Niels Christensen, IRO  

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

Earlier today, Unisys released its second quarter 2012 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, Chairman & CEO

Thanks, Niels. Hello, everyone. Thank you for joining us today to discuss our second-quarter 2012 financial results.

This was a solid quarter for Unisys. We reported significantly higher profits, grew revenue on a constant currency basis, and continued to make progress on our three-year financial objectives.

Please see Page 4 of the presentation materials for highlights of our results.

We reported net income of $46.6 million compared with an $11.6 million net loss a year ago. The year-ago net loss included a $45.7 million debt reduction charge. Excluding debt reduction charges and pension expense in both years, as well as the impact of a Brazilian tax matter in the year-ago quarter, our non-GAAP earnings per share rose to $1.41 from $1.07 in the year-ago quarter.

Revenue declined 2 percent but grew 3 percent in constant currency, despite a 20 percent revenue decline in our U.S. Federal business, where market conditions continue to be challenging. This was the third quarter out of the past four that we have grown our overall revenue on a constant currency basis.

Our technology business had a particularly strong quarter, growing revenue 12 percent on strong ClearPath sales. Year to date, our technology revenue is up 3 percent. We continue to believe the best way to measure this business is on an annual basis and our goal is to maintain stable technology revenue for the full year, most importantly in our flagship ClearPath platform.

Revenue in our services business declined 3 percent but was up 1 percent in constant currency. Within services, we grew our IT outsourcing revenue 8 percent.

We saw good margin improvement year-over-year in both our services and technology businesses. In services, we were pleased to reach our targeted 8 to 10 percent operating profit margin range.

Cash flow also improved in the quarter, and we are announcing today a further debt reduction action of $84.5 million that will enable us to achieve – over a year early – our debt reduction goal for year-end 2013.

Turning to Page 5 … as you recall, at the end of 2010 we set financial objectives that we wanted to achieve by the end of 2013. Those objectives are:

- To increase our pretax profit to $350 million, assuming no change in pension income or expense from 2010 levels;
- To consistently achieve an 8 to 10 percent operating profit margin in our services business;
To grow our IT outsourcing and systems integration revenue at market rates while maintaining stable revenue in our technology business, particularly within the ClearPath business;

And to reduce our debt by 75 percent from September 2010 levels.

As we are now at the midway point of this three-year plan, I'd like to step back and review how we are doing against those objectives.

In terms of our pre-tax profit goal … our first-half 2012 pre-tax profit -- excluding pension expense and debt reduction charges -- is $171 million.

From a margin perspective, our services operating profit margin was 8 percent in the second quarter and through the first half of 2012 has improved 90 basis points year over year to 6.5 percent. While we still have work to do to get to our targeted 8 to 10 percent range on a consistent basis, we are pleased with the progress we've made in improving the profitability of our services business. As you know, a portion of that improvement has been driven by the increase in our use of lower-cost labor pools, which now represent 31 percent of our employee base.

We are also encouraged with progress toward our revenue growth goals.

In IT outsourcing, as I mentioned we grew revenue by 8 percent in the second quarter, and year-to-date in 2012 our IT outsourcing revenue is up 4 percent.

We continue to strengthen our portfolio of IT outsourcing offerings with new solutions such as new cloud-based IT Service Management service, aimed at helping our clients simplify the delivery of IT support services to their end users. These services take advantage of our global service delivery network which is based on ITIL-compliant processes.

As we enhance our portfolio and market reputation in IT outsourcing, we've expanded our base of clients, particularly in the area of end-user outsourcing and support services. Over the past four years we've won an average of one new outsourcing client each month, including such organizations as the American Red Cross, McDonalds, Henkel and DeBeers.

In project-based systems integration, our revenue has been impacted by softness in our U.S. Federal business. Outside the U.S. Federal business, however, we've grown our systems integration revenue 16 percent year-over-year in the first half of 2012.

Here, too, we continue to enhance our portfolio of offerings to address growing areas of market need – such as cloud computing, mobility, enterprise security, and storage.

In the second quarter, for instance, we announced a comprehensive suite of services to help clients manage, secure, and support a growing number of end users within their organizations who are using personally owned devices and applications to get their work done. This is a growing challenge for global organizations, and we believe Unisys is well positioned to address it.

In our technology business, we've seen good success in stabilizing revenue from our ClearPath business.

In recent years we've invested in innovative new features that build on ClearPath's recognized advantages in security, reliability, scalability and price-performance. At the same time we've been working on an exciting future vision for ClearPath, including new features and delivery models that opens up the market for this technology to new uses and new users.

Last but not least among our goals, as I mentioned, when we complete the additional debt reduction actions announced today, we will have achieved our goal of reducing debt by 75 percent, or about $625 million, from September 2010 levels.

