

Unisys Corporation

Notes to Consolidated Financial Statements

1. Summary of significant accounting policies

Principles of consolidation The consolidated financial statements include the accounts of all majority-owned subsidiaries. Investments in companies representing ownership interests of 20% to 50% are accounted for by the equity method.

Use of estimates The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions about future events. These estimates and assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities and the reported amounts of revenue and expenses. Such estimates include the valuation of accounts receivables, inventories, outsourcing assets, marketable software, goodwill and other long-lived assets, legal contingencies, guarantee obligations, indemnifications, and assumptions used in the calculation of 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. Illiquid credit markets, volatile equity and foreign currency markets and reductions in information technology spending have combined to increase the uncertainty inherent in such estimates and assumptions. 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.

Cash equivalents All short-term investments purchased with a maturity of three months or less and certificates of deposits which may be withdrawn at any time at the discretion of the company without penalty are classified as cash equivalents.

Inventories Inventories are valued at the lower of cost or market. Cost is determined on the first-in, first-out method.

Properties Properties are carried at cost and are depreciated over the estimated lives of such assets using the straight-line method. The estimated lives used, in years, are as follows: buildings, 20 – 50; machinery and office equipment, 4 – 7; rental equipment, 4; and internal-use software, 3 – 10.

Advertising costs All advertising costs are expensed as incurred. The amount charged to expense during 2008, 2007 and 2006 was \$5.9 million, \$10.2 million and \$8.5 million, respectively.

Shipping and handling Costs related to shipping and handling is included in cost of revenue.

Revenue recognition Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the fee is fixed or determinable, and collectibility is probable.

Revenue from hardware sales with standard payment terms is recognized upon the passage of title. Outside the United States, the company recognizes revenue even if it retains a form of title to products delivered to customers, provided the sole purpose is to enable the company to recover the products in the event of customer payment default and the arrangement does not prohibit the customer's use of the product in the ordinary course of business.

Revenue from software licenses with standard payment terms is recognized at the inception of the initial license term and upon execution of an extension to the license term. The company also enters into multiple-element arrangements, which may include any combination of hardware, software or services. In these transactions, the company allocates the total revenue to be earned under the arrangement among the various elements based on their fair value. For software, and elements for which software is essential to the functionality, the allocation of revenue is based on vendor-specific objective evidence (VSOE) of fair value. VSOE of fair value for all elements of an arrangement is based upon the normal pricing and discounting practices for those products and services when sold separately, and for software license updates and software support services it is based upon the prices when renewed. There may be cases in which there is VSOE of fair value of the

undelivered elements but no such evidence for the delivered elements. In these cases, the residual method is used to allocate the arrangement consideration. Under the residual method, the amount of consideration allocated to the delivered elements equals the total arrangement consideration less the aggregate VSOE of fair value of the undelivered elements. The company recognizes revenue on delivered elements only if: (a) any undelivered products or services are not essential to the functionality of the delivered products or services, (b) the company has an enforceable claim to receive the amount due in the event it does not deliver the undelivered products or services, (c) there is evidence of the fair value for each undelivered product or service, and (d) the revenue recognition criteria otherwise have been met for the delivered elements. Otherwise, revenue on delivered elements is recognized as the undelivered elements are delivered.

Revenue from hardware sales and software licenses with extended payment terms is recognized as payments from customers become due (assuming that all other conditions for revenue recognition have been satisfied).

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 either on the percentage-of-completion method of accounting using the cost-to-cost method, or when services have been performed, depending on the nature of the project. For contracts accounted for on the percentage-of-completion basis, 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.

Income taxes Income taxes are based on income before taxes for financial reporting purposes and reflect a current tax liability for the estimated taxes payable in the current-year tax return and changes in deferred taxes. Deferred tax assets or liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using enacted tax laws and rates. A valuation allowance is provided on deferred tax assets if it is determined that it is more likely than not that the asset will not be realized.

The company recognizes penalties and interest accrued related to income tax liabilities in provision (benefit) for income taxes in its consolidated statements of income.

Marketable software The cost of development of computer software to be sold or leased, incurred subsequent to establishment of technological feasibility, is capitalized and amortized to cost of sales over the estimated revenue-producing lives of the products, but not in excess of three years following product release. The company performs quarterly reviews to ensure that unamortized costs remain recoverable from future revenue.

Internal-use software In accordance with SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," the company capitalizes certain internal and external costs incurred to acquire or create internal-use software, principally related to software coding, designing system interfaces, and installation and testing of the software. These costs are amortized in accordance with the fixed asset policy described above.

Outsourcing assets Costs on outsourcing contracts are generally expensed as incurred. However, certain costs incurred upon initiation of an outsourcing contract are deferred and expensed over the contract life. These costs consist principally of initial customer setup and employment obligations related to employees hired under terms of the outsourcing contracts. Additionally, marketable software development costs incurred to develop specific application software for outsourcing are capitalized once technological feasibility has been established. Capitalized software used in outsourcing arrangements is amortized based on current and estimated future revenue from the product. The amortization expense is not less than straight-line amortization expense over the product's useful life. Fixed assets acquired in connection with outsourcing contracts are capitalized and depreciated over the shorter of the contract life or in accordance with the fixed asset policy described above.

Recoverability of outsourcing assets is subject to various business risks, including the timely completion and ultimate cost of the outsourcing solution, realization of expected profitability of existing outsourcing contracts and obtaining additional outsourcing customers. The company quarterly compares the carrying value of the outsourcing assets with the undiscounted future cash flows expected to be generated by the outsourcing assets to determine if there is impairment. If impaired, the outsourcing 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 future cash flows could differ from these estimates.

Translation of foreign currency The local currency is the functional currency for most of the company's international subsidiaries, and as such, assets and liabilities are translated into U.S. dollars at year-end exchange rates. Income and expense items are translated at average exchange rates during the year. Translation adjustments resulting from changes in exchange rates are reported in other comprehensive income (loss). Exchange gains and losses on intercompany balances are reported in other income (expense), net.

Stock-based compensation plans Stock-based compensation represents the cost related to stock-based awards granted to employees and directors. The company recognizes compensation expense for the fair value of stock options, which have graded vesting, on a straight-line basis over the requisite service period. The company estimates the fair value of stock options using a Black-Scholes valuation model. The expense is recorded in selling, general and administrative expenses. The company's stock-based compensation plans are described more fully in Note 17.

Retirement benefits The company accounts for its defined benefit pension plans in accordance with SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)," and SFAS No. 87, "Employers' Accounting for Pensions," which requires that amounts recognized in financial statements be determined on an actuarial basis. A significant element in determining the company's pension income (expense) is the expected long-term rate of return on plan assets. This expected return is an assumption as to the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the projected pension benefit obligation. The company applies this assumed long-term rate of return to a calculated value of plan assets, which recognizes changes in the fair value of plan assets in a systematic manner over four years. This produces the expected return on plan assets that is included in pension income (expense). The difference between this expected return and the actual return on plan assets is deferred. The net deferral of past asset gains (losses) affects the calculated value of plan assets and, ultimately, future pension income (expense).

At December 31 of each year, the company determines the fair value of its pension plan assets as well as the discount rate to be used to calculate the present value of plan liabilities. The discount rate is an estimate of the interest rate at which the pension benefits could be effectively settled. In estimating the discount rate, the company looks to rates of return on high-quality, fixed-income investments currently available and expected to be available during the period to maturity of the pension benefits. The company uses a portfolio of fixed-income securities, which receive at least the second-highest rating given by a recognized ratings agency.

2. Earnings per share

The following table shows how the loss per share was computed for the three years ended December 31, 2008.

