

UNISYS CORP
Form 10-Q
November 09, 2018

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 September 30, 2018

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 38-0387840
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

801 Lakeview Drive, Suite 100 19422
Blue Bell, Pennsylvania
(Address of principal executive offices) (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 every Interactive Data File required to be submitted 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 such files). YES NO

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

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

Number of shares of Common Stock outstanding as of September 30, 2018: 51,024,602.

UNISYS CORPORATION
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Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

UNISYS CORPORATION

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(Millions, except per share data)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|--|-----------|------------------------------------|------------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenue | | | | |
| Services | \$605.6 | \$575.5 | \$1,760.8 | \$1,735.6 |
| Technology | 82.7 | 90.8 | 303.3 | 261.4 |
| | 688.3 | 666.3 | 2,064.1 | 1,997.0 |
| Costs and expenses | | | | |
| Cost of revenue: | | | | |
| Services | 504.9 | 522.5 * | 1,460.0 | 1,519.7 * |
| Technology | 29.6 | 40.2 * | 96.2 | 116.4 * |
| | 534.5 | 562.7 * | 1,556.2 | 1,636.1 * |
| Selling, general and administrative | 90.9 | 97.8 * | 274.5 | 314.2 * |
| Research and development | 7.1 | 8.7 * | 21.8 | 31.3 * |
| | 632.5 | 669.2 * | 1,852.5 | 1,981.6 * |
| Operating income (loss) | 55.8 | (2.9)* | 211.6 | 15.4 * |
| Interest expense | 15.9 | 16.4 | 48.2 | 36.4 |
| Other income (expense), net | (17.7) | (21.1)* | (58.3) | (78.5)* |
| Income (loss) before income taxes | 22.2 | (40.4) | 105.1 | (99.5) |
| Provision for income taxes | 15.2 | 12.5 | 50.4 | 21.6 |
| Consolidated net income (loss) | 7.0 | (52.9) | 54.7 | (121.1) |
| Net income (loss) attributable to noncontrolling interests | 0.9 | (11.8) | 4.2 | (5.3) |
| Net income (loss) attributable to Unisys Corporation | \$6.1 | \$(41.1) | \$50.5 | \$(115.8) |
| Earnings (loss) per share attributable to Unisys Corporation | | | | |
| Basic | \$0.12 | \$(0.81) | \$0.99 | \$(2.30) |
| Diluted | \$0.12 | \$(0.81) | \$0.89 | \$(2.30) |

See notes to consolidated financial statements

*Amounts were changed to conform to the current-year presentation. See Note 3.

UNISYS CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(Millions)

| | Three Months Ended September 30, 2018 | | Nine Months Ended September 30, 2017 | | |
|--|--|----------|---|-----------|---|
| Consolidated net income (loss) | \$7.0 | \$(52.9) | \$54.7 | \$(121.1) | |
| Other comprehensive income: | | | | | |
| Foreign currency translation | (8.2 |) 25.5 | (36.6 |) 99.3 | |
| Postretirement adjustments, net of tax of \$1.4 and \$4.3 in 2018 and \$(3.9) and \$(12.0) in 2017 | 39.1 | 5.2 | 118.0 | 17.2 | |
| Total other comprehensive income | 30.9 | 30.7 | 81.4 | 116.5 | |
| Comprehensive income (loss) | 37.9 | (22.2 |) 136.1 | (4.6 |) |
| Less comprehensive income (loss) attributable to noncontrolling interests | 0.8 | (12.2 |) 4.0 | (5.3 |) |
| Comprehensive income (loss) attributable to Unisys Corporation | \$37.1 | \$(10.0) | \$132.1 | \$0.7 | |
| See notes to consolidated financial statements | | | | | |

UNISYS CORPORATION
CONSOLIDATED BALANCE SHEETS (Unaudited)
(Millions)

| | September 30, 2018 | December 31, 2017 |
|--|-----------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 516.1 | \$ 733.9 |
| Accounts receivable, net | 492.2 | 503.3 |
| Contract assets | 73.3 | — |
| Inventories: | | |
| Parts and finished equipment | 12.3 | 13.6 |
| Work in process and materials | 10.7 | 12.5 |
| Prepaid expenses and other current assets | 102.6 | 126.2 |
| Total current assets | 1,207.2 | 1,389.5 |
| Properties | 857.2 | 898.8 |
| Less-Accumulated depreciation and amortization | 737.4 | 756.3 |
| Properties, net | 119.8 | 142.5 |
| Outsourcing assets, net | 202.0 | 202.3 |
| Marketable software, net | 157.2 | 138.3 |
| Prepaid postretirement assets | 155.0 | 148.3 |
| Deferred income taxes | 97.3 | 119.9 |
| Goodwill | 178.1 | 180.8 |
| Restricted cash | 17.8 | 30.2 |
| Other long-term assets | 193.6 | 190.6 |
| Total assets | \$ 2,328.0 | \$ 2,542.4 |
| Liabilities and deficit | | |
| Current liabilities: | | |
| Current maturities of long-term-debt | \$ 9.9 | \$ 10.8 |
| Accounts payable | 225.7 | 241.8 |
| Deferred revenue | 254.7 | 327.5 |
| Other accrued liabilities | 351.9 | 391.5 |
| Total current liabilities | 842.2 | 971.6 |
| Long-term debt | 640.1 | 633.9 |
| Long-term postretirement liabilities | 1,814.0 | 2,004.4 |
| Long-term deferred revenue | 167.4 | 159.0 |
| Other long-term liabilities | 68.1 | 100.0 |
| Commitments and contingencies | | |
| Deficit: | | |
| Common stock, shares issued: | | |
| 2018; 54.2, 2017; 53.4 | 0.5 | 0.5 |
| Accumulated deficit | (1,725.3 |) (1,963.1) |
| Treasury stock, shares at cost: | | |
| 2018; 3.1, 2017; 2.9 | (104.9 |) (102.7) |
| Paid-in capital | 4,536.6 | 4,526.4 |
| Accumulated other comprehensive loss | (3,942.9 |) (3,815.8) |
| Total Unisys stockholders' deficit | (1,236.0 |) (1,354.7) |
| Noncontrolling interests | 32.2 | 28.2 |

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| | | | | |
|--|------------|---|------------|---|
| Total deficit | (1,203.8 |) | (1,326.5 |) |
| Total liabilities and deficit | \$ 2,328.0 | | \$ 2,542.4 | |
| See notes to consolidated financial statements | | | | |

UNISYS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(Millions)

| | Nine Months Ended September 30, | |
|--|---------------------------------------|------------|
| | 2018 | 2017 |
| Cash flows from operating activities | | |
| Consolidated net income (loss) | \$54.7 | \$(121.1) |
| Adjustments to reconcile consolidated net income (loss) to net cash used for operating activities: | | |
| Foreign currency transaction losses (gains) | 1.1 | (0.5) |
| Non-cash interest expense | 7.8 | 6.9 |
| Loss on debt extinguishment | — | 1.5 |
| Employee stock compensation | 10.0 | 8.6 |
| Depreciation and amortization of properties | 31.2 | 29.6 |
| Depreciation and amortization of outsourcing assets | 48.7 | 39.3 |
| Amortization of marketable software | 42.8 | 47.1 |
| Other non-cash operating activities | (2.6) | 3.3 |
| Loss on disposal of capital assets | 0.6 | 4.5 |
| Gain on sale of properties | (7.3) | — |
| Postretirement contributions | (124.5) | (119.2)* |
| Postretirement expense | 58.2 | 74.5 * |
| Decrease in deferred income taxes, net | 9.3 | 2.3 |
| Changes in operating assets and liabilities: | | |
| Receivables, net | (69.3) | 3.1 |
| Inventories | (1.3) | (2.6) |
| Accounts payable and other accrued liabilities | (144.1) | (15.3) |
| Other liabilities | (1.5) | (18.5)* |
| Other assets | 8.8 | 20.2 |
| Net cash used for operating activities | (77.4) | (36.3) |
| Cash flows from investing activities | | |
| Proceeds from investments | 2,889.3 | 3,663.5 |
| Purchases of investments | (2,892.4) | (3,632.8) |
| Investment in marketable software | (61.7) | (46.6) |
| Capital additions of properties | (25.0) | (21.8) |
| Capital additions of outsourcing assets | (54.4) | (60.1) |
| Net proceeds from sale of properties | 19.2 | — |
| Other | (0.9) | (0.8) |
| Net cash used for investing activities | (125.9) | (98.6) |
| Cash flows from financing activities | | |
| Proceeds from issuance of long-term debt | — | 445.0 |
| Issuance costs relating to long-term debt | — | (12.1) |
| Payments of long-term debt | (2.0) | (98.4) |
| Financing fees | (0.2) | — |
| Other | (2.2) | 0.2 |
| Net cash (used for) provided by financing activities | (4.4) | 334.7 |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | (22.5) | 19.1 |

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| | | |
|---|----------|---------|
| (Decrease) increase in cash, cash equivalents and restricted cash | (230.2) | 218.9 |
| Cash, cash equivalents and restricted cash, beginning of period | 764.1 | 401.1 |
| Cash, cash equivalents and restricted cash, end of period | \$533.9 | \$620.0 |

See notes to consolidated financial statements

*Amounts were changed to conform to the current-year presentation. See Note 3.

UNISYS CORPORATION
CONSOLIDATED STATEMENTS OF DEFICIT (Unaudited)
(Millions)

| | Unisys Corporation | | | | | | | |
|--|--------------------|--------------------------|------------------------|---------------------|------------------------|-----------------|--------------------------------------|---------------------------|
| | Total | Total Unisys Corporation | Common Stock Par Value | Accumulated Deficit | Treasury Stock At Cost | Paid-in Capital | Accumulated Other Comprehensive Loss | Non-controlling Interests |
| Balance at January 1, 2018 | \$(1,326.5) | \$(1,354.7) | \$ 0.5 | \$(1,963.1) | \$(102.7) | \$4,526.4 | \$(3,815.8) | \$ 28.2 |
| Cumulative effect adjustment - ASU No. 2014-09 | (21.4) | (21.4) | | (21.4) | | | | |
| Consolidated net income | 41.7 | 40.6 | | 40.6 | | | | 1.1 |
| Stock-based compensation | 1.5 | 1.5 | | | (2.1) | 3.6 | | |
| Translation adjustments | (5.1) | (5.9) | | | | | (5.9) | 0.8 |
| Postretirement plans | 39.0 | 38.6 | | | | | 38.6 | 0.4 |
| Balance at March 31, 2018 | \$(1,270.8) | \$(1,301.3) | \$ 0.5 | \$(1,943.9) | \$(104.8) | \$4,530.0 | \$(3,783.1) | \$ 30.5 |
| Consolidated net income | 6.0 | 3.8 | | 3.8 | | | | 2.2 |
| Stock-based compensation | 4.1 | 4.1 | | | | 4.1 | | |
| Translation adjustments | (23.3) | (21.6) | | | | | (21.6) | (1.7) |
| Postretirement plans | 39.9 | 39.5 | | | | | 39.5 | 0.4 |
| Balance at June 30, 2018 | \$(1,244.1) | \$(1,275.5) | \$ 0.5 | \$(1,940.1) | \$(104.8) | \$4,534.1 | \$(3,765.2) | \$ 31.4 |
| Reclassification pursuant to ASU No. 2018-02 | — | — | | 208.7 | | | (208.7) | |
| Consolidated net income | 7.0 | 6.1 | | 6.1 | | | | 0.9 |
| Stock-based compensation | 2.4 | 2.4 | | | (0.1) | 2.5 | | |
| Translation adjustments | (8.2) | (7.8) | | | | | (7.8) | (0.4) |
| Postretirement plans | 39.1 | 38.8 | | | | | 38.8 | 0.3 |
| Balance at September 30, 2018 | \$(1,203.8) | \$(1,236.0) | \$ 0.5 | \$(1,725.3) | \$(104.9) | \$4,536.6 | \$(3,942.9) | \$ 32.2 |

| | Unisys Corporation | | | | | | | |
|--|--------------------|--------------------------|------------------------|---------------------|------------------------|-----------------|--------------------------------------|---------------------------|
| | Total | Total Unisys Corporation | Common Stock Par Value | Accumulated Deficit | Treasury Stock At Cost | Paid-in Capital | Accumulated Other Comprehensive Loss | Non-controlling Interests |
| Balance at January 1, 2017 | \$(1,647.4) | \$(1,631.0) | \$ 0.5 | \$(1,893.4) | \$(100.5) | \$4,515.2 | \$(4,152.8) | \$(16.4) |
| Cumulative effect adjustment - ASU No. 2016-16 | (4.4) | (4.4) | | (4.4) | | | | |
| | (29.7) | (32.7) | | (32.7) | | | | 3.0 |