Page 6 shows the progress we've made in recent years in reducing debt. When we complete the additional $84.5 million debt reduction actions, we will have reduced our debt, including borrowings under our former accounts receivable facility, by about $1 billion since the end of 2008. In the process, we've significantly cut annualized interest expense, which has further enhanced our profitability. And we've achieved this during arguably the worst economic environment in decades.

Beyond the bottom-line benefits, this deleveraging process has made Unisys a more competitive company when bidding for long-term IT outsourcing and other services and technology contracts.

Overall, we are pleased with the progress we've made toward our three-year financial goals and while we have much more work to do, we are focused on continuing our progress over the second half of 2012.

Challenges remain, particularly in our U.S. Federal business.

U.S. Federal agencies are under pressure to cut costs while finding new, more efficient ways to provide services to citizens, such as through the cloud. We are also seeing a strategic shift in the U.S. Federal government toward smaller contract awards.

We are repositioning our Federal Systems business to take advantage of these trends. In the area of cloud, for example, we continue to see growth opportunities in helping Federal agencies move to cloud-based email and collaboration
environments, such as we've done for the General Services Administration, the National Oceanic and Atmospheric Administration, and the Department of Energy's Idaho National Laboratory.

As another example, Unisys has just been awarded a task order by the Internal Revenue Service to provide an innovative, private cloud-based solution to manage the IRS's mission-critical information assets. Our solution will allow the IRS to take advantage of storage capacity on an as-needed basis. The task order has a one-year base period with nine one-year options and is potentially worth up to $139 million over 10 years.

We were also pleased during the second quarter to be selected as part of multi-billion dollar IDIQ contracts with the Department of Homeland Security and the National Institutes of Health. These awards allow Unisys to compete for task orders under these contract vehicles.

Turn to Page 7. In closing, we are pleased with our overall performance in the second quarter and through the first half of 2012.

Looking ahead, we continue to see the opportunity for Unisys to differentiate itself as the company that provides services and solutions to help organizations and individuals operate more safely and securely in an ever more connected world.

We deliver these solutions through project-based systems integration engagements or through outsourced, managed services and by providing the technology that supports secure, mission-critical environments.

To drive profitable growth, we continue to enhance our portfolio and delivery capabilities to help organizations address and take advantage of the major disruptive trends occurring in the marketplace such as mobility, cloud computing, and cybersecurity. We believe the work we've done has strengthened our competitiveness in the marketplace and we believe we are well positioned to take advantage of these growth opportunities.

Thanks again for joining us today. Now, here's Janet to take you through our results in more detail.

Janet Haugen, CFO

Thanks, Ed. Hello, everyone.

Page 9 highlights our financial results in the second quarter.

At the top line, we reported total revenue of $921.3 million in the quarter, which was down 2 percent year-over-year.

Currency had a 5 percentage point negative impact on our revenue in the quarter so, as Ed noted, on a constant currency basis, revenue rose 3 percent. We have now grown revenue three of the last four quarters on a constant currency basis.

Based on today's rates, we anticipate currency to have about a 5 to 6 percentage-point negative impact on revenue in the third quarter of 2012.

We reported an operating profit of $79.0 million in the quarter which was $30.9 million or 64 percent higher than the year-ago quarter's operating profit of $48.1 million. Our gross profit margin improved year-over-year by 360 basis points and our operating profit margin was 8.6 percent, up from 5.1 percent a year ago.

Interest expense decreased $5.4 million from $13.3 million in the second quarter of 2011 to $7.9 million in the second quarter of 2012 reflecting the impact of our ongoing debt reductions.

Other income/expense for the second quarter of 2012 was $4.1 million of other income of which $3.1 million related to a favorable currency impact.

In the second quarter of 2011, other income and expense was $49.4 million of other expense which included the $45.7 million charge related to the debt reduction.

Our second quarter 2012 U.S. GAAP pension expense increased $12.4 million to $21.1 million compared to $8.7 million in the second quarter of 2011. Within the income statement, pension expense is allocated to cost of revenue, SG&A, and R&D on the same basis as the salaries of active employees. Pension expense is not included in the segment results. We expect approximately $100 million in pension expense in 2012, compared with pension expense of about $34 million in 2011.

For the second quarter of 2012, pre-tax income was $75.2 million compared to a loss of $14.6 million in the second quarter of 2011. Excluding the impact of pension expense and debt reduction charges in both years as well as excluding the 2Q 2011, $13.5 million Brazil non-income tax matter, our non-GAAP pre-tax income increased to $96.6 million compared to $53.3 million of non-GAAP pretax income last year.

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At the tax line, we had a $22.1 million tax provision in the quarter compared with a $9.2 million tax benefit in the year-ago quarter. The second quarter 2011 tax benefit reflected the settlement of two European tax cases which benefitted our tax
provision by $30.3 million. And 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 $46.6 million in the quarter, versus a net loss of $11.6 million in the year ago quarter.

