

UNISYS CORP
Form 10-Q
April 29, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2016

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission file number 1-8729

UNISYS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

38-0387840
(I.R.S. Employer
Identification No.)

801 Lakeview Drive, Suite 100

Blue Bell, Pennsylvania
(Address of principal executive offices)

19422
(Zip Code)

Registrant's telephone number, including area code: (215) 986-4011

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer (Do not check if a smaller reporting company)

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

Number of shares of Common Stock outstanding as of March 31, 2016: 50,057,575.

Part I - FINANCIAL INFORMATION

Item 1. Financial Statements.

UNISYS CORPORATION

CONSOLIDATED BALANCE SHEETS (Unaudited)

(Millions)

| | March 31, 2016 | December 31, 2015 |
|--|-------------------|----------------------|
| <u>Assets</u> | | |
| Current assets | | |
| Cash and cash equivalents | \$ 513.8 | \$ 365.2 |
| Accounts and notes receivable, net | 520.8 | 581.6 |
| Inventories: | | |
| Parts and finished equipment | 18.8 | 20.9 |
| Work in process and materials | 27.7 | 22.9 |
| Prepaid expenses and other current assets | 125.9 | 120.9 |
| Total | 1,207.0 | 1,111.5* |
| Properties | 891.1 | 876.6 |
| Less-Accumulated depreciation and amortization | 739.0 | 722.8 |
| Properties, net | 152.1 | 153.8 |
| Outsourcing assets, net | 190.1 | 182.0 |
| Marketable software, net | 136.5 | 138.5 |
| Prepaid postretirement assets | 57.4 | 45.1 |
| Deferred income taxes | 133.3 | 127.4* |
| Goodwill | 179.4 | 177.4 |
| Other long-term assets | 209.3 | 194.3* |
| Total | \$ 2,265.1 | \$ 2,130.0* |
| <u>Liabilities and deficit</u> | | |
| Current liabilities | | |
| Notes payable | \$ 65.7 | \$ 65.8 |
| Current maturities of long-term-debt | 11.1 | 11.0 |
| Accounts payable | 216.0 | 219.3 |
| Deferred revenue | 343.5 | 335.1 |
| Other accrued liabilities | 309.2 | 329.9* |
| Total | 945.5 | 961.1* |

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| | | |
|--------------------------------------|------------|-------------|
| Long-term debt | 388.2 | 233.7* |
| Long-term postretirement liabilities | 2,070.4 | 2,111.3 |
| Long-term deferred revenue | 131.4 | 123.3 |
| Other long-term liabilities | 83.9 | 79.2* |
| Commitments and contingencies | | |
| Deficit | | |
| Common stock, shares issued: | | |
| 2016; 52.8, 2015; 52.6 | .5 | .5 |
| Accumulated deficit | (1,885.6) | (1,845.7) |
| Treasury stock, shares at cost: | | |
| 2016; 2.7, 2015; 2.7 | (100.4) | (100.1) |
| Paid-in capital | 4,508.2 | 4,500.9 |
| Accumulated other comprehensive loss | (3,889.3) | (3,945.3) |
| Total Unisys stockholders deficit | (1,366.6) | (1,389.7) |
| Noncontrolling interests | 12.3 | 11.1 |
| Total deficit | (1,354.3) | (1,378.6) |
| Total | \$ 2,265.1 | \$ 2,130.0* |

* Certain amounts have been reclassified to conform to the current-year presentation. See note (k). See notes to consolidated financial statements.

UNISYS CORPORATION

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(Millions, except per share data)

| | Three Months Ended March 31 | |
|---|-----------------------------|-----------|
| | 2016 | 2015 |
| Revenue | | |
| Services | \$ 595.1 | \$ 639.0 |
| Technology | 71.7 | 82.2 |
| | 666.8 | 721.2 |
| Costs and expenses | | |
| Cost of revenue: | | |
| Services | 533.7 | 564.3 |
| Technology | 34.6 | 39.9 |
| | 568.3 | 604.2 |
| Selling, general and administrative | 110.1 | 128.8 |
| Research and development | 16.0 | 18.2 |
| | 694.4 | 751.2 |
| Operating loss | (27.6) | (30.0) |
| Interest expense | 4.4 | 2.6 |
| Other income (expense), net | (1.2) | 4.9 |
| Loss before income taxes | (33.2) | (27.7) |
| Provision for income taxes | 5.5 | 13.3 |
| Consolidated net loss | (38.7) | (41.0) |
| Net income attributable to noncontrolling interests | 1.2 | 2.2 |
| Net loss attributable to Unisys Corporation | \$ (39.9) | \$ (43.2) |
| Loss per share attributable to Unisys Corporation | | |
| Basic | \$ (.80) | \$ (.87) |
| Diluted | \$ (.80) | \$ (.87) |

See notes to consolidated financial statements.

UNISYS CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(Millions)

| | Three Months Ended March 31 | |
|--|-----------------------------|-----------|
| | 2016 | 2015 |
| Consolidated net loss | \$ (38.7) | \$ (41.0) |
| Other comprehensive income | | |
| Foreign currency translation | 10.5 | (44.7) |
| Postretirement adjustments, net of tax of \$(2.7) in 2016 and \$(14.0) in 2015 | 45.5 | 109.8 |
| Total other comprehensive income | 56.0 | 65.1 |
| Comprehensive income | 17.3 | 24.1 |
| Less comprehensive income attributable to noncontrolling interests | (1.2) | (3.3) |
| Comprehensive income attributable to Unisys Corporation | \$ 16.1 | \$ 20.8 |

See notes to consolidated financial statements.

UNISYS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Millions)

| | Three Months Ended March 31 | |
|--|--------------------------------|-----------|
| | 2016 | 2015 |
| Cash flows from operating activities | | |
| Consolidated net loss | \$ (38.7) | \$ (41.0) |
| Add (deduct) items to reconcile consolidated net loss to net cash provided by (used for) operating activities: | | |
| Foreign currency transaction losses | .1 | |
| Non-cash interest expense | .7 | |
| Employee stock compensation | 3.2 | 4.4 |
| Depreciation and amortization of properties | 9.6 | 11.7 |
| Depreciation and amortization of outsourcing assets | 11.1 | 12.7 |
| Amortization of marketable software | 16.4 | 16.3 |
| Other non-cash operating activities | .3 | (.1) |
| Disposal of capital assets | .3 | 1.4 |
| Pension contributions | (31.6) | (38.7) |
| Pension expense | 20.3 | 27.9 |
| Increase in deferred income taxes, net | (6.9) | (4.4) |
| Decrease in receivables, net | 69.4 | 106.8 |
| Increase in inventories | (1.9) | (15.1) |
| Decrease in accounts payable and other accrued liabilities | (35.2) | (106.4) |
| Increase (decrease) in other liabilities | 3.4 | (11.1) |
| Decrease (increase) in other assets | 3.7 | (7.7) |
| Net cash provided by (used for) operating activities | 24.2 | (43.3) |
| Cash flows from investing activities | | |
| Proceeds from investments | 1,365.0 | 1,153.4 |
| Purchases of investments | (1,367.8) | (1,126.7) |
| Investment in marketable software | (14.3) | (16.7) |
| Capital additions of properties | (6.6) | (13.9) |
| Capital additions of outsourcing assets | (15.1) | (26.7) |
| Other | (.6) | 1.5 |
| Net cash used for investing activities | (39.4) | (29.1) |
| Cash flows from financing activities | | |
| Proceeds from issuance of long-term debt | 190.0 | |
| Payments for capped call transactions | (24.3) | |
| Issuance costs relating to long-term debt | (6.2) | |
| Payments of long-term debt | (.7) | (.3) |
| Proceeds from exercise of stock options | | 3.5 |

| | | |
|--|----------|----------|
| Net cash provided by financing activities | 158.8 | 3.2 |
| Effect of exchange rate changes on cash and cash equivalents | 5.0 | (23.1) |
| Increase (decrease) in cash and cash equivalents | 148.6 | (92.3) |
| Cash and cash equivalents, beginning of period | 365.2 | 494.3 |
| Cash and cash equivalents, end of period | \$ 513.8 | \$ 402.0 |

See notes to consolidated financial statements.

