Niels Christensen, IRO

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

Earlier today, Unisys released its fourth quarter and full year 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 fourth-quarter and full-year 2013 financial results.

Please turn to Slide 4 to begin our discussion.

We closed 2013 with a good fourth quarter, delivering significantly increased profits on higher revenue.

Our revenue grew 2 percent with growth in both our Technology and Services businesses. We were also pleased to see the third consecutive quarter of year-over-year Services order growth.

At the bottom line, we reported fourth-quarter 2013 diluted earnings per share of $2.37, up from $1.67 in the year-ago quarter.

We were particularly pleased with margin improvement in our Services business, where we achieved an operating profit margin of 9.8 percent, at the high end of our targeted 8 to 10 percent range. This improvement was driven by a richer mix of higher-margin services and solutions as well as continued progress in enhancing the cost-efficiency of service delivery.

Our Technology business also turned in a solid profit performance in the quarter, although we were disappointed that we did not close all of the ClearPath opportunities or at the size we had anticipated. This kept us from meeting our goal of maintaining flat ClearPath technology revenue for the full year of 2013 compared with 2012.

Moving to Slide 5 … as we review 2013 and our accomplishments over the past three years, we can see the progress we’ve made against our goals as well as those areas that need further improvement.
Overall, 2013 was our fifth consecutive year of profitability and free cash flow generation – a record we’re proud of and that speaks to the progress we’ve made as a company.

Over the past three years, we’ve further simplified our operations and reduced costs, met our aggressive $1 billion debt reduction goal, and built a much stronger, more competitive financial foundation for the company.

From a product and solution perspective, we have brought to market a range of new offerings that build on our core strengths in mission-critical computing and help our clients take advantage of disruptive technology trends and emerging delivery models.

We believe our portfolio today is more competitive than it’s been in years, with innovative offerings including our Unisys Stealth line of cybersecurity software; our breakthrough Forward! by Unisys fabric-based servers; our IT Service Management-as-a-Service offering; and our other cloud-based solutions.

We have also enhanced our existing portfolio. Clients have responded positively to innovations in our flagship ClearPath server technology, and in our Services business, we’ve strengthened our portfolio of Systems Integration solutions and end user, data center, and application outsourcing services.

At the same time, we recognize that we didn’t achieve all of the goals we set for year-end 2013, particularly in terms of growing our Systems Integration and IT outsourcing businesses and delivering consistent 8 to 10 percent services operating profit margins.

Looking ahead, over the next three years we are focused on profitably growing our revenue and achieving our Services operating profit margin targets, while maintaining cost discipline and strong cash generation.

Slide 6 shows the growth drivers that will be important to our success in reaching these goals over the 2014 to 2016 time period.

In our Services business, we look to drive growth in Systems Integration and IT Outsourcing by leveraging areas where we currently have market leadership, such as in end user outsourcing services.

We are focusing on higher-margin services that utilize Unisys industry and cross-industry application software and frameworks as well as services that take advantage of highly leveraged delivery models such as IT Service Management as a Service and other cloud-based services.

Some examples of these cloud-based, leveraged solutions include our air cargo solution, our Infolmage as-a-service enterprise content management solution, our mortgage solutions in the U.K., and as-a-service versions of our retail banking solutions in Latin America and Asia.

We also look to drive growth in application managed services to complement our portfolio of data center and end-user outsourcing services. We have seen some initial success over the past year in growing this business and have a healthy pipeline of opportunities.

In our Technology business, we intend to grow this business by leveraging our continued investments in Forward! and Stealth, while building on our flagship ClearPath platform as the base.

With our Forward! by Unisys server platform, we have a compelling product to sell to organizations looking to migrate from expensive Unix systems, to consolidate sprawling data centers onto a standard x86 environment, and to run ERP and cloud applications more securely and cost effectively.