Year ended December 31 (millions, except per share data)	2008	2007	2006
Basic loss per share computation			
Net loss	\$ (130.1)	\$ (79.1)	\$ (278.7)
Weighted average shares (thousands)	359,777	349,661	343,747
Basic loss per share	\$ (.36)	\$ (.23)	\$ (.81)
Diluted loss per share computation			
Net loss	\$ (130.1)	\$ (79.1)	\$ (278.7)
Weighted average shares (thousands)	359,777	349,661	343,747
Plus incremental shares from assumed conversions of employee stock plans	-	-	-
Adjusted weighted average shares	359,777	349,661	343,747
Diluted loss per share	\$ (.36)	\$ (.23)	\$ (.81)

The following employee stock options were antidilutive and therefore excluded from the computation of diluted earnings per share (in thousands): 2008, 34,141; 2007, 37,452; 2006, 43,190.

3. Cost-reduction charges

In October 2005, the company announced a plan to reduce its cost structure. During 2006, the company committed to a reduction of 5,665 employees. This resulted in pretax charges in 2006 of \$330.1 million, principally related to severance costs, and was comprised of: (a) a charge of \$72.4 million for 2,250 employees in the U.S. and (b) a charge of \$257.7 million for 3,415 employees outside the U.S. The pretax charges were recorded in the following statement of income classifications: cost of revenue – services, \$216.9 million; cost of revenue – technology, \$2.0 million; selling, general and administrative expenses, \$84.6 million; research and development expenses, \$29.4 million; and other income (expense), net, \$2.8 million. The income recorded in other income (expense), net relates to minority shareholders' portion of the charge related to majority-owned subsidiaries which are fully consolidated by the company.

During 2007, the company consolidated facility space and committed to an additional reduction of 1,737 employees. This resulted in pretax charges of \$116.8 million. The charges related to work-force reductions were \$62.3 million broken down as follows: (a) 1,031 employees in the U.S. for a charge of \$29.9 million and (b) 706 employees outside the U.S. for a charge of \$32.4 million. The facility charge of \$40.6 million relates to 46 leased properties that the company ceased using. The charge represents the fair value of the liability at the cease-use date and was determined based on the remaining lease rental payments, reduced by estimated sublease rentals that could be reasonably obtained for the property. In addition, the company recorded pretax charges of \$13.9 million, related to asset impairments and leasehold improvement write-offs, lease guarantees, as well as other expenses related to the cost reduction efforts. The pretax charges of \$116.8 million were recorded in the following statement of income classifications: cost of revenue – services, \$31.8 million; cost of revenue – technology, \$3.9 million; selling, general and administrative expenses, \$62.0 million; research and development expenses, \$20.6 million; and other income (expense), net, \$1.5 million.

During 2008, the company consolidated facility space and committed to an additional reduction of 1,304 employees. This resulted in pretax charges of \$103.1 million. The charges related to work-force reductions were \$42.6 million broken down as follows: (a) 866 employees in the U.S. for a charge of \$20.2 million and (b) 438 employees outside the U.S. for a charge of \$22.4 million. The facility charge of \$20.4 million relates to 15 leased properties that the company ceased using. In addition, the company recorded pretax charges of \$40.1 million, related to marketable software asset write downs of \$31.0 million related to portfolio exits and lease guarantees of \$9.1 million. The pretax charges of \$103.1 million were recorded in the following statement of income classifications: cost of revenue – services, \$36.1 million; cost of revenue – technology, \$14.3 million; selling, general and administrative expenses, \$49.0 million; and research and development expenses, \$3.7 million.

A further breakdown of the individual components of these costs follows (in millions of dollars):

(in millions of dollars)	Headcount	Total	Work-Force Reductions		Idle Lease Cost
			U.S.	Int'l.	
Balance at December 31, 2006	757	\$ 142.6	\$ 26.1	\$116.5	
Additional provisions	1,737	102.9	29.9	32.4	\$ 40.6
Minority interest		1.5	–	1.3	.2
Utilized	(1,623)	(143.0)	(41.2)	(99.7)	(2.1)
Changes in estimates and revisions	(144)	(16.3)	6.3	(23.4)	.8
Translation adjustments		4.3	–	4.0	.3
Balance at December 31, 2007	727	92.0	21.1	31.1	39.8
Additional provisions	1,304	63.0	20.2	22.4	20.4
Utilized	(1,201)	(57.9)	(17.6)	(25.8)	(14.5)
Changes in estimates and revisions	(43)	4.9	1.4	(.1)	3.6
Translation adjustments		(6.2)	–	(.4)	(5.8)
Balance at December 31, 2008	787	\$ 95.8	\$ 25.1	\$27.2	\$ 43.5
Expected future utilization:					
2009	787	\$ 68.3	\$ 25.1	\$27.2	\$ 16.0
Beyond 2009		27.5	–	–	27.5

4. Goodwill

The company accounts for goodwill and other intangible assets in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." These assets are reviewed annually for impairment in accordance with this statement. SFAS No. 142 requires a company to perform an impairment test on an annual basis and whenever events or circumstances occur indicating that goodwill may be impaired. The company performed its annual impairment test at the beginning of the fourth quarter of 2008. Due to the current economic conditions, as well as the significant decline in the company's common stock price during the fourth quarter, the company updated its impairment test to year end considering valuations of components of the company's business. The result of these procedures indicated that goodwill was not impaired.

Changes in the carrying amount of goodwill by segment for the years ended December 31, 2008 and 2007 were as follows:

(millions)	Total	Services	Technology
Balance at December 31, 2006	\$193.9	\$82.0	\$111.9
Foreign currency translation adjustments	6.7	6.9	(.2)
Balance at December 31, 2007	200.6	88.9	111.7
Foreign currency translation adjustments	(11.2)	(9.0)	(2.2)
Balance at December 31, 2008	\$189.4	\$79.9	\$109.5

5. Recent accounting pronouncements and accounting changes

Effective January 1, 2008, the company adopted Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements. Accordingly, SFAS No. 157 does not require any new fair value measurements. In February 2008, the FASB deferred the effective date for one year for certain nonfinancial assets and nonfinancial liabilities. Adoption of SFAS No. 157 did not have an impact on the company's consolidated results of operations and financial position.

Effective January 1, 2008, the company adopted Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reportable in earnings. Adoption of SFAS No. 159 did not have an impact on the company's consolidated results of operations and financial position.

Effective January 1, 2007, the company adopted the Financial Accounting Standards Board (FASB) Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Adoption of FIN 48 did not have a material impact on the company's consolidated results of operations and financial position. See Note 7.

Effective January 1, 2007, the company adopted EITF 06-2, "Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43." EITF 06-2 applies to compensated absences that require a minimum service period but have no increase in the benefit even with additional years of service and requires the benefit to be recognized as a liability over the service period. Adoption of EITF 06-2 did not have a material impact on the company's consolidated results of operations and financial position.

Effective January 1, 2007, the company adopted EITF 06-5, "Accounting for Purchases of Life Insurance – Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4." EITF 06-5 requires that a policyholder should consider any additional amounts included in the contractual terms of the policy in determining the amount that could be realized under the insurance contract on a policy-by-policy basis. Adoption of EITF 06-5 did not have a material impact on the company's consolidated results of operations and financial position.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), "Business Combinations" (SFAS No. 141R). SFAS No. 141R replaces SFAS No. 141, "Business Combinations," and establishes principles and requirements for how the acquirer: (a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, which is January 1, 2009 for the company. The company will adopt SFAS No. 141R for business combinations, if any, after December 31, 2008.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements" (SFAS No. 160). SFAS No. 160 describes a noncontrolling interest, sometimes called a minority interest, as the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. SFAS No. 160 establishes accounting and reporting standards that require, among other items: (a) the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent's equity; (b) the amount of consolidated net income attributable to the parent and the noncontrolling interests be clearly identified and presented on the face of the consolidated statement of income; and (c) entities provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, which is January 1, 2009 for the company. Earlier adoption is prohibited. SFAS No. 160 shall be applied prospectively as of the beginning of the fiscal year in which the statement is initially applied, except for the presentation and disclosure requirements which shall be applied retrospectively for all periods presented. Adoption of SFAS No. 160 is not expected to have a material impact on the company's consolidated results of operations and financial position.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" (SFAS No. 161). SFAS No. 161 requires enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, which is January 1, 2009 for the company.

