

UNISYS CORP
Form 10-K
March 12, 2018

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017

or

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
Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|-------------------------------|---|
| Common Stock, par value \$.01 | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See 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 (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

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 Act). Yes No

Aggregate market value of the voting and non-voting common equity held by non-affiliates as of the last business day of the registrant's most recently completed second fiscal quarter: approximately \$639.0 million.

The amount shown is based on the closing price of Unisys Common Stock as reported on the New York Stock Exchange composite tape on June 30, 2017. Voting stock beneficially held by officers and directors is not included in the computation. However, Unisys Corporation has not determined that such individuals are "affiliates" within the meaning of Rule 405 under the Securities Act of 1933.

Number of shares of Unisys Common Stock, par value \$.01, outstanding as of January 31, 2018: 50,484,040

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Unisys Corporation's Definitive Proxy Statement for the 2018 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

Table of Contents

| | Page Number |
|--|----------------|
| Part I | |
| Item 1. Business | <u>5</u> |
| Executive Officers of the Registrant | <u>8</u> |
| Item 1A. Risk Factors | <u>10</u> |
| Item 1B. Unresolved Staff Comments | <u>15</u> |
| Item 2. Properties | <u>15</u> |
| Item 3. Legal Proceedings | <u>15</u> |
| Item 4. Mine Safety Disclosures | <u>15</u> |
| Part II | |
| Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities | <u>16</u> |
| Item 6. Selected Financial Data | <u>18</u> |
| Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations | <u>19</u> |
| Item 7A. Quantitative and Qualitative Disclosures about Market Risk | <u>31</u> |
| Item 8. Financial Statements and Supplementary Data | <u>32</u> |
| Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure | <u>74</u> |
| Item 9A. Controls and Procedures | <u>74</u> |
| Item 9B. Other Information | <u>75</u> |
| Part III | |
| Item 10. Directors, Executive Officers and Corporate Governance | <u>76</u> |
| Item 11. Executive Compensation | <u>76</u> |
| Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters | <u>76</u> |
| Item 13. Certain Relationships and Related Transactions, and Director Independence | <u>76</u> |
| Item 14. Principal Accountant Fees and Services | <u>76</u> |
| Part IV | |
| Item 15. Exhibits and Financial Statement Schedules | <u>77</u> |
| Item 16. Form 10-K Summary | <u>79</u> |
| Signatures | <u>80</u> |

Disclosure Regarding Forward-Looking Statements

In this Annual Report on Form 10-K, we have 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.

Factors that could affect our future results include, but are not limited to, the following:

- our ability to improve revenue and margins in our Services business;
- our ability to maintain our installed base and sell new solutions 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; and
- the possibility that pending litigation could affect our results of operations or cash flow.

Any forward-looking statement should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. 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 in “Risk Factors” in Part I, Item 1A of this Form 10-K. Any forward-looking statement speaks only as of the date on which that statement is made. Unisys Corporation 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.

PART I

ITEM 1. BUSINESS

General

Unisys Corporation, a Delaware corporation (“Unisys,” “we,” “our,” or the “company”), is a global information technology (“IT”) company that builds high-performance, security-centric solutions for clients across the Government, Financial Services and Commercial markets. Unisys offerings include security software and services; digital transformation and workplace services; industry applications and services; and innovative software operating environments for high-intensity enterprise computing.

We operate in two business segments – Services and Technology. Financial information concerning the two segments can be found in Note 15, “Segment information,” of the Notes to Consolidated Financial Statements (Part II, Item 8 of this Form 10-K) (the “Notes to Consolidated Financial Statements”).

Principal Products and Services

We deliver high-performance, security-centric, leveraged services across industries, industry-specific application products and technology solutions worldwide to our primary target markets: government (the U.S. federal government and other public sector organizations around the world), commercial (e.g., travel and transportation and life sciences and healthcare) and financial services (e.g., commercial and retail banking).