Unisys Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

In the opinion of management, the financial information furnished herein reflects all adjustments necessary for a fair presentation of the financial position, results of operations, comprehensive income and cash flows for the interim periods specified. These adjustments consist only of normal recurring accruals except as disclosed herein. Because of seasonal and other factors, results for interim periods are not necessarily indicative of the results to be expected for the full year.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions about future events. These estimates and assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities and the reported amounts of revenue and expenses. Such estimates include the valuation of accounts receivable, inventories, outsourcing assets, marketable software, goodwill and other long-lived assets, legal contingencies, indemnifications, and assumptions used in the calculation for systems integration projects, income taxes and retirement and other post-employment benefits, among others. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Management adjusts such estimates and assumptions when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

The company's accounting policies are set forth in detail in note 1 of the notes to the consolidated financial statements in the company's Annual Report on Form 10-K for the year ended December 31, 2015 filed with the Securities and Exchange Commission. Such Annual Report also contains a discussion of the company's critical accounting policies. The company believes that these critical accounting policies affect its more significant estimates and judgments used in the preparation of the company's consolidated financial statements. There have been no changes in the company's critical accounting policies from those disclosed in the company's Annual Report on Form 10-K for the year ended December 31, 2015.

a. Earnings per Common Share. The following table shows how the loss per common share attributable to Unisys Corporation was computed for the three months ended March 31, 2016 and 2015 (dollars in millions, shares in thousands):

| | Three Months Ended March 31, | |
|---|------------------------------|---------------|
| | 2016 | 2015 |
| Basic Loss Per Common Share | | |
| Net loss attributable to Unisys Corporation | \$ (39.9) | \$ (43.2) |
| Weighted average shares | 50,004 | 49,821 |
| Total | \$ (.80) | \$ (.87) |
| Diluted Loss Per Share | | |
| Net loss attributable to Unisys Corporation | \$ (39.9) | \$ (43.2) |

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| | | |
|-------------------------|----------|----------|
| Weighted average shares | 50,004 | 49,821 |
| Total | \$ (.80) | \$ (.87) |

In the three months ended March 31, 2016 and 2015, the following weighted-average number of stock options and restricted stock units were antidilutive and therefore excluded from the computation of diluted earnings per share (in thousands): 3,685 and 3,350, respectively. In the three months ended March 31, 2016, the following weighted-average number of common shares issuable upon conversion of the 5.50% Convertible Senior Notes due 2021 were antidilutive and therefore excluded from the computation of diluted earnings per share (in thousands): 3,636.

b. Cost Reduction Actions. In 2015, in connection with organizational initiatives to create a more competitive cost structure and rebalance the company's global skill set, the company initiated a plan to incur pretax restructuring charges currently estimated at approximately \$300 million through 2017.

During the twelve months ended December 31, 2015, the company recognized charges of \$118.5 million in connection with this plan, principally related to a reduction in employees. The charges related to work-force reductions were \$78.8 million and were comprised of: (a) a charge of \$27.9 million for 700 employees in the U.S. and (b) a charge of \$50.9 million for 782 employees outside the U.S. In addition, the company recorded charges of \$39.7 million, related to asset impairments (\$20.2 million) and other expenses related to the cost reduction effort (\$19.5 million). The charges were recorded in the following statement of income classifications: cost of revenue services, \$52.3 million; cost of revenue technology, \$.3 million; selling, general and administrative expenses, \$53.5 million; and research and development expenses, \$12.4 million.

During the three months ended March 31, 2016, the company recognized charges of \$26.9 million in connection with this plan, principally related to a reduction in employees. The charges related to work-force reductions were \$22.1 million, principally related to severance costs, and were comprised of: (a) a charge of \$4.2 million for 175 employees in the U.S. and (b) a charge of \$17.9 million for 337 employees outside the U.S. In addition, the company recorded charges of \$4.8 million, for other expenses related to the cost reduction effort. The charges were recorded in the following statement of income classifications: cost of revenue services, \$11.5 million; selling, general and administrative expenses, \$13.3 million; and research and development expenses, \$2.1 million. There were no charges recognized in connection with this plan during the three months ended March 31, 2015.

A breakdown of the individual components of the work-force reduction costs follows (in millions of dollars):

| | Total | U.S. | Int l. |
|------------------------------------|---------|---------|---------|
| Charges for work-force reductions | \$ 78.8 | \$ 27.9 | \$ 50.9 |
| Utilized | (45.3) | (23.7) | (21.6) |
| Translation adjustments | (.5) | | (.5) |
| Balance at Dec. 31, 2015 | 33.0 | 4.2 | 28.8 |
| Additional provisions | 23.0 | 4.5 | 18.5 |
| Utilized | (12.0) | (3.1) | (8.9) |
| Changes in estimates and revisions | (.9) | (.3) | (.6) |
| Translation adjustments | 1.8 | | 1.8 |
| Balance at March 31, 2016 | \$ 44.9 | \$ 5.3 | \$ 39.6 |
| Expected future utilization: | | | |
| 2016 remaining nine months | \$ 43.2 | \$ 5.3 | \$ 37.9 |
| Beyond 2016 | 1.7 | | 1.7 |

c. Pension and Postretirement Benefits. Net periodic pension expense for the three months ended March 31, 2016 and 2015 is presented below (in millions of dollars):

| | Three Months Ended March 31, 2016 | Three Months Ended March 31, 2015 |
|-------|--------------------------------------|--------------------------------------|
| Total | | Total |

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| | | U.S. Plans | Int 1. Plans | | U.S. Plans | Int 1. Plans |
|--|---------|---------------|-----------------|---------|---------------|-----------------|
| Service cost | \$ 1.8 | \$ | \$ 1.8 | \$ 2.2 | \$ | \$ 2.2 |
| Interest cost | 80.5 | 57.6 | 22.9 | 79.9 | 56.1 | 23.8 |
| Expected return on plan assets | (99.4) | (63.4) | (36.0) | (102.7) | (63.7) | (39.0) |
| Amortization of prior service (benefit) cost | (1.4) | (.6) | (.8) | (1.1) | (.6) | (.5) |
| Recognized net actuarial loss | 38.8 | 28.7 | 10.1 | 49.6 | 33.7 | 15.9 |
| Net periodic pension expense | \$ 20.3 | \$ 22.3 | \$ (2.0) | \$ 27.9 | \$ 25.5 | \$ 2.4 |

In 2016, the company expects to make cash contributions of approximately \$141.8 million to its worldwide defined benefit pension plans, which are comprised of \$85.6 million primarily for non-U.S. defined benefit pension plans and \$56.2 million

for the company's U.S. qualified defined benefit pension plan. In 2015, the company made cash contributions of \$148.3 million to its worldwide defined benefit pension plans. For the three months ended March 31, 2016 and 2015, \$31.6 million and \$38.7 million, respectively, of cash contributions have been made.

