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

Earlier today, Unisys released its second quarter 2013 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.

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, and thank you for joining us today to discuss our second-quarter 2013 financial results.

Please turn to Slide 4 for an overview of our performance in the quarter.

After a difficult start to the year in the first quarter, Unisys reported a sequentially improved and profitable second quarter in what continues to be a challenging IT spending environment.

We reported diluted earnings per share of 46 cents in the quarter compared with diluted EPS of 99 cents in the second quarter of 2012. Excluding pension expense in both periods as well as a small debt reduction charge in the year-ago quarter, our non-GAAP EPS was 91 cents in the current quarter compared with $1.41 a year ago.

Our Technology business had a strong second quarter, growing revenue 13 percent on higher sales of our ClearPath enterprise software and servers. Year to date, our ClearPath revenue is up 3 percent. As we have said in the past, this business is best measured on an annual basis and we remain focused on our goal of stable annual technology revenue.

Our primary challenge from a business perspective continues to be in our Services business. Our Services revenue declined 9 percent in the quarter, driven primarily by revenue declines in both systems integration and outsourcing services. The lower revenue impacted our services operating margins, which came in at 4 percent for the quarter, up sequentially but below our 8 to 10 percent target.

We were encouraged by some improvement in our U.S. Federal revenue from the declines that we were seeing in previous quarters. Total revenue in U.S. Federal declined 2 percent in the quarter and was up 4 percent sequentially. The year-over-year revenue decline was due to lower Technology sales. Federal services revenue was flat with a year ago.

During the quarter we won a number of key U.S. Federal government contracts, including renewals and new projects with the Department of Justice, the Department of Interior, and the Federal Deposit and Insurance Corporation.
Last week we were also informed that we were awarded a major new single-award IDIQ contract from the Department of Homeland Security to provide full lifecycle services to Customs and Border Protection in support of its Border Enforcement and Management Systems. This award, which represents new work and expands on our existing relationship with CBP, is for five years with a one-year base contract and four one-year options and a total ceiling value of up to $460 million.

Turning to Slide 5 … while the services market is challenging, we continue to see growth opportunities in helping organizations take advantage of disruptive technologies – such as cloud, mobile computing, and social computing – to deliver the next generation of IT services more effectively and cost efficiently.

From government agencies to commercial enterprises, we are seeing more organizations beginning to adopt these new technologies and new IT delivery models. At the same time, many organizations are understandably concerned about the security and reliability of these new services.

This is an area where Unisys, with our capabilities and leadership in secure, mission-critical computing, can provide clear advantages and differentiation in the market.

In the area of cloud computing, for instance, Unisys has been in the forefront of helping U.S. government agencies such as the General Services Administration, the National Oceanic and Atmospheric Administration, the Department of Energy’s Idaho National Labs, and the U.S. National Archives move to secure, cloud-based email systems based on Google Apps for Government.

We also recently won new business from the U.S. Department of Interior – a new client – to move its mission-critical financial and business management ERP system to the cloud.

In addition to this cloud computing integration work, we are offering a growing number of industry vertical and cross-industry software solutions via a cloud-based, as-a-service model – enabling us to open up our offerings to a larger market.

Last quarter, for instance, I spoke about our cloud-based Air Cargo solution, which continues to attract new airline clients for managing cargo shipments through an easy-to-use Web portal.

As another example, in the United Kingdom much of the country’s mortgage processing volume runs on the Unisys Financial Services System software solution. To address a larger share of that market, we are now offering our UFSS solution via a software-as-a-service model, and we have already received a contract to move several new financial services clients to our SaaS offering.

In the coming weeks we also plan to introduce a SaaS version of our Infolmage enterprise content management software, which is used by clients in high-volume document processing environments, most notably in public sector and financial services organizations.

And a key element of our IT outsourcing business is providing IT Service Management Software-as-a-Service. Our ITSM as a service solution is now used by more than 140 clients who rely on this cloud-based solution for the management of IT services throughout their organizations.

Turning to Slide 6 … as we look to the second half of the year and beyond, in addition to continued investments in our existing solutions for security, data center, end user outsourcing and application modernization, as I noted in our last call, we are making additional investments in new areas to drive growth.