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| | | | | | | | | | | | |
|--------------------------------|-------------|-------------|--------|------------|---|-----------|-----------|------------|---|---------|---|
| Consolidated net income (loss) | | | | | | | | | | | |
| Stock-based compensation | 1.3 | 1.3 | | (2.0 |) | 3.3 | | | | | |
| Translation adjustments | 31.1 | 29.8 | | | | 29.8 | | 1.3 | | | |
| Postretirement plans | 22.4 | 23.5 | | | | 23.5 | | (1.1 |) | | |
| Balance at March 31, 2017 | \$(1,626.7) | \$(1,613.5) | \$ 0.5 | \$(1,930.5 |) | \$(102.5) | \$4,518.5 | \$(4,099.5 |) | \$(13.2 |) |
| Consolidated net income (loss) | (38.5 |) | (42.0 |) | | (42.0 |) | | | 3.5 | |
| Stock-based compensation | 2.8 | 2.8 | | (0.2 |) | 3.0 | | | | | |
| Translation adjustments | 42.7 | 39.3 | | | | 39.3 | | 3.4 | | | |
| Postretirement plans | (10.4 |) | (7.2 |) | | (7.2 |) | (3.2 |) | | |
| Balance at June 30, 2017 | \$(1,630.1) | \$(1,620.6) | \$ 0.5 | \$(1,972.5 |) | \$(102.7) | \$4,521.5 | \$(4,067.4 |) | \$(9.5 |) |
| Consolidated net loss | (52.9 |) | (41.1 |) | | (41.1 |) | | | (11.8 |) |
| Stock-based compensation | 2.4 | 2.4 | | | | 2.4 | | | | | |
| Translation adjustments | 25.5 | 23.3 | | | | 23.3 | | 2.2 | | | |
| Postretirement plans | 5.2 | 7.8 | | | | 7.8 | | (2.6 |) | | |
| Balance at September 30, 2017 | \$(1,649.9) | \$(1,628.2) | \$ 0.5 | \$(2,013.6 |) | \$(102.7) | \$4,523.9 | \$(4,036.3 |) | \$(21.7 |) |

UNISYS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Dollars in millions, except share and per share amounts)

Note 1 - Basis of Presentation

The accompanying consolidated financial statements and footnotes of Unisys Corporation have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP). The financial statements and footnotes are unaudited. In the opinion of management, the financial information furnished herein reflects all adjustments necessary for a fair presentation of the results of operations, comprehensive income, financial position, cash flows and deficit 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 GAAP 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, contract assets, inventories, outsourcing assets, marketable software, goodwill and other long-lived assets, legal contingencies, indemnifications, 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 Consolidated Financial Statements in the company's Annual Report on Form 10-K for the year ended December 31, 2017 (2017 Form 10-K) filed with the Securities and Exchange Commission. Such Annual Report also contains a discussion of the company's critical accounting policies and estimates. The company believes that these critical accounting policies and estimates affect its more significant estimates and judgments used in the preparation of the company's consolidated financial statements. As described in Note 3, effective January 1, 2018 the company adopted the requirements of Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606) using the modified retrospective method. The company's updated accounting policy on revenue recognition is described in Note 2 and in "Critical accounting policies and estimates update" in Item 2 of this Form 10-Q.

Note 2 - Summary of Significant Accounting Policies

Revenue recognition

Revenue is recognized at an amount that reflects the consideration to which the company expects to be entitled in exchange for transferring goods and services to a customer. The company determines revenue recognition using the following five steps: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the company satisfies a performance obligation.

Revenue excludes taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected by the company from a customer (e.g., sales, use and value-added taxes). Revenue includes payments for shipping and handling activities.

At contract inception, the company assesses the goods and services promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer either: (1) a good or service (or a bundle of goods or services) that is distinct or (2) a series of distinct goods or services that are substantially the same

and that have the same pattern of transfer to the customer. The company recognizes revenue only when it satisfies a performance obligation by transferring a promised good or service to a customer.

The company must apply its judgment to determine the timing of the satisfaction of performance obligations as well as the transaction price and the amounts allocated to performance obligations including estimating variable consideration, adjusting

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the consideration for the effects of the time value of money and assessing whether an estimate of variable consideration is constrained.

Revenue from hardware sales is recognized upon the transfer of control to a customer, which is defined as an entity's ability to direct the use of and obtain substantially all of the remaining benefits of an asset.

Revenue from software licenses is recognized at the inception of either the initial license term or the inception of an extension or renewal to the license term.

Revenue for operating leases is recognized on a monthly basis over the term of the lease and for sales-type leases at the inception of the lease term.

Revenue from equipment and software maintenance and post-contract support is recognized on a straight-line basis as earned over the terms of the respective contracts. Cost related to such contracts is recognized as incurred.

Revenue and profit under systems integration contracts are recognized over time as the company transfers control of goods or services. The company measures its progress toward satisfaction of its performance obligations using the cost-to-cost method, or when services have been performed, depending on the nature of the project. For contracts accounted for using the cost-to-cost method, revenue and profit recognized in any given accounting period are based on estimates of total projected contract costs. The estimates are continually reevaluated and revised, when necessary, throughout the life of a contract. Any adjustments to revenue and profit resulting from changes in estimates are accounted for in the period of the change in estimate. When estimates indicate that a loss will be incurred on a contract upon completion, a provision for the expected loss is recorded in the period in which the loss becomes evident.

Revenue from time and materials service contracts and outsourcing contracts is recognized as the services are provided using either an objective measure of output or on a straight-line basis over the term of the contract.

The company also enters into multiple-element arrangements, which may include any combination of hardware, software or services. For example, a client may purchase an enterprise server that includes operating system software. In addition, the arrangement may include post-contract support for the software and a contract for post-warranty maintenance for service of the hardware. These arrangements consist of multiple performance obligations, with control over hardware and software transferred in one reporting period and the software support and hardware maintenance services performed across multiple reporting periods. In another example, the company may provide desktop managed services to a client on a long-term multiple-year basis and periodically sell hardware and license software products to the client. The services are provided on a continuous basis across multiple reporting periods and control over the hardware and software products occurs in one reporting period. To the extent that a performance obligation in a multiple-deliverable arrangement is subject to specific guidance, that performance obligation is accounted for in accordance with such specific guidance. An example of such an arrangement may include leased assets which are subject to specific leasing accounting guidance.

In multiple-element arrangements, the company allocates the total transaction price to be earned under the arrangement among the various performance obligations in proportion to their standalone selling prices (relative standalone selling price basis). The standalone selling price for a performance obligation is the price at which the company would sell a promised good or service separately to a customer.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Many of the company's contracts have a single performance obligation as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts and, therefore, not distinct. For contracts with multiple performance obligations, the company allocates the contract's transaction price to each performance obligation using its best estimate of the standalone selling price of each distinct good or service in the contract. The primary methods used to estimate standalone selling price are as follows: (1) the expected cost plus margin approach, under which the company forecasts its expected costs of satisfying a performance obligation and then adds an appropriate margin for that distinct good or service and (2) the percent discount off of list price approach.

In the Services segment, substantially all of the company's performance obligations are satisfied over time as work progresses and therefore substantially all of the revenue in this segment is recognized over time. The company generally receives payment for these contracts over time as the performance obligations are satisfied.

In the Technology segment, substantially all of the company's goods and services are transferred to customers at a single point in time. Revenue on these contracts is recognized when control over the product is transferred to the customer or a software license term begins. The company generally receives payment for these contracts upon signature or within 30 to 60 days.

At September 30, 2018, the company had approximately \$1.4 billion of remaining performance obligations of which approximately 45% is estimated to be recognized as revenue by the end of 2019. The company does not disclose the value of

unsatisfied performance obligations for (1) contracts with an original expected length of one year or less and (2) contracts for which the company recognizes revenue at the amount to which it has the right to invoice for services performed.

The company discloses disaggregation of its customer revenue by geographic areas and by classes of similar products and services, by segment (see Note 16).

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled receivables, contract assets and deferred revenue (contract liabilities). The disclosure of contract assets is a new requirement due to the adoption of Topic 606. At December 31, 2017, contract assets were included in accounts receivable, net on the company's Consolidated Balance Sheet. At September 30, 2018, \$5.6 million of long-term contract assets were included in other long-term assets on the company's Consolidated Balance Sheet.

Significant changes during the three and nine months ended September 30, 2018 in the above contract asset and liability balances were as follows: revenue of \$64.6 million and \$255.5 million, respectively, was recognized that was included in deferred revenue at December 31, 2017.

The company's incremental direct costs of obtaining a contract consist of sales commissions which are deferred and amortized ratably over the initial contract life. These costs are classified as current or noncurrent based on the timing of when the company expects to recognize the expense. The current and noncurrent portions of deferred commissions are included in prepaid expenses and other current assets and in other long-term assets, respectively, in the company's Consolidated Balance Sheets. At September 30, 2018 and December 31, 2017, the company had \$11.8 million and \$11.0 million, respectively, of deferred commissions. For the three and nine months ended September 30, 2018, \$1.8 million and \$5.2 million, respectively, of amortization expense related to deferred commissions was recorded in selling, general and administrative expense in the company's Consolidated Statement of Income.

Costs to fulfill a contract, which are incurred upon initiation of certain services contracts and are related to initial customer setup, are included in outsourcing assets, net in the company's Consolidated Balance Sheet. The amount of such cost at September 30, 2018 and December 31, 2017 was \$77.2 million and \$76.0 million, respectively. These costs are amortized over the initial contract life and reported in Services cost of sales. During the three and nine months ended September 30, 2018, \$4.2 million and \$14.9 million, respectively, was amortized. Recoverability of these costs are subject to various business risks. Quarterly, the company compares the carrying value of these assets with the undiscounted future cash flows expected to be generated by them to determine if there is impairment. If impaired, these assets are reduced to an estimated fair value on a discounted cash flow basis. The company prepares its cash flow estimates based on assumptions that it believes to be reasonable but are also inherently uncertain. Actual cash flows could differ from these estimates.

Note 3 - Accounting Standards

Accounting Pronouncements Adopted

Effective January 1, 2018, the company adopted ASU No. 2017-07 Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost issued by the Financial Accounting Standards Board (FASB) which requires employers to present the service cost component of net periodic benefit cost in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period. The other components of net periodic benefit cost are presented separately from the line items that include service cost and outside the subtotal of operating income. ASU No. 2017-07 allows a practical expedient that permits an entity to use amounts disclosed in its pension and other postretirement benefit plan footnote for the prior comparative periods as the estimation basis for applying the retrospective presentation requirements. The new guidance has been applied on a retrospective basis, using the practical expedient, whereby prior-period financial statements have been adjusted to reflect the adoption of the new guidance, as required by the FASB. For the three and nine months September 30, 2017, \$24.1 million and \$69.9 million, respectively, of net periodic benefit cost, other than service costs, was reclassified from cost of revenue, selling, general and administrative expense and research and development expense to other income (expense), net in the company's consolidated results of operations (see Note 5).

Effective January 1, 2018, the company adopted ASU No. 2014-09 Revenue from Contracts with Customers (Topic 606) issued by the FASB which establishes 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. Topic 606 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. Topic 606 requires the company to recognize revenue for certain transactions, including extended payment term software licenses and short-term software licenses, sooner than the prior rules would allow and requires the company to recognize software license extensions and renewals (the most significant impact upon adoption), later than the prior rules would allow. Topic 606 also requires significantly expanded disclosure requirements. The company has adopted the standard using the modified

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retrospective method and applied the standard to all contracts that were not completed as of January 1, 2018. The cumulative effect of the adoption was recognized as an increase in the company's accumulated deficit of \$21.4 million on January 1, 2018.