Net periodic postretirement benefit expense for the three months ended March 31, 2016 and 2015 is presented below (in millions of dollars):

| | Three Months Ended March 31, | |
|---|------------------------------|--------|
| | 2016 | 2015 |
| Service cost | \$.1 | \$.1 |
| Interest cost | 1.6 | 1.7 |
| Expected return on assets | (.1) | (.1) |
| Recognized net actuarial loss | .3 | .7 |
| Amortization of prior service cost | | .3 |
| Net periodic postretirement benefit expense | \$ 1.9 | \$ 2.7 |

The company expects to make cash contributions of approximately \$15 million to its postretirement benefit plan in 2016 compared with \$15.9 million in 2015. For the three months ended March 31, 2016 and 2015, \$2.5 million and \$3.5 million, respectively, of cash contributions have been made.

d. Fair Value Measurements. Due to its foreign operations, the company is exposed to the effects of foreign currency exchange rate fluctuations on the U.S. dollar, principally related to intercompany account balances. The company uses derivative financial instruments to reduce its exposure to market risks from changes in foreign currency exchange rates on such balances. The company enters into foreign exchange forward contracts, generally having maturities of three months or less, which have not been designated as hedging instruments. At March 31, 2016 and 2015, the notional amount of these contracts was \$406.3 million and \$350.9 million, respectively. At March 31, 2016 and 2015, the fair value of such contracts was a net gain of \$1.1 million and \$4.2 million, respectively, of which \$2.0 million and \$4.7 million, respectively, has been recognized in Prepaid expenses and other current assets and \$.9 million and \$.5 million, respectively, has been recognized in Other accrued liabilities in the company's consolidated balance sheet at both March 31, 2016 and 2015. For the three months ended March 31, 2016 and 2015, changes in the fair value of these instruments were a net gain of \$2.7 million and \$25.6 million, respectively, which has been recognized in earnings in Other income (expense), net in the company's consolidated statement of income. The fair value of these forward contracts is based on quoted prices for similar but not identical financial instruments; as such, the inputs are considered Level 2 inputs.

Financial assets with carrying values approximating fair value include cash and cash equivalents and accounts receivable. Financial liabilities with carrying values approximating fair value include accounts payable and other accrued liabilities. The carrying amounts of these financial assets and liabilities approximate fair value due to their short maturities. At March 31, 2016 and December 31, 2015, the carrying amount of long-term debt was less than the fair value, which is based on market prices (Level 2 inputs), of such debt by approximately \$5 million and \$3 million, respectively.

e. Stock Options. Under stockholder approved stock-based plans, stock options, stock appreciation rights, restricted stock and restricted stock units may be granted to officers, directors and other key employees. At March 31, 2016, 1.2 million shares of unissued common stock of the company were available for granting under these plans.

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The fair value of stock option awards was estimated using the Black-Scholes option pricing model with the following assumptions and weighted-average fair values:

| | Three Months Ended March 31, | |
|--------------------------------------|------------------------------|---------|
| | 2016 | 2015 |
| Weighted-average fair value of grant | \$ 4.53 | \$ 9.12 |
| Risk-free interest rate | 1.29% | 1.28% |
| Expected volatility | 51.30% | 45.46% |
| Expected life of options in years | 4.90 | 4.92 |
| Expected dividend yield | | |

Restricted stock unit awards may contain time-based units, performance-based units or a combination of both. Each performance-based unit will vest into zero

to 2.0 shares depending on the degree to which the performance goals are met. Compensation expense resulting from these awards is recognized as expense ratably for each installment from the date of grant until the date the restrictions lapse and is based on the fair market value at the date of grant and the probability of achievement of the specific performance-related goals.

The company records all share-based expense in selling, general and administrative expense.

During the three months ended March 31, 2016 and 2015, the company recorded \$3.2 million and \$4.4 million of share-based compensation expense, respectively, which is comprised of \$2.6 million and \$1.8 million of restricted stock unit expense and \$.6 million and \$2.6 million of stock option expense, respectively.

A summary of stock option activity for the three months ended March 31, 2016 follows (shares in thousands):

| Options | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (years) | Aggregate Intrinsic Value (\$ in millions) |
|------------------------------------|--------|---------------------------------|---|--|
| Outstanding at December 31, 2015 | 2,723 | \$ 27.88 | | |
| Granted | 11 | 10.85 | | |
| Exercised | | | | |
| Forfeited and expired | (516) | 38.36 | | |
| Outstanding at March 31, 2016 | 2,218 | 25.36 | 3.08 | \$ |
| Expected to vest at March 31, 2016 | 684 | 25.55 | 4.52 | |
| Exercisable at March 31, 2016 | 1,498 | 25.32 | 2.37 | |

The aggregate intrinsic value represents the total pretax value of the difference between the company's closing stock price on the last trading day of the period and the exercise price of the options, multiplied by the number of in-the-money stock options that would have been received by the option holders had all option holders exercised their options on March 31, 2016. The intrinsic value of the company's stock options changes based on the closing price of the company's stock. The total intrinsic value of options exercised for the three months ended March 31, 2016 and 2015 was zero and \$.6 million, respectively. As of March 31, 2016, \$3.3 million of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 1.7 years.

A summary of restricted stock unit activity for the three months ended March 31, 2016 follows (shares in thousands):

| | Restricted Stock Units | Weighted-Average Grant-Date Fair Value |
|----------------------------------|------------------------|--|
| Outstanding at December 31, 2015 | 469 | \$ 23.57 |
| Granted | 1,156 | 10.06 |

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| | | |
|-------------------------------|-------|-------|
| Vested | (154) | 20.17 |
| Forfeited and expired | (3) | 24.40 |
| Outstanding at March 31, 2016 | 1,468 | 13.32 |

The fair value of restricted stock units is determined based on the trading price of the company's common shares on the date of grant. The aggregate weighted-average grant-date fair value of restricted stock units granted during the three months ended March 31, 2016 and 2015 was \$11.6 million and \$8.8 million, respectively. As of March 31, 2016, there was \$13.9 million of total unrecognized compensation cost related to outstanding restricted stock units granted under the company's plans. That cost is expected to be recognized over a weighted-average period of 2.6 years. The aggregate weighted-average grant-date fair value of restricted share units vested during the three months ended March 31, 2016 and 2015 was \$3.1 million and \$1.8 million, respectively.

Common stock issued upon exercise of stock options or upon lapse of restrictions on restricted stock units are newly issued shares. Cash received from the exercise of stock options for the three months ended March 31, 2016 and 2015 was zero and \$3.5 million, respectively. The company is currently not recognizing any tax benefits from the exercise of stock options or upon issuance of stock upon lapse of restrictions on restricted stock units in light of its tax position. Tax benefits resulting from tax deductions in excess of the compensation costs recognized are classified as financing cash flows.

f. Segment Information. The company has two business segments: Services and Technology. Revenue classifications within the Services segment are as follows:

Cloud & infrastructure services. This represents revenue from work the company performs in the data center and cloud area, technology consulting and technology-based systems integration projects, as well as global service desks and global field services.

Application services. This represents revenue from application managed services and application development, maintenance and support work.

Business processing outsourcing services. This represents revenue from the management of clients' specific business processes.

The accounting policies of each business segment are the same as those followed by the company as a whole. Intersegment sales and transfers are priced as if the sales or transfers were to third parties. Accordingly, the Technology segment recognizes intersegment revenue and manufacturing profit on hardware and software shipments to customers under Services contracts. The Services segment, in turn, recognizes customer revenue and marketing profits on such shipments of company hardware and software to customers. The Services segment also includes the sale of hardware and software products sourced from third parties that are sold to customers through the company's Services channels. In the company's consolidated statements of income, the manufacturing costs of products sourced from the Technology segment and sold to Services customers are reported in cost of revenue for Services.