We’ve seen a great deal of interest in Forward! and have already received some early orders since the system became available in December. For one of our beta clients, Italian-based IT services provider Aspasiel, we migrated the client’s SAP applications from an IBM AIX system to an Intel-based Forward! system running SUSE Linux in a matter of days, yielding impressive results in terms of faster application performance and increased flexibility.

With our Unisys Stealth family of cybersecurity software, we believe we have a disruptive technology that breaks the established paradigm of security at a time when traditional approaches to security aren't working – as we can see from almost daily reports of high-profile data breaches in the news.

Stealth makes use of advanced encryption and data cloaking technology to render critical data and end points essentially invisible on the network.
We are seeing early adopters begin to make use of Unisys Stealth. A large public sector organization, for example, recently chose Stealth to provide security for mission-critical operations as part of a data center consolidation project involving thousands of servers. Another example is a large commercial client that is using Stealth to protect systems running Windows XP in a process control environment.

A third revenue growth driver in the years ahead is the work we’re doing to build out our reseller channel.

As I have noted in the past, currently less than 5 percent of our revenue comes through value-added resellers and distributors, which is well below that of our competitors. We want to increase that percentage in the years ahead.

We have made much progress in building our reseller channel program and today have about 60 VAR's in our network focused initially on selling Stealth in North America and Europe. These channel partners are opening up sales opportunities for Stealth in new accounts for Unisys.

We recently added systems integrator Capgemini as a value-added reseller of Stealth in the U.K. and we are thrilled to have them in our network.

Overall, we are pleased with the interest and level of activity around Stealth in the channel.

Moving to Slide 7 ... to achieve our growth goals, we plan to increase our investments in sales and marketing initiatives in 2014 around our growth programs such as Stealth and Forward!

Just this month we have strengthened our sales leadership by bringing on Jeff Renzi as president of Global Sales, with responsibility for leading sales efforts across all lines of business and geographies. Jeff is a highly experienced executive with demonstrated success in creating high-performing sales organizations and driving profitable revenue growth at Dell, Perot Systems, and EDS. I am confident that he will make a significant contribution to our success.

In addition, we are mobilizing new dedicated sales teams focused on selling Forward! in select markets to complement our existing direct and indirect sales efforts.

On the marketing side, we are making increased investments in product promotion and advertising to drive awareness of our products and solutions, particularly for Stealth, and we plan to roll out new Forward! advertising in the near future.

Turning to Slide 8 ... as we implement these initiatives, we believe we are well positioned to profitably grow the company over the next three years and move Unisys to the next level of success.

Our financial goals over the 2014 to 2016 timeframe are as follows:

First, to grow our Technology business. Building on the investments we have made and continue to make in Forward!, Stealth, our cloud offerings, as well as ClearPath, we look for technology products to be a driver of growth for the overall business over the next three years.

Second, to sell new products through new channels to reach new customers. We are continuing our efforts to build out our reseller channel to address broader market opportunities and increase the percentage of our revenue coming from the channel.

Third, to reach our goal of consistently achieving an 8 to 10 percent operating profit margin in our Services business. As part of that, we continue to look for ways to grow our higher-margin services, simplify our operations, and provide services more cost efficiently.

All of these goals support our mission to become a company known for financial strength, where the quality of our services and solutions provides ongoing differentiation and where we are an acknowledged industry leader.

We are excited about the opportunities in front of us and I look forward to updating you on our progress on our next call.

Thank you again for joining us today. Now, I would like to turn the call over to 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.

After a challenging start to the year and a difficult third quarter, we ended 2013 with a solid fourth quarter performance.

In my comments today, I will be referring to certain GAAP and non-GAAP comparisons. For the fourth quarter comparisons, the non-GAAP results exclude pension expense. For the full year comparisons, non-GAAP references exclude pension expense in both years and debt reduction charges in 2012.

Now let me start with our overall fourth quarter and full year 2013 financial results. Please turn to Slide 10.

At the top line, we reported revenue of $996 million in the quarter, which was up 2 percent year-over-year. Currency had minimal impact on the year-over-year comparisons.