These investments are in our Stealth Solution Suite of cybersecurity products; in our reseller channel program; in application managed services; and, within our Technology business, in our Intel-based enterprise server program.

Let me touch on each of these just briefly …

Regarding our Stealth cybersecurity solutions, we continue to be excited by the growth potential for these software products. Organizations around the world are searching for better, more cost-effective ways to protect against sophisticated cyber-attacks, recognizing that the traditional security approaches such as perimeter defense and endpoint protection aren’t meeting the challenge.
Our Stealth solutions take a radically different approach, utilizing advanced cloaking techniques to allow clients’ most important assets, be they applications, databases, end users or user communities, to go dark on the network – rendering them effectively invisible and providing protection from internal and external threats.

During the second quarter we announced the availability of our Stealth Solution Suite on Amazon Web Services, enabling organizations to gain these advanced network security capabilities when moving their workloads to the Amazon cloud.

As with any disruptive technology, it takes time to educate the market on the new solution and drive sales among early adopters, but we are encouraged by the growing interest we’re seeing in Stealth.

Stealth is also the first of our software solutions that we’re offering through our new channel program. As I mentioned in the past, Unisys currently gets a minimal amount of revenue through resellers and distributors relative to our major competitors, and we’re looking to change that by creating a vibrant channel program.

In recent months we’ve been steadily building out our partner network and to date we’ve brought on 40 value-added resellers in North America and Europe as well as a European distributor. These VARs represent an important new sales channel to help us expand our market reach for our Stealth products as well as for other future offerings.

A lot of work is being done right now to train and educate these VARs on Stealth offerings and increase their mindshare with Unisys, and while we’re in the early stages of our channel program, we’re pleased with the progress we’re making.

In addition to Stealth and our channel program, we are also focused on driving growth in application managed services, which complements other elements of our IT outsourcing services portfolio.

The application managed services market is growing as organizations increasingly look to outsource the management of their applications to reduce costs and improve service to their end users. Unisys offers a number of advantages in this market, including the further leveraging of our consistent, ITIL-based global support network and our expertise in delivering a better end user experience.

As I noted on our last call, Unisys has provided application managed services, or application outsourcing, for many years. But we have done this on a project-by-project basis. What is different today is that we have pulled our capabilities together from around the world and organized ourselves to identify, pursue and address this market in a broader and more consistent manner.

With some initial wins already and a growing pipeline, progress to date is encouraging.

Finally, in the technology area, we continue to invest in our ClearPath line of enterprise software and servers, where we believe we lead the industry in bringing mission-critical capabilities to Intel x86 technologies … while drawing on these strengths and capabilities to enter new markets with new products.

Later this year we plan to introduce a new line of high-end server products that take Intel-based x86 technology to new levels of mission-critical performance … giving organizations more secure, cost-effective options for consolidating their server environment, migrating off expensive Unix platforms, and managing workloads in cloud and virtualized IT environments.

In summary, we were pleased to see improved second-quarter results after a tough first quarter.

We were particularly pleased with the strong Technology and ClearPath sales in the quarter.

Our biggest challenge as a company continues to be driving profitable growth in our services business that enables us to deliver consistent Services revenue growth and improved operating margins.

While the services market is challenging at the moment, we continue to see growth opportunities aligned with our strengths and we are focused on executing on our growth initiatives as we move into the second half of the year.

I look forward to updating you on our progress in our next call. In the meantime, here’s Janet to take you through our results in more detail, and then we will be happy take your questions.

Janet Haugen, CFO

Thanks, Ed. Hello, everyone. Let me start with our overall second quarter 2013 financial results. Please turn to Slide 8.
At the top line, we reported revenue of $859 million in the quarter, which was down 7 percent year-over-year but up 6 percent from the first quarter.

After a soft first quarter, our Technology revenue grew 13 percent year-over-year in the second quarter fueled by increased ClearPath sales. ClearPath revenue was up 18 percent for the quarter and 3 percent for the first half.

Services revenue declined 9 percent year-over-year but recovered modestly from the first quarter – growing 2 percent sequentially, largely due to improved levels of project work.

Currency had a minimal negative impact on our overall revenue in the quarter.