Also included in the Technology segment's sales and operating profit are sales of hardware and software sold to the Services segment for internal use in Services engagements. The amount of such profit included in operating income of the Technology segment for the three months ended March 31, 2016 and 2015 was \$.1 million and \$1.5 million, respectively. The profit on these transactions is eliminated in Corporate.

The company evaluates business segment performance based on operating income exclusive of pension income or expense, restructuring charges and unusual and nonrecurring items, which are included in Corporate. All other corporate and centrally incurred costs are allocated to the business segments based principally on revenue, employees, square footage or usage.

A summary of the company's operations by business segment for the three-month periods ended March 31, 2016 and 2015 is presented below (in millions of dollars):

| | Total | Corporate | Services | Technology |
|--------------------|-------|-----------|----------|------------|
| Three Months Ended | | | | |

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March 31, 2016

| | | | | |
|------------------|----------|----------|----------|---------|
| Customer revenue | \$ 666.8 | | \$ 595.1 | \$ 71.7 |
| Intersegment | | \$ (5.6) | | 5.6 |

| | | | | |
|---------------|----------|----------|----------|---------|
| Total revenue | \$ 666.8 | \$ (5.6) | \$ 595.1 | \$ 77.3 |
|---------------|----------|----------|----------|---------|

| | | | | |
|-------------------------|-----------|-----------|--------|---------|
| Operating income (loss) | \$ (27.6) | \$ (45.6) | \$ 4.0 | \$ 14.0 |
|-------------------------|-----------|-----------|--------|---------|

Three Months Ended

March 31, 2015

| | | | | |
|------------------|----------|----------|----------|---------|
| Customer revenue | \$ 721.2 | | \$ 639.0 | \$ 82.2 |
| Intersegment | | \$ (6.7) | | 6.7 |

| | | | | |
|---------------|----------|----------|----------|---------|
| Total revenue | \$ 721.2 | \$ (6.7) | \$ 639.0 | \$ 88.9 |
|---------------|----------|----------|----------|---------|

| | | | | |
|-------------------------|-----------|-----------|----------|--------|
| Operating income (loss) | \$ (30.0) | \$ (26.1) | \$ (8.5) | \$ 4.6 |
|-------------------------|-----------|-----------|----------|--------|

Presented below is a reconciliation of total business segment operating loss to consolidated loss before income taxes (in millions of dollars):

| | Three Months Ended March 31 | |
|---------------------------------------|-----------------------------|-----------|
| | 2016 | 2015 |
| Total segment operating profit (loss) | \$ 18.0 | \$ (3.9) |
| Interest expense | (4.4) | (2.6) |
| Other income (expense), net | (1.2) | 4.9 |
| Cost reduction charges | (26.9) | |
| Corporate and eliminations | (18.7) | (26.1) |
| Total loss before income taxes | \$ (33.2) | \$ (27.7) |

Customer revenue by classes of similar products or services, by segment, is presented below (in millions of dollars):

| | Three Months Ended March 31 | |
|--|-----------------------------|----------|
| | 2016 | 2015 |
| Services | | |
| Cloud & infrastructure services | \$ 335.8 | \$ 378.5 |
| Application services | 210.6 | 202.4 |
| Business processing outsourcing services | 48.7 | 58.1 |
| | 595.1 | 639.0 |
| Technology | 71.7 | 82.2 |
| Total | \$ 666.8 | \$ 721.2 |

Geographic information about the company's revenue, which is principally based on location of the selling organization, is presented below (in millions of dollars):

| | Three Months Ended March 31 | |
|----------------|-----------------------------|----------|
| | 2016 | 2015 |
| United States | \$ 330.9 | \$ 342.0 |
| United Kingdom | 82.0 | 87.9 |
| Other foreign | 253.9 | 291.3 |
| Total | \$ 666.8 | \$ 721.2 |

g. Accumulated Other Comprehensive Income. Accumulated other comprehensive loss as of December 31, 2015 and March 31, 2016 is as follows (in millions of dollars):

Total

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| | | Translation Adjustments | Postretirement Plans |
|--|--------------|----------------------------|-------------------------|
| Balance at December 31, 2015 | \$ (3,945.3) | \$ (833.8) | \$ (3,111.5) |
| Other comprehensive income before reclassifications | 20.2 | 12.7 | 7.5 |
| Amounts reclassified from accumulated other comprehensive income | 35.8 | | 35.8 |
| Current period other comprehensive income | 56.0 | 12.7 | 43.3 |
| Balance at March 31, 2016 | \$ (3,889.3) | \$ (821.1) | \$ (3,068.2) |

Amounts related to postretirement plans not reclassified in their entirety out of accumulated other comprehensive income for the three months ended March 31, 2016 and 2015 were as follows (in millions of dollars):

| | Three Months Ended March 31 | |
|-------------------------------------|-----------------------------|---------|
| | 2016 | 2015 |
| Amortization of prior service cost* | \$ (1.4) | \$ (.8) |
| Amortization of actuarial losses* | 38.6 | 48.3 |
| Total before tax | 37.2 | 47.5 |
| Income tax benefit | (1.4) | (2.3) |
| Net of tax | \$ 35.8 | \$ 45.2 |

* These items are included in net periodic postretirement cost (see note (c)).

Noncontrolling interests as of December 31, 2015 and March 31, 2016 is as follows (in millions of dollars):

| | Noncontrolling Interests |
|------------------------------|-----------------------------|
| Balance at December 31, 2015 | \$ 11.1 |
| Net income | 1.2 |
| Translation adjustments | (2.2) |
| Postretirement plans | 2.2 |
| Balance at March 31, 2016 | \$ 12.3 |

h. Supplemental Cash Flow Information. Cash paid, net of refunds, during the three months ended March 31, 2016 and 2015 for income taxes was \$10.9 million and \$26.3 million, respectively.

Cash paid during the three months ended March 31, 2016 and 2015 for interest was \$7.1 million and \$6.7 million, respectively.

i. Commitments and Contingencies. There are various lawsuits, claims, investigations and proceedings that have been brought or asserted against the company, which arise in the ordinary course of business, including actions with respect to commercial and government contracts, labor and employment, employee benefits, environmental matters, intellectual property, and non-income tax and employment compensation in Brazil. The company records a provision for these matters when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Any provisions are reviewed at least quarterly and are adjusted to reflect the impact and status of settlements, rulings, advice of counsel and other information and events pertinent to a particular matter.

The company believes that it has valid defenses with respect to legal matters pending against it. Based on its experience, the company also believes that the damage amounts claimed in the lawsuits disclosed below are not a meaningful indicator of the company's potential liability. Litigation is inherently unpredictable, however, and it is possible that the company's results of operations or cash flow could be materially affected in any particular period by the resolution of one or more of the legal matters pending against it.

In April 2007, the Ministry of Justice of Belgium sued Unisys Belgium SA-NV, a Unisys subsidiary (Unisys Belgium), in the Court of First Instance of Brussels. The Belgian government had engaged the company to design and develop software for a computerized system to be used to manage the Belgian court system. The Belgian State terminated the contract and in its lawsuit has alleged that the termination was justified because Unisys Belgium failed to deliver satisfactory software in a timely manner. It claims damages of approximately 28 million Euros. Unisys Belgium filed its defense and counterclaim in April 2008, in the amount of approximately 18.5 million Euros. The company believes it has valid defenses to the claims and contends that the Belgian State's termination of the contract was unjustified.