For the full year, revenue of $3.5 billion was down 7 percent; with currency having a 1 point negative impact on the year-over-year comparisons.

Based on today’s rates, we anticipate currency to have about a 2 percentage-point negative impact on revenue in the first quarter of 2014 compared to the first quarter of 2013. At today’s rates, we do not expect currency to have a significant impact on the full year comparisons in 2014.

We reported an operating profit of $155.9 million for the fourth quarter of 2013. Our gross profit margin improved 250 basis points to 31.7 percent. Operating expenses declined 7 percent in the fourth quarter of 2013 compared to the year ago quarter as lower SG&A and R&D expenses more than offset increased investments in growth programs like Stealth, Forward!, ITSM as a Service, and Application Managed Services.

I think it is important to note that we have reached a point with a number of our new solutions, notably Stealth and Forward!, where we believe it is appropriate to accelerate our sales, marketing and R&D investments in support of these revenue growth opportunities.

As Ed mentioned in his comments, we are continuing to see momentum in these programs. In 2014, we are increasing our spend to support these growth opportunities. While we have historically been able to fund our investments in new solutions using cost reduction efforts elsewhere, we expect that 2014 will represent a year of higher selling and marketing expense. We will remain focused on cost reduction wherever possible throughout the company and will be carefully managing any incremental spend but our current view is that operating expenses will grow by approximately 1 to 2 percent of revenue in 2014 versus 2013 levels.

For the full year 2013, on lower revenue, our operating profit of $219.5 million was down 31 percent versus 2012. The operating margin decreased to 6.4 percent from 8.6 percent on lower gross profit margins. The decline in profitability is primarily attributable to lower sales of enterprise software and servers during 2013.

Interest expense in the fourth quarter of 2013 was roughly the same as the year-ago-period. Interest expense for the full year 2013 decreased $17.6 million, a 64 percent reduction from 2012 as a result of the debt reductions and refinancing that were completed in the third quarter of 2012.

For the full year 2013, we reported $9.8 million of other income versus other expense of $37.6 million in 2012. The major item causing the year-over-year change was the 2012 debt reduction charges totaling $30.6 million. The remaining year-over-year difference is primarily attributable to favorable foreign exchange movements in 2013 compared to 2012.

Our fourth quarter 2013 pension expense decreased to $24.1 million from $31.5 million in the fourth quarter of 2012. Consistent with our prior estimates, we reported $93.5 million in pension expense in 2013, compared with pension expense of $108.2 million in 2012.

For the fourth quarter of 2013, pre-tax income of $152.4 million was $43 million higher than the $109.4 million reported in the fourth quarter of 2012. Our non-GAAP pre-tax income for the fourth quarter was $176.5 million in 2013 compared to $140.9 million in 2012.

Pre-tax income in 2013 was $219.4 million compared to $254.1 million in 2012. Our non-GAAP pre-tax income was $312.9 million in 2013 compared to $392.9 million in 2012 due to lower revenue and gross margins.
At the tax line, we had a $28.2 million tax provision in the quarter compared with a $20.5 million tax provision in the year-ago quarter. For the full year 2013, we had a $99.3 million tax provision versus a $97.3 million tax provision in 2012. As I have said previously, our tax provision continues to be highly variable from quarter to quarter and year to year depending upon the geographic distribution of our income.

We reported net income of $117.4 million in the quarter, versus net income of $81.8 million in the year ago quarter. The non-GAAP net income rose to $140.6 million for the fourth quarter 2013 from $112.2 million in the fourth quarter of last year.

For 2013, net income decreased to $92.3 million from $129.4 million for 2012 on lower revenue and gross margins. Non-GAAP net income was $182.3 million in 2013 compared to $265.4 million in 2012.

