mentioned in our last call, our ClearPath sales can vary significantly from quarter to quarter, which is why we believe the best way to measure this business is on a full-year basis. With the strong third quarter, year-to-date ClearPath revenue is approximately flat and we continue to focus on our goal of maintaining 2011 ClearPath revenue roughly flat with 2010 levels.
- Along with continued focus on cost discipline, we were able to leverage the revenue growth in the quarter into higher margins and profitability.
- We reported an operating profit of $113 million, up 48 percent, and achieved an overall operating margin of 11.1 percent. In our services business we achieved an operating profit margin of 8.7 percent, which was within our targeted 8 to 10 percent range.
- At the bottom line, we delivered net income from continuing operations of $79 million and diluted EPS of $1.63, up from 50 cents a year ago.
• We are pleased with these results, which speak to the progress we have made in enhancing our portfolio, creating a more competitive cost structure, and strengthening our selling efforts.

• At the same time, we recognize we have more work to do to drive continued profitable revenue growth and achieve our goal of consistent, predictable financial results. Global economic conditions are challenging and we must continue to sharpen our differentiation in an extremely competitive marketplace.

• To do that, we will build on the foundation we’ve put in place over the past three years. Page 5 shows the basis of our differentiation at Unisys.

• We are focused on four areas of strength – security; data center transformation and outsourcing, including our ClearPath software and server offerings; end user outsourcing and support services; and application modernization and outsourcing.

• Within those areas, we differentiate ourselves through our expertise in providing mission-critical IT solutions and services; through the quality of those solutions and services; by placing the customer at the center of everything we do, by maintaining a narrow focus in our portfolio and served markets, by continuously improving our operational efficiencies, and by building a high-performing sales culture.

• This set of capabilities and solutions positions Unisys to help clients address disruptive IT trends – such as cloud computing, cybersecurity and consumerization and mobility – that are changing the way organizations do business today and creating growth opportunities.

• Turning to the next page … in the IT outsourcing market we are focused on opportunities that build on our strength in end user outsourcing and support services.

• Unisys has a growing reputation in this market for providing consistently high levels of service and support that leverage our global, ITIL-based service delivery model. For example, Gartner places Unisys in the leadership quadrant of its help desk outsourcing magic quadrant report.

• Organizations today are looking for efficient ways to support increasingly mobile end users who need anytime, anywhere IT support for a wide range of devices. Our services portfolio makes use of advanced automation and smart analytics to enable our clients to provide this support reliably, consistently, and cost effectively.

• You can see on the page a sampling of our end user outsourcing clients, which include Marriott, Andersen, Piper Jaffray, AARP, De Beers, the Australian government, the Commonwealth of Pennsylvania, and other organizations around the globe.

• As we expand our roster of clients, our IT outsourcing revenue has been growing outside our U.S. Federal business. As you can see, ITO revenue excluding the U.S. Federal business has grown now for seven consecutive quarters, and we go forward with a strong pipeline of business.

• Turning to page 7 … in the systems integration market, we see emerging growth opportunities for project work to help our clients deal with sophisticated cybersecurity threats and modernize their mission-critical applications to take advantage of cloud computing, social computing, and other disruptive trends.

• We show on the page some of the innovative systems integration projects we are doing for our clients. These projects include:
  
  o creating a cloud-based email and collaboration system based on Google Apps for the Department of Energy’s Idaho National Laboratory, building on the success of our recent project with GSA;
  
  o rolling out the Mexican national ID project;
  
  o building a new child welfare system for the state of Michigan;
  
  o helping Brazil improve the cost-efficiency and security of its maritime ports;
  
  o integrating airport and air traffic control systems at China’s Chengdu Airport;
  
  o and creating an online benefits applications website for Los Angeles County that won a “Best Fit Integrator” award from the Center for Digital Government.

• Turning to page 8 … in technology, we continue to enhance our ClearPath software and server family, which we believe is the most secure and reliable open enterprise server on the market today.

• Over the past few years, we have made significant investments in the ClearPath environment, refreshing the product line and introducing innovative new features such as secure partitioning, specialty engines and support for mobile computing, while transitioning from proprietary to industry-standard hardware.
We've done this while strengthening the six key attributes that make ClearPath special: its superior reliability and resiliency; its recognized security; its advanced automation; its support for mobile computing; its agility and flexibility; and its scalability.