The company's Brazilian operations, along with those of many other companies doing business in Brazil, are involved in various litigation matters, including numerous governmental assessments related to indirect and other taxes, as well

as disputes associated with former employees and contract labor. The tax-related matters pertain to value added taxes, customs, duties, sales and other non-income related tax exposures. The labor-related matters include claims related to compensation matters. The company believes that appropriate accruals have been established for such matters based on information currently available. At March 31, 2016, excluding those matters that have been assessed by management as being remote as to the likelihood of ultimately resulting in a loss, the amount related to unreserved tax-related matters, inclusive of any related interest, is estimated to be up to approximately \$108 million.

The company has been involved in a matter arising from the sale of its Health Information Management (HIM) business to Molina Information Systems, LLC (Molina) under a 2010 Asset Purchase Agreement (APA). The HIM business provided system solutions and services to state governments, including the state of Idaho, for administering Medicaid programs. In August 2012, Molina sued the company in Federal District Court in Delaware alleging breaches of contract, negligent misrepresentation and intentional misrepresentation with respect to the APA and the Medicaid contract with Idaho. Molina sought compensatory damages, punitive damages, lost profits, indemnification, and declaratory relief. Molina alleged losses of approximately \$35 million in the complaint. In June 2013, the District Court granted the company's motion to dismiss the complaint and allowed Molina to replead certain claims and file an amended complaint. In August 2013, Molina filed an amended complaint. The company filed a motion to dismiss the amended complaint. On September 2, 2014, the District Court granted the company's motion to dismiss the negligent misrepresentation claim, but denied the company's motion with respect to Molina's intentional misrepresentation and breach of contract claims. The litigation continues on the remaining claims.

On June 26, 2014, the State of Louisiana filed a Petition for Damages against, among other defendants, the company and Molina Information Systems, LLC, in the Parish of East Baton Rouge, 19th Judicial District. The State alleges that between 1989 and 2012 the defendants, each acting successively as the State's Medicaid fiscal intermediary, utilized an incorrect reimbursement formula for the payment of pharmaceutical claims causing the State to pay excessive amounts for prescription drugs. The company believes that it has valid defenses to Louisiana's claims and is asserting them in the pending litigation.

With respect to the specific legal proceedings and claims described above, except as otherwise noted, either (i) the amount or range of possible losses in excess of amounts accrued, if any, is not reasonably estimable or (ii) the company believes that the amount or range of possible losses in excess of amounts accrued that are estimable would not be material.

Litigation is inherently unpredictable and unfavorable resolutions could occur. Accordingly, it is possible that an adverse outcome from such matters could exceed the amounts accrued in an amount that could be material to the company's financial condition, results of operations and cash flows in any particular reporting period.

Notwithstanding that the ultimate results of the lawsuits, claims, investigations and proceedings that have been brought or asserted against the company are not currently determinable, the company believes that at March 31, 2016, it has adequate provisions for any such matters.

j. Income Taxes. Accounting rules governing income taxes require that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. These rules also require that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or the entire deferred tax asset will not be realized.

The company evaluates the realizability of its deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization are the company's historical profitability, forecast of future taxable income and available tax-planning strategies that could be implemented to realize the net deferred tax assets. The company uses tax-planning strategies to realize or renew net deferred tax assets to avoid the potential loss of future tax benefits.

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A full valuation allowance is currently maintained for all U.S. and certain foreign deferred tax assets in excess of deferred tax liabilities. The company will record a tax provision or benefit for those international subsidiaries that do not have a full valuation allowance against their net deferred tax assets. Any profit or loss recorded for the company's U.S. continuing operations will have no provision or benefit associated with it due to full valuation allowance,

except with respect to refundable tax credits and withholding taxes not creditable against future taxable income. As a result, the company's provision or benefit for taxes may vary significantly depending on the geographic distribution of income.

k. Accounting Standards. Effective January 1, 2016, the company adopted new guidance issued by the Financial Accounting Standards Board (FASB) on the presentation of debt issuance costs. The new guidance requires that debt issuance costs shall be reported in the balance sheet as a direct deduction from the face amount of that debt. Previously the company reported these costs in Other long-term assets in the company's balance sheet. At December 31, 2015, the amount reclassified was \$1.8 million. The new guidance has been applied on a retrospective basis whereby prior-period financial statements have been adjusted to reflect the application of the new guidance, as required by the FASB.

Effective January 1, 2016, the company adopted new guidance issued by the FASB that simplifies the measurement of inventory. The new guidance states that an entity should measure inventory at the lower of cost and net realizable value. Net realizable value is the estimate of estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. When evidence exists that the net realizable value of inventory is lower than its cost, the difference shall be recognized as a loss in the period in which it occurs. That loss may be required, for example, due to damage, physical deterioration, obsolescence, changes in price levels, or other causes. Adoption of this new guidance had no impact on the company's consolidated results of operations and financial position.

Effective January 1, 2016, the company adopted new guidance issued by the FASB that simplifies the balance sheet classification of deferred income taxes. The new guidance requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The new guidance also requires companies to offset all deferred tax assets and liabilities (and valuation allowances) for each tax-paying jurisdiction within each tax-paying component. The net deferred tax must be presented as a single noncurrent amount. Previous guidance required an entity to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position. The new guidance has been applied on a retrospective basis whereby prior-period financial statements have been adjusted to reflect the application of the new guidance. At December 31, 2015, the reclassification resulted in a reduction of current deferred income tax assets of \$24.1 million, a decrease in other current assets of \$.1 million, an increase in noncurrent deferred income tax assets of \$12.9 million, a decrease in other long-term assets of \$.1 million, a decrease in current other accrued liabilities of \$9.4 million and a decrease in other long-term liabilities of \$2.0 million.

On March 30, 2016, the FASB issued new guidance that will change certain aspects of accounting for share-based payments to employees. The new guidance will require all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. It also will allow an employer to repurchase more of an employee's shares than it can today for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. The guidance is effective for annual reporting periods beginning after December 15, 2016, which for the company is January 1, 2017. Earlier adoption is permitted. The company is currently assessing when it will choose to adopt, and is currently evaluating the impact of the adoption on its consolidated results of operations and financial position.

In February 2016, the FASB issued a new lease accounting standard entitled Leases. The new standard is intended to improve financial reporting about leasing transactions. The new rule will require organizations that lease assets, referred to as lessees, to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The standard requires disclosures to help investors and other financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. The standard is effective for annual reporting periods beginning after December 15, 2018, which for the company is January 1, 2019. Earlier adoption is permitted. The company is currently assessing when it will choose to adopt, and is currently evaluating the impact of

the adoption on its consolidated results of operations and financial position.

In 2014, the FASB issued a new revenue recognition standard entitled Revenue from Contracts with Customers. The objective of the standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of

revenue and cash flows from a contract with a customer. The standard, and its various amendments, is effective for annual reporting periods beginning after December 15, 2017, which for the company is January 1, 2018. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, which for the company is January 1, 2017. The standard allows for either full retrospective adoption, meaning the standard is applied to all periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements. The company is currently assessing when and which method it will choose for adoption, and is evaluating the impact of the adoption on its consolidated results of operations and financial position.

1. Debt. On March 15, 2016, the company issued \$190 million aggregate principal amount of Convertible Senior Notes due 2021 (the notes). The notes, which are senior unsecured obligations, bear interest at a coupon rate of 5.50% per year until maturity, payable semiannually in arrears on March 1 and September 1 of each year, beginning on September 1, 2016. The notes are not redeemable prior to maturity and are convertible into shares of the company's common stock. The conversion rate for the notes is 102.4249 shares of the company's common stock per \$1,000 principal amount of the notes (or a total amount of 19,460,731 shares), which is equivalent to an initial conversion price of approximately \$9.76 per share of the company's common stock. Upon any conversion, the company will settle its conversion obligation in cash, shares of its common stock, or a combination of cash and shares of its common stock, at its election.