Our solutions are designed to build better outcomes - securely - for our clients, enabling them to:

- Transform core business processes to compete more effectively in their markets;
- Improve user engagement for customers and workers, streamline operations and enhance go-to-market efforts;
- Optimize IT infrastructure to meet digital-business requirements;
- Simplify management of IT infrastructure and service delivery; and
- Enhance enterprise security.

Within Services, our principal solutions include cloud and infrastructure services, application services and business process outsourcing services.

In cloud and infrastructure services, we help 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.

In application services, we help 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.

In business process outsourcing services, we assume management of critical processes and functions for clients in target industries, helping them improve performance and reduce costs.

In Technology, we design and develop software and offer hardware and other related products to help clients reduce costs, improve security and flexibility and improve the efficiency of their data-center environments. As a pioneer in large-scale computing, we offer deep experience and rich technological capabilities in transaction-intensive, mission-critical environments. We provide a range of data-center, infrastructure management and cloud computing offerings to help clients virtualize and automate their data-center environments.

Our industry application products include solutions that allow law enforcement agencies to share critical investigative intelligence, integrated child support case management tools, and solutions that allow travel and transportation companies to manage freight and distribution as well as leverage predictive analytics. Our solutions also provide life sciences and healthcare companies with the ability to manage medical devices and enhanced visibility over the pharmaceutical supply chain. We also provide financial solutions to deliver secure, omnichannel banking.

Our Technology products include:

Unisys ClearPath Forward®, a secure, scalable, hardware-independent software operating environment for high-volume enterprise computing capable of delivering Unisys security across multiple hardware platforms. In 2016, Unisys began offering hardware-independent versions of the ClearPath operating environment, providing a tested, integrated stack of software products that can run on an Intel x86 server of the client’s choice.

Unisys Stealth® security software, which enables trusted identities to access micro-segmented critical assets and safely communicate through secure, encrypted channels. Stealth™ establishes irrefutable user authentication, prevents lateral attacker movement and reduces data center, mobile and cloud attack surfaces. Stealth also reduces the cost and complexity of securing information and operation technology as well as industrial control systems, allowing organizations to meet compliance and security mandates.

We market our services and products primarily through a direct sales force. Complementing our direct sales force, we make use of a select group of resellers and alliance partners to market our services and product portfolio. In certain foreign countries, we market primarily through distributors.

Materials

Unisys purchases components and supplies from a number of suppliers around the world. For certain Technology products, we rely on a single or limited number of suppliers, although we make every effort to assure that alternative sources are available if the need arises. The failure of our suppliers to deliver components and supplies in sufficient quantities and in a timely manner could adversely affect our business. For more information on the risks associated with purchasing components and supplies, see “Risk Factors” (Part I, Item 1A of this Form 10-K).

Patents, Trademarks and Licenses

As of January 31, 2018, Unisys owns over 730 active U.S. patents and over 75 active patents granted in twelve non-U.S. jurisdictions. These patents cover systems and methods related to a wide variety of technologies, including, but not limited to, information security, cloud computing, virtualization, database encryption/management and user interfaces. We have granted licenses covering both single patents, and particular groups of patents, to others.

Likewise, we have active licensing agreements granting us rights under patents owned by other entities. However, our business is not materially dependent upon any single patent, patent license, or related group thereof.

Unisys also maintains 26 U.S. trademark and service mark registrations, and over 540 additional trademark and service mark registrations in over 85 non-U.S. jurisdictions as of January 31, 2018. These marks are valuable assets used on or in connection with our services and products, and as such are actively monitored, policed and protected by Unisys and its agents.

Seasonality

Our revenue is affected by such factors as the introduction of new services and products, the length of sales cycles and the seasonality of purchases. Seasonality has generally resulted in higher fourth quarter revenues than in other quarters.

Customers

No single client accounted for more than 10% of our revenue in the year ended December 31, 2017. Sales of commercial services and products to various agencies of the U.S. government represented approximately 21% of total consolidated revenue in 2017. For more information on the risks associated with contracting with governmental entities, see “Risk Factors” (Part I, Item 1A of this Form 10-K).