These are the attributes that make our ClearPath client base so loyal. They are also attributes that we believe would be of interest to any organization looking for high-volume, transaction-intensive, secure computing.

We continue to explore opportunities to extend the market for ClearPath software and servers such as offering ClearPath capabilities via new delivery models such as the cloud, as we’re doing with our ClearPath-based air cargo management business.

Turning to page 9 … as we look at growth trends in the market, the single most disruptive trend we see happening is the continued shift to the cloud.

Cloud computing is transforming the way organizations acquire, develop and deploy IT services. Still, concerns remain, particularly around the security and reliability of cloud environments. Clients are looking for the same attributes in cloud environments that they’ve come to expect from their mission-critical systems – which is why we feel that Unisys, with our core expertise in mission-critical computing, is well suited to help clients move to the cloud.

Our offerings in this market include cloud managed services, cloud professional services, cloud infrastructure software, and applications delivered via a software-as-a-service model. We are providing these services to a growing list of clients including GSA, Air Canada, Travelsky, La Caixa, JMC Steel and the University of Salford in the UK.

So overall, while the economy is challenging, we like how our portfolio is positioned relative to the trends that are playing out in the market. We are focused on continuing to sharpen our differentiation and making continued progress on our three-year financial goals.

Page 10 summarizes how we are doing against those goals.

At the top line, we grew in all three of our revenue focus areas in the third quarter. We also continued to strengthen our selling effort, where we have refreshed about 20 percent of our sales force so far in 2011 … with a goal to expand that to 25 to 30 percent by year end.

In terms of driving improved operational efficiencies, we achieved a services operating profit margin in our targeted 8 to 10 percent range and continue to focus on increasing our use of lower-cost labor pools, which today represent 30 percent of our overall workforce.

We also significantly increased our pre-tax profit in the quarter … and in terms of the balance sheet, we have taken another step toward our debt reduction goals by calling our remaining $66 million of 2012 senior notes, which Janet will discuss in more detail in her remarks.

When this redemption is complete, we will have reduced our debt by about $458 million from September 2010 and will have achieved 73 percent of our three-year debt reduction goal.

Please turn to page 11. In summary, this was a strong quarter for Unisys. In a challenging economy we delivered revenue growth and significantly higher earnings.

While we have much work to do, we are pleased with the progress we have made.

As we look at the market, we continue to see growth opportunities created by disruptive IT trends, and we believe Unisys is positioned to benefit with our enhanced portfolio, our streamlined cost structure, and our strengthened balance sheet.

In the fourth quarter we are focused on executing on our priorities and making continued progress toward our financial 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.

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

Please turn to Page 13 for some more details on our third quarter results.

At the top line, we reported revenue of $1 billion in the quarter, which was up 6 percent year-over-year.
Currency had a favorable impact on our revenue of almost 6 percentage points in the quarter so we were up slightly on a constant currency basis. Based on today’s rates, we anticipate currency to have a minimal impact on the year-over-year revenue comparisons in the fourth quarter of 2011.

On higher gross margins, we reported increased operating profits and margins. We reported third quarter 2011 operating profit of $113.0 million compared to the year-ago quarter’s operating profit of $76.1 million. Our operating profit margin increased to 11.1 percent, up from 7.9 percent a year ago.

Operating expenses rose about 6½ percent year-over-year but were flat on a constant currency basis including $3 million of higher pension expense.

Interest expense decreased 50% from the third quarter 2010 on lower debt levels - from $25.0 million in the third quarter of 2010 to $12.5 million in the third quarter of 2011.

The other income/expense line for the third quarter of 2011 was a net $16.6 million of income primarily reflecting the favorable impact of foreign exchange gains in the quarter. In the third quarter 2010, this line netted to zero.

For the third quarter of 2011, our pension expense increased $9.3 million compared to the third quarter of 2010. We continue to expect approximately $34 million in pension expense in 2011, compared with pension income of about $3 million in 2010.

At the tax line, we had a $33.4 million tax provision in the quarter compared with a $28.2 million tax provision 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.

We reported net income of $78.6 million in the quarter, up from net income of $28.3 million in the year ago quarter.

Unisys generated EBITDA of $175.5 million for the quarter compared to $135.6 million in the third quarter 2010.

The third quarter 2011 diluted earnings per common share from continuing operations was $1.63 versus $0.50 in the third quarter of 2010.