Based on today’s rates, we anticipate currency to have a one percentage-point negative impact on revenue in the third quarter of 2013 compared to the third quarter of 2012.

As a result of the lower year-over-year volume in our Services segment as well as the mix of our Technology revenue, our gross profit margin declined from 26.4 percent in the second quarter of 2012 to 23.4 percent in the second quarter of 2013.

Operating expenses fell by 1 percent year-over-year in the second quarter of 2013. Our operating expense reductions in the quarter more than offset the incremental investments we continued to make in our key growth initiatives as well as some additional cost reduction actions taken during the second quarter to lower the company’s overhead.

Interest expense decreased by about two-thirds from $7.9 million in the second quarter of 2012 to $2.6 million in the second quarter of 2013 reflecting the impact of our debt reductions and the refinancing in the third quarter of 2012.

Other income/expense for the second quarter of 2013 was $14.1 million of other income, principally attributable to foreign exchange gains.

This compares to $4.1 million of other income in the year-ago quarter which was also primarily related to foreign exchange gains.

Second quarter 2013 pension expense was $22.8 million compared to $21.1 million in the second quarter of 2012. 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 $91 million in pension expense in 2013, compared with pension expense of about $108 million in 2012.

At the tax line, we had a $22.7 million tax provision in the quarter on pre-tax income of $49.5 million compared with a $22.1 million tax provision in the year-ago quarter on pre-tax income of $75.2 million. As I have said previously, our effective tax rate varies significantly quarter to quarter based on the geographic distribution of our income and we saw that variation in this quarter.

The passage of the UK Finance Act of 2013 earlier this month will reduce the UK corporate tax rate to 21 percent effective April 1, 2014 and to 20 percent effective April 1, 2015. These rate reductions reduce the future value of our UK net deferred tax assets and are expected to increase our third quarter 2013 income tax provision by approximately $11.7 million. We saw similar impacts to our income tax provisions when the UK rate reductions happened in both 2011 and 2012.

We reported net income of $20.4 million in the second quarter, versus net income of $46.6 million in the year-ago quarter. Excluding the impact of pension expense in both years and a debt reduction charge in the second quarter of 2012, we reported non-GAAP net income of $42.3 million for the second quarter 2013 compared to non-GAAP net income of $68.4 million in the prior-year period.

Our second quarter 2013 diluted earnings per common share was 46 cents compared to 99 cents in the year-ago quarter.

Excluding the impact of last year’s debt reduction charge and pension expense in both quarters, our second quarter 2013 non-GAAP diluted EPS was 91 cents compared to $1.41 in the second quarter of 2012.

Moving on to discuss our second-quarter revenue in more detail, please turn to Slide 9. As noted earlier, Services revenue, which represented about 86 percent of our revenue in the second quarter of 2013, declined 9 percent year-over-year. Currency had a one percentage-point negative impact on Services revenue comparisons in the quarter.
Technology revenue, which accounted for 14 percent of our total revenue, rose 13 percent year-over-year, 8 percent on a constant currency basis.

On Slide 10, you can see our overall Services margins and our Services revenue by portfolio.

Year-over-year IT outsourcing revenue declined 12 percent in the second quarter of 2013 from a challenging compare in 2012, particularly within Public Sector in North America and Australia.

Systems Integration was 11 percent lower in the second quarter of 2013 than in the prior year reflecting reduced project volume in Europe and Asia.

Services gross profit margin decreased 280 basis points year-over-year to 18.2 percent from 21.0 percent in the second quarter of 2012. This decrease was largely due to lower revenue. The Services operating margin declined 400 basis points year-over-year to 4.0 percent in the second quarter of 2013.

Despite the year-over-year decline, I do want to point out that we have seen sequential improvement from the first quarter 2013 Services gross margin and operating margin.

We still have work to do to get to our goal of 8 to 10 percent Services operating margins. Achieving the goal requires improved execution including revenue growth from our focus services areas and some improvement in our U.S. Federal business, as well as continued improvements in the delivery of our Services through increased automation and efficient labor utilization. In addition, revenue growth would enable us to better leverage our operating expenses and would contribute to improved operating margins in our Services business.