In connection with the issuance of the notes, the company also paid \$24.3 million to enter into privately negotiated capped call transactions with the initial purchasers and/or affiliates of the initial purchasers. The capped call transactions will cover, subject to customary anti-dilution adjustments, the number of shares of the company's common stock that will initially underlie the notes. The capped call transactions are expected to reduce potential dilution to the company's common stock and/or offset potential cash payments the company is required to make in excess of the principal amount upon any conversion of the notes.

In accordance with Accounting Standards Codification 470-20, a convertible debt instrument that may be settled entirely or partially in cash is required to be separated into a liability and equity component, such that interest expense reflects the issuer's non-convertible debt interest rate. Upon issuance, (i) a debt discount of \$30.0 million was recognized as a decrease in debt and an increase in additional-paid in capital and (ii) the cost of the capped call transactions of \$24.3 million was recognized as a decrease in cash and a decrease in additional paid-in capital. The debt component will accrete up to the principal amount and will be recognized as non-cash interest expense over the expected term of the notes.

On April 13, 2016, the company issued an additional \$23.5 million of the notes pursuant to an over-allotment option exercised by the initial purchasers to buy additional notes. In connection with the issuance of the additional notes, the company also paid \$3.0 million to enter into privately negotiated capped call transactions with the initial purchasers and/or affiliates of the initial purchasers.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion and analysis of the company's financial condition and results of operations should be read in conjunction with the consolidated financial statements and the related notes included elsewhere in this quarterly report. In this discussion and analysis of the company's financial condition and results of operations, the company has included information that may constitute forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements provide current expectations of future events and include any statement that does not directly relate to any historical or current fact. Words such as anticipates, believes, expects, intends, plans, projects and similar expressions may identify such forward-looking statements. All forward-looking statements rely on assumptions and are subject to risks, uncertainties and other factors that could cause the company's actual results to differ materially from expectations. Factors that could affect future results include, but are not limited to, those discussed under Factors that may affect future results and Cautionary Statement Pursuant to the U.S. Private Securities Litigation Reform Act of 1995 in Part I, Item 1A of the company's 2015 Form 10-K. Any forward-looking statement speaks only as of the date on which that statement is made. The company assumes no obligation to update any forward-looking statement to reflect events or circumstances that occur after the date on which the statement is made.

Overview

In April 2015, in connection with organizational initiatives to create a more competitive cost structure and rebalance the company's global skill set, the company initiated a plan to incur pretax restructuring charges currently estimated at approximately \$300 million through 2017. During 2015, the company recognized pretax charges of \$118.5 million in connection with this plan, principally related to a reduction in employees.

During the first quarter of 2016, the company continued to implement this plan and incurred an additional \$26.9 million of cost reduction charges. The charges related to work-force reductions were \$22.1 million, principally related to severance costs, and were comprised of: (a) a charge of \$4.2 million for 175 employees in the U.S. and (b) a charge of \$17.9 million for 337 employees outside the U.S. In addition, the company recorded charges of \$4.8 million for other expenses related to the cost reduction effort.

The charges during the first quarter of 2016 were recorded in the following statement of income classifications: cost of revenue services, \$11.5 million; selling, general and administrative expenses, \$13.3 million; and research and development expenses, \$2.1 million.

The company's results of operations in the three months ended March 31, 2016 were impacted by the charges referred to above as well as the negative impact of foreign currency fluctuations. For the three months ended March 31, 2016, the company reported a net loss attributable to Unisys Corporation of \$39.9 million, or a loss of \$.80 per diluted share, compared with a net loss of \$43.2 million, or a loss of \$.87 per diluted share for the three months ended March 31, 2015. The current period includes after tax cost reduction charges (discussed above) of \$24.7 million, or \$.49 per diluted share.

Results of operations

Company results

Revenue for the quarter ended March 31, 2016 was \$666.8 million compared with \$721.2 million for the first quarter of 2015, a decrease of 8% from the prior year. Foreign currency fluctuations had a 5 percentage-point negative impact

on revenue in the current period compared with the year-ago period.

Services revenue decreased 7% and Technology revenue decreased 13% in the current quarter compared with the year-ago period. U.S. revenue decreased 3% in the first quarter compared with the year-ago period. International revenue decreased 11% in the current quarter due to declines in Europe and Latin America, which was partially offset by a slight increase in Asia/Pacific. Foreign currency had a 9 percentage-point negative impact on international revenue in the three months ended March 31, 2016 compared with the three months ended March 31, 2015.

Total gross profit margin was 14.8% in the three months ended March 31, 2016 compared with 16.2% in the three months ended March 31, 2015. The decline was due to higher cost reduction charges of \$11.5 million offset by lower pension expense of \$5.4 million.

Selling, general and administrative expense in the three months ended March 31, 2016 was \$110.1 million (16.5% of revenue) compared with \$128.8 million (17.9% of revenue) in the year-ago period. Despite higher cost reduction charges of \$13.3 million offset in part by lower pension expense of \$1.3 million, selling, general and administrative expenses declined in the first quarter of 2016 from the first quarter of 2015 principally reflecting savings due to cost reduction actions.

Research and development (R&D) expenses in the first quarter of 2016 were \$16.0 million compared with \$18.2 million in the first quarter of 2015.

For the first quarter of 2016, the company reported an operating loss of \$27.6 million compared with an operating loss of \$30.0 million in the first quarter of 2015. The current quarter loss principally reflects higher cost reduction charges of \$26.9 million as well as lower pension expense of \$7.6 million.

For the three months ended March 31, 2016, pension expense was \$20.3 million compared with pension expense of \$27.9 million for the three months ended March 31, 2015. For the full year 2016, the company expects to recognize pension expense of approximately \$81.5 million compared with \$108.7 million for the full year of 2015. The company records pension income or expense, as well as other employee-related costs such as payroll taxes and medical insurance costs, in operating income in the following income statement categories: cost of revenue; selling, general and administrative expenses; and research and development expenses. The amount allocated to each category is principally based on where the salaries of active employees are charged.

Interest expense for the three months ended March 31, 2016 was \$4.4 million compared with \$2.6 million for the three months ended March 31, 2015. The increase was principally caused by the issuance of the notes referred to below.

Other income (expense), net was an expense of \$1.2 million in the first quarter of 2016 compared with income of \$4.9 million in 2015. Included in the first quarter of 2016 and 2015 were foreign exchange (losses) gains of \$(.4) million and \$3.4 million, respectively.

The loss before income taxes for the three months ended March 31, 2016 was \$33.2 million compared with a loss of \$27.7 million for the three months ended March 31, 2015. The current quarter loss principally reflects higher cost reduction charges of \$26.9 million as well as lower pension expense of \$7.6 million.

The provision for income taxes was \$5.5 million in the current quarter compared with \$13.3 million in the year-ago period. As discussed in Note (j) of the Notes to Consolidated Financial Statements, the company evaluates quarterly the realizability of its deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary. The company records a tax provision or benefit for those international subsidiaries that do not have a full valuation allowance against their net deferred tax assets. Any profit or loss recorded for the company's U.S. operations has no provision or benefit associated with it due to a full valuation allowance. As a result, the company's provision or benefit for taxes may vary significantly quarter to quarter depending on the geographic distribution of income.