In December 2008, the FASB issued FSP FAS 132(R)-1 "Employers' Disclosures about Postretirement Benefit Plan Assets." This FSP provides guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The disclosures about plan assets required by FSP FAS 132(R)-1 shall be provided for fiscal years ending after December 15, 2009, which is December 31, 2009 for the company.

6. Accounts receivable

On May 16, 2008, the company entered into a new three-year, U.S. trade accounts receivable facility. Under this facility, the company has agreed to sell, on an ongoing basis, through Unisys Funding Corporation I, a wholly owned subsidiary, up to \$150 million of interests in eligible U.S. trade accounts receivable. The facility replaced the company's U.S. trade accounts receivable facility that was scheduled to terminate on May 28, 2008. Under the new facility, receivables are sold at a discount that reflects, among other things, a yield based on LIBOR subject to a minimum rate. The new facility includes customary representations and warranties, including no material adverse change in the company's business, assets, liabilities, operations or financial condition. It also requires the company to maintain a minimum fixed charge coverage ratio and requires the maintenance of certain ratios related to the sold receivables. The facility will be subject to early termination if, as of February 28, 2010, the company's 6.875% Senior Notes due 2010 have not been refinanced or extended to a date later than May 16, 2011. Other termination events include failure to perform covenants, materially incorrect representations and warranties, change of control and default under debt aggregating at least \$25 million.

The company received proceeds of \$1.5 billion in 2008, \$1.4 billion in 2007, and \$1.6 billion in 2006, from ongoing sales of accounts receivable interests under its U.S. trade accounts receivable facilities. At December 31, 2008 and 2007, the company retained subordinated interests of \$291 million and \$281 million, respectively, in the associated receivables; these receivables have been included in accounts and notes receivable in the accompanying consolidated balance sheets. As collections reduce previously sold interests, interests in new, eligible receivables can be sold, subject to meeting certain conditions. At December 31, 2008 and 2007, receivables of \$141 million and \$140 million, respectively, were sold and therefore removed from the accompanying consolidated balance sheets.

The selling price of the receivables interests reflects a discount (5.3% at both December 31, 2008 and at December 31, 2007). The company remains responsible for servicing the underlying accounts receivable. The company estimates the fair value of its retained interests by considering two key assumptions: the payment rate, which is derived from the average life of the accounts receivable, which is about 54 days, and the rate of expected credit losses. Based on the company's favorable collection experience and very short-term nature of the receivables, both assumptions are considered to be highly predictable. Therefore, the company's estimated fair value of its retained interests in the pool of eligible receivables is approximately equal to book value, less the associated allowance for doubtful accounts. The discount on the sales of these accounts receivable during the years ended December 31, 2008, 2007 and 2006, was \$7.2 million, \$8.5 million and \$8.6 million, respectively. The discount is recorded in other income (expense), net in the accompanying consolidated statements of income.

Accounts receivable consist principally of trade accounts receivable from customers and are generally unsecured and due within 30 days. Credit losses relating to these receivables consistently have been within management's expectations. Expected credit losses are recorded as an allowance for doubtful accounts in the consolidated balance sheets. Estimates of expected credit losses are based primarily on the aging of the accounts receivable balances. The company records a specific reserve for individual accounts when it becomes aware of a customer's inability to meet its financial obligations, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position. The collection policies and procedures of the company vary by credit class and prior payment history of customers.

Revenue recognized in excess of billings on services contracts, or unbilled accounts receivable, was \$170.7 million and \$219.8 million at December 31, 2008 and 2007, respectively. Such amounts are included in accounts and notes receivable, net and are stated at net realizable value. At December 31, 2008 and 2007, the company had long-term accounts and notes receivable, net of \$4.4 million and \$22.0 million, respectively. Such amounts are included in other long-term assets in the accompanying consolidated balance sheets.

Unearned income, which is deducted from accounts and notes receivable, was \$.4 million and \$1.3 million at December 31, 2008 and 2007, respectively. The allowance for doubtful accounts, which is reported as a deduction from accounts and notes receivable, was \$51.0 million and \$51.8 million at December 31, 2008 and 2007, respectively. The provision for doubtful accounts, which is reported in selling, general and administrative expenses in the consolidated statements of income, was \$7.0 million, \$(6.1) million and \$10.6 million, in 2008, 2007 and 2006, respectively.

7. Income taxes

Following is the total income (loss) before income taxes and the provision for income taxes for the three years ended December 31, 2008.

Year ended December 31 (millions)	2008	2007	2006
Income (loss) before income taxes			
United States	\$ (138.5)	\$ (207.2)	\$ (120.2)
Foreign	61.5	210.7	(130.7)
Total income (loss) before income taxes	\$ (77.0)	\$ 3.5	\$ (250.9)
Provision (benefit) for income taxes			
Current			
United States	\$ (5.0)	\$ 15.3	\$ 9.2
Foreign	64.4	43.2	69.7
State and local	(2.4)	(9.9)	2.3
Total	57.0	48.6	81.2
Deferred			
Foreign	(3.9)	34.0	(53.4)
Total provision for income taxes	\$ 53.1	\$ 82.6	\$ 27.8

Following is a reconciliation of the provision (benefit) for income taxes at the United States statutory tax rate to the provision for income taxes as reported:

Year ended December 31 (millions)	2008	2007	2006
United States statutory income tax provision (benefit)	\$ (26.9)	\$ 1.2	\$ (87.8)
U.S. losses for which no benefit has been recognized	53.6	87.8	51.3
Foreign tax expense, including withholding taxes	51.6	12.5	72.7
Change in valuation allowances due to changes in judgment	(9.7)	-	(4.2)
Effect of tax rate changes on temporary differences	-	9.1	(2.3)
Tax refund claims, audit issues and other matters			
U.S. Federal refundable credits	(7.8)	-	-
U.S. state	(2.4)	(9.9)	2.3
Foreign	(5.3)	(18.1)	(4.2)
Provision for income taxes	\$ 53.1	\$ 82.6	\$ 27.8

Included in the caption "U.S. losses for which no benefit has been recognized" for 2008 is permanent items of \$32.4 million. Included in the caption "Foreign tax expense, including withholding taxes" for 2008 is withholding taxes of \$15.4 million and differences between U.S. and foreign tax rates of controlled foreign corporations of \$5.6 million. In addition, the 2008 provision for income taxes includes a tax benefit of \$8.7 million related to prior year foreign tax adjustments.

The tax effects of temporary differences and carryforwards that give rise to significant portions of deferred tax assets and liabilities at December 31, 2008 and 2007, were as follows:

December 31 (millions)	2008	2007
Deferred tax assets		
Tax loss carryforwards	\$ 656.2	\$ 590.6
Postretirement benefits	578.3	50.6
Capitalized research and development	404.6	453.7
Foreign tax credit carryforwards	355.3	342.3
Other tax credit carryforwards	199.4	211.1
Deferred revenue	103.9	140.3
Capitalized intellectual property rights	85.6	113.5
Depreciation	66.4	64.5
Purchased capitalized software	53.1	36.0
Warranty, bad debts and other reserves	46.4	44.1
Employee benefits	44.8	45.4
Restructuring	30.4	29.1
Capitalized costs	24.1	21.7
Impairment charge related to outsourcing assets	10.6	14.5
Other	54.0	59.1
	<u>2,713.1</u>	<u>2,216.5</u>
Valuation allowance	<u>(2,587.2)</u>	<u>(1,966.9)</u>
Total deferred tax assets	<u>\$ 125.9</u>	<u>\$ 249.6</u>
Deferred tax liabilities		
Sales-type leases	\$ 5.9	\$ 11.3
Postretirement benefits	1.7	87.4
Other	33.2	75.7
Total deferred tax liabilities	<u>\$ 40.8</u>	<u>\$ 174.4</u>
Net deferred tax assets	<u>\$ 85.1</u>	<u>\$ 75.2</u>

SFAS No. 109 requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. The 2007 provision for income taxes includes \$8.9 million due to a reduction in the UK income tax rate. The rate reduction from 30% to 28% was enacted in the third quarter effective April 1, 2008. The provision of \$8.9 million was caused by a write down of the UK net deferred tax assets to the 28% rate.