Moving on to Technology revenue and margins on Slide 11, Enterprise Class Software and Server revenue increased 11 percent year-over-year largely due to strength in our ClearPath business. Sales of Other Technology, all of which is third party product, rose by about $2 million.

As we have said previously, the Technology business is best measured on an annual basis and our goal remains keeping annual Technology revenue stable.

While Technology revenue grew in the second quarter, the gross margin of 59.4 percent in the second quarter of 2013 was 400 basis points lower than the comparable period in 2012. Our Technology operating margin declined from 28.6 percent a year ago to 23.9 percent.

Slide 12 shows our second-quarter revenue by geography and industry.

Our North American revenue which represented 41 percent of revenue in the quarter declined 6 percent with ITO driving most of that decline. Revenue from the U.S. Federal government represented 14 percent of total Unisys revenue in the second quarter.

International revenue declined 7 percent in the quarter and was down 6 percent on a constant currency basis.

Revenue in our European region was down 10 percent in the second quarter on an as reported basis and declined 9 percent in constant currency. This decrease was principally related to a decrease in Systems Integration revenue.

The Asia Pacific region revenue decreased by 20 percent on both an as reported and constant currency basis. This decline largely reflected lower Public Sector spending in Australia and lower Systems Integration revenue in Asia.

Our Latin America region performed well with revenue growth of 22 percent on an as reported basis, and 27 percent in constant currency. The growth was driven principally by higher Technology revenue and increased ITO volume.

From an industry perspective, Public Sector, which reported a 6 percent year-over-year decline in revenue, remained our largest single industry revenue source, representing 41 percent of total revenue. This decline was largely attributable to reductions in Australia.

Revenue from Commercial industry customers represented 35 percent of our second quarter revenue while the Financial Sector was 24 percent. Both did declined in the quarter. The decline in Commercial revenue was primarily attributable to lower Systems Integration revenue.

Moving on to Slide 13, which provides more detail on our U.S. Federal government revenue over the past six quarters.
In the second quarter of 2013, revenue from Civilian agencies represented about 46 percent of our U.S. Federal government revenue.

Revenue from Homeland Security agencies represented about 28 percent of our overall U.S. Federal government revenue while the U.S. Department of Defense and various Intelligence agencies represented about 26 percent of our overall U.S. Federal government revenue.

Compared to the year-ago quarter, our U.S. Federal revenue declined approximately 2 percent to $119 million, a significantly slower rate of decline than we have seen in recent quarters. We were pleased to see that the revenue increased by 4 percent sequentially. Further, as Ed noted, we won a number of significant contracts during the second quarter and start the third quarter with a new business win with Customs and Border Protection.

We ended the second quarter of 2013 with about $259 million of U.S. Federal services backlog, which was down 11 percent versus the second quarter of 2012.

The U.S. Federal environment remains challenging. We expect continued procurement process delays that are often extended by award protests. Pricing pressures remain significant and competition is aggressive. However, we believe we have made some important changes in our cost structure and strategic approach that should position us well going forward.

For some comments on Services orders, please turn to Slide 14.

In the second quarter, our Services orders rose slightly year-over-year with growth in Systems Integration orders.

From a geographic perspective, we saw year-over-year Services order growth in our North American and Latin American regions during the second quarter. Orders in our European and Asia Pacific regions declined in comparison to the second quarter of 2012.

We ended the second quarter with $4.8 billion in Services backlog versus $5.1 billion at June 30, 2012. The decline principally reflected reductions in our ITO and BPO backlog.

Of the $4.8 billion in Services backlog at June 30, 2013, approximately $645 million is anticipated to convert into third quarter 2013 Services revenue. During the past ten quarters 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 Slide 15 for an overview of our cash flow performance in the quarter.

We generated $16.1 million of cash from operations in the second quarter of 2013 compared to $57.1 million in the year-ago quarter.

We contributed $34.7 million in cash to our defined benefit pension plans in the second quarter of 2013 versus $50.6 million in the second quarter of 2012. The pension funding contributions are reflected in the cash flow from operations.

Excluding the impact of the debt reduction charge in the second quarter of 2012 and pension expense in both periods, Unisys generated adjusted EBITDA of $112.6 million in the second quarter of 2013 versus $148.6 million in the prior year period.