Segment results

The company has two business segments: Services and Technology. Revenue classifications within the Services segment are as follows:

Cloud & infrastructure services. This represents revenue from work the company performs in the data center and cloud area, technology consulting and technology-based systems integration projects, as well as global service desks and global field services.

Application services. This represents revenue from application managed services and application development, maintenance and support work.

Business processing outsourcing services. This represents revenue from the management of clients' specific business processes.

The accounting policies of each business segment are the same as those followed by the company as a whole. Intersegment sales and transfers are priced as if the sales or transfers were to third parties. Accordingly, the Technology segment recognizes intersegment revenue and manufacturing profit on hardware and software shipments to customers under Services contracts. The Services segment, in turn, recognizes customer revenue and marketing

profits on such shipments of company hardware and software to customers. The Services segment also includes the sale of hardware and software products sourced from third parties that are sold to customers through the company's Services channels. In the company's consolidated statements of income, the manufacturing costs of products sourced from the Technology segment and sold to Services customers are reported in cost of revenue for Services.

Also included in the Technology segment's sales and operating profit are sales of hardware and software sold to the Services segment for internal use in Services engagements. The amount of such profit included in operating income of the Technology segment for the three months ended March 31, 2016 and 2015 was \$.1 million and \$1.5 million, respectively. The profit on these transactions is eliminated in Corporate.

The company evaluates business segment performance based on operating income exclusive of pension income or expense, restructuring charges and unusual and nonrecurring items, which are included in Corporate. All other corporate and centrally incurred costs are allocated to the business segments based principally on revenue, employees, square footage or usage.

Information by business segment is presented below (in millions of dollars):

| | Total | Eliminations | Services | Technology |
|--|-----------------|-----------------|-----------------|----------------|
| Three Months Ended | | | | |
| March 31, 2016 | | | | |
| Customer revenue | \$ 666.8 | | \$ 595.1 | \$ 71.7 |
| Intersegment | | \$ (5.6) | | 5.6 |
| Total revenue | \$ 666.8 | \$ (5.6) | \$ 595.1 | \$ 77.3 |
| Gross profit percent | 14.8% | | 14.2% | 48.6% |
| Operating profit (loss) percent | (4.1)% | | .7% | 18.1% |

Three Months Ended

March 31, 2015

| | | | | |
|--|-----------------|-----------------|-----------------|----------------|
| Customer revenue | \$ 721.2 | | \$ 639.0 | \$ 82.2 |
| Intersegment | | \$ (6.7) | | 6.7 |
| Total revenue | \$ 721.2 | \$ (6.7) | \$ 639.0 | \$ 88.9 |
| Gross profit percent | 16.2% | | 14.1% | 49.6% |
| Operating profit (loss) percent | (4.2)% | | (1.3)% | 5.2% |

Gross profit percent and operating income (loss) percent are as a percent of total revenue.

Customer revenue by classes of similar products or services, by segment, is presented below (in millions of dollars):

| | Three Months Ended March 31 | | Percent Change |
|--|--------------------------------|-----------------|-------------------|
| | 2016 | 2015 | |
| Services | | | |
| Cloud & infrastructure services | \$ 335.8 | \$ 378.5 | (11.3)% |
| Application services | 210.6 | 202.4 | 4.1% |
| Business processing outsourcing services | 48.7 | 58.1 | (16.2)% |
| | 595.1 | 639.0 | (6.9)% |
| Technology | 71.7 | 82.2 | (12.8)% |
| Total | \$ 666.8 | \$ 721.2 | (7.5)% |

In the Services segment, customer revenue was \$595.1 million for the three months ended March 31, 2016, down 6.9% from the three months ended March 31, 2015. Foreign currency translation had a 5 percentage-point negative impact on Services revenue in the current quarter compared with the year-ago period.

Revenue from cloud & infrastructure services was \$335.8 million in the March 2016 quarter down 11.3% compared with the March 2015 quarter. Foreign currency translation had a 5 percentage-point negative impact on cloud & infrastructure services revenue in the current quarter compared with the year-ago period. Also contributing to the decline was lower contract volumes on some accounts in the U.S.

Application services revenue increased 4.1% for the three month period ended March 31, 2016 compared with the three month period ended March 31, 2015. Foreign currency translation had a 6 percentage-point negative impact on application services revenue in the current quarter compared with the year-ago period. The company's U.S. Federal business was a major contributor to the increase year over year.

Business processing outsourcing services revenue decreased 16.2% in the current quarter compared with the prior-year quarter. Foreign currency translation had a 6 percentage-point negative impact on business processing outsourcing services revenue in the current quarter compared with the year-ago period.

Services gross profit was 14.2% in the first quarter of 2016 compared with 14.1% in the year-ago period. Services operating income (loss) percent was .7% in the three months ended March 31, 2016 compared with (1.3)% in the three months ended March 31, 2015.

In the Technology segment, customer revenue decreased 12.8% to \$71.7 million in the current quarter compared with \$82.2 million in the year-ago period, due to lower sales of the company's proprietary enterprise software and servers in the current quarter. Foreign currency translation had a 3 percentage-point negative impact on Technology revenue in the current quarter compared with the year-ago period.

Technology gross profit was 48.6% in the current quarter compared with 49.6% in the year-ago quarter. Technology operating income percent was 18.1% in the three months ended March 31, 2016 compared with 5.2% in the three months ended March 31, 2015. The increase in operating income percent reflects the benefits of the cost reduction actions on selling, general and administrative expenses in the current quarter.

New accounting pronouncements

See note (k) of the Notes to Consolidated Financial Statements for a full description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on the company's consolidated financial statements.

Financial condition

The company's principal sources of liquidity are cash on hand, cash from operations and its revolving credit facility, discussed below. The company and certain international subsidiaries have access to uncommitted lines of credit from various banks. The company believes that it will have adequate sources of liquidity to meet its expected near-term cash requirements.

Cash and cash equivalents at March 31, 2016 were \$513.8 million compared with \$365.2 million at December 31, 2015. The increase was due to the proceeds received from the sale of \$190 million of 5.50% Convertible Senior Notes due 2021 (the notes). See Note (l) of the Notes to Consolidated Financial Statements.

As of March 31, 2016, \$278.2 million of cash and cash equivalents were held by the company's foreign subsidiaries and branches operating outside of the U.S. In the future, if these funds are needed for the company's operations in the U.S., it is expected the company would be required to pay taxes on only a limited portion of this balance.

During the three months ended March 31, 2016, cash provided by operations was \$24.2 million compared with cash used for operations of \$43.3 million for the three months ended March 31, 2015. Cash provided by operations during the first quarter of 2016 was negatively impacted by an \$18.0 million increase in cash used for cost reduction actions. Cash provided by operations during the first quarter of 2016 was positively impacted by a decrease in cash contributions to the company's defined benefit pension plans. During the first quarter of 2016, the company contributed cash of \$31.6 million to such plans compared with \$38.7 million during the first quarter of 2015.

Cash used for investing activities for the three months ended March 31, 2016 was \$39.4 million compared with cash usage of \$29.1 million during the three months ended March 31, 2015. Net purchases of investments were \$2.8 million for the three months ended March 31, 2016 compared with net proceeds of \$26.7 million in the prior-year period. Proceeds from investments and purchases of investments represent derivative financial instruments used to reduce the company's currency exposure to market risks from changes in foreign currency exchange rates. In addition, in the current quarter, the investment in marketable software was \$14.3 million compared with \$16.7 million in the year-ago period, capital additions of properties were \$6.6 million in 2016 compared with \$13.9 million in 2015 and capital additions of outsourcing assets were \$15.1 million in 2016 compared with \$26.7 million in 2015. In the

prior-year period, capital expenditures were higher than the current-year period largely reflecting increased investments in new outsourcing agreements during that period.