Cumulative undistributed earnings of foreign subsidiaries, for which no U.S. income or foreign withholding taxes have been recorded, approximated \$860 million at December 31, 2008. As the company intends to indefinitely reinvest all such earnings, no provision has been made for income taxes that may become payable upon distribution of such earnings, and it is not practicable to determine the amount of the related unrecognized deferred income tax liability. Although there are no specific plans to distribute the undistributed earnings in the immediate future, where economically appropriate to do so, such earnings may be remitted.

Cash paid, net of refunds, during 2008, 2007 and 2006 for income taxes was \$56.7 million, \$12.6 million and \$76.6 million, respectively.

At December 31, 2008, the company has U.S. federal and state and local tax loss carryforwards and foreign tax loss carryforwards for certain foreign subsidiaries, the tax effect of which is approximately \$656.2 million. These carryforwards will expire as follows (in millions): 2009, \$4.5; 2010, \$7.7; 2011, \$23.2; 2012, \$9.6; 2013, \$183.9; and \$427.3 thereafter. The company also has available tax credit carryforwards of approximately \$554.7 million, which will expire as follows (in millions): 2009, \$27.1; 2010, \$40.7; 2011, \$14.3; 2012, \$67.2; 2013, \$46.5; and \$358.9 thereafter.

The company has \$85.1 million of net deferred tax assets. Failure to achieve forecasted taxable income might affect the ultimate realization of such assets. Factors that may affect the company's ability to achieve sufficient forecasted taxable income include, but are not limited to, the following: increased competition, a decline in sales or margins, loss of market share, the impact of the current economic environment, delays in product availability and technological obsolescence.

Effective January 1, 2007, the company adopted FIN 48, which prescribes a recognition threshold and measurement attribute for the recognition and measurement of a tax position taken or expected to be taken in a tax return.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Year ended December 31 (millions)	2008	2007
Balance at January 1	\$ 15.1	\$ 38.3
Additions based on tax positions related to the current year	-	-
Additions for tax positions of prior years	1.8	8.1
Reductions for tax positions of prior years	(1.6)	(.8)
Reductions as a result of a lapse of applicable statute of limitations	(1.2)	(3.7)
Settlements	(5.3)	(26.8)
Balance at December 31	\$ 8.8	\$ 15.1

The company recognizes penalties and interest accrued related to income tax liabilities in the provision for income taxes in its consolidated statements of income. At December 31, 2008 and 2007, the company had an accrual of \$3.3 million and \$5.6 million, respectively, for the payment of penalties and interest.

In 2007, the company settled an income tax audit in the Netherlands and as a result, recorded a tax benefit of \$39.4 million and received a refund, including interest, of approximately \$57 million.

At December 31, 2008, the company had a liability for unrecognized tax benefits of \$8.8 million, all of which, if recognized, would affect the company's effective tax rate. Within the next 12 months, the company believes that it is reasonably possible that the amount of unrecognized tax benefits may significantly change; however, various events could cause this belief to change in the future.

The company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. The company has concluded a U.S. federal income tax audit of the years 2000-2003 with no material impact. Several U.S. state and foreign income tax audits are in process. There are currently no income tax audits in process in either Brazil or the United Kingdom, which are the most significant jurisdictions outside the U.S. For Brazil, the audit period through 2003 is closed and for the United Kingdom, the audit period through 2005 is closed. All of the various ongoing income tax audits throughout the world are not expected to have a material impact on the company's financial position.

8. Properties

Properties comprise the following:

December 31 (millions)	2008	2007
Land	\$ 3.9	\$ 4.2
Buildings	100.9	112.0
Machinery and office equipment	936.5	830.1
Internal-use software	286.8	270.8
Rental equipment	87.9	119.8
Total properties	\$1,416.0	\$1,336.9

9. Investments at equity, minority interests and asset sales

In 2006, the company sold all of the shares it owned in Nihon Unisys, Ltd. (NUL), a publicly traded Japanese company. The company received gross proceeds of \$378.1 million and recognized a pretax gain of \$149.9 million which is included in "Other income (expense), net" in the 2006 consolidated statement of income. NUL continues to be the exclusive distributor of the company's hardware and software in Japan.

During the year ended December 31, 2006, the company recorded an equity loss related to NUL of \$4.2 million, which was recorded in "Other income (expense), net" in the company's consolidated statements of income. For the years ended December 31, 2008, 2007 and 2006, total direct and indirect sales to NUL were approximately \$134 million, \$185 million and \$245 million, respectively.

In 2005, the company and NUL amended the terms of a license and support agreement pursuant to which NUL receives access to certain of the company's intellectual property and support services. Under the revised arrangement, the company has granted NUL a perpetual license to the intellectual property, and, in lieu of an annual royalty, NUL paid the company a

one-time fixed fee of \$225 million, one-half of which was paid in October 2005 and one-half of which was paid in September 2006. The company recognized the \$225 million as revenue over the three-year period ended March 31, 2008. The royalty fees are included in the direct and indirect sales disclosed above. In addition, the parties agreed that NUL would pay the company a fee of \$20 million per year during the three years ended March 31, 2008 for the support services it provides under the license and support agreement. In 2007, NUL exercised an option to renew the support services arrangement for an additional two years at the same price.

The company owns 51% of Intelligent Processing Solutions Limited (iPSL), a U.K.-based company, which provides high-volume payment processing. iPSL is consolidated in the company's financial statements. The minority owners' interests in income of iPSL are reported in "Other income (expense), net" (\$11.6 million, \$(23.4) million and \$(6.0) million in 2008, 2007 and 2006, respectively) in the company's consolidated statements of income.

At December 31, 2008, the company's total outsourcing assets, net were \$314.9 million, \$89.9 million of which relate to iPSL. In 2006, the company and the minority shareholders executed agreements whereby the company retains its current 51% ownership interest in iPSL and the fees charged under the outsourcing services agreements increased beginning January 1, 2006. The estimated increase in iPSL revenue resulting from the amended outsourcing services agreements, together with its existing revenue, is currently estimated to provide the company with sufficient cash flow to recover all of iPSL's outsourcing assets. The company prepares its cash flow estimates based on assumptions that it believes to be reasonable but are also inherently uncertain. Actual future cash flows could differ from these estimates.

In 2007, the company sold its media business for proceeds of \$29.3 million and recognized a pretax gain of \$24.7 million.

10. Debt

Long-term debt is comprised of the following:

December 31 (millions)	2008	2007
8% senior notes due 2012	\$ 400.0	\$ 400.0
6 ⁷ / ₈ % senior notes due 2010	300.0	300.0
12 ¹ / ₂ % senior notes due 2016	210.0	210.0
8 ¹ / ₂ % senior notes due 2015	150.0	150.0
7 ⁷ / ₈ % senior notes redeemed in 2008	—	200.0
Other, net of unamortized discounts	.6	2.6
Total	<u>1,060.6</u>	<u>1,262.6</u>
Less – current maturities	1.5	204.3
Total long-term debt	<u>\$1,059.1</u>	<u>\$1,058.3</u>

Total long-term debt maturities in 2009, 2010, 2011, 2012 and 2013 are \$1.5 million, \$ 300.6 million, \$.5 million, \$400.6 million and \$0.0 million, respectively.