Excluding the impact of the debt reduction charges and pension expense in the second quarter of 2012 and 2011, as well
as the Brazilian non-income tax item in the second quarter of 2011, Unisys generated adjusted EBITDA of $148.6 million
for the quarter versus $114.2 million in the second quarter of 2011.

Our diluted earnings per common share improved to 99 cents per share from a loss of 27 cents per share in the year ago
quarter. The diluted EPS calculation reflected an average share count of 51.2 million shares for the second quarter of
2012 and 43.1 million shares for second quarter 2011.

Excluding the impact of the debt reduction charges, pension expense, and the prior year Brazilian tax matter, our second
quarter 2012 non-GAAP diluted EPS was $1.41 per share compared to $1.07 in the second quarter of 2011.

Please turn to Page 10 for some context on the progress we have made in terms of strengthening our operating
profitability. With our performance in the second quarter of 2012 we have achieved the highest trailing twelve month
operating profit margin we have recorded since our turnaround efforts began. We recognize that we still have work to do
to achieve consistent and predictable profitability each quarter but we are encouraged by our progress to-date.

Moving to our second-quarter revenue please turn to Page 11. Services revenue, which represented 89 percent of our
revenue in the second quarter of 2012, declined 3 percent year-over-year.  Currency had a 4 percentage point negative
impact in the quarter so services revenue grew 1 percent on a constant currency basis.

Excluding our U.S. Federal business, services revenue was flat, up 5 percent on a constant currency basis.

Technology revenue, which accounted for 11 percent of our revenue, rose 12 percent year-over-year.

On Page 12, you can see services revenue and margins.

Services gross profit margin increased 90 basis points year-over-year to 21.0 percent from 20.1 percent in the second
quarter of 2011.  This primarily reflected improved gross profit margins in IT Outsourcing.

Our services operating profit margin rose by 90 basis points year-over-year to 8.0 percent which reached our targeted
range for services operating profit.

Within Outsourcing, IT Outsourcing revenue was up 8 percent versus the second quarter of 2011. Moving on to
Technology revenue and margins on Page 13, ClearPath revenue rose year-over-year. Sales of Other Technology, which
includes third party equipment, declined by $10 million. Our annual goal is to maintain stable Technology revenue, most
importantly in our flagship ClearPath platform.

Benefitting from higher ClearPath sales, we reported a technology gross margin of 63.4 percent, up over 14 percentage
points from the prior year. Our technology operating margin improved significantly to 28.6 percent from 2.4 percent in the
second quarter of 2011.

Page 14 provides more detail on our U.S. federal government revenue over the past six quarters.

Our Federal Systems business serves three primary sectors of the U.S. Federal government: Civilian, Homeland Security,
and Department of Defense and Intelligence.

In the second quarter of 2012 Civilian agencies represented our single largest revenue base within the U.S. federal
government, accounting for about 51 percent of our overall U.S. federal government revenue.

Revenue from agencies within the U.S. Department of Defense and various Intelligence agencies represented about 26
percent of our overall Federal government revenue.

And revenue from Homeland Security agencies represented about 23 percent of our overall U.S. federal government
revenue.

Compared to the year-ago quarter, our overall U.S. federal revenue declined $31 million or approximately 20 percent to
$121 million. This decline resulted from lower funding on certain services contracts, as well as the loss of some services
contracts in prior quarters.

We ended the second quarter of 2012 with about $292 million of U.S. federal services backlog, which was down 3 percent
versus the second quarter of 2011.

Page 15 shows our second-quarter revenue by geography and industry.

Our North America revenue represented 41 percent of our revenue in the quarter and rose 1 percent. Revenue from the
U.S. federal government represented 13 percent of total Unisys revenue in the second quarter. Excluding the U.S.
Federal Government business, our North America revenue rose by 15 percent.
International revenue declined 3 percent in the quarter. On a constant currency basis, international revenue was up 5 percent.

Revenue in our European region was down 5 percent in the second quarter on an as reported basis but rose 3 percent in constant currency.

The revenue decline in our Latin America region was 14 percent on a constant currency basis and primarily reflected the seasonal nature of our Technology business there.

From an industry perspective, Public Sector remained our largest single industry revenue source. The 10 percent decline in Public Sector revenue year-over-year was largely driven by the decline in our U.S. Federal government revenue.

Revenue from Commercial industry customers represented 37 percent of our second quarter revenue while the Financial Sector was 23 percent. Our Commercial revenue grew by 6 percent while revenue from our Financial Services customers grew by 3 percent.

For some comments on services orders, please turn to Page 16.

In the second quarter, our services orders declined when compared to last year.