Our fourth quarter 2013 diluted earnings per common share was $2.37 per share compared to $1.67 in the year-ago quarter. Our fourth quarter 2013 non-GAAP diluted EPS improved to $2.82 per share compared to $2.27 in the fourth quarter of 2012.

For 2013, diluted earnings per common share declined to $2.08 per share from $2.84 per share a year ago. Our 2013 non-GAAP diluted EPS was $3.87 per share compared to $5.50 in 2012.

Moving to our fourth-quarter and full year revenue please turn to Slide 11. Services revenue, which represented 82 percent of our revenue in the fourth quarter of 2013, rose 1 percent year-over-year. Currency had a 1 percentage point negative impact in the quarter so services revenue rose 2 percent on a constant currency basis.

Services revenue declined 6 percent for the full year in 2013; 5 percent on a constant currency basis.

Fourth quarter Technology revenue accounted for 18 percent of our total revenue and rose 5 percent year-over-year.

Technology revenue was down 10 percent for the full year of 2013, and I will talk about the Technology business in more detail on Slide 13.

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

Fourth quarter 2013 Services revenue of $813 million increased 1 percent year-over-year.

On our last earnings call, we provided the amount of opening services backlog for the fourth quarter. We also provided the range that opening backlog has represented of a given quarter’s services revenue over the previous eleven quarters. The fourth quarter services revenue of $813 million was above the high end of that range implied by the amount of revenue in opening backlog at the start of the quarter due to higher sell-and-bill revenue in the quarter.

In the fourth quarter of 2013 we saw year-over-year revenue growth of 4 percent in IT Outsourcing and 2 percent in Systems Integration.

For the full year 2013, IT Outsourcing revenue was down 3 percent and Systems Integration revenue was down 11 percent.

Moving to Services gross margins, fourth quarter 2013 services gross profit margin increased 170 basis points year-over-year to 21.9 percent from 20.2 percent due to a richer mix of higher margin services and solutions and improved delivery efficiency.

Our Services operating margin rose by 320 basis points year-over-year to 9.8 percent as lower operating expenses, which reflected our continued focus on cost control, complemented the improved gross profit.

As I mentioned, while we were pleased with the year-over-year and sequential improvement in our Services operating margin, the fourth quarter 2013 operating margin benefited from higher levels of Unisys IP-based solutions. We are not yet to the point where we are operating consistently in our long-term targeted range of 8 to 10 percent. We still have work to do to achieve Services operating margins at or above 8 percent on a consistent basis.

For the full year 2013, on lower revenue we reported a Services gross margin of 19.7 percent; down 30 basis points from 2012. Our operating margin of 6.2 percent was down 20 basis points compared to 2012.
Moving on to Technology revenue and margins on Slide 13, Enterprise Class Software and Server revenue in the fourth quarter was down 3 percent year-over-year while sales of Other Technology, all of which is third party product, increased largely due to sales into the U.S. Federal government. Our annual goal has been to maintain stable Technology revenue, most importantly in our flagship ClearPath platform which is the largest component of our Enterprise Software and Server business. During 2013, our Technology revenue was down 10 percent due to lower ClearPath revenue. While we were able to maintain or grow our ClearPath revenue in the three years prior to 2013 and had the pipeline opportunities to meet our objective in 2013, a number of deals fell out of the fourth quarter.

As a result of the higher proportion of third party product sales within the Technology segment, we reported a Technology gross margin of 61.4 percent in the fourth quarter, down 670 basis points from the prior year. Our Technology operating margin declined to 40.6 percent from 43.9 percent in the fourth quarter of 2012. Our full year gross and operating margins in this segment declined to 53.9 percent and 21.1 percent, respectively.

Slide 14 shows our fourth-quarter and full year revenue by geography and industry.

North American revenue declined 4 percent in the fourth quarter despite a slight year-over-year increase in our U.S. Federal government revenue which I will discuss in a moment. The decline in North America was driven primarily by lower Services revenue. In 2013, our North American revenue represented 41 percent of our revenue and declined 7 percent.