Cash paid during 2008, 2007 and 2006 for interest was \$86.9 million, \$84.1 million and \$91.3 million, respectively.

Capitalized interest expense during 2008, 2007 and 2006 was \$9.0 million, \$9.1 million and \$9.9 million, respectively.

In December 2007, the company issued \$210.0 million of 12 ¹/₂% senior notes due 2016. Using the proceeds from such notes, on January 11, 2008, the company redeemed, at par, all \$200 million of its 7 ⁷/₈% senior notes due April 1, 2008. During 2007, the company financed \$22.6 million of internal use software licenses and \$6.8 million of outsourcing assets.

The company's revolving credit facility, which expires in May 2009 provides for loans and letters of credit up to an aggregate of \$275 million. As of December 31, 2008, there were letters of credit of \$62.1 million issued under the facility and there were no cash borrowings. The credit facility is secured by the company's assets, except that the collateral does not include accounts receivable that are subject to the receivables facility, U.S. real estate or the stock or indebtedness of the company's U.S. operating subsidiaries. Under the terms of the maturing facility, the company expects to be required to cash collateralize the letters of credit outstanding under the facility as at March 2, 2009. Borrowings under the facility bear interest based on short-term rates and the company's credit rating. The credit agreement contains customary representations and warranties, including no material adverse change in the company's business, results of operations or

financial condition. It also contains financial covenants requiring the company to maintain certain interest coverage, leverage and asset coverage ratios and a minimum amount of liquidity, which could reduce the amount the company is able to borrow. The credit facility also includes covenants limiting liens, mergers, asset sales, dividends and the incurrence of debt. Events of default include nonpayment, failure to perform covenants, materially incorrect representations and warranties, change of control and default under other debt aggregating at least \$25 million. If an event of default were to occur under the credit agreement, the lenders would be entitled to declare all amounts borrowed under it immediately due and payable. The occurrence of an event of default under the credit agreement could also cause the acceleration of obligations under certain other agreements and the termination of the company's U.S. trade accounts receivable facility, discussed below.

In addition, the company and certain international subsidiaries have access to uncommitted lines of credit from various banks.

At December 31, 2008, 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.

The company's principal sources of liquidity are cash on hand, cash from operations and its U.S. trade accounts receivable facility, which is discussed in Note 6. The company's anticipated future cash expenditures include anticipated contributions to its defined benefit pension plans and payments in respect of cost-reduction actions. Given the global economic slowdown and resultant tight credit markets, the company does not expect to renew or replace its existing revolving credit facility before its expiration on May 31, 2009. In addition, the company's ability to refinance or exchange its \$300 million senior notes due in March 2010 could be affected by the adverse credit market conditions. The volatility and disruption in financial markets could also impact the company's ability to utilize surety bonds, letters of credit, foreign exchange derivatives and other financial instruments the company uses to conduct its business. In addition to the actions discussed in Note 3 to reduce its cost structure, the company will continue to focus on working capital management and to tightly manage capital expenditures. Given these actions and its cash on hand at December 31, 2008, the company believes that it will have adequate sources of liquidity to meet its expected 2009 cash requirements.

11. Product warranty

For equipment manufactured by the company, the company warrants that it will substantially conform to relevant published specifications for 12 months after shipment to the customer. The company will repair or replace, at its option and expense, items of equipment that do not meet this warranty. For company software, the company warrants that it will conform substantially to then-current published functional specifications for 90 days from customer's receipt. The company will provide a workaround or correction for material errors in its software that prevent its use in a production environment.

The company estimates the costs that may be incurred under its warranties and records a liability in the amount of such costs at the time revenue is recognized. Factors that affect the company's warranty liability include the number of units sold, historical and anticipated rates of warranty claims and cost per claim. The company quarterly assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. Presented below is a reconciliation of the aggregate product warranty liability:

Year ended December 31 (millions)	2008	2007
Balance at January 1	\$ 6.9	\$ 8.2
Accruals for warranties issued during the period	2.7	5.2
Settlements made during the period	(2.7)	(6.4)
Changes in liability for pre-existing warranties during the period, including expirations	(1.7)	(.1)
Balance at December 31	\$ 5.2	\$ 6.9

12. Other liabilities

Other accrued liabilities (current) are comprised of the following:

December 31 (millions)	2008	2007
Deferred revenue	\$ 481.4	\$ 618.1
Payrolls and commissions	121.1	160.5
Accrued vacations	110.0	122.2
Cost reduction	68.3	57.2
Taxes other than income taxes	53.5	79.6
Postretirement	30.2	26.1
Income taxes	26.3	28.7
Other	154.9	179.6
Total other accrued liabilities	\$1,045.7	\$1,272.0

In addition, other long-term liabilities include deferred revenue of \$202.5 million and \$268.8 million at December 31, 2008 and 2007, respectively.

13. Rental expense and commitments

Rental expense, less income from subleases, for 2008, 2007 and 2006 was \$151.7 million, \$167.7 million and \$170.0 million, respectively. Rental expense for 2008 includes a charge of approximately \$5 million related to prior years.

Minimum net rental commitments under noncancelable operating leases, including idle leases, outstanding at December 31, 2008, substantially all of which relate to real properties, were as follows: 2009, \$100.4 million; 2010, \$81.7 million; 2011, \$59.8 million; 2012, \$50.1 million; 2013, \$36.9 million; and \$124.4 million thereafter. Such rental commitments have been reduced by minimum sublease rentals of \$32.5 million, due in the future under noncancelable subleases.

In 2003, the company entered into a five-year lease to rent a facility located in Malvern, PA. The Company accounted for this lease as an operating lease. Under the lease, the company had the option to purchase the facility at any time for approximately \$34 million, which represented the total investment made by the lessor in the property. The lessor is a substantive independent leasing company that does not have the characteristics of a variable interest entity as defined by FIN 46 and is therefore not consolidated by the company. In addition, if the company did not exercise its purchase option and the lessor sold the facility at the end of the lease term for a price that was less than its investment, the company was required to guarantee the lessor a residual value on the property up to a maximum of \$29 million. At the inception of the lease, the company recognized a liability of \$1.2 million for this estimated residual value guarantee. In December 2007, the company exercised its option to remarket the property at the end of the lease term. Due to a decline in the estimated fair value of the leased property, in December 2007 and in 2008, the company recorded an additional liability of \$4.6 million and \$8.5 million, respectively related to the residual value guarantee, adjusting the amount that may become payable to the lessor at the end of the lease term to approximately \$14.3 million. This liability was paid in December 2008 when the facility was sold by the owner.

At December 31, 2008, the company had outstanding standby letters of credit and surety bonds of approximately \$265 million related to performance and payment guarantees. On the basis of experience with these arrangements, the company believes that any obligations that may arise will not be material. In addition, at December 31, 2008, the company had deposits and collateral of approximately \$40 million in other long-term assets, principally related to tax and labor contingencies in Brazil.

14. Financial instruments

Due to its foreign operations, the company is exposed to the effects of foreign currency exchange rate fluctuations on the U.S. dollar. The company uses derivative financial instruments to manage its exposure to market risks from changes in foreign currency exchange rates. The derivative instruments used are foreign exchange forward contracts and foreign exchange options.

Certain of the company's qualifying derivative financial instruments have been designated as cash flow hedging instruments. Such instruments are used to manage the company's currency exchange rate risks for forecasted transactions involving intercompany sales and royalties. For the forecasted intercompany transactions, the company generally enters into derivative financial instruments for a six-month period by initially purchasing a three-month foreign exchange option, which, at expiration, is replaced with a three-month foreign exchange forward contract.