The following table summarizes the effects of adopting ASU No. 2014-09 on the company's consolidated financial statements as of and for the three and nine months ended September 30, 2018.

| | As Reported | Adjustments | Balances Without Adoption of Topic 606 |
|--|----------------|-------------|--|
| For the three months ended September 30, 2018 | | | |
| Statement of Income | | | |
| Revenue | | | |
| Services | \$ 605.6 | \$ (3.1) | \$ 602.5 |
| Technology | 82.7 | (8.1) | 74.6 |
| Costs and expenses | | | |
| Cost of revenue | | | |
| Services | 504.9 | (0.9) | 504.0 |
| Technology | 29.6 | 0.2 | 29.8 |
| Selling, general and administrative expenses | 90.9 | 0.3 | 91.2 |
| Operating income | 55.8 | (10.7) | 45.1 |
| Income before income taxes | 22.2 | (10.7) | 11.5 |
| Provision for income taxes | 15.2 | (5.3) | 9.9 |
| Consolidated net income | 7.0 | (5.4) | 1.6 |
| Net income attributable to Unisys Corporation | 6.1 | (5.4) | 0.7 |
| For the nine months ended September 30, 2018 | | | |
| Statement of Income | | | |
| Revenue | | | |
| Services | \$ 1,760.8 | \$ (5.6) | \$ 1,755.2 |
| Technology | 303.3 | (101.1) | 202.2 |
| Costs and expenses | | | |
| Cost of revenue | | | |
| Services | 1,460.0 | (2.2) | 1,457.8 |
| Technology | 96.2 | (0.5) | 95.7 |
| Selling, general and administrative expenses | 274.5 | 0.7 | 275.2 |
| Operating income | 211.6 | (104.7) | 106.9 |
| Income before income taxes | 105.1 | (104.7) | 0.4 |
| Provision for income taxes | 50.4 | (14.7) | 35.7 |
| Consolidated net income (loss) | 54.7 | (90.0) | (35.3) |
| Net income (loss) attributable to Unisys Corporation | 50.5 | (90.0) | (39.5) |
| As of September 30, 2018 | | | |
| Balance Sheet | | | |
| Assets | | | |
| Accounts receivable, net current | \$ 492.2 | \$ 63.5 | \$ 555.7 |
| Contract assets | 73.3 | (73.3) | — |
| Inventories | 23.0 | 4.6 | 27.6 |

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| | | | |
|---|-------|-----|-------|
| Prepaid expenses and other current assets | 102.6 | 0.9 | 103.5 |
| Deferred income taxes - long-term | 97.3 | 1.7 | 99.0 |

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| | | | |
|-------------------------------------|----------|-------|----------|
| Other long-term assets | 193.6 | Ø22.5 | 171.1 |
| Total assets | 2,328.0 | Ø25.1 | 2,302.9 |
| Liabilities | | | |
| Deferred revenue - current | 254.7 | 46.5 | 301.2 |
| Other accrued liabilities - current | 351.9 | Ø16.8 | 335.1 |
| Long-term deferred revenue | 167.4 | 8.4 | 175.8 |
| Other long-term liabilities | 68.1 | 5.5 | 73.6 |
| Equity | | | |
| Accumulated deficit | Ø1,725.3 | Ø68.7 | Ø1,794.0 |
| Total liabilities and deficit | 2,328.0 | Ø25.1 | 2,302.9 |

Included in the Technology revenue adjustments for the nine months ended September 30, 2018 in the above table is \$53.0 million of revenue from software license extensions and renewals which were contracted for in the fourth quarter of 2017 and properly recorded as revenue at that time under the revenue recognition rules then in effect (Topic 605). Upon adoption of the new revenue recognition rules (Topic 606) on January 1, 2018, and since the company adopted Topic 606 under the modified retrospective method whereby prior periods were not restated, the company was required to include this \$53.0 million in the cumulative effect adjustment to retained earnings on January 1, 2018. Topic 606 requires revenue related to software license renewals or extensions to be recorded when the new license term begins, which in the case of the \$53.0 million is January 1, 2018. The company has excluded revenue and related profit for these software licenses to reflect the balances without the adoption of Topic 606 in the above table. This is a one-time adjustment and it will not reoccur in future periods. There are additional adjustments being made in the above table, but they do not represent previously recorded revenue. Those additional adjustments represent other differences between Topic 605 and Topic 606, principally extended payment term software licenses and short-term software licenses both of which are recorded at the inception of the license term under Topic 606, but were required to be recognized ratably over the software license term under Topic 605. An additional adjustment is that under Topic 605, a company was not able to recognize software license revenue until the last software license is delivered due to the lack of vendor specific objective evidence, whereas under Topic 606, a company is required to use the standalone selling price for all performance obligations. This resulted in software license revenue being recognized sooner under Topic 606 compared with Topic 605.

Effective July 1, 2018, the company adopted ASU No. 2018-02 Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income by applying the changes in the period of adoption. The new guidance permits companies to reclassify stranded tax effects in accumulated other comprehensive income (AOCI) caused by the U.S. Tax Cuts and Jobs Act of 2017 (TCJA) to retained earnings. Upon enactment of the TCJA, the U.S. corporate tax rate was reduced from 35% to 21% and the Company's U.S. deferred tax balances and related valuation allowances were remeasured to the lower enacted U.S. corporate tax rate. In accordance with its accounting policy, the company releases the income tax effects of deferred tax balances that have a valuation allowance from AOCI once the reason the tax effects were established cease to exist (e.g. postretirement plan is liquidated). The new guidance allows for the reclassification of stranded tax effects as a result of the change in tax rates from the TCJA to be recorded upon adoption of the guidance rather than at cessation date. On July 1, 2018, \$208.7 million related to postretirement plans was reclassified from AOCI to retained earnings. In September 2018, the company adopted SEC Release No. 33-10532, Disclosure Update and Simplification which amends certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. In addition, the rule expands the disclosure requirements on changes in stockholders' equity for interim periods. Under this rule, a reconciliation of changes in stockholders' equity is required for each period for which an income statement is presented. The company applied the new disclosure requirements retrospectively to all periods presented.

Accounting Pronouncements Not Yet Adopted

In August 2018, the FASB issued ASU No. 2018-15, Intangibles - Goodwill and Other - Internal - Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract which clarifies the accounting for implementation costs incurred in a cloud computing

arrangement that is a service contract. This update is effective for fiscal years ending after December 15, 2019, with earlier adoption permitted. The new guidance can be applied retrospectively or prospectively to all implementation costs incurred after the date of adoption. The company is currently assessing when it will choose to adopt, and is currently evaluating the impact of the adoption on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-14, Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans which adds,

removes and clarifies disclosure requirements related to defined benefit pension and other postretirement plans. This update is effective for fiscal years ending after December 15, 2020, with earlier adoption permitted. The company plans to adopt the guidance for the fiscal year ending on December 31, 2018 and will apply the changes on a retrospective basis for all periods presented. There will be no overall impact on the company's consolidated financial position.

In June 2016, the FASB issued ASU No. 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments which introduces a new model for recognizing credit losses on financial instruments based on an estimate of current expected losses. This includes trade and other receivables, loans and other financial instruments. This update is effective for annual periods beginning after December 15, 2019, with earlier adoption permitted. The company is currently assessing when it will choose to adopt, and is currently evaluating the impact of the adoption on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02 Leases (Topic 842), which is intended to improve financial reporting about leasing transactions. The ASU requires 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 also requires disclosures to help investors and other financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU No. 2018-11, Leases (Topic 842), Targeted Improvements, which provides an alternative transition method permitting the recognition of a cumulative-effect adjustment to retained earnings on the date of adoption rather than restating comparative periods in transition as originally prescribed by Topic 842. The standard is effective for annual reporting periods beginning after December 15, 2018, which for the company is January 1, 2019. The company will adopt the new guidance utilizing the alternative transition method, and is currently in the process of reviewing lease contracts, implementing new lease accounting software, establishing new processes and internal controls and evaluating the impact of certain accounting policy elections. Until this effort is completed, the company cannot fully determine the impact of adopting the new guidance. The adoption is expected to have a material impact on the consolidated financial position, and is not expected to have a material impact on the consolidated results of operations and cash flows.

Note 4 - Cost-Reduction Actions

There were no additional cost-reduction charges recorded during 2018; however, a benefit of \$0.9 million and \$3.1 million, respectively, was recorded for changes in estimates during the three and nine months ended September 30, 2018.

During the three months ended September 30, 2017, the company recognized cost-reduction charges and other costs of \$46.1 million. Charges related to work-force reductions were \$49.5 million, principally related to severance costs, and were comprised of: (a) a charge of \$2.6 million for 93 employees and \$(0.4) million for changes in estimates in the U.S. and (b) a charge of \$48.3 million for 1,459 employees and \$(1.0) million for changes in estimates outside the U.S. In addition, the company recorded charges of \$(3.4) million comprised of \$0.6 million for idle leased facilities costs, \$0.1 million for contract amendment and termination costs, \$0.9 million for professional fees and other expenses related to the cost-reduction effort, \$0.7 million for net asset sales and write-offs and \$(5.7) million for net foreign currency gains related to exiting foreign countries. The charges were recorded in the following statement of income classifications: cost of revenue – services, \$42.8 million; selling, general and administrative expenses, \$7.9 million; research and development expenses, \$1.1 million; and other income (expense), net, \$(5.7) million.

During the nine months ended September 30, 2017, the company recognized cost-reduction and other costs of \$99.0 million. Charges related to work-force reductions were \$86.2 million, principally related to severance costs, and were comprised of: (a) a charge of \$7.9 million for 507 employees and \$(0.6) million for changes in estimates in the U.S. and (b) a charge of \$72.3 million for 1,835 employees, \$8.2 million for additional benefits provided in 2017 and \$(1.6) million for changes in estimates outside the U.S. In addition, the company recorded charges of \$12.8 million comprised of \$3.5 million for idle leased facilities costs, \$5.3 million for contract amendment and termination costs, \$3.9 million for professional fees and other expenses related to the cost-reduction effort, \$0.7 million for net asset sales and write-offs and \$(0.6) million for net foreign currency gains related to exiting foreign countries. The charges were recorded in the following statement of income classifications: cost of revenue – services, \$70.4 million;

cost of revenue - technology, \$0.4 million; selling, general and administrative expenses, \$27.4 million; research and development expenses, \$1.4 million; and other income (expense), net, \$(0.6) million.

Liabilities and expected future payments related to the company's cost-reduction actions are as follows:

| | Total | Work-Force Reductions | | Idle Leased Facilities Costs |
|---|---------|--------------------------|---------------|---------------------------------------|
| | | U.S. | International | |
| Balance at December 31, 2017 | \$117.8 | \$3.9 | \$ 109.6 | \$ 4.3 |
| Payments | (34.6) | (2.8) | (30.2) | (1.6) |
| Changes in estimates | (2.9) | (1.0) | (2.5) | 0.6 |
| Translation adjustments | (2.9) | — | (2.8) | (0.1) |
| Balance at September 30, 2018 | \$77.4 | \$0.1 | \$ 74.1 | \$ 3.2 |
| Expected future utilization on balance at September 30, 2018: | | | | |
| 2018 remaining three months | \$12.5 | \$0.1 | \$ 12.0 | \$ 0.4 |
| Beyond 2018 | \$64.9 | \$— | \$ 62.1 | \$ 2.8 |

Note 5 - Pension and Postretirement Benefits

Net periodic pension expense for the three and nine months ended September 30, 2018 and 2017 is presented below:

| | Three Months Ended September 30, 2018 | | | Three Months Ended September 30, 2017 | | |
|--|--|---------------|------------------------|--|---------------|------------------------|
| | Total | U.S. Plans | International Plans | Total | U.S. Plans | International Plans |
| Service cost ⁽ⁱ⁾ | \$0.8 | \$— | \$ 0.8 | \$1.0 | \$— | \$ 1.0 |
| Interest cost | 63.1 | 46.8 | 16.3 | 71.4 | 52.8 | 18.6 |
| Expected return on plan assets | (85.7) | (57.7) | (28.0) | (91.2) | (58.8) | (32.4) |
| Amortization of prior service benefit | (1.5) | (0.6) | (0.9) | (1.1) | (0.6) | (0.5) |
| Recognized net actuarial loss | 41.9 | 31.4 | 10.5 | 43.5 | 31.6 | 11.9 |
| Net periodic pension expense (benefit) | \$18.6 | \$19.9 | \$ (1.3) | \$23.6 | \$25.0 | \$ (1.4) |
| | Nine Months Ended September 30, 2018 | | | Nine Months Ended September 30, 2017 | | |
| | Total | U.S. Plans | International Plans | Total | U.S. Plans | International Plans |
| Service cost ⁽ⁱ⁾ | \$2.4 | \$— | \$ 2.4 | \$4.2 | \$— | \$ 4.2 |
| Interest cost | 191.1 | 140.0 | 51.1 | 212.2 | 158.5 | 53.7 |
| Expected return on plan assets | (259.9) | (172.9) | (87.0) | (270.7) | (176.4) | (94.3) |
| Amortization of prior service benefit | (4.7) | (1.9) | (2.8) | (3.6) | (1.9) | (1.7) |
| Recognized net actuarial loss | 126.0 | 93.8 | 32.2 | 132.5 | 94.8 | 37.7 |
| Curtailement gain | — | — | — | (5.2) | — | (5.2) |
| Net periodic pension expense (benefit) | \$54.9 | \$59.0 | \$ (4.1) | \$69.4 | \$75.0 | \$ (5.6) |

Service cost is reported in cost of revenue - services and selling, general and administrative expenses. All other ⁽ⁱ⁾ components of net periodic pension expense are reported in other income (expense), net in the Consolidated Statements of Income.

In 2018, the company expects to make cash contributions of approximately \$130.3 million to its worldwide defined benefit pension plans, which are comprised of \$80.6 million for the company's U.S. qualified defined benefit pension plans and \$49.7 million primarily for the company's non-U.S. defined benefit pension plans. In 2017, the company made cash contributions of \$138.4 million to its worldwide defined benefit pension plans. For the nine months ended September 30, 2018 and 2017, the company made cash contributions of \$117.5 million and \$110.8 million, respectively.