The diluted EPS calculation reflected a share count of 50.6 million shares for the third quarter of 2011 versus 43.3 million shares for the third quarter of 2010, the increase primarily reflecting the issuance of the mandatory convertible preferred stock earlier this year.

Please turn to Page 14 for a breakdown of our revenue and margins by segment.

Services revenue, which accounted for 86 percent of our total revenue in the third quarter, rose 2 percent year-over-year to $876 million. Excluding our US Federal business, services revenue grew by 12 percent and currency had a 6 percentage point favorable impact on services revenue in the quarter.

Services gross profit margin increased 100 basis points year-over-year to 21.6 percent from 20.6 percent in the third quarter of 2010. A richer mix of services and solutions drove higher gross profit in both aggregate dollars and as a percentage of revenue.

Reflecting the higher gross margins, our services operating margin improved by 70 basis points year-over-year to 8.7 percent, and was up sequentially from 7.1 percent in the second quarter 2011.

Technology revenue, which accounted for 14 percent of our third quarter revenue, rose 36 percent on higher ClearPath sales.

We reported a technology gross margin of 57.4 percent, up from the prior year principally on higher ClearPath volume. Our technology operating margin rose to 25.8 percent compared to 7.4 percent in the third quarter of 2010.

Moving to our third-quarter revenue and margins by portfolio on Page 15, Systems integration and consulting revenue grew 5 percent year over-year. Excluding our US Federal government business, systems integration revenue rose 21 percent with particular strength in the transportation industry.

IT Outsourcing revenue grew by 1 percent versus the third quarter of 2010. ITO revenue from the US Federal government was down for the quarter due principally to the loss of revenue from the TSA contract which ended November 30, 2010. The TSA contract represented 10 percent of the ITO revenue in the third quarter of 2010. Excluding our business with the U.S. Federal government, ITO revenue grew 12 percent year-over-year.

Approximately $730 million of the September 30, 2011 services backlog is anticipated to convert into fourth quarter 2011 services revenue. Over the past 11 quarters, we have typically had between 86 and 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. Therefore, we have typically had between 7 and 14 percent of our services revenue sold and billed within the quarter. In the third quarter 2011, we had a high volume of sell-and-bill business putting us at the high end
of the range of in-quarter services revenue sold and billed in the quarter and we anticipate the same happening in the fourth quarter 2011.

- Our enterprise class software and servers business rose 60 percent to $124 million due to higher sales of ClearPath software and hardware.

- 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 and are essentially flat for the year-to-date compared with the first nine months of 2010.

- Other technology revenue declined by 28 percent from third quarter 2010 and approximately half of that decline was in our Federal business.

- Page 17 provides more detail on the performance of our US Federal government business over the past seven quarters.

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

- Civilian agencies represent our single largest revenue base within the U.S. federal government, accounting for about 44 percent of our overall U.S. federal government revenue in the third quarter.

- Revenue from the U.S. Department of Defense and various Intelligence agencies represents about 30 percent of our overall U.S. Federal government 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. In the third quarter of 2011, revenue from Homeland Security agencies represented about 26 percent of our overall U.S. federal government revenue.

- As you can see on the page, our overall U.S. federal revenue declined $43 million or approximately 19 percent in the third quarter of 2011 to $181 million with over 75% of the decline related to the end of the TSA contract. We were also impacted by continued weakness in US federal government spending but we did see some sequential improvement over the second quarter as the US Federal government concluded its fiscal year.

- We ended the third quarter of 2011 with about $360 million of U.S. federal services backlog, which was down 18 percent compared to the third quarter of 2010 but up 20 percent sequentially from the second quarter of 2011. Excluding the impact of the TSA contract, Federal services backlog declined about 12 percent year-over-year.

- Going into our fourth quarter, which is the US Federal government's first quarter, we continue to believe we will face a challenging demand environment.

- Page 18 shows our third-quarter revenue by geography and industry.

- Our North America revenue represented 46 percent of our revenue in the quarter and rose 3 percent. Our revenue from the U.S. federal government represented 18 percent of total Unisys revenue in the third quarter, and, as we noted earlier, declined 19 percent year-over-year. Excluding the US Federal Government business, our North America revenue grew by 25 percent.

- International revenue rose 8 percent in the quarter due to higher revenue in all our regions except Latin America outside of Brazil. On a constant currency basis, international revenue was down 2 percent.