The company recognizes the fair value of its cash flow hedge derivatives as either assets or liabilities in its consolidated balance sheets. Changes in the fair value related to the effective portion of such derivatives are recognized in other comprehensive income until the hedged item is recognized in earnings, at which time the accumulated gain or loss is reclassified out of other comprehensive income and into earnings. The ineffective portion of such derivatives' change in fair value is immediately recognized in earnings. The ineffective amount related to cash flow hedge derivatives for intercompany transactions during the years ended December 31, 2008, 2007 and 2006 was not material. Both the amounts reclassified out of other comprehensive income and into earnings and the ineffectiveness recognized in earnings related to cash flow hedge derivatives for forecasted intercompany transactions are recognized in cost of revenue. There were no cash flow hedges in place at December 31, 2008 or at December 31, 2007, and, therefore, the accumulated income or loss in other comprehensive income related to cash flow hedges at December 31, 2008 and 2007 was zero.

When a cash flow hedge is discontinued because it is probable that the original forecasted transaction will not occur by the end of the original specified time period, the company is required to reclassify any gains or losses out of other comprehensive income and into earnings. The amount of such reclassifications during the years ended December 31, 2008, 2007 and 2006 was immaterial.

In addition to the cash flow hedge derivatives mentioned above, the company enters into foreign exchange forward contracts that have not been designated as hedging instruments. Such contracts generally have maturities of one month and are used by the company to manage its exposure to changes in foreign currency exchange rates principally on intercompany accounts. The fair value of such instruments is recognized as either assets or liabilities in the company's consolidated balance sheets, and changes in the fair value are recognized immediately in earnings in other income (expense), net in the company's consolidated statements of income.

During the years ended December 31, 2008, 2007 and 2006, the company recognized foreign exchange transaction gains or (losses) in "Other income (expense), net" in its consolidated statements of income of \$(3.1) million, \$1.5 million and \$8.5 million, respectively.

Financial instruments also include temporary cash investments and customer accounts receivable. Temporary investments are placed with creditworthy financial institutions, primarily in money market funds, time deposits and certificate of deposits which may be withdrawn at any time at the discretion of the company without penalty. At December 31, 2008, the company's cash equivalents principally have maturities of less than one month or can be withdrawn at any time at the discretion of the company without penalty. Due to the short maturities of these instruments, they are carried on the consolidated balance sheets at cost plus accrued interest, which approximates market value. Realized gains or losses during 2008 and 2007, as well as unrealized gains or losses at December 31, 2008, were immaterial. Receivables are due from a large number of customers that are dispersed worldwide across many industries. At December 31, 2008 and 2007, the company had no significant concentrations of credit risk with any one customer. At December 31, 2008, the company had approximately \$210 million of receivables due from various U.S. federal governmental agencies. At December 31, 2008, the carrying amount of cash and cash equivalents and notes payable approximated fair value; and the carrying amount of long-term debt exceeded the fair value, which is based on market prices, of such debt by approximately \$680 million.

15. Litigation 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 and intellectual property. In accordance with SFAS No. 5, "Accounting for Contingencies," 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 affected in any particular period by the resolution of one or more of the legal matters pending against it.

In 2002, the company and the Transportation Security Administration (TSA) entered into a competitively awarded contract providing for the establishment of secure information technology environments in airports. The Civil Division of the Department of Justice, working with the Inspector General's Office of the Department of Homeland Security, is reviewing issues relating to labor categorization and overtime on the TSA contract. The Civil Division is also reviewing issues relating to cyber intrusion protection under the TSA and follow-on contracts. The company is working cooperatively with the Civil Division. The company does not know whether the Civil Division will pursue these matters, or, if pursued, what effect they might have on the company.

The company has contracts with the General Services Administration (GSA), known as Multiple Award Schedule Contracts, under which various U.S. governmental agencies can purchase products and services from the company. Auditors from the GSA's Office of Inspector General are reviewing the company's compliance with the disclosure and pricing provisions under two of these contracts, and whether the company has potentially overcharged the government under the contracts. Separately, the company has made voluntary disclosures about these matters to the responsible GSA contracting officers. The company is providing pricing and other information to the GSA auditors and is working cooperatively with them. As the audit is on-going, the company cannot predict the outcome at this time.

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

In December 2007, Lufthansa AG sued Unisys Deutschland GmbH, a Unisys subsidiary (Unisys Germany), in the District Court of Frankfurt, Germany, for allegedly failing to perform properly its obligations during the initial phase of a 2004 software design and development contract relating to a Lufthansa customer loyalty program. Under the contract, either party was free to withdraw from the project at the conclusion of the initial design phase. Rather than withdraw, Lufthansa instead terminated the contract and failed to pay the balance owed to Unisys Germany for the initial phase. Lufthansa's lawsuit alleges that Unisys Germany breached the contract by failing to deliver a proper design for the new system and seeks approximately 21.4 million euros in damages. The company believes it has valid defenses and has filed its defense and counterclaim in the amount of 1.5 million euros. The litigation is proceeding.

In July 2008, Lufthansa Systems Passenger Services GmbH sued Unisys Germany in the District Court of Frankfurt, Germany, in connection with a 2005 agreement under which Unisys Germany was to develop passenger management software for Lufthansa Systems. Lufthansa Systems purported to terminate the agreement for cause in July 2007 claiming that Unisys Germany failed to deliver satisfactory software in a timely manner. The lawsuit seeks a monetary recovery of approximately 49 million euros. The company believes it has valid defenses and has filed its defense. The litigation is proceeding.

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 December 31, 2008, it has adequate provisions for any such matters.

16. Segment information

The company has two business segments: Services and Technology. The products and services of each segment are marketed throughout the world to commercial businesses and governments. Revenue classifications by segment are as follows: Services – systems integration and consulting, outsourcing, infrastructure services and core maintenance; Technology – enterprise-class servers and specialized technologies.

The accounting policies of each business segment are the same as those described in the summary of significant accounting policies. 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 profit on such shipments of company hardware and software to customers. The Services segment also includes 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 years ended December 31, 2008, 2007 and 2006, was \$38.5 million, \$17.3 million and \$16.4 million, respectively. The profit on these transactions is eliminated in Corporate.

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

No single customer accounts for more than 10% of revenue. Revenue from various agencies of the U.S. Government, which is reported in both business segments, was approximately \$864 million, \$891 million and \$921 million in 2008, 2007 and 2006, respectively.

Corporate assets are principally cash and cash equivalents, prepaid postretirement assets and deferred income taxes. The expense or income related to corporate assets is allocated to the business segments. In addition, corporate assets include an offset for interests in accounts receivable that have been recorded as sales in accordance with SFAS No. 140, because such receivables are included in the assets of the business segments. See Note 6.