Net periodic postretirement benefit expense for the three and nine months ended September 30, 2018 and 2017 is presented below:

| | Three Months Ended September 30, 2018 | | Nine Months Ended September 30, 2017 | |
|---|--|--------|---|--------|
| Service cost ⁽ⁱ⁾ | \$0.2 | \$0.2 | \$0.5 | \$0.4 |
| Interest cost | 1.1 | 1.4 | 3.5 | 4.4 |
| Expected return on assets | (0.1) | (0.1) | (0.3) | (0.3) |
| Recognized net actuarial loss | 0.4 | 0.3 | 0.9 | 0.9 |
| Amortization of prior service benefit | (0.5) | (0.1) | (1.3) | (0.3) |
| Net periodic postretirement benefit expense | \$1.1 | \$1.7 | \$3.3 | \$5.1 |

Service cost is reported in selling, general and administrative expenses. All other components of net periodic ⁽ⁱ⁾ postretirement benefit expense are reported in other income (expense), net in the Consolidated Statements of Income.

The company expects to make cash contributions of approximately \$12.0 million to its postretirement benefit plan in 2018 compared to \$12.2 million in 2017. For the nine months ended September 30, 2018 and 2017, the company made cash contributions of \$7.0 million and \$8.4 million, respectively.

Note 6 - Stock Compensation

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 September 30, 2018, 2.3 million shares of unissued common stock of the company were available for granting under these plans.

As of September 30, 2018, the company has granted non-qualified stock options and restricted stock units under these plans. The company recognizes compensation cost net of a forfeiture rate in selling, general and administrative expenses, and recognizes compensation cost only for those awards expected to vest. The company estimates the forfeiture rate based on its historical experience and its expectations about future forfeitures.

During the nine months ended September 30, 2018 and 2017, the company recorded \$10.0 million and \$8.6 million of share-based compensation expense, respectively, which was comprised of \$9.9 million and \$7.8 million of restricted stock unit expense and \$0.1 million and \$0.8 million of stock option expense, respectively.

There were no grants of stock option awards during the nine months ended September 30, 2018 and 2017.

A summary of stock option activity for the nine months ended September 30, 2018 follows (shares in thousands):

| | Stock Options | Weighted- Average Exercise Price | Weighted- Average Remaining Contractual Term (years) | Aggregate Intrinsic Value |
|--|------------------|---|---|---------------------------------|
| Outstanding at December 31, 2017 | 1,758 | \$ 26.35 | | |
| Granted | — | — | | |
| Exercised | (1) | 15.66 | | |
| Forfeited and expired | (597) | 23.72 | | |
| Outstanding at September 30, 2018 | 1,160 | 27.72 | 1.42 | \$ 0.2 |
| Expected to vest at September 30, 2018 | 6 | 11.99 | 4.20 | \$ 0.1 |
| Exercisable at September 30, 2018 | 1,154 | 27.81 | 1.41 | \$ 0.2 |

Restricted stock unit awards may contain time-based units, performance-based units, total shareholder return market-based units, or a combination of these units. Each performance-based and market-based unit will vest into zero to two shares depending on the degree to which the performance or market conditions are met. Compensation expense for performance-based 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. Compensation expense for market-related awards is recognized as expense ratably over the measurement period, regardless of the actual level of achievement, provided the service requirement is met.

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A summary of restricted stock unit activity for the nine months ended September 30, 2018 follows (shares in thousands):

| | Restricted Stock Units | Weighted- Average Grant-Date Fair Value |
|-----------------------------------|------------------------------|--|
| Outstanding at December 31, 2017 | 1,688 | \$ 13.39 |
| Granted | 1,449 | 12.53 |
| Vested | (767) | 13.43 |
| Forfeited and expired | (198) | 12.57 |
| Outstanding at September 30, 2018 | 2,172 | 12.90 |

The aggregate weighted-average grant-date fair value of restricted stock units granted during the nine months ended September 30, 2018 and 2017 was \$17.9 million and \$14.3 million, respectively. The fair value of restricted stock units with time and performance conditions was determined based on the trading price of the company's common shares on the date of grant. The fair value of awards with market conditions was estimated using a Monte Carlo simulation with the following weighted-average assumptions:

| | |
|---|--|
| | Nine Months Ended September 30, 2018 |
| Weighted-average fair value of grant | \$ 15.20 |
| Risk-free interest rate ⁽ⁱ⁾ | 2.26 % |
| Expected volatility ⁽ⁱⁱ⁾ | 52.97 % |
| Expected life of restricted stock units in years ⁽ⁱⁱⁱ⁾ | 2.88 |
| Expected dividend yield | — % |

(i) Represents the continuously compounded semi-annual zero-coupon U.S. treasury rate commensurate with the remaining performance period

(ii) Based on historical volatility for the company that is commensurate with the length of the performance period

(iii) Represents the remaining life of the longest performance period

As of September 30, 2018, there was \$15.6 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 2.1 years. The aggregate weighted-average grant-date fair value of restricted stock units vested during the nine months ended September 30, 2018 and 2017 was \$10.3 million and \$7.3 million, respectively. Common stock issued upon lapse of restrictions on restricted stock units are newly issued shares. In light of its tax position, the company is currently not recognizing any tax benefits upon issuance of stock upon lapse of restrictions on restricted stock units. Tax benefits resulting from tax deductions in excess of the compensation costs recognized are classified as operating cash flows.

Note 7 - 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.

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. operations will have no provision or benefit associated with it due to such valuation allowance, except with respect to withholding taxes not

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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.

During the three months ended September 30, 2018, the company recognized a benefit of \$6.6 million due to the release of a valuation allowance on certain foreign deferred tax assets (net operating losses) as a result of the identification of an additional source of taxable income available in prior periods. In the second quarter of 2017, the company elected to receive cash refunds of a portion of its U.S. alternative minimum tax (AMT) credit carryforwards in lieu of claiming bonus depreciation as provided by Internal Revenue Code Section 168(k)(4). The decision to make this election resulted in a tax benefit of \$21.1 million in 2017.

Note 8 — Earnings Per Share

The following table shows how earnings (loss) per share attributable to Unisys Corporation was computed for the three and nine months ended September 30, 2018 and 2017 (shares in thousands):

| | Three Months Ended September 30, 2018 | | Nine Months Ended September 30, 2017 | |
|--|---------------------------------------|----------|--------------------------------------|-----------|
| Basic earnings (loss) per common share computation: | | | | |
| Net income (loss) attributable to Unisys Corporation | \$6.1 | \$(41.1) | \$50.5 | \$(115.8) |
| Weighted average shares | 51,021 | 50,471 | 50,918 | 50,388 |
| Basic earnings (loss) per common share | \$0.12 | \$(0.81) | \$0.99 | \$(2.30) |
| Diluted earnings (loss) per common share computation: | | | | |
| Net income (loss) attributable to Unisys Corporation | \$6.1 | \$(41.1) | \$50.5 | \$(115.8) |
| Add interest expense on convertible senior notes, net of tax of zero | — | — | 14.6 | — |
| Net income (loss) attributable to Unisys Corporation for diluted earnings per share | \$6.1 | \$(41.1) | \$65.1 | \$(115.8) |
| Weighted average shares | 51,021 | 50,471 | 50,918 | 50,388 |
| Plus incremental shares from assumed conversions: | | | | |
| Employee stock plans | 697 | — | 479 | — |
| Convertible senior notes | — | — | 21,868 | — |
| Adjusted weighted average shares | 51,718 | 50,471 | 73,265 | 50,388 |
| Diluted earnings (loss) per common share | \$0.12 | \$(0.81) | \$0.89 | \$(2.30) |
| Anti-dilutive weighted-average stock options and restricted stock units ⁽ⁱ⁾ | 1,136 | 2,236 | 1,274 | 2,215 |
| Anti-dilutive weighted-average common shares issuable upon conversion of the 5.50% convertible senior notes ⁽ⁱ⁾ | 21,868 | 21,868 | — | 21,868 |

⁽ⁱ⁾ Amounts represent shares excluded from the computation of diluted earnings per share, as their effect, if included, would have been anti-dilutive for the periods presented.

Note 9 - Properties

In the second quarter of 2018, the company sold a building and land located in the United Kingdom. The company received net proceeds of \$19.2 million and recorded a pretax gain of \$7.3 million which was recorded in selling, general and administrative expense in the Consolidated Statements of Income.

Note 10 - Financial Instruments and 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 September 30, 2018 and December 31, 2017, the notional amount of these contracts was \$380.0 million and \$514.0 million, respectively. 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.

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The following table summarizes the fair value of the company's foreign exchange forward contracts as of September 30, 2018 and December 31, 2017.

| Balance Sheet Location | September 30, December 31, | |
|---|----------------------------|--------|
| | 2018 | 2017 |
| Prepaid expenses and other current assets | \$ 0.7 | \$ 4.9 |
| Other accrued liabilities | 3.8 | 1.6 |
| Total fair value | \$ (3.1) | \$ 3.3 |

The following table summarizes the location and amount of gains and losses recognized on foreign exchange forward contracts for the three and nine months ended September 30, 2018 and 2017.

| Statement of Income Location | Three months ended September 30, | | Nine months ended September 30, | |
|------------------------------|----------------------------------|-------|---------------------------------|--------|
| | 2018 | 2017 | 2018 | 2017 |
| Other income (expense), net | \$(2.7) | \$5.8 | \$(9.6) | \$27.3 |

Statement of Income Location

Other income (expense), net \$(2.7) \$5.8 \$(9.6) \$27.3

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. Such financial instruments are not included in the following table that provides information about the estimated fair values of other financial instruments that are not measured at fair value in the Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017.

| | September 30, December 31, | |
|--|----------------------------|-----------------|
| | 2018 | 2017 |
| | Carrying Amount | Carrying Amount |
| | Fair Value | Fair Value |

Long-term debt:

10.75% senior secured notes due 2022 \$431.4 \$496.1 \$429.6 \$492.8

5.50% convertible senior notes due 2021 \$192.2 \$476.2 \$186.3 \$237.9

Long-term debt is carried at amortized cost and its estimated fair value is based on market prices classified as Level 2 in the fair value hierarchy.

Note 11 - Goodwill

At September 30, 2018, the amount of goodwill allocated to reporting units with negative net assets was as follows:

Business Process Outsourcing Services, \$10.4 million.

Changes in the carrying amount of goodwill by segment for the nine months ended September 30, 2018 were as follows:

| | Total | Services | Technology |
|-------------------------------|---------|----------|------------|
| Balance at December 31, 2017 | \$180.8 | \$72.1 | \$108.7 |
| Translation adjustments | (2.7) | (2.7) | — |
| Balance at September 30, 2018 | \$178.1 | \$69.4 | \$108.7 |

Note 12 - Debt

Long-term debt is comprised of the following:

| | September 30, 2018 | December 31, 2017 |
|---|-----------------------|----------------------|
| 10.75% senior secured notes due April 15, 2022 (\$440.0 million face value less unamortized discount and fees of \$8.6 million and \$10.4 million at September 30, 2018 and December 31, 2017, respectively) | \$ 431.4 | \$ 429.6 |
| 5.50% convertible senior notes due March 1, 2021 (\$213.5 million face value less unamortized discount and fees of \$21.3 million and \$27.2 million at September 30, 2018 and December 31, 2017, respectively) | 192.2 | 186.3 |
| Capital leases | 6.1 | 7.5 |
| Other debt | 20.3 | 21.3 |
| Total | 650.0 | 644.7 |
| Less – current maturities | 9.9 | 10.8 |
| Total long-term debt | \$ 640.1 | \$ 633.9 |

See Note 10 for the fair value of the notes.

Senior Secured Notes

In 2017, the company issued \$440.0 million aggregate principal amount of 10.75% Senior Secured Notes due 2022 (the “2022 Notes”). The 2022 Notes are initially fully and unconditionally guaranteed on a senior secured basis by Unisys Holding Corporation, Unisys AP Investment Company I and Unisys NPL, Inc. (together with the Company, the “Grantors”). In the future, the 2022 Notes will be guaranteed by each material domestic subsidiary and each restricted subsidiary that guarantees the secured revolving credit facility and other indebtedness of the company or another subsidiary guarantor. The 2022 Notes and the guarantees will rank equally in right of payment with all of the existing and future senior debt of the company and the subsidiary guarantors. The 2022 Notes and the guarantees will be structurally subordinated to all existing and future liabilities (including preferred stock, trade payables and pension liabilities) of the company’s subsidiaries that are not subsidiary guarantors.

The 2022 Notes pay interest semiannually on April 15 and October 15 at an annual rate of 10.75%, and will mature on April 15, 2022, unless earlier repurchased or redeemed.