In the fourth quarter, international revenue rose 2 percent and was up 3 percent on a constant currency basis. For the full year, international revenue was down 7 percent; down 6 percent on a constant currency basis.

Revenue in our European region was up 7 percent in the fourth quarter on an as reported basis and rose 4 percent in constant currency. This was due to a good performance in Continental Europe. For the full year, European revenue, which represented 33 percent of our total revenue, was down 4 percent; 5 percent on a constant currency basis. Adjusted for our 2012 South Africa divestiture, European revenue was essentially flat from 2012 to 2013.

The fourth quarter revenue from our Asia Pacific Region rose 20 percent as reported and 25 percent on a constant currency basis reflecting higher revenue in our IT Outsourcing and Technology businesses. 2013 revenue in the region was down 14 percent as reported and 12 percent on a constant currency basis.

Fourth quarter revenue declined 15 percent in our Latin America region on a reported basis and 9 percent on a constant currency basis as both Systems Integration and Technology were down year-over-year. For the full year, revenue was down 5 percent but was up 2 percent on a constant currency basis.

From an industry perspective, Public Sector remained our largest single industry revenue source accounting for 41 percent of our 2013 and 2012 revenue. Public Sector revenue increased 1 percent year-over-year in the fourth quarter but was down 7 percent for the year.

Revenue from Commercial industry customers represented 36 percent of our 2013 revenue versus 35 percent in 2012 while the Financial Sector was 23 percent, down from 24 percent in 2012. Our Commercial revenue rose 12 percent in the quarter and was down 5 percent for the full year, while revenue from our Financial Services customers declined 10 percent in the quarter and for the full year reflecting declines in both Services and Technology.

Slide 15 provides more detail on our U.S. Federal Government revenue over the past eight quarters. Revenue from the U.S. Federal government represented 15 percent of total Unisys revenue in 2013.

Compared to the year-ago quarter, our overall U.S. Federal revenue rose $3 million or approximately 2 percent to $151 million. This increase represents our first quarterly growth in U.S. Federal revenue for a number of years. Increased sales of third party technology products more than offset the decline in Services revenue which was impacted by the government shutdown during the first half of October. We were encouraged by the relative stability we saw in this business during 2013 and will continue to pursue new revenue opportunities in 2014 with a focus on growing this business.

In the fourth quarter of 2013, revenue from Civilian agencies represented 45 percent of our revenue base within the U.S. Federal government while Homeland Security agencies accounted for 30 percent and Defense and Intelligence agencies represented the remaining 25 percent.

For the full year Civilian agencies represented about 44 percent of our U.S. Federal government revenue, Homeland Security agencies represented 32 percent and Defense and Intelligence agencies accounted for the remaining 24 percent.
We ended the fourth quarter of 2013 with about $349 million of U.S. Federal Services backlog, which was up 5 percent versus the fourth quarter of 2012.

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

In the fourth quarter, our services orders increased year-over-year and sequentially. This was the third straight quarter of year-over-year Services order growth.

From a geographic perspective, we saw year-over-year services order growth in our Asia Pacific and Latin American regions during the fourth quarter. Orders in our other regions declined in comparison to the fourth quarter of 2012, although we saw order growth in the U.S. outside of our U.S. Federal business.

Service orders grew in Systems Integration, IT Outsourcing, Business Process Outsourcing and Core Maintenance.

We ended the fourth quarter with $4.8 billion in services backlog, which was down by 5 percent from the December 31, 2012 backlog but flat with the last two quarters. The year-over-year decline in backlog primarily reflected reductions in IT Outsourcing and Business Process Outsourcing backlog. Currency had about a 1 percentage point negative impact on the year-over-year comparison.

Approximately $630 million of the December 31, 2013 services backlog is anticipated to convert into first quarter 2014 services revenue. This is the same level as we saw at the start of the fourth quarter of 2013. During the past twelve quarters the amount of revenue in backlog at the start of the quarter has typically 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.