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

Year ended December 31 (millions)	2008	2007	2006
Total segment operating income (loss)	\$ 171.8	\$ 203.1	\$ (4.8)
Interest expense	(85.1)	(76.3)	(77.2)
Other income (expense), net	(32.6)	(7.6)	150.3
Cost reduction charges	(103.1)	(116.8)	(330.1)
Corporate and eliminations	(28.0)	1.1	10.9
Total income (loss) before income taxes	\$ (77.0)	\$ 3.5	\$(250.9)

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

Year ended December 31 (millions)	2008	2007	2006
Services			
Systems integration and consulting	\$1,490.5	\$1,504.2	\$1,591.8
Outsourcing	2,006.6	2,039.7	1,916.2
Infrastructure services	735.1	878.2	948.2
Core maintenance	371.4	424.6	461.0
	<u>4,603.6</u>	<u>4,846.7</u>	<u>4,917.2</u>
Technology			
Enterprise-class servers	515.8	647.3	668.6
Specialized technologies	113.8	158.5	171.4
	<u>629.6</u>	<u>805.8</u>	<u>840.0</u>
Total	\$5,233.2	\$5,652.5	\$5,757.2

Presented below is a reconciliation of total business segment assets to consolidated assets:

December 31 (millions)	2008	2007	2006
Total segment assets	\$2,176.4	\$2,695.1	\$2,905.3
Cash and cash equivalents	544.0	830.2	719.3
Prepaid postretirement assets	20.7	497.0	250.1
Deferred income taxes	111.4	111.8	221.3
Elimination for sale of receivables	(141.0)	(132.6)	(168.7)
Other corporate assets	112.6	135.6	110.6
Total assets	\$2,824.1	\$4,137.1	\$4,037.9

A summary of the company's operations by business segment for 2008, 2007 and 2006 is presented below:

(millions)	Total	Corporate	Services	Technology
2008				
Customer revenue	\$5,233.2		\$4,603.6	\$ 629.6
Intersegment		\$ (232.0)	13.9	218.1
Total revenue	\$5,233.2	\$ (232.0)	\$4,617.5	\$ 847.7
Operating income (loss)	\$ 40.7	\$ (131.1)	\$ 137.3	\$ 34.5
Depreciation and amortization	418.0		291.7	126.3
Total assets	2,824.1	647.7	1,696.9	479.5
Capital expenditures	294.5	12.9	201.7	79.9
2007				
Customer revenue	\$5,652.5		\$4,846.7	\$ 805.8
Intersegment		\$ (206.7)	13.9	192.8
Total revenue	\$5,652.5	\$ (206.7)	\$4,860.6	\$ 998.6
Operating income (loss)	\$ 85.9	\$ (117.2)	\$ 120.6	\$ 82.5
Depreciation and amortization	380.5		261.2	119.3
Total assets	4,137.1	1,442.0	2,096.2	598.9
Capital expenditures	309.0	20.9	201.9	86.2
2006				
Customer revenue	\$5,757.2		\$4,917.2	\$ 840.0
Intersegment		\$ (250.3)	14.8	235.5
Total revenue	\$5,757.2	\$ (250.3)	\$4,932.0	\$ 1,075.5
Operating income (loss)	\$ (326.8)	\$ (322.0)	\$ (22.6)	\$ 17.8
Depreciation and amortization	388.5		264.5	124.0
Total assets	4,037.9	1,132.6	2,222.2	683.1
Capital expenditures	256.5	5.3	144.7	106.5

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

Year ended December 31 (millions)	2008	2007	2006
Revenue			
United States	\$2,243.0	\$2,432.3	\$2,539.9
United Kingdom	748.2	900.2	873.2
Other foreign	2,242.0	2,320.0	2,344.1
Total	\$5,233.2	\$5,652.5	\$5,757.2
Properties, net			
United States	\$ 178.1	\$ 206.9	\$ 211.9
United Kingdom	28.9	42.0	45.2
Other foreign	69.5	83.3	84.2
Total	\$ 276.5	\$ 332.2	\$ 341.3
Outsourcing assets, net			
United States	\$ 140.9	\$ 146.6	\$ 130.8
United Kingdom*	107.9	186.8	221.4
Other foreign	66.1	76.0	48.9
Total	\$ 314.9	\$ 409.4	\$ 401.1

* Amounts relate principally to iPSL, a 51%-owned U.K.-based company. See Note 9.

17. Employee plans

Stock plans 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 December 31, 2008, 24.5 million shares of unissued common stock of the company were available for granting under these plans.

As of December 31, 2008, 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 the compensation cost for only those awards expected to vest. The company estimates the forfeiture rate based on its historical experience and its expectations about future forfeitures.

The company's stock option and time-based restricted stock unit grants include a provision that if termination of employment occurs after the participant has attained age 55 and completed 5 years of service with the company, or for directors, the completion of 5 years of service as a director, the participant shall continue to vest in each of his or her awards in accordance with the vesting schedule set forth in the applicable award agreement. Compensation expense for such awards is recognized over the period to the date the employee first becomes eligible for retirement.

Options have been granted to purchase the company's common stock at an exercise price equal to or greater than the fair market value at the date of grant. Options granted before January 1, 2005 generally have a maximum duration of ten years and were exercisable in annual installments over a four-year period following date of grant. Stock options granted after January 1, 2005 generally have a maximum duration of five years and become exercisable in annual installments over a three-year period following date of grant.

For stock options, the fair value is estimated at the date of grant using a Black-Scholes option pricing model. Principal assumptions used are as follows: (a) expected volatility for the company's stock price is based on historical volatility and implied market volatility, (b) historical exercise data is used to estimate the options' expected term, which represents the period of time that the options granted are expected to be outstanding, and (c) the risk-free interest rate is the rate on zero-coupon U.S. government issues with a remaining term equal to the expected life of the options. The company recognizes compensation expense for the fair value of stock options, which have graded vesting, on the straight-line basis over the requisite service period of the awards. The compensation expense recognized as of any date must be at least equal to the portion of the grant-date fair value that is vested at that date.

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

Year Ended December 31	2008	2007	2006
Weighted-average fair value of grant	\$.85	\$ 2.36	\$ 2.46
Risk-free interest rate	3.63%	4.63%	4.35%
Expected volatility	45.28%	35.31%	45.88%
Expected life of options in years	3.67	3.67	3.67
Expected dividend yield	-	-	-

Restricted stock unit awards may contain time-based units, performance-based units or a combination of both. Each performance-based unit will vest into zero to 1.5 shares depending on the degree to which the performance goals are met. Compensation expense resulting from these awards is recognized as expense ratably for each installment from the date of grant until the date the restrictions lapse and is based on the fair market value at the date of grant and the probability of achievement of the specific performance-related goals.

During the year ended December 31, 2008, 2007 and 2006, the company recognized \$1.1 million, \$7.7 million and \$6.7 million of share-based compensation expense, which is comprised of \$.8 million, \$7.3 million and \$6.1 million of restricted stock unit expense and \$.3 million, \$.4 million and \$.6 million of stock option expense, respectively. In September 2008, the company reversed \$13.2 million of previously-accrued compensation expense related to performance-based restricted stock units due to a change in the assessment of the achievability of the performance goals.

A summary of stock option activity for the year ended December 31, 2008 follows (shares in thousands):

Options	Shares	Weighted-Average Exercise Price	Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (\$ in millions)
Outstanding at December 31, 2007	37,452	\$16.99		
Granted	1,388	2.25		
Exercised	—	—		
Forfeited and expired	(4,699)	17.24		
Outstanding at December 31, 2008	34,141	16.35	2.27	\$—
Vested and expected to vest at December 31, 2008	34,141	16.35	2.27	\$—
Exercisable at December 31, 2008	32,649	16.98	2.17	\$—

The aggregate intrinsic value represents the total pretax value of the difference between the company's closing stock price on the last trading day of the period and the exercise price of the options, multiplied by the number of in-the-money stock options that would have been received by the option holders had all option holders exercised their options on December 31, 2008. The intrinsic value of the company's stock options changes based on the closing price of the company's stock. The total intrinsic value of options exercised for the years ended December 31, 2008 and 2007 was zero and \$2.9 million, respectively. As of December 31, 2008, \$1.3 million of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 2.6 years.

A summary of restricted stock unit activity for the year ended December 31, 2008 follows (shares in thousands):

	Restricted Stock Units	Weighted-Average Grant-Date Fair Value
Outstanding at December 31, 2007	4,346	\$7.65
Granted	7,075	4.01
Vested	(277)	6.88
Forfeited and expired	(3,514)	6.00
Outstanding at December 31, 2008	7,630	5.07

The fair value of restricted stock units is determined based on the trading price of the company's common shares on the date of grant. The weighted-average grant-date fair value of restricted stock units granted during the year ended December 31, 2007 was \$8.09. As of December 31, 2008, there was \$8.3 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 1.4 years. The total fair value of restricted share units vested during the years ended December 31, 2008 and 2007 was \$1.0 million and \$3.2 million, respectively.