The company may, at its option, redeem some or all of the 2022 Notes at any time on or after April 15, 2020 at a redemption price determined in accordance with the redemption schedule set forth in the indenture governing the 2022 Notes (the “indenture”), plus accrued and unpaid interest, if any.

Prior to April 15, 2020, the company may, at its option, redeem some or all of the 2022 Notes at any time, at a price equal to 100% of the principal amount of the 2022 Notes redeemed plus a “make-whole” premium, plus accrued and unpaid interest, if any. The company may also redeem, at its option, up to 35% of the 2022 Notes at any time prior to April 15, 2020, using the proceeds of certain equity offerings at a redemption price of 110.75% of the principal amount thereof, plus accrued and unpaid interest, if any. In addition, the company may redeem all (but not less than all) of the 2022 Notes at any time that the Collateral Coverage Ratio is less than the Required Collateral Coverage Ratio (as such terms are described below and further defined in the indenture) at a price equal to 100% of the principal amount of the 2022 Notes plus accrued and unpaid interest, if any.

The indenture contains covenants that limit the ability of the company and its restricted subsidiaries to, among other things: (i) incur additional indebtedness and guarantee indebtedness; (ii) pay dividends or make other distributions or repurchase or redeem its capital stock; (iii) prepay, redeem or repurchase certain debt; (iv) make certain prepayments in respect of pension obligations; (v) issue certain preferred stock or similar equity securities; (vi) make loans and investments (including investments by the company and subsidiary guarantors in subsidiaries that are not guarantors); (vii) sell assets; (viii) create or incur liens; (ix) enter into transactions with affiliates; (x) enter into agreements restricting its subsidiaries’ ability to pay dividends; and (xi) consolidate, merge or sell all or substantially all of its assets. These covenants are subject to several important limitations and exceptions.

The indenture also includes a covenant requiring that the company maintain a Collateral Coverage Ratio of not less than 1.50:1.00 (the "Required Collateral Coverage Ratio") as of any test date. The Collateral Coverage Ratio is based on the ratio of (A) Grantor unrestricted cash and cash equivalents plus 4.75 multiplied by of the greater of (x) Grantor EBITDA for the most recently ended four fiscal quarters and (y) (i) the average quarterly Grantor EBITDA for the most recently ended seven fiscal quarters, multiplied by (ii) four, to (B) secured indebtedness of the Grantors. The Collateral Coverage Ratio is tested quarterly.

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If the Collateral Coverage Ratio is less than the Required Collateral Coverage Ratio as of any test date, and the company has not redeemed the 2022 Notes within 90 days thereafter, this will be an event of default under the indenture.

If the company experiences certain kinds of changes of control, it must offer to purchase the 2022 Notes at 101% of the principal amount of the 2022 Notes, plus accrued and unpaid interest, if any. In addition, if the company sells assets under certain circumstances it must apply the proceeds towards an offer to repurchase the 2022 Notes at a price equal to par plus accrued and unpaid interest, if any.

The indenture also provides for events of default, which, if any of them occurs, would permit or require the principal, premium, if any, interest and any other monetary obligations on all the then outstanding 2022 Notes to be due and payable immediately.

Convertible Senior Notes

In 2016, the company issued \$213.5 million aggregate principal amount of Convertible Senior Notes due 2021 (the “2021 Notes”). The 2021 Notes, which are senior unsecured obligations, bear interest at a coupon rate of 5.50% (or 9.5% effective interest rate) per year until maturity, payable semiannually in arrears on March 1 and September 1 of each year. The 2021 Notes are not redeemable prior to maturity and are convertible into shares of the company’s common stock. The conversion rate for the 2021 Notes is 102.4249 shares of the company’s common stock per \$1,000 principal amount of the 2021 Notes (or a total amount of 21,867,716 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 2021 Notes, the company also paid \$27.3 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 2021 Notes. The capped call transactions will effectively raise the conversion premium on the 2021 Notes from approximately 22.5% to approximately 60%, which raises the initial conversion price from approximately \$9.76 per share of common stock to approximately \$12.75 per share of common stock. 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 2021 Notes.

Interest expense related to the 2021 notes for the three and nine month periods ended September 30, 2018 and 2017 was as follows:

| | Three Months Ended September 30, 2018 | | Nine Months Ended September 30, 2017 | |
|-------------------------------------|--|-------|---|--------|
| Contractual interest coupon | \$2.9 | \$2.9 | \$8.8 | \$8.8 |
| Amortization of debt discount | 1.7 | 1.6 | 4.9 | 4.5 |
| Amortization of debt issuance costs | 0.3 | 0.3 | 0.9 | 0.9 |
| Total | \$4.9 | \$4.8 | \$14.6 | \$14.2 |

Holders of the 2021 Notes have the right to convert the 2021 Notes equivalent to an initial conversion price of approximately \$9.76 per share of common stock prior to December 1, 2020, but only upon the occurrence of specified events described in the 2021 Notes indenture (the “indenture”). As certain conditions within the indenture have been met during the current quarter, the 2021 Notes’ holders have the right to convert during the quarter ending December 31, 2018.

Revolving Credit Facility

The company has a secured revolving credit facility (the “Credit Agreement”) that provides for loans and letters of credit. During the second quarter of 2018, the maximum amount available under the facility was increased from \$125.0 million to \$145.0 million (with a limit on letters of credit of \$30.0 million). The accordion feature contained in the Credit Agreement that permitted this increase allows for an increase in the amount of the facility up to \$150.0 million. Availability under the credit facility is subject to a borrowing base calculated by reference to the company’s receivables. At September 30, 2018, the company had no borrowings and \$6.4 million of letters of credit outstanding, and availability under the facility was \$103.4 million net of letters of credit issued. The Credit Agreement expires October 5, 2022, subject to a springing maturity (i) on the date that is 91 days prior to the maturity date of the 2021 Notes unless, on such date, certain conditions are met; or (ii) on the date that is 60 days prior to the maturity date of the 2022 Notes unless, by such date, such secured notes have been redeemed or refinanced.

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 the company and the subsidiary guarantors, other

than certain excluded assets, under a security agreement entered into by the company and the subsidiary guarantors in favor of JPMorgan Chase Bank, N.A., as agent for the lenders under the credit facility.

The company is required to maintain a minimum fixed charge coverage ratio if the availability under the credit facility falls below the greater of 10% of the lenders' commitments under the facility and \$15.0 million.

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 Credit Agreement includes limitations on the ability of the company and its subsidiaries to, among other things, incur other debt or liens, dispose of assets and make acquisitions, loans and investments, repurchase its equity, and prepay other debt. 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 \$50.0 million.

Note 13 - 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 matters. 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. Unisys Belgium filed its defense and counterclaim in April 2008, in the amount of approximately €18.5 million. 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 September 30, 2018, 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 \$98 million.

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 alleged 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 State contends overpayments of approximately \$68 million for the period January 2002 through July 2011 and sought data to identify the claims at issue for the remaining time period. On August 14, 2018, the Louisiana Court of Appeal for the First Circuit dismissed the case. On September 27, 2018, the Court denied the State's motion for a rehearing. On October 26, 2018, the State applied for a writ of review to the Louisiana Supreme Court.

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 September 30, 2018, it has adequate provisions for any such matters.

Note 14 - Accumulated Other Comprehensive Income

Accumulated other comprehensive income (loss) as of December 31, 2017 and September 30, 2018 is as follows:

| | Total | Translation Adjustments | Postretirement Plans |
|--|-------------|-------------------------|----------------------|
| Balance at December 31, 2017 | \$(3,815.8) | \$(817.0) | \$(2,998.8) |
| Reclassification pursuant to ASU No. 2018-02 | (208.7) | — | (208.7) |
| Other comprehensive income before reclassifications | (34.2) | (35.3) | 1.1 |
| Amounts reclassified from accumulated other comprehensive income | 115.8 | — | 115.8 |
| Current period other comprehensive income | (127.1) | (35.3) | (91.8) |
| Balance at September 30, 2018 | \$(3,942.9) | \$(852.3) | \$(3,090.6) |

Amounts reclassified out of accumulated other comprehensive income for the three and nine months ended September 30, 2018 and 2017 are as follows:

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
| Translation Adjustments ⁽ⁱ⁾ : | | | | |
| Adjustment for substantial completion of liquidation of foreign subsidiaries | \$— | \$5.7 | \$— | \$0.6 |
| Postretirement Plans ⁽ⁱⁱ⁾ : | | | | |
| Amortization of prior service cost | (1.7) | (1.3) | (5.3) | (4.1) |
| Amortization of actuarial losses | 41.5 | 43.1 | 124.9 | 131.3 |
| Curtailment gain ⁽ⁱⁱ⁾ | — | — | — | (5.2) |
| Total before tax | 39.8 | 47.5 | 119.6 | 122.6 |
| Income tax benefit | (1.3) | (1.4) | (3.8) | (3.6) |
| Total reclassification for the period | \$38.5 | \$46.1 | \$115.8 | \$119.0 |

⁽ⁱ⁾ Reported in other income (expense), net in the Consolidated Statements of Income

⁽ⁱⁱ⁾ These items are included in net periodic postretirement cost (see Note 5).

Noncontrolling interests as of December 31, 2017 and September 30, 2018 are as follows:

| | Noncontrolling Interests |
|-------------------------------|--------------------------|
| Balance at December 31, 2017 | \$ 28.2 |
| Net income | 4.2 |
| Translation adjustments | (1.3) |
| Postretirement plans | 1.1 |
| Balance at September 30, 2018 | \$ 32.2 |

Note 15 - Supplemental Cash Flow Information

| | | |
|----------------------------------|--|--------|
| | Nine Months Ended September 30, 2018 2017 | |
| Cash paid during the period for: | | |
| Income taxes, net of refunds | \$37.4 | \$36.0 |
| Interest | \$35.7 | \$16.4 |

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the Consolidated Balance Sheets to the total of the amounts shown in the Consolidated Statements of Cash Flows.

| | September 30, December 31, | |
|---|----------------------------|----------|
| | 2018 | 2017 |
| Cash and cash equivalents | \$ 516.1 | \$ 733.9 |
| Restricted cash | 17.8 | 30.2 |
| Total cash, cash equivalents and restricted cash shown in the Consolidated Statements of Cash Flows | \$ 533.9 | \$ 764.1 |

Cash and cash equivalents subject to contractual restrictions and not readily available are classified as restricted cash. Restricted cash primarily consists of cash the company is contractually obligated to maintain in accordance with the terms of its U.K. business process outsourcing joint venture agreement and other cash that is restricted from withdrawal.

Note 16 - Segment Information

As described in Note 3, effective January 1, 2018, the company adopted the requirements of Topic 606 which resulted in an adjustment to Technology revenue and profit of \$53.0 million in the first quarter of 2018. The adjustment represents revenue from software license extensions and renewals, which were contracted for in the fourth quarter of 2017 and properly recorded as revenue at that time under the revenue recognition rules then in effect (Topic 605).

Topic 606 requires revenue related to software license renewals or extensions to be recorded when the new license term begins, which in the case of the \$53.0 million, is January 1, 2018.

Effective January 1, 2018, the company changed the grouping of certain of its classes of services. As a result, prior-periods' customer revenue by classes of similar services have been reclassified to conform to the current-year period.

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

Cloud & infrastructure services. This represents revenue from helping clients apply cloud and as-a-service delivery models to capitalize on business opportunities, make their end users more productive and manage and secure their IT infrastructure and operations more economically.

Application services. This represents revenue from helping clients transform their business processes by developing and managing new leading-edge applications for select industries, offering advanced data analytics and modernizing existing enterprise applications.

Business process outsourcing (BPO) services. This represents revenue from the management of critical processes and functions for clients in target industries, helping them improve performance and reduce costs.

Technology. This represents revenue from designing and developing software and offering hardware and other related products to help clients reduce costs, improve security and flexibility and improve the efficiency of their data-center environments.