- From an industry perspective, Public Sector remained our largest single industry revenue source. The 4 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 grew by 10 percent compared to the revenue in the third quarter of 2010.

- Revenue from Commercial industry customers was up 14 percent versus the prior year and represented 34 percent of our third quarter revenue. The Financial Sector, which had an 18 percent increase in revenue year-over-year, represented 23 percent of revenue.

- Please turn to Page 19. We ended the third quarter with $5.3 billion in services backlog, which was down 8 percent year over year. Currency and backlog declines in our US Federal business and Business Process Outsourcing drove most of this decline.

- Third quarter services orders declined by low double digits versus the third quarter of 2010. This decrease was attributable to lower year-over-year orders in our US Federal business and in Outsourcing. These declines more than offset orders growth in Systems Integration, Infrastructure Services and Core maintenance. Services orders rose mid-single digits sequentially from the second quarter of 2011.
• In terms of geographic trends in the third quarter, we saw year-over-year services order growth in the US, outside of our Federal government business, in the UK and in our Latin American region. Orders in our U.S. Federal business and other regions were down versus the third quarter of 2010.

• Now please turn to Page 20 for an overview of our cash flow performance in the quarter and the year-to-date.

• We generated $94 million of cash from operations in the third quarter of 2011 compared to $127 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 third quarter of 2011, down $17 million from $46 million in the third quarter of 2010.

• Our free cash flow was $65 million in the third quarter of 2011 versus $81 million for the same period last year.

• Depreciation and amortization was $47 million in the quarter down from $61 million in the third quarter of 2010.

• And EBITDA for the third quarter 2011 was $176 million versus $136 million in the year-ago quarter.

• Year-to-date, we generated $158 million of cash from operations in 2011 compared to $150 million in the prior year. Capital expenditures were $101 million for the year-to-date 2011, down $61 million from $162 million in the first nine months of 2010. For the full year 2011, we expect capital expenditures of approximately $150 million.

• Our free cash flow was $57 million for the first three quarters of 2011 versus free cash usage of $12 million for the same period last year.

• Depreciation and amortization was $150 million year-to-date, down from $190 million for the first nine months of 2010. For the full year 2011, we expect depreciation and amortization of around $200 million.

• EBITDA for the first nine months of 2011 was $290 million versus $383 million for the same period during 2010.

• Our cash balance was $667 million at September 30, 2011.

• Turn to Page 21 for an update on our balance sheet, capital structure and liquidity.

• We ended September 2011 with $445 million in debt, $392 million less debt than at September 30, 2010. We remain focused on our three year goal of reducing debt by approximately 75 percent or approximately $625 million from the September 30, 2010 levels.

• Please turn to Page 22. Building on the continued progress we have been making to strengthen our balance sheet, we are calling for redemption all of our remaining 2012 senior notes. This will reduce our debt by approximately $66 million and eliminate all debt maturities until October 2014.

• A debt redemption charge of approximately $4.5 million will be recorded in the fourth quarter of 2011 and annual interest expense will decline by approximately $5 million.

• After this transaction is complete, long-term debt will be reduced to about $379 million. At that point, our long-term debt will be about 45 percent of what it was at September 30, 2010 and we will have achieved roughly 73 percent of our three-year debt reduction goal.

• Please turn to Page 23 for an update on our pension funding expectations. As we have noted before, there is no cash funding requirement for the US qualified defined benefit pension plan in 2011. We contributed $64 million in cash, principally to our international pension plans, during the first nine months of 2011. For the full year, we continue to anticipate contributing approximately $115 million of cash to these pension plans.

• In the US, our 2012 cash funding requirements will be determined at year end and are dependent on asset returns and the interest rate environment at that time. In prior quarters, we estimated 2012 cash funding for the US qualified defined benefit plan of $100 million. Based on movements in the capital markets, particularly the interest rate declines, our current estimate for US qualified defined benefit pension plan cash funding in 2012 is between $100 million and $140 million.

• These estimates are subject to change and depend on our asset returns in the fourth quarter of 2011 and the year-end interest rate.

• As usual, we will provide an estimate of our 2012 GAAP pension expense and cash funding requirements during our 2011 year-end earnings call.

• In closing, this was a good quarter with continued progress against our revenue, profitability and cash flow targets.

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

• Thank you for your time.