Backlog

In the Services segment, firm order backlog at December 31, 2017 was \$4.3 billion, compared to \$3.9 billion at December 31, 2016. Approximately \$1.7 billion (40%) of 2017 backlog is expected to be converted to revenue in 2018. Although we believe that this backlog is firm, we may, for commercial reasons, allow the orders to be cancelled, with or without penalty. In addition, funded government contracts included in this backlog are generally subject to termination, in whole or part, at the convenience of the government or if funding becomes unavailable. In such cases, we are generally entitled to receive payment for work completed plus allowable termination or cancellation costs.

Because of the relatively short cycle between order and shipment in our Technology segment, we believe that backlog information for this segment is not material to the understanding of our business.

Competition

Our business is affected by rapid change in technology in the information services and technology industries and aggressive competition from many domestic and foreign companies. Principal competitors are systems integrators, consulting and other professional services firms, outsourcing providers, infrastructure services providers, computer

hardware manufacturers and software providers. We compete primarily on the basis of service, product performance, technological innovation, and price. We believe that our continued focused investment in engineering and research and development, coupled with our sales and marketing capabilities, will have a favorable impact on our competitive position. For more information on the competitive risks we face, see “Risk Factors” (Part I, Item 1A of this Form 10-K).

Research and Development

Unisys-sponsored research and development costs were \$47.2 million in 2017, \$55.4 million in 2016, and \$76.4 million in 2015.

Environmental Matters

Our capital expenditures, earnings and competitive position have not been materially affected by compliance with federal, state and local laws regulating the protection of the environment. Capital expenditures for environmental control facilities are not expected to be material in 2018 and 2019.

Employees

At December 31, 2017, we employed approximately 20,000 employees serving clients around the world.

International and Domestic Operations

We serve clients around the world, including multinational clients with operations in several regions. For the year ended December 31, 2017, over 50% of our revenue was derived from international operations.

Financial information by geographic area is set forth in Note 15, "Segment information," of the Notes to Consolidated Financial Statements. For more information on the risks of doing business internationally, see "Risk Factors" (Part I, Item 1A of this Form 10-K).

Available Information

Our Investor web site is located at www.unisys.com/investor. Through our web site, we make available, free of charge, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after this material is electronically filed with or furnished to the U.S. Securities and Exchange Commission (the "SEC"). We also make available on our web site our Guidelines on Significant Corporate Governance Issues, the charters of the Audit and Finance Committee, Compensation Committee, and Nominating and Corporate Governance Committee of our board of directors, and our Code of Ethics and Business Conduct. This information is also available in print to stockholders upon request. We do not intend for information on our web site to be part of this Annual Report on Form 10-K.

EXECUTIVE OFFICERS OF THE REGISTRANT

Information concerning the executive officers of Unisys as of February 15, 2018 is set forth below.

| Name | Age | Position with Unisys |
|-------------------------|-----|---|
| Peter A. Altabef | 58 | President and Chief Executive Officer |
| Tarek El-Sadany | 54 | Senior Vice President, Technology, and Chief Technology Officer |
| Eric Hutto | 53 | Senior Vice President and President, Enterprise Solutions |
| Gerald P. Kenney | 66 | Senior Vice President, General Counsel and Secretary |
| David A. Loeser | 63 | Senior Vice President, Worldwide Human Resources |
| Venkatapathi R. Puvvada | 57 | Senior Vice President; President, Federal Systems |
| Jeffrey E. Renzi | 57 | Senior Vice President and President, Global Sales |
| Ann S. Ruckstuhl | 55 | Senior Vice President, Chief Marketing Officer |
| Inder M. Singh | 59 | Senior Vice President, Chief Financial Officer |
| Shalabh Gupta | 56 | Vice President and Treasurer |
| Michael M. Thomson | 49 | Vice President and Corporate Controller |

There is no family relationship among any of the above-named executive officers. The By-Laws provide that the officers of Unisys shall be elected annually by the Board of Directors and that each officer shall hold office for a term of one year and until a successor is elected and qualified, or until the officer's earlier resignation or removal.