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 September 30, 2018 was \$0.1 million, and for the three months ended September 30, 2017 was immaterial. The amount for the nine months ended September 30, 2018 and 2017 was \$2.3 million and \$1.0 million, respectively. The sales and profit on these transactions are eliminated in Corporate. The company evaluates business segment performance based on operating income exclusive of the service cost component of postretirement 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 and nine month periods ended September 30, 2018 and 2017 is presented below:

| | Total | Corporate | Services | Technology |
|---------------------------------------|-----------|------------|-----------|------------|
| Three Months Ended September 30, 2018 | | | | |
| Customer revenue | \$688.3 | \$— | \$605.6 | \$ 82.7 |
| Intersegment | — | (4.3) | — | 4.3 |
| Total revenue | \$688.3 | \$(4.3) | \$605.6 | \$ 87.0 |
| Operating income | \$55.8 | \$2.7 | \$18.6 | \$ 34.5 |
| Three Months Ended September 30, 2017 | | | | |
| Customer revenue | \$666.3 | \$— | \$575.5 | \$ 90.8 |
| Intersegment | — | (4.4) | — | 4.4 |
| Total revenue | \$666.3 | \$(4.4) | \$575.5 | \$ 95.2 |
| Operating income (loss) | \$(2.9)* | \$(51.2)* | \$18.7 | \$ 29.6 |
| Nine Months Ended September 30, 2018 | | | | |
| Customer revenue | \$2,064.1 | \$— | \$1,760.8 | \$ 303.3 |
| Intersegment | — | (18.3) | — | 18.3 |
| Total revenue | \$2,064.1 | \$(18.3) | \$1,760.8 | \$ 321.6 |
| Operating income | \$211.6 | \$2.6 | \$54.3 | \$ 154.7 |
| Nine Months Ended September 30, 2017 | | | | |
| Customer revenue | \$1,997.0 | \$— | \$1,735.6 | \$ 261.4 |
| Intersegment | — | (15.1) | — | 15.1 |
| Total revenue | \$1,997.0 | \$(15.1) | \$1,735.6 | \$ 276.5 |
| Operating income (loss) | \$15.4 * | \$(98.2)* | \$36.6 | \$ 77.0 |

* Amounts were changed to conform to the current-year presentation. See Note 3.

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

| | Three Months Ended September 30, 2018 | | Nine Months Ended September 30, 2017 | |
|---|--|----------|---|-----------|
| Total segment operating income | \$53.1 | \$48.3 | \$209.0 | \$113.6 |
| Interest expense | (15.9) | (16.4) | (48.2) | (36.4) |
| Other income (expense), net | (17.7) | (21.1)* | (58.3) | (78.5)* |
| Cost-reduction (charges) benefit ⁽ⁱ⁾ | 0.9 | (51.8) | 3.1 | (99.6) |
| Corporate and eliminations | 1.8 | 0.6 | * (0.5) | 1.4 * |
| Total income (loss) before income taxes | \$22.2 | \$(40.4) | \$105.1 | \$(99.5) |

* Amounts were changed to conform to the current-year presentation. See Note 3.

The three and nine months ended September 30, 2017 excludes \$5.7 million and \$0.6 million, respectively, for net ⁽ⁱ⁾ foreign currency gains related to exiting foreign countries which are reported in other income (expense), net in the Consolidated Statements of Income.

Customer revenue by classes of similar products or services, by segment, is presented below:

| | Three Months Ended September 30, 2018 | | Nine Months Ended September 30, 2017 | |
|---------------------------------------|--|----------|---|-----------|
| Services | | | | |
| Cloud & infrastructure services | \$348.3 | \$326.9* | \$1,000.2 | \$994.8 * |
| Application services | 191.2 | 200.7 * | 578.1 | 592.9 * |
| Business process outsourcing services | 66.1 | 47.9 | 182.5 | 147.9 |
| | 605.6 | 575.5 | 1,760.8 | 1,735.6 |
| Technology | 82.7 | 90.8 | 303.3 | 261.4 |
| Total | \$688.3 | \$666.3 | \$2,064.1 | \$1,997.0 |

* Amounts were changed to conform to the current-year presentation.

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

| | Three Months Ended September 30, 2018 | | Nine Months Ended September 30, 2017 | |
|----------------|--|---------|---|-----------|
| United States | \$313.2 | \$313.2 | \$905.0 | \$955.5 |
| United Kingdom | 82.0 | 65.8 | 277.7 | 211.3 |
| Other foreign | 293.1 | 287.3 | 881.4 | 830.2 |
| Total | \$688.3 | \$666.3 | \$2,064.1 | \$1,997.0 |

Item 2. 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 "Risk Factors" in Part I, Item 1A of the company's 2017 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

As described in Note 3, effective January 1, 2018, the company adopted the requirements of Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606) using the modified retrospective method whereby prior periods were not restated. This resulted in an adjustment to Technology revenue and profit of \$53.0 million (\$47.7 million, net of tax) in the first quarter of 2018. The adjustment represents revenue from software license extensions and renewals, which were contracted for in the fourth quarter of 2017 and properly recorded as revenue at that time under the revenue recognition rules then in effect (Topic 605). Topic 606 requires revenue related to software license renewals or extensions to be recorded when the new license term begins, which in the case of the \$53.0 million, is January 1, 2018. Upon adoption of ASU 2014-09, the company was required to include this \$53.0 million in the cumulative effect adjustment to retained earnings on January 1, 2018.

For the nine months ended September 30, 2018, the company reported net income attributable to Unisys Corporation of \$50.5 million, or income of \$0.89 per diluted share, compared with a net loss of \$115.8 million, or a loss of \$2.30 per diluted share for the nine months ended September 30, 2017. The company's results of operations in the current period were positively impacted by the Topic 606 adjustment described above, lower cost-reduction charges and savings due to cost-reduction actions partially offset by an increase in income tax expense.

Results of operations

Company results

Three months ended September 30, 2018 compared with the three months ended September 30, 2017

Revenue for the quarter ended September 30, 2018 was \$688.3 million compared with \$666.3 million for the third quarter of 2017, an increase of 3.3% from the prior year. Foreign currency fluctuations had a 3 percentage-point negative impact on revenue in the current period compared with the year-ago period.

Services revenue increased 5.2% and Technology revenue decreased 8.9% in the current quarter compared with the year-ago period. U.S. revenue was flat quarter over quarter. International revenue increased 6.2% in the current quarter primarily due to increases in the European and Asia Pacific regions partially offset by a decline in Latin America. Foreign currency had a 5 percentage-point negative impact on international revenue in the three months ended September 30, 2018 compared with the three months ended September 30, 2017.

No cost-reduction charges were recorded in the three months ended September 30, 2018; however, a benefit of \$0.9 million was recorded in the current quarter for changes in estimates. During the three months ended September 30, 2017, the company recognized charges in connection with its cost-reduction plan and other costs of \$46.1 million. The charges related to work-force reductions were \$49.5 million, principally related to severance costs, and were comprised of: (a) a charge of \$2.6 million for 93 employees and \$(0.4) million for changes in estimates in the U.S. and (b) a charge of \$48.3 million for 1,459 employees and \$(1.0) million for changes in estimates outside the U.S. In addition, the company recorded charges of \$(3.4) million comprised of \$0.6 million for idle leased facilities costs, \$0.1 million for contract amendment and termination costs, \$0.9 million for professional fees and other expenses

related to the cost-reduction effort, \$0.7 million for net asset sales and write-offs and \$(5.7) million for net foreign currency gains related to exiting foreign countries. The charges were recorded in the following statement of income classifications: cost of revenue - services, \$42.8 million; selling, general and administrative expenses, \$7.9 million; research and development expenses, \$1.1 million; and other income (expense), net, \$(5.7) million.

Total gross profit margin was 22.3% in the three months ended September 30, 2018 compared with 15.5% in the three months ended September 30, 2017. Included in the 2017 gross profit margin were cost-reduction charges of \$42.8 million compared with a benefit of \$0.7 million in 2018 for changes in estimates. The increase in gross profit margin excluding these charges principally reflects benefits derived in 2018 from the prior-years' cost-reduction actions. Selling, general and administrative expense in the three months ended September 30, 2018 was \$90.9 million (13.2% of revenue) compared with \$97.8 million (14.7% of revenue) in the year-ago period. The decrease in selling, general and administrative expense is principally attributed to a decrease of \$8.1 million in cost-reduction charges and benefits derived in 2018 from the prior-years' cost-reduction actions.

Research and development (R&D) expense in the third quarter of 2018 was \$7.1 million compared with \$8.7 million in the third quarter of 2017. The decrease is principally attributed to an increase in capitalized marketable software. For the three months ended September 30, 2018, postretirement expense was \$19.7 million compared with postretirement expense of \$25.3 million for the three months ended September 30, 2017. The change in postretirement expense in 2018 from 2017 was principally due to a lower interest cost component of postretirement expense for the company's U.S. defined benefit pension plans. For the full year 2018, the company expects to recognize postretirement expense of approximately \$73.2 million compared with \$98.1 million for the full year of 2017. The company records the service cost component of postretirement income or expense in cost of revenue and selling, general and administrative expenses. All other components of postretirement income or expense are recorded in other income (expense), net in the Consolidated Statements of Income.

For the third quarter of 2018, the company reported an operating profit of \$55.8 million compared with an operating loss of \$2.9 million in the third quarter of 2017. The principal items affecting the comparison of 2018 to 2017 were charges of \$51.8 million in 2017 related to the cost-reduction actions compared with a benefit of \$0.9 million in 2018 for changes in estimates and benefits derived in 2018 from the prior-years' cost-reduction actions.

Interest expense for the three months ended September 30, 2018 was \$15.9 million compared with \$16.4 million for the three months ended September 30, 2017.

Other income (expense), net was expense of \$17.7 million in the third quarter of 2018 compared with expense of \$21.1 million in the third quarter of 2017. Included in 2018 was postretirement expense, excluding service cost, of \$18.7 million as described above and foreign exchange gains of \$1.7 million. The prior-year period included postretirement expense, excluding service cost, of \$24.1 million, \$5.7 million of net foreign currency gains related to exiting foreign countries in connection with the company's restructuring plan and \$3.5 million of foreign exchange losses.

Effective July 1, 2018, the company's Argentinian subsidiary began to apply highly inflationary accounting due to cumulative inflation of approximately 100 percent or more over the last 3-year period. For those international subsidiaries operating in highly inflationary economies, the U.S. dollar is the functional currency, and as such, nonmonetary assets and liabilities are translated at historical exchange rates, and monetary assets and liabilities are translated at current exchange rates. Exchange gains and losses arising from translation are included in other income (expense), net. The impact of applying highly inflationary accounting for the quarter ended September 30, 2018 was immaterial.

Income before income taxes for the three months ended September 30, 2018 was \$22.2 million compared with a loss of \$40.4 million for the three months ended September 30, 2017. The increase is principally attributed to lower cost-reduction charges and savings due to prior-years' cost-reduction actions.

The provision for income taxes was \$15.2 million in the current quarter compared with \$12.5 million in the year-ago period. During the three months ended September 30, 2018, the company recognized a benefit of \$6.6 million due to the release of a valuation allowance on certain foreign deferred tax assets (net operating losses) as a result of the identification of an additional source of taxable income available in prior periods. 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 will have no provision or benefit associated with it due to the company's valuation allowance, except with

respect to withholding taxes not creditable against future taxable income. As a result, the company's provision or benefit for taxes may vary significantly quarter to quarter depending on the geographic distribution of income. Net income attributable to Unisys Corporation for the three months ended September 30, 2018 was \$6.1 million, or income of \$0.12 per diluted share, compared with a net loss of \$41.1 million, or loss of \$0.81 per diluted share, for the three months ended September 30, 2017. The increase is principally attributed to lower cost-reduction charges and savings due to prior-years' cost-reduction actions.

Nine months ended September 30, 2018 compared with the nine months ended September 30, 2017
Revenue for the nine months ended September 30, 2018 was \$2,064.1 million compared with \$1,997.0 million for the nine months ended September 30, 2017, an increase of 3.4% from the prior year principally due to the impact of the Topic 606 adjustment described above. Excluding this adjustment, revenue was relatively flat. Foreign currency fluctuations had a 1 percentage-point positive impact on revenue in the current period compared with the year-ago period.

Services revenue increased 1.5% and Technology revenue increased 16.0% for the nine months ended September 30, 2018 compared with the year-ago period with the Topic 606 adjustment primarily contributing to the Technology revenue increase. Excluding this adjustment, Technology revenue decreased 4.2%. U.S. revenue decreased 5.3% in the current period compared with the year-ago period. International revenue increased 11.3% in the current period primarily due to increases in the European and Asia Pacific regions partially offset by a decline in Latin America. Without the Topic 606 adjustment, U.S. revenue decreased 5.8% and international revenue increased 6.7%. Foreign currency had a 2 percentage-point positive impact on international revenue in the nine months ended September 30, 2018 compared with the nine months ended September 30, 2017.

No cost-reduction charges were recorded in the nine months ended September 30, 2018; however, a benefit of \$3.1 million was recorded in the current period for changes in estimates. During the nine months ended September 30, 2017, the company recognized charges in connection with its cost-reduction plan and other costs of \$99.0 million. The charges related to work-force reductions were \$86.2 million, principally related to severance costs, and were comprised of: (a) a charge of \$7.9 million for 507 employees and \$(0.6) million for changes in estimates in the U.S. and (b) a charge of \$72.3 million for 1,835 employees, \$8.2 million for additional benefits provided in 2017 and \$(1.6) million for changes in estimates outside the U.S. In addition, the company recorded charges of \$12.8 million comprised of \$3.5 million for idle leased facilities costs, \$5.3 million for contract amendment and termination costs, \$3.9 million for professional fees and other expenses related to the cost-reduction effort, \$0.7 million for net asset sales and write-offs and \$(0.6) million for net foreign currency gains related to exiting foreign countries. The charges were recorded in the following statement of income classifications: cost of revenue - services, \$70.4 million; cost of revenue - technology, \$0.4 million, selling, general and administrative expenses, \$27.4 million, research and development expenses, \$1.4 million; and other income (expense), net, \$(0.6) million.

