

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 1.
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