Mr. Altabef is President and Chief Executive Officer and is a member and Chairman-elect of the Board of Directors. Prior to joining Unisys in 2015, Mr. Altabef was the President and Chief Executive Officer, and a member of the board of directors, of MICROS Systems, Inc. from 2013 through 2014, when MICROS Systems, Inc. was acquired by Oracle Corporation. He previously served as President and Chief Executive Officer of Perot Systems Corporation from 2004 until 2009, when Perot Systems was acquired by Dell, Inc. Thereafter, Mr. Altabef served as President of Dell Services (a unit of Dell Inc.) until his departure in 2011. Mr. Altabef also serves on the President's National Security Telecommunications Advisory Committee, the Board of Directors of NiSource Inc. and Petrus Trust Company, L.T.A., the Board of the East West Institute and the Board of Advisors of Merit Energy Company, LLC. He previously served as Senior Advisor to 2M Companies, Inc. in 2012, and served as a director of Belo Corporation from 2011 through 2013. Mr. Altabef has been an officer since 2015.

Mr. El-Sadany has been Senior Vice President, Technology, and Chief Technology Officer since 2015. Prior to joining Unisys, Mr. El-Sadany was Chief Operating Officer of Remedy Informatics, a provider of healthcare and life sciences predictive informatics solutions (2012-2014). Prior to Remedy, he served as Chairman and Chief Executive Officer of Egypt National Post and Chief Executive Officer of the Technology Innovation and Entrepreneurship Center of Egypt (2008-2012). Other positions held by Mr. El-Sadany include Senior Vice President of Development and Head of Operations at Iris Financial Solutions (2006-2008), Vice President of Global Product Support Services at Oracle Corporation (2003-2005), and Founder, Chief Executive Officer and Chief Technology Officer of DatAcme Corporation (2001-2003). Mr. El-Sadany has been an officer since 2015.

Mr. Hutto has been Senior Vice President and President, Enterprise Solutions since 2015, after joining Unisys earlier in that year as Vice President and General Manager, U.S. and Canada, Enterprise Solutions. Prior to joining Unisys, Mr. Hutto held senior leadership positions with Dell Services (a unit of Dell Inc.) (2006-2015), serving most recently as Global Vice President/General Manager, Infrastructure, Cloud and Consulting and Vice President/General Manager, Americas. Mr. Hutto has been an officer since 2015.

Mr. Kenney has been Senior Vice President, General Counsel and Secretary since 2013. Prior to joining Unisys, he had been with NEC Corporation of America, the North American subsidiary of global technology company NEC Corporation, since 1999, serving most recently as Senior Vice President, General Counsel and Corporate Secretary (2004-2013). Mr. Kenney has been an officer since 2013.

Mr. Loeser has been Senior Vice President, Chief Human Resources Officer since 2013. Prior to joining Unisys, Mr. Loeser was Executive Vice President, Human Resources for Mitel, a global provider of business communications and collaboration software and services (2012-2013). Before Mitel, he held strategic management and human resources executive positions with several multinational companies including Hostess Foods, Celanese, Quaker State, PepsiCo, Continental Airlines, Chevron, and CompuCom. Mr. Loeser has been an officer since 2013.

Mr. Puvvada has been Senior Vice President and President, Federal Systems since 2015. Mr. Puvvada had been serving as acting President of Federal Systems since 2014. Prior to that time, he served as group Vice President for the Unisys federal civilian agency business since 2010. From 2005 to 2010, he was Managing Partner and Chief Technology Officer for Unisys Federal Systems. Previously, Mr. Puvvada held various management positions since joining Unisys in 1992. Mr. Puvvada has been an officer since 2015.

Mr. Renzi has been Senior Vice President and President, Global Sales since 2014. Prior to joining Unisys, Mr. Renzi was Senior Vice President, Sales & Marketing, at Arise Virtual Solutions (2012-2013). From 2009 to 2012, Mr. Renzi held key sales and service management roles at Dell Corporation. From 2003 to 2009, Mr. Renzi served as Executive Vice President, Global Sales and Marketin