Total gross profit margin was 24.6% in the nine months ended September 30, 2018 compared with 18.1% in the nine months ended September 30, 2017. Included in the 2017 gross profit margin were cost-reduction charges of \$70.8 million compared with a benefit of \$4.2 million in 2018 for changes in estimates. The increase in gross profit margin excluding these charges principally reflects the impact of the Topic 606 adjustment described above and benefits derived in 2018 from the prior-years' cost-reduction actions. Excluding the Topic 606 adjustment, total gross profit margin in the nine months ended September 30, 2018 was 22.6%.

Selling, general and administrative expense in the nine months ended September 30, 2018 was \$274.5 million (13.3% of revenue) compared with \$314.2 million (15.7% of revenue) in the year-ago period. The decrease in selling, general and administrative expense is principally attributed to a decrease of \$26.3 million in cost-reduction charges, a \$7.3 million gain on the sale of property in the U.K. recorded in 2018 and benefits derived in 2018 from the prior-years' cost-reduction actions. Excluding the Topic 606 adjustment, selling, general and administrative expense as a percentage of revenue was 13.6% in the nine months ended September 30, 2018.

R&D expense for the nine months ended September 30, 2018 was \$21.8 million compared with \$31.3 million in the prior-year period. The decrease is principally attributed to an increase in capitalized marketable software.

For the nine months ended September 30, 2018, postretirement expense was \$58.2 million compared with postretirement expense of \$74.5 million for the nine months ended September 30, 2017. The change in postretirement expense in 2018 from 2017 was principally due to a lower interest cost component of postretirement expense for the company's U.S. defined benefit pension plans partially offset by a curtailment gain recognized in 2017 related to a foreign defined benefit plan.

For the nine months ended September 30, 2018, the company reported an operating profit of \$211.6 million compared with an operating profit of \$15.4 million in the prior-year period. The principal items affecting the comparison of

2018 to 2017 were the Topic 606 adjustment described above, charges of \$99.6 million in 2017 related to cost-reduction actions compared with a benefit of \$3.1 million in 2018 for changes in estimates, a \$7.3 million gain on the sale of property in the U.K. recorded in 2018 and benefits derived in 2018 from the prior-years' cost-reduction actions. Excluding the Topic 606 adjustment, operating profit in the nine months ended September 30, 2018 was \$158.6 million.

Interest expense for the nine months ended September 30, 2018 was \$48.2 million compared with \$36.4 million for the nine months ended September 30, 2017. The increase was principally caused by the issuance of the senior secured notes due 2022 in the second quarter of 2017. See Note 12 of the Notes to Consolidated Financial Statements.

Other income (expense), net was expense of \$58.3 million in the nine months ended September 30, 2018 compared with expense of \$78.5 million in 2017. Included in the current period was postretirement expense, excluding service cost, of \$55.3

million as described above and foreign exchange losses of \$0.7 million. The prior-year period included postretirement expense, excluding service cost, of \$69.9 million, \$0.6 million of net foreign currency gains related to exiting foreign countries in connection with the company's restructuring plan and \$7.5 million of foreign exchange losses.

Income (loss) before income taxes for the nine months ended September 30, 2018 was income of \$105.1 million compared with a loss of \$99.5 million for the nine months ended September 30, 2017. The increase is principally attributed to the Topic 606 adjustment described above, lower cost-reduction charges, a gain on the sale of property in the U.K. recorded in 2018 and savings due to cost-reduction actions partially offset by an increase in interest expense. The provision for income taxes was \$50.4 million in the current period compared with \$21.6 million in the year-ago period. The Topic 606 adjustment contributed \$5.3 million of the increase from the prior-year period to the current-year period and was partially offset by a benefit of \$6.6 million due to the release of a valuation allowance on certain foreign deferred tax assets (net operating losses) as a result of the identification of an additional source of taxable income available in prior periods. In the second quarter of 2017, the company elected to receive cash refunds of a portion of its U.S. alternative minimum tax (AMT) credit carryforwards in lieu of claiming bonus depreciation as provided by Internal Revenue Code Section 168(k)(4). The decision to make this election resulted in a tax benefit of \$21.1 million recorded during the nine months ended September 30, 2017.

Net income attributable to Unisys Corporation for the nine months ended September 30, 2018 was \$50.5 million, or income of \$0.89 per diluted share, compared with a net loss of \$115.8 million, or loss of \$2.30 per diluted share, for the nine months ended September 30, 2017. The increase is principally attributed to the Topic 606 adjustment described above, lower cost-reduction charges, a gain on the sale of property in the U.K. recorded in 2018 and savings due to cost-reduction actions partially offset by an increase in interest expense and income tax expense.

Segment results

Effective January 1, 2018, the company changed the grouping of certain of its classes of services. As a result, prior-periods' customer revenue by classes of similar services have been reclassified to conform to the current-year period.

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

Cloud & infrastructure services. This represents revenue from helping clients apply cloud and as-a-service delivery models to capitalize on business opportunities, make their end users more productive and manage and secure their IT infrastructure and operations more economically.

Application services. This represents revenue from helping clients transform their business processes by developing and managing new leading-edge applications for select industries, offering advanced data analytics and modernizing existing enterprise applications.

Business process outsourcing (BPO) services. This represents revenue from the management of critical processes and functions for clients in target industries, helping them improve performance and reduce costs.

Technology. This represents revenue from designing and developing software and offering hardware and other related products to help clients reduce costs, improve security and flexibility and improve the efficiency of their data-center environments.

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 September 30, 2018 was \$0.1 million, and for the three months

ended September 30, 2017 was immaterial. The amount for the nine months ended September 30, 2018 and 2017 was \$2.3 million and \$1.0 million, respectively. The sales and profit on these transactions are eliminated in Corporate. The company evaluates business segment performance based on operating income exclusive of the service cost component 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.

Three months ended September 30, 2018 compared with the three months ended September 30, 2017

Information by business segment is presented below:

| | Total | Eliminations | Services | Technology |
|---------------------------------------|----------|--------------|----------|------------|
| Three Months Ended September 30, 2018 | | | | |
| Customer revenue | \$688.3 | \$ — | \$605.6 | \$ 82.7 |
| Intersegment | — | (4.3) | — | 4.3 |
| Total revenue | \$688.3 | \$ (4.3) | \$605.6 | \$ 87.0 |
| Gross profit percent | 22.3 % | | 15.9 % | 62.4 % |
| Operating profit percent | 8.1 % | | 3.1 % | 39.7 % |
| Three Months Ended September 30, 2017 | | | | |
| Customer revenue | \$666.3 | \$ — | \$575.5 | \$ 90.8 |
| Intersegment | — | (4.4) | — | 4.4 |
| Total revenue | \$666.3 | \$ (4.4) | \$575.5 | \$ 95.2 |
| Gross profit percent | 15.5 %* | | 16.5 % | 53.3 % |
| Operating profit (loss) percent | (0.4)%* | | 3.2 % | 31.1 % |

Gross profit and operating profit percent are as a percent of total revenue.

* Amounts were changed to conform to the current-year presentation. See Note 3.

Customer revenue by classes of similar products or services, by segment, is presented below:

| | Three Months | | Percent Change |
|---------------------------------------|--------------------------|----------|----------------|
| | Ended September 30, 2018 | 2017 | |
| Services | | | |
| Cloud & infrastructure services | \$348.3 | \$326.9* | 6.5 % |
| Application services | 191.2 | 200.7 | *(4.7)% |
| Business process outsourcing services | 66.1 | 47.9 | 38.0 % |
| | 605.6 | 575.5 | 5.2 % |
| Technology | 82.7 | 90.8 | (8.9)% |
| Total | \$688.3 | \$666.3 | 3.3 % |

* Amounts were changed to conform to the current-year presentation.

In the Services segment, customer revenue was \$605.6 million for the three months ended September 30, 2018, up 5.2% from the three months ended September 30, 2017. Foreign currency translation had a 2 percentage-point negative impact on Services revenue in the current quarter compared with the year-ago quarter.

Revenue from cloud & infrastructure services was \$348.3 million in the current quarter, up 6.5% compared with the prior-year quarter. Foreign currency fluctuations had a 2 percentage-point negative impact on cloud & infrastructure services revenue in the current period compared with the year-ago period.

Application services revenue decreased 4.7% for the three-month period ended September 30, 2018 compared with the three-month period ended September 30, 2017. Foreign currency fluctuations had a 3 percentage-point negative impact on application services revenue in the current period compared with the year-ago period.

Business process outsourcing services revenue increased 38.0% in the current quarter compared with the prior-year quarter. Foreign currency fluctuations had a 2 percentage-point negative impact on business process outsourcing services revenue in the current period compared with the year-ago period.

Services gross profit was 15.9% in the third quarter of 2018 compared with 16.5% in the year-ago period. Services operating profit percent was 3.1% in the three months ended September 30, 2018 compared with 3.2% in the three months ended September 30, 2017. The decline in Services margins is primarily attributed to new Services contracts in implementation stage.

In the Technology segment, customer revenue decreased 8.9% to \$82.7 million in the current quarter compared with \$90.8 million in the year-ago period. Foreign currency translation had a 4 percentage-point negative impact on Technology revenue in the current quarter compared with the year-ago period.

Technology gross profit was 62.4% in the current quarter compared with 53.3% in the year-ago quarter. Technology operating profit percent was 39.7% in the three months ended September 30, 2018 compared with 31.1% in the three months ended September 30, 2017. The improvements to Technology margins were driven in part by a higher mix of software sales in the current quarter.

Nine months ended September 30, 2018 compared with the nine months ended September 30, 2017

Information by business segment is presented below:

| | Total | Eliminations | Services | Technology |
|--------------------------------------|-----------|--------------|-----------|------------|
| Nine Months Ended September 30, 2018 | | | | |
| Customer revenue | \$2,064.1 | \$ — | \$1,760.8 | \$ 303.3 |
| Intersegment | — | (18.3) | — | 18.3 |
| Total revenue | \$2,064.1 | \$ (18.3) | \$1,760.8 | \$ 321.6 |
| Gross profit percent | 24.6 % | | 16.3 % | 66.7 % |
| Operating profit percent | 10.3 % | | 3.1 % | 48.1 % |

Nine Months Ended September 30, 2017

| | | | | |
|--------------------------|-----------|------------|-----------|----------|
| Customer revenue | \$1,997.0 | \$ — | \$1,735.6 | \$ 261.4 |
| Intersegment | — | (15.1) | — | 15.1 |
| Total revenue | \$1,997.0 | \$ (15.1) | \$1,735.6 | \$ 276.5 |
| Gross profit percent | 18.1 %* | | 16.3 % | 53.2 % |
| Operating profit percent | 0.8 %* | | 2.1 % | 27.8 % |

Gross profit and operating profit percent are as a percent of total revenue.

* Amounts were changed to conform to the current-year presentation. See Note 3.

Customer revenue by classes of similar products or services, by segment, is presented below:

| | Nine Months | | Percent |
|---------------------------------------|-------------|---------------|----------|
| | Ended | September 30, | |
| | 2018 | 2017 | Change |
| Services | | | |
| Cloud & infrastructure services | \$1,000.2 | \$994.8 | *0.5 % |
| Application services | 578.1 | 592.9 | *(2.5)% |
| Business process outsourcing services | 182.5 | 147.9 | 23.4 % |
| | 1,760.8 | 1,735.6 | 1.5 % |
| Technology | 303.3 | 261.4 | 16.0 % |
| Total | \$2,064.1 | \$1,997.0 | 3.4 % |

* Amounts were changed to conform to the current-year presentation.

In the Services segment, customer revenue was \$1,760.8 million for the nine months ended September 30, 2018, up 1.5% from the nine months ended September 30, 2017. Foreign currency translation had a 1 percentage-point positive impact on Services revenue in the current period compared with the year-ago period.

Revenue from cloud & infrastructure services was \$1,000.2 million for the nine months ended September 30, 2018, up 0.5% compared with the year-ago period. Foreign currency fluctuations had a 1 percentage-point positive impact on

cloud & infrastructure services revenue in the current period compared with the year-ago period.

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Application services revenue decreased 2.5% for the nine-month period ended September 30, 2018 compared with the nine-month period ended September 30, 2017. Foreign currency fluctuations had an immaterial impact on application services revenue in the current period compared with the year-ago period.