Capital expenditures were $38.2 million in the second quarter of 2013, versus $34.8 million in the second quarter of 2012. We expect full year capital expenditures of about $150 million.

We had free cash flow usage of $22.1 million in the second quarter of 2013 versus free cash flow generation of $22.3 million for the same period last year. Our free cash flow generation before the pension cash contributions was $12.6 million for the second quarter of 2013 versus $72.9 million in the second quarter of 2012.

Depreciation and amortization was $40.0 million in the quarter, down from $46.5 million in the second quarter of 2012.

Our debt balance was $210 million at June 30, 2013, down from $292 million at June 30, 2012 as a result of the debt reduction actions completed during the third quarter of 2012.
Our cash balance of $576 million at June 30, 2013 was almost three times our debt and our net cash position remained stable versus the prior year at $366 million.

As we have previously discussed, in December 2012 our Board of Directors authorized the purchase of up to $50 million of the Company’s common and preferred stock through December 2014. We repurchased approximately 612,000 shares of common stock for $11.5 million in the second quarter. There is $38.5 million remaining under the board authorization.

I would like to take a moment to provide some information regarding our defined benefit pension plans.

First, let me start with discount rates which are used to present value pension obligations under U.S. GAAP. These rates are set annually and for us, set at December 31st.

The discount rate used to present-value the U.S. benefit plan obligations was 4.01 percent at December 31, 2012. For the international plans, the weighted average discount rate was 3.92 percent at December 31, 2012.

As we noted during our 2012 year-end earnings release call, a 25 basis point change in the discount rate would change the U.S. obligations by approximately $140 million and the international obligations by $122 million.

Historically, our pension underfunding, on a U.S. GAAP basis, has been significantly impacted by the change in discount rates. Since December 31, 2008, the discount rate for U.S. obligations has declined from 6.75 percent to 4.01 percent – a 275 basis point reduction. Internationally, the weighted average discount rate has moved from 6.42 percent at December 31, 2008 to 3.92 percent at year-end 2012 – a 250 basis point reduction. These reductions in the discount rates have significantly contributed to the increase in our pension liabilities which grew from approximately $6.3 billion at December 31, 2008 to approximately $8.6 billion at December 31, 2012. The vast majority of the underfunded plans are closed and/or frozen as reflected in our current year service cost within pension expense of approximately $10 million on an annualized basis.

On Slide 16, we show the impact on our pension liabilities if the discount rate was changed to reflect the interest rate conditions at June 30, 2013. For this estimate, we held all other assumptions constant with those used at December 31, 2012. And, of course, our 2013 pension obligations will be calculated using discount rates and other assumptions at December 31, 2013.

If we were to reset the discount rate to June 30, 2013 market conditions, the U.S. rate increases from 4.01 percent at December 31, 2012 to 4.83 percent. The weighted average international rate increases from 3.92 percent at December 31, 2012 to 4.15 percent. This would result in an approximate $600 million reduction in our reported pension liability.

Assets have remained stable since December 31, 2012 as positive asset returns during the first half of 2013 have been offset by benefit payments and currency impacts.

With respect to cash funding requirements, we have also provided a schedule on Slide 17 that outlines the anticipated funding requirements over the next thirteen years based on assumptions consistent with those made at December 31, 2012. There is no significant change in the funding through 2017 from what we provided in conjunction with our 2012 year-end results but we thought it would be helpful to illustrate estimated payments out through the point where the U.S. funding requirements will return to zero.

The future funding requirements are likely to change based on, among other factors, market conditions and future published IRS discount rates.

Future contributions to international plans will be based on local funding regulations and agreements and are likely to change in 2014 and beyond based on a number of factors including market conditions, changes in discount rates and changes in currency rates.

As you can see, we have expanded our pension disclosures. I do want to note that these numbers will likely change over time as market rates, asset returns, regulatory environment and other assumptions may change. However, we wanted to provide you an estimate based on June 30, 2013 environment.

Let me conclude by saying that as we move through 2013 we are focused on improving our Services revenue and margins and will continue our efforts to drive top line growth and profitability.

Thank you for your time.