From a geographic perspective, we saw year-over-year services order growth in our Asia Pacific and Latin American regions during the second quarter. Orders in our North American and European region declined in comparison to the second quarter of 2011.

We ended the second quarter with $5.1 billion in services backlog, which was down by 8 percent from December 31, 2011. This decline primarily reflects reductions in systems integration and IT outsourcing backlog. Year over year, services backlog was down 10 percent. This decrease is largely a result of lower IT Outsourcing and Business Process Outsourcing backlog. Currency had a 4 percent negative impact on the year-over-year comparison.

Approximately $670 million of the June 30, 2012 services backlog is anticipated to convert into third quarter 2012 services revenue. Over the past six quarters, we have noted an increase in the level of sell-and-bill business as a percentage of the total quarterly services revenue. During that period, the amount of revenue in backlog at the start of the quarter has ranged between 85 and 90 percent of our quarterly services revenue for the full quarter and the sell-and-bill revenue has accounted for the remainder.

Moving to cash, please turn to Page 17 for an overview of our cash flow performance in the quarter.

We generated $57 million of cash from operations in the second quarter of 2012 compared to $36 million in the year-ago quarter.

We contributed $51 million in cash to our defined benefit pension plans in the second quarter of 2012 versus $21 million in the second quarter of 2011. The pension funding contributions are reflected in cash flow from operations. With the recent passage of the "Moving Ahead for Progress in the 21st Century Act" in the United States -- referred to as MAP-21 -- there have been changes to our U.S. funding requirements which I will address in a moment.

Capital expenditures were $35 million in the second quarter of 2012, versus $29 million in the second quarter of 2011. We expect full year capital expenditures in the range of $150 to $180 million.

Our free cash flow was $22 million in the second quarter of 2012 versus $7 million for the same period last year. Our free cash flow before pension cash contributions was $73 million in the second quarter of 2012 versus $27 million in the second quarter of 2011.

Depreciation and amortization was $47 million in the quarter, down from $50 million in the second quarter of 2011.

Our cash balance was $660 million at June 30, 2012 compared to $625 million at June 30, 2011.

Turning to Page 18, as Ed said earlier, we announced today that we will call for redemption $84.5 million of the 12.5% senior notes due in 2016. When complete, this transaction will reduce our debt to about $208 million and will represent the early achievement of our 2013 debt reduction goal. A debt redemption charge of approximately $6 million will be recorded in the third quarter of 2012 and annualized interest expense will decline by approximately $10 million as a result.

Completion of our debt reduction goal is a very important milestone for us. We have reduced annual interest expense from about $102 million in 2010 to approximately $25 million post completion of this redemption. We believe that there is still opportunity to further reduce interest cost based on the coupon rates we pay on our outstanding obligations which are now above 12 percent. In light of our operational performance and improved balance sheet position, we believe we may have opportunities to lower our cost of funding and are evaluating those options.

As I mentioned earlier, with the recent legislative changes in the US, we expect a significant change in the timing of the required cash contributions related to our U.S. pension plan. I would like to provide an updated estimate of future funding requirements related to our U.S. defined benefit pension plan based on our understanding of the legislation.
MAP-21 provides pension plan sponsors like Unisys near-term funding relief by stabilizing interest rates used to determine the required cash funding contributions to the defined benefit plans in the US.

Turning to Page 19, our revised estimates for minimum cash funding of our U.S. defined benefit pension plan in 2012 decrease from approximately $143 million in our prior estimate to approximately $110 million. The estimated contributions in 2013 decline from $155 million in our prior estimate to $85 million. In 2014 and beyond, the funding requirements increase relative to our previous estimates.

It is important to note that MAP-21 does not have any direct impact on the discount rates that are used for U.S. GAAP reporting.

Unrelated to the MAP-21 legislation, but based on the impact of changes in foreign currency rates and reduced contribution requirements for one of our European plans, the previous estimate of $97 million for contributions to our other defined benefit plans in 2012 declined to approximately $90 million.

On a total basis therefore, the 2012 and 2013 estimated pension cash funding requirements are expected to decrease by approximately $40 million and $70 million, respectively, from our prior estimates. Total contributions are then estimated to increase to approximately $235 million in 2014, $250 million in 2015, $190 million in 2016 and $170 million in 2017. Beyond 2017, we expect these contributions to continue to decline annually.

All these estimates are based on expected asset returns and discount rate assumptions as calculated at December 31, 2011 except for the discount rate used for the U.S. qualified defined benefit plan which has been updated for our estimate of the impact of the recent U.S. legislation. These are likely to change for 2012 and beyond based on -- among other items -- market conditions, published IRS discount rates, and changes in currency rates.

As we move throughout 2012, we will work to build on our successes in the first half and remain focused on driving towards our longer-term financial goals.

Thank you for your time.