Of our $4.8 billion in services backlog, we expect approximately $2.1 billion (or 44 percent) will convert into 2014 services revenue.

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

We generated $141.2 million of cash from operations in the fourth quarter of 2013 compared to $153.9 million in the year-ago quarter. The company generated $187.4 million in cash from operations during 2013 versus $261.3 million in 2012. The year-over-year decline in cash generated from operations during 2013 is largely attributable to the lower Technology revenue and margins.

We contributed $45.6 million in cash to our defined benefit pension plans in the fourth quarter of 2013 versus $26.4 million in the fourth quarter of 2012. During 2013, we contributed $147.2 million compared to $201.5 million in 2012. The pension funding contributions are reflected in cash flow from operations.

Capital expenditures were $48.4 million in the fourth quarter of 2013, versus $35.9 million in the fourth quarter of 2012. Capital expenditures for the full year were $151.4 million, consistent with our prior estimates, and compared to $132.6 million in 2012. Growth in capital expenditures in the fourth quarter of 2013 and for the full year was led by higher investments in marketable software to support ClearPath, Stealth and Forward!, outsourcing assets within our IT Outsourcing business and automation tools to enhance our service delivery efficiency. We anticipate full year capital expenditures during 2014 to be in the range of $150 to $200 million.

We generated free cash flow of $92.8 million in the fourth quarter of 2013 versus free cash flow generation of $118.0 million for the same period last year. Our free cash flow before the pension contributions was $138.4 million for the fourth quarter of 2013 versus $144.4 million in the fourth quarter of 2012. During 2013, we generated free cash flow of $36.0 million versus $128.7 million in 2012. Free cash flow before pension contributions was $183.2 million during 2013 versus $330.2 million in 2012.

Unisys generated adjusted EBITDA of $214.7 million for the fourth quarter of 2013 versus $186.6 million in the fourth quarter of 2012 and $470.8 million for the full year 2013 versus $583.8 million in 2012.

Depreciation and amortization was $38.7 million in the quarter, compared to $46.2 million in the fourth quarter of 2012. Full year depreciation and amortization was $159.6 million in 2013 versus $174.6 million in 2012. During 2014, we expect full year depreciation and amortization to be approximately $150 million.

Our debt balance was $210 million at December 31, 2013 and is comprised of our 6.25 percent senior notes due in 2017 which were issued in the third quarter of 2012.
Our cash balance was $640 million at December 31, 2013 compared to $656 million at December 31, 2012. Our cash balance at the end of 2013 was more than three times our debt level.

As we announced in the fourth quarter of 2012, our Board of Directors authorized the purchase of up to $50 million of the company’s common or preferred stock through December 2014. During 2013, $11.7 million in purchases were made under this authorization.

With respect to our capital structure, I want to take a moment to remind our investors that the 2.6 million shares of our 6.25 percent mandatory convertible preferred stock will convert into common stock on March 1, 2014.

If the price of Unisys common stock is below $37.43 per share through February 26th, the conversion rate per share of mandatory convertible preferred stock will be 2.6717 shares of common stock for a total of approximately 6.9 million common shares.

Turning to Slide 18, I would now like to provide an update on our worldwide pension plans, funded position, and expected cash funding levels. The net deficit in our defined benefit plans improved by $918 million from the December 31, 2012 amount. As I will discuss, good asset returns, higher discount rates used to present value the obligations, and $147 million in contributions are the primary reasons behind the improvement.

The actual returns on assets in the U.S. plan were 16.42 percent, more than double the 2013 expected long-term rate of return of 8 percent. Our actual returns on the assets within our international plans were generally consistent with the expected rate of return of 6.40 percent. The assets in the international plans are more heavily weighted toward fixed income versus equity in the U.S. plan.

At the end of each year, we determine the discount rate that will be used to calculate the present value of our pension liabilities under U.S. GAAP. It is important to note that discount rates and certain other assumptions for funding and GAAP purposes are derived on different bases.