Cash provided by financing activities during the three months ended March 31, 2016 was \$158.8 million compared with cash provided of \$3.2 million during the three months ended March 31, 2015. During the three months ended March 31, 2016, the company issued \$190.0 million of notes and received net proceeds of \$159.5 million. See Note (1) of the Notes to Consolidated Financial Statements.

At March 31, 2016, total debt was \$465.0 million compared with \$310.5 million at December 31, 2015. The increase was principally caused by the issuance of the notes referred to above.

The company has a secured revolving credit facility, expiring in June 2018, which provides for loans and letters of credit up to an aggregate amount of \$150 million (with a limit on letters of credit of \$100 million). Borrowing limits under the credit agreement are based upon the amount of eligible U.S. accounts receivable. At March 31, 2016, the company had \$65.0 million of borrowings (4.25% interest rate at March 31, 2016) and \$11.3 million of letters of credit outstanding under the facility. At March 31, 2016, availability under the facility was \$57.7 million net of letters of credit issued. Borrowings under the facility will bear interest based on short-term rates. The credit agreement contains customary representations and warranties, including that there has been no material adverse change in the company's business, properties, operations or financial condition. The company is required to maintain a minimum fixed charge coverage ratio if the availability under the credit facility falls below the greater of 12.5% of the lenders commitments under the facility and \$18.75 million. The credit agreement allows the company to pay dividends on its capital stock in an amount up to \$22.5 million per year unless the company is in default and to, among other things, repurchase its equity, prepay other debt, incur other debt or liens, dispose of assets and make acquisitions, loans and investments, provided the company complies with certain requirements and limitations set forth in the agreement. Events of default include non-payment, failure to comply with covenants, materially incorrect representations and warranties, change of control and default under other debt aggregating at least \$50 million. The credit facility is guaranteed by Unisys Holding Corporation, Unisys NPL, Inc., Unisys AP Investment Company I and any future material domestic subsidiaries. The facility is secured by the assets of Unisys Corporation and the subsidiary guarantors, other than certain excluded assets. The company may elect to prepay or terminate the credit facility without penalty.

At March 31, 2016, the company has met all covenants and conditions under its various lending and funding agreements. The company expects to continue to meet these covenants and conditions.

In 2016, the company expects to make cash contributions of approximately \$141.8 million to its worldwide defined benefit pension plans, which is comprised of \$85.6 million primarily for non-U.S. defined benefit pension plans and \$56.2 million for the company's U.S. qualified defined benefit pension plan.

The company has on file with the Securities and Exchange Commission an effective registration statement covering \$700 million of debt or equity securities, which enables the company to be prepared for future market opportunities.

The company may, from time to time, redeem, tender for, or repurchase its securities in the open market or in privately negotiated transactions depending upon availability, market conditions and other factors.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There has been no material change in the company's assessment of its sensitivity to market risk since its disclosure in its Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

Item 4. Controls and Procedures

The company's management, with the participation of the company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on this evaluation, the company's Chief Executive Officer and Chief Financial Officer concluded that, as of the end of such period, the company's disclosure controls and procedures are

effective. Such evaluation did not identify any change in the company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter to which this report relates that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

Part II - OTHER INFORMATION

Item 1. Legal Proceedings

Information with respect to litigation is set forth in Note (i) of the Notes to Consolidated Financial Statements, and such information is incorporated herein by reference.

Item 1A. Risk Factors

There have been no significant changes to the Factors that may affect future results in Management's Discussion and Analysis of Financial Condition and Results of Operations which is included in the company's Annual Report on Form 10-K for the year ended December 31, 2015.

CAUTIONARY STATEMENT PURSUANT TO THE U.S. PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Risks and uncertainties that could cause the company's future results to differ materially from those expressed in forward-looking statements include:

the company's ability to effectively anticipate and respond to volatility and rapid technological innovation in its industry;

the company's ability to improve margins in its services business;

the company's ability to sell new products while maintaining its installed base in its technology business;

the company's ability to access financing markets to refinance its outstanding debt;

the company's ability to realize anticipated cost savings and to successfully implement its cost reduction initiatives to drive efficiencies across all of its operations;

the company's significant pension obligations and requirements to make significant cash contributions to its defined benefit pension plans;

the company's ability to attract, motivate and retain experienced and knowledgeable personnel in key positions;

the risks of doing business internationally when a significant portion of the company's revenue is derived from international operations;

the potential adverse effects of aggressive competition in the information services and technology marketplace;

the company's ability to retain significant clients;

the company's contracts may not be as profitable as expected or provide the expected level of revenues;

cybersecurity breaches could result in significant costs and could harm the company's business and reputation;

a significant disruption in the company's IT systems could adversely affect the company's business and reputation;

the company may face damage to its reputation or legal liability if its clients are not satisfied with the company's services or products;

the performance and capabilities of third parties with whom the company has commercial relationships;

the adverse effects of global economic conditions, acts of war, terrorism or natural disasters;

contracts with U.S. governmental agencies may subject the company to audits, criminal penalties, sanctions and other expenses and fines;

the potential for intellectual property infringement claims to be asserted against the company or its clients;

the possibility that pending litigation could affect the company's results of operations or cash flow; and

the business and financial risk in implementing future dispositions or acquisitions.

Other factors discussed in this report, although not listed here, also could materially affect the company's future results.

Item 6. Exhibits

(a) Exhibits

See Exhibit Index

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNISYS CORPORATION

Date: April 29, 2016

By: /s/ Janet Brutschea Haugen
Janet Brutschea Haugen
Senior Vice President and
Chief Financial Officer
(Principal Financial Officer)

By: /s/ Michael M. Thomson
Michael M. Thomson
Vice President and
Corporate Controller
(Principal Accounting Officer)

EXHIBIT INDEX

| Exhibit | |
|--------------|---|
| Number | Description |
| 3.1 | Restated Certificate of Incorporation of Unisys Corporation (incorporated by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K filed on April 30, 2010) |
| 3.2 | Certificate of Amendment to Restated Certificate of Incorporation of Unisys Corporation (incorporated by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K filed on April 28, 2011) |
| 3.3 | Bylaws of Unisys Corporation, as amended through April 30, 2015 (incorporated by reference to Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q filed on April 30, 2015) |
| 10.1 | Unisys Corporation 2016 Long-Term Incentive and Equity Compensation Plan |
| 10.2 | Form of Performance Cash Award Agreement |
| 12 | Statement of Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends |
| 31.1 | Certification of Peter A. Altabef required by Rule 13a-14(a) or Rule 15d-14(a) |
| 31.2 | Certification of Janet Brutschea Haugen required by Rule 13a-14(a) or Rule 15d-14(a) |
| 32.1 | Certification of Peter A. Altabef required by Rule 13a-14(b) or Rule 15d-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 |
| 32.2 | Certification of Janet Brutschea Haugen required by Rule 13a-14(b) or Rule 15d-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 |
| 101.INSXBRL | Instance Document |
| 101.SCHXBRL | Taxonomy Extension Schema Document |
| 101.CALXBRL | Taxonomy Extension Calculation Linkbase Document |
| 101.LABXBRL | Taxonomy Extension Labels Linkbase Document |
| 101.PREXBRL | Taxonomy Extension Presentation Linkbase Document |
| 101.DEF XBRL | Taxonomy Extension Definition Linkbase Document |