Business process outsourcing services revenue increased 23.4% in the current period compared with the prior-year period. Foreign currency fluctuations had a 5 percentage-point positive impact on business process outsourcing services revenue in the current period compared with the year-ago period.

Services gross profit was 16.3% for both the nine months ended September 30, 2018 and the nine months ended September 30, 2017. Services operating profit percent was 3.1% in the nine months ended September 30, 2018 compared with 2.1% in the nine months ended September 30, 2017. Current-period margins were positively impacted by a gain on the sale of property in the U.K offset in part by new Services contracts in implementation stage.

In the Technology segment, customer revenue increased 16.0% to \$303.3 million in the current period compared with \$261.4 million in the year-ago period. The increase is principally attributed to the Topic 606 adjustment described above. Foreign currency translation had an immaterial impact on Technology revenue in the current period compared with the year-ago period. Excluding the Topic 606 adjustment, customer revenue decreased 4.2%.

Technology gross profit was 66.7% in the current period compared with 53.2% in the year-ago period. Technology operating profit percent was 48.1% in the nine months ended September 30, 2018 compared with 27.8% in the nine months ended September 30, 2017. The increase in gross profit and operating profit was principally due to the Topic 606 adjustment coupled with lower R&D costs and a higher mix of software sales in the current period. Excluding the impact of the Topic 606 adjustment, gross profit percent was 60.1% and operating profit percent was 37.9% in the current period.

New accounting pronouncements

See Note 3 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 September 30, 2018 were \$516.1 million compared to \$733.9 million at December 31, 2017.

As of September 30, 2018, \$315.2 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 nine months ended September 30, 2018, cash used for operations was \$77.4 million compared to cash usage of \$36.3 million for the nine months ended September 30, 2017. The fluctuation in cash flows from operating activities is principally driven by an increase in receivables related to several Technology contracts signed late in the current quarter.

Cash used for investing activities during the nine months ended September 30, 2018 was \$125.9 million compared to cash usage of \$98.6 million during the nine months ended September 30, 2017. Net purchases of investments were \$3.1 million for the nine months ended September 30, 2018 compared with net proceeds of \$30.7 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 the current period, the investment in marketable software was \$61.7 million compared with \$46.6 million in the year-ago period, capital additions of properties were \$25.0 million in 2018 compared with \$21.8 million in 2017 and capital additions of outsourcing assets were \$54.4 million in 2018 compared with \$60.1 million in 2017. The increase in capital additions of marketable software is attributed to additional development of the company's proprietary

software. In addition, the current year includes net proceeds of \$19.2 million related to the sale of property in the U.K. Cash used for financing activities during the nine months ended September 30, 2018 was \$4.4 million compared to cash provided by financing activities of \$334.7 million during the nine months ended September 30, 2017. In the prior-year period, the company issued \$440.0 million of notes and received net proceeds of \$427.9 million and retired the remaining aggregate principal amount of \$95.0 million of its 6.25% senior notes.

At September 30, 2018, total debt was \$650.0 million compared to \$644.7 million at December 31, 2017. The increase is primarily due to the amortization of debt issuance costs and fees.

The company has a secured revolving credit facility (the “Credit Agreement”) that provides for loans and letters of credit. During the second quarter of 2018, the maximum amount available under the facility was increased from \$125.0 million to \$145.0 million (with a limit on letters of credit of \$30.0 million). The accordion feature contained in the Credit Agreement that permitted this increase allows for an increase in the amount of the facility up to \$150.0 million. Availability under the credit facility is subject to a borrowing base calculated by reference to the company’s receivables. At September 30, 2018, the company had no borrowings and \$6.4 million of letters of credit outstanding, and availability under the facility was \$103.4 million net of letters of credit issued. The Credit Agreement expires October 5, 2022, subject to a springing maturity (i) on the date that is 91 days prior to the maturity date of the company’s convertible notes due 2021 unless, on such date, certain conditions are met; or (ii) on the date that is 60 days prior to the maturity date of the company’s secured notes due 2022 unless, by such date, such secured notes have been redeemed or refinanced.

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 the company and the subsidiary guarantors, other than certain excluded assets, under a security agreement entered into by the company and the subsidiary guarantors in favor of JPMorgan Chase Bank, N.A., as agent for the lenders under the new credit facility. The company is required to maintain a minimum fixed charge coverage ratio if the availability under the credit facility falls below the greater of 10% of the lenders’ commitments under the facility and \$15.0 million.

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 Credit Agreement includes limitations on the ability of the company and its subsidiaries to, among other things, incur other debt or liens, dispose of assets and make acquisitions, loans and investments, repurchase its equity, and prepay other debt. 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 \$50.0 million.

At September 30, 2018, 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 2018, the company expects to make cash contributions of approximately \$130.3 million to its worldwide defined benefit pension plans, which are comprised of \$49.7 million primarily for non-U.S. defined benefit pension plans and \$80.6 million for the company’s U.S. qualified defined benefit pension plans. In the third quarter of 2018, the company completed tri-annual negotiations of one of its international defined benefit pension plans which resulted in a \$10.0 million decrease in estimated 2018 cash contributions.

The company maintains a shelf registration statement with the Securities and Exchange Commission that covers the offer and sale of up to \$700.0 million of debt or equity securities. Subject to the company’s ongoing compliance with securities laws, the company may offer and sell debt and equity securities from time to time under the shelf registration statement. In addition, from time to time, the company may explore a variety of institutional debt and equity sources to fund its liquidity and capital needs.

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. As certain conditions within the 2021 Notes indenture have been met during the current quarter, the 2021 Notes holders have the right to convert during the quarter ending December 31, 2018.

Critical accounting policies and estimates update

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates, judgments and assumptions that affect the amounts reported in the financial statements and accompanying notes. Certain accounting policies, methods and estimates are particularly important because of their significance to the financial statements and because of the possibility that future events affecting them may differ from management’s current judgments. The company bases its estimates and judgments on historical experience and on other assumptions that it believes are reasonable under the circumstances; however, to the extent there are material differences between these estimates, judgments and assumptions and actual results, the financial statements will be affected. There are a number of accounting policies, methods and estimates affecting the company’s

financial statements as described in Note 1 of the Notes to Consolidated Financial Statements in the company's 2017 Form 10-K. Significant changes to these critical accounting policies and estimates as a result of adopting Topic 606 are discussed below.

Revenue recognition

Many of the company's sales agreements contain standard business terms and conditions; however, some agreements contain multiple elements or non-standard terms and conditions. As discussed in Note 2 of the Notes to Consolidated Financial

Statements, the company enters into multiple-element arrangements, which may include any combination of hardware, software or services. As a result, significant contract interpretation is sometimes required to determine the appropriate accounting, including whether the performance obligations specified in a multiple-element arrangement should be treated as separate performance obligations for revenue recognition purposes, and when to recognize revenue for each performance obligation.

The company must apply its judgment to determine the timing of the satisfaction of performance obligations as well as the transaction price and the amounts allocated to performance obligations including estimating variable consideration, adjusting the consideration for the effects of the time value of money and assessing whether an estimate of variable consideration is constrained.

Revenue and profit under systems integration contracts are recognized over time as the company transfers control of goods or services. The company measures its progress toward satisfaction of its performance obligations using the cost-to-cost method, or when services have been performed, depending on the nature of the project.

For contracts accounted for using the cost-to-cost method, revenue and profit recognized in any given accounting period are based on estimates of total projected contract costs. The estimates are continually reevaluated and revised, when necessary, throughout the life of a contract. The company follows this method because reasonably dependable estimates of the revenue and costs applicable to various elements of a contract can be made. The financial reporting of these contracts depends on estimates, which are assessed continually during the term of the contracts and therefore, recognized revenues and profit are subject to revisions as the contract progresses to completion. Revisions in profit estimates are reflected in the period in which the facts that give rise to the revision become known. Accordingly, favorable changes in estimates result in additional revenue and profit recognition, and unfavorable changes in estimates result in a reduction of recognized revenue and profit. When estimates indicate that a loss will be incurred on a contract upon completion, a provision for the expected loss is recorded in the period in which the loss becomes evident. As work progresses under a loss contract, revenue continues to be recognized, and a portion of the contract costs incurred in each period is charged to the contract loss reserve.

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 2017 Form 10-K.

Item 4. Controls and Procedures

Disclosure 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 due to the material weakness in our internal control over financial reporting, the company's disclosure controls and procedures were not effective as of September 30, 2018.

As previously reported in the company's 2017 Form 10-K, filed with the Securities and Exchange Commission on March 12, 2018, in connection with the company's assessment of the effectiveness of its internal control over financial reporting at the end of its last fiscal year, management identified the following material weakness in the company's internal control over financial reporting as of December 31, 2017 which is in the process of being remediated as of September 30, 2018.

Our risk assessment procedures over Technology revenue did not adequately identify risks and consider changes in business operations and the demands on personnel created by the efforts required to adopt the new revenue accounting pronouncement that will impact future financial reporting. As a result, the company had missing process level controls and insufficient trained personnel to operate process level controls over the measurement and recognition of multiple-element arrangements within Technology revenue.

This section of Item 4, "Controls and Procedures," should be read in conjunction with Item 9A, "Controls and Procedures," included in the company's 2017 Form 10-K for additional information on Management's Report on Internal Control over Financial Reporting.

To address the material weakness referenced above, the company performed additional analysis and performed other procedures in order to prepare the unaudited quarterly consolidated financial statements in accordance with generally accepted accounting principles (GAAP). Accordingly, management believes that the consolidated financial statements included in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented.

Status of Remediation Plan

Management is actively remediating the identified material weakness, and is committed to remediate the material weakness as timely as possible. The company has taken the following remediation steps:

- The company added personnel with an appropriate level of U.S. GAAP revenue recognition knowledge and experience by hiring additional personnel or by internal realignment.

- Provided additional revenue recognition training to responsible staff.

- Implemented enhanced procedures whereby a comprehensive review is being performed for certain Technology transactions.

- Enhanced processes and reviews of all major multiple-element transactions.

- Added data elements that support enhanced analytics and controls to the revenue recognition process.

- The company has and will continue to supplement existing revenue recognition resources with consultants where necessary.

Management believes that the above actions are fully implemented and will be effective in remediating this material weakness. However, the company's material weakness will not be considered remediated until the controls are tested during 2018 as part of its Section 404 compliance program and management concludes that these controls are properly designed and operating effectively.

Changes in Internal Control over Financial Reporting

Except as described above with respect to our remediation plan, there have been no changes in our internal control over financial reporting during the quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II - OTHER INFORMATION

Item 1. Legal Proceedings

Information with respect to litigation is set forth in Note 13 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 “Risk Factors” in Part I, Item 1A of the company’s 2017 Form 10-K. 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:

- our ability to improve revenue and margins in our Services business;
- our ability to maintain our installed base and sell new products in our Technology business;
- our ability to effectively anticipate and respond to volatility and rapid technological innovation in our industry;
- our ability to retain significant clients;
- the potential adverse effects of aggressive competition in the information services and technology marketplace;
- cybersecurity breaches could result in significant costs and could harm our business and reputation;
- our significant pension obligations and required cash contributions and requirements to make additional significant cash contributions to our defined benefit pension plans;
- our ability to attract, motivate and retain experienced and knowledgeable personnel in key positions;
- the risks of doing business internationally when a significant portion of our revenue is derived from international operations;
- our contracts may not be as profitable as expected or provide the expected level of revenues;
- our ability to access financing markets;
- contracts with U.S. governmental agencies may subject us to audits, criminal penalties, sanctions and other expenses and fines;
- a significant disruption in our IT systems could adversely affect our business and reputation;
- we may face damage to our reputation or legal liability if our clients are not satisfied with our services or products;
- the performance and capabilities of third parties with whom we have commercial relationships;
- an involuntary termination of the company’s U.S. qualified defined benefit pension plan;
- the potential for intellectual property infringement claims to be asserted against us or our clients;
- the business and financial risk in implementing future acquisitions or dispositions;
- the adverse effects of global economic conditions, acts of war, terrorism or natural disasters;
- the possibility that pending litigation could affect our results of operations or cash flow; and
- our controls and procedures may fail or be circumvented, which may result in a material adverse effect on our business, results of operations and financial condition.

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

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 of the 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 Certificate of Amendment of the 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, 2017)
- 3.4 Bylaws of Unisys Corporation, as amended through April 30, 2015 (incorporated by reference to Exhibit 3.3 to the registrant's Quarterly Report on Form 10-Q filed on April 30, 2015)
- 31.1 Certification of Peter A. Altabef required by Rule 13a-14(a) or Rule 15d-14(a)
- 31.2 Certification of Inder M. Singh 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 Inder M. Singh 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

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: November 8, 2018 By: /s/ Inder M. Singh

Inder M. Singh
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)