The discount rate used to present value the U.S. pension obligation at December 31, 2013 was 5.02 percent. This was up 101 basis points from the December 31, 2012 discount rate of 4.01 percent reflective of the change in the broader interest rate environment from last year.

Taking into account the net effect of the decrease in the present value of our pension liabilities, the increase in pension assets driven by strong market returns, and contributions made into the plan, we ended 2013 in an underfunded position in our U.S. plan of $1.1 billion, an improvement of approximately $750 million from the level at year-end 2012.

The weighted average discount rate used to present value the international pension obligations at December 31, 2013 was 4.15 percent. This rate represented a 23 basis point increase from the discount rate at December 31, 2012.

The underfunded position of the international plans at December 31, 2013 improved by approximately $170 million from the prior year-end.

A change of 25 basis points in the U.S. discount rate causes an approximate $136 million change in the pension obligation. For international plans, a change of 25 basis points in the discount rate causes an approximate $126 million change in the pension obligation.

From a U.S. GAAP expense perspective, we expect approximately $78 million in pension expense in 2014, compared with pension expense of about $94 million in 2013.

Slide 19 shows the change in the underfunded position on our balance sheet from December 31, 2012 to December 31, 2013.

The funding estimates for our U.S. qualified defined benefit pension plan are based on current estimated asset returns and the funding discount rates used for the U.S. qualified defined benefit pension plan which have been updated to reflect the 2014 discount rates. The future funding requirements are likely to change based on, among other items, market conditions and changes in discount rates.

Current estimates for future contributions to international plans are based on local funding regulations and agreements and are likely to change in 2015 and beyond based on a number of factors including market conditions, changes in discount rates and changes in currency rates.
Turning to Slide 20, we have updated our estimated future pension contributions through 2025. This chart also shows the change from our prior estimates in June 2013 by reflection on the fact that for the period from 2014 to 2025, the estimated future contributions have declined by approximately $150 million with approximately $120 million of the decline estimated to occur in the five-year period from 2014 through 2018.

Please turn to Slide 21 for some additional detail on our pension funding over the next five years. We contributed $147 million of cash in 2013 to our pension plans --$34 million into the U.S. qualified plan and $113 million into the other plans.

We expect to contribute approximately $126 million in 2014 into the U.S. plan and anticipate contributing another $106 million into our other plans during 2014 for total 2014 contributions of approximately $232 million.

As I said, the funding estimates for our U.S. qualified defined benefit pension plan are based on current estimated asset returns and the funding discount rates used for the U.S. qualified defined benefit pension plan which have been updated to reflect the 2014 discount rates. The future funding requirements are likely to change based on, among other items, market conditions and changes in discount rates.

And as I said, current estimates for future contributions to international plans are based on local funding regulations and agreements and are likely to change in 2015 and beyond based on a number of factors including market conditions, changes in discount rates and changes in currency rates.

Again, as I mentioned earlier, the discount rates and certain other assumptions are different for funding and GAAP purposes.

In closing, 2013 was the fifth consecutive year of profitability and free cash flow generation for the company.

As we move through 2014, we are focused on achieving the financial goals of revenue growth and operating profitability that Ed discussed earlier.

We also remain committed to cost management and optimizing cash flow. We have some important investments planned for 2014 in support of our revenue growth goals. As I noted earlier, we expect higher selling, marketing, and R&D costs in support of our efforts to increase awareness and build revenue opportunities for Stealth, Forward!, and some of our other innovative solutions we are bringing to market. In addition, our pension contributions are expected to rise by $85 million in 2014, and we may have higher capital expenditures in 2014 based on timing of new deal signings. Our goal is to minimize the net cash and earnings impact of these factors through prudent financial management. Ultimately, we believe that the investments in sales, marketing, and R&D, as well as the incremental capital expenditures should yield meaningful returns to the company and our shareholders.

Thank you for your time.