Common stock issued upon exercise of stock options or upon lapse of restrictions on restricted stock units is newly issued shares. Cash received from the exercise of stock options for the years ended December 31, 2008 and 2007 was zero and \$12.3 million, respectively. During 2008 and 2007, the company did not recognize any tax benefits from the exercise of stock options or upon issuance of stock upon lapse of restrictions on restricted stock units because of its tax position. Any such tax benefits resulting from tax deductions in excess of the compensation costs recognized are classified as financing cash flows.

U.S. employees are eligible to participate in an employee savings plan. Under this plan, employees may contribute a percentage of their pay for investment in various investment alternatives. Effective January 1, 2007, the company increased its matching contribution to 100 percent of the first 6 percent of eligible pay contributed by plan participants. Prior to this date, company matching contributions of up to 2 percent of pay were made. Matching contributions were made in the form of newly issued shares of company common stock. The charge to income related to the company match for the years ended December 31, 2008, 2007 and 2006, was \$47.5 million, \$47.4 million and \$18.3 million, respectively. The expense for 2008 includes \$3.5 million for a true-up match related to the prior year. Effective January 1, 2009, the company match to the U.S. employee savings plan was suspended.

The company has defined contribution plans in certain locations outside the United States. The charge to income related to these plans was \$26.6 million, \$24.5 million and \$24.6 million, for the years ended December 31, 2008, 2007 and 2006, respectively. For plans outside the United States, company contributions are made in cash.

Retirement benefits In 2006, the company adopted changes to its U.S. defined benefit pension plans effective December 31, 2006. The changes included ending the accrual of future benefits in the company's defined benefit pension plans for employees effective December 31, 2006. No new entrants to the plans are allowed after that date. As a result of the amendment to stop accruals for future benefits in its U.S. defined benefit pension plans, the company recorded a pretax curtailment gain of \$45.0 million in 2006.

In April 2008, the company adopted changes to certain of its U.K. defined benefit pension plans whereby effective June 30, 2008 all future accruals of benefits under the plans ceased. As a result of this change, the company recorded a pretax curtailment loss of \$1.4 million in the second quarter of 2008. In addition, the company has enhanced its contributions to certain U.K. defined contribution plans, effective July 1, 2008.

The company has non-qualified compensation plans, which allow certain highly compensated employees and directors to defer the receipt of a portion of their salary, bonus and fees. Participants can earn a return on their deferred balance that is based on hypothetical investments in various investment vehicles. Changes in the market value of these investments are reflected as an adjustment to the liability with an offset to expense. As of December 31, 2008 and 2007, the liability to the participants of these plans was \$13.5 million and \$20.0 million, respectively. These amounts reflect the accumulated participant deferrals and earnings thereon as of that date. The company makes no contributions to the deferred compensation plans and remains contingently liable to the participants.

Retirement plans' funded status and amounts recognized in the company's consolidated balance sheets at December 31, 2008 and 2007, follow:

December 31 (millions)	U.S. Plans		International Plans	
	2008	2007	2008	2007
Change in projected benefit obligation				
Benefit obligation at beginning of year	\$ 4,602.0	\$4,771.8	\$2,376.8	\$2,464.1
Service cost	-	.2	22.9	41.4
Interest cost	283.9	278.0	130.9	123.9
Plan participants' contributions	-	-	6.8	9.4
Plan amendments	-	5.5	(6.1)	(7.2)
Actuarial gain	(105.4)	(126.5)	(287.2)	(281.4)
Benefits paid	(330.2)	(327.0)	(93.9)	(84.3)
Foreign currency translation adjustments	-	-	(339.3)	110.9
Benefit obligation at end of year	\$ 4,450.3	\$4,602.0	\$1,810.9	\$2,376.8
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 4,979.1	\$4,931.3	\$2,228.1	\$2,048.6
Actual return on plan assets	(1,359.7)	366.9	(266.0)	81.9
Employer contribution	7.5	7.9	70.6	70.8
Plan participants' contributions	-	-	6.8	9.4
Benefits paid	(330.2)	(327.0)	(93.9)	(84.3)
Foreign currency translation adjustments	-	-	(312.7)	101.7
Fair value of plan assets at end of year	\$ 3,296.7	\$4,979.1	\$1,632.9	\$2,228.1
Funded status at end of year	\$ (1,153.6)	\$ 377.1	\$ (178.0)	\$ (148.7)
Amounts recognized in the consolidated balance sheets consist of:				
Prepaid postretirement assets	\$ -	\$ 460.3	\$ 20.7	\$ 36.7
Other accrued liabilities	(7.3)	(7.3)	(.2)	-
Long-term postretirement liabilities	(1,146.3)	(75.9)	(198.5)	(185.4)
Total funded status	\$ (1,153.6)	\$ 377.1	\$ (178.0)	\$ (148.7)
Accumulated other comprehensive loss, net of tax				
Net loss	\$ 2,392.2	\$ 788.0	\$ 294.1	\$ 287.3
Prior service cost (credit)	\$ 4.9	\$ 5.5	\$ (.9)	\$ 1.2
Accumulated benefit obligation	\$ 4,450.3	\$4,602.0	\$1,755.5	\$2,093.4

Information for defined benefit retirement plans with an accumulated benefit obligation in excess of plan assets at December 31, 2008 and 2007, follows:

December 31 (millions)	2008	2007
Accumulated benefit obligation	\$5,436.0	\$1,100.2
Fair value of plan assets	4,088.7	952.2

Information for defined benefit retirement plans with a projected benefit obligation in excess of plan assets at December 31, 2008 and 2007, follows:

December 31 (millions)	2008	2007
Projected benefit obligation	\$5,441.1	\$1,576.6
Fair value of plan assets	4,088.7	1,308.0

Net periodic pension cost (income) for 2008, 2007 and 2006 includes the following components:

Year ended December 31 (millions)	U.S. Plans			International Plans		
	2008	2007	2006	2008	2007	2006
Service cost	\$ -	\$.2	\$ 61.4	\$ 22.9	\$ 41.4	\$ 48.4
Interest cost	283.9	278.0	278.3	130.9	123.9	112.6
Expected return on plan assets	(407.3)	(389.7)	(367.2)	(154.5)	(146.4)	(122.7)
Amortization of prior service (benefit) cost	.7	-	(1.9)	.2	.6	.9
Recognized net actuarial loss	57.4	97.4	121.3	13.1	35.3	49.4
Settlement/curtailment (gain) loss	-	-	(45.0)	1.4	(5.7)	-
Net periodic pension cost (income)	\$ (65.3)	\$ (14.1)	\$ 46.9	\$ 14.0	\$ 49.1	\$ 88.6

Weighted-average assumptions used to determine net periodic pension cost for the years ended December 31 were as follows:

Discount rate*	6.38%	6.02%	5.84/6.29%	5.86%	5.03%	4.77%
Rate of compensation increase	N/A	N/A	4.58%	3.29%	3.13%	3.12%
Expected long-term rate of return on assets**	8.75%	8.75%	8.75%	7.28%	7.30%	7.25%

* The dual rate for 2006 was caused by the remeasurement of the U.S. plans in March.

** For 2009, the company has assumed that the expected long-term rate of return on plan assets for its U.S. defined benefit pension plan will be 8.75%.

Weighted-average assumptions used to determine benefit obligations at December 31 were as follows:

Discount rate	6.75%	6.38%	6.02%	6.42%	5.86%	5.03%
Rate of compensation increase	N/A	N/A	N/A	2.88%	3.29%	3.13%

The expected pretax amortization in 2009 of net periodic pension cost is as follows: net loss, \$87.7 million; and prior service cost, \$.7 million.

The asset allocation for the defined benefit pension plans at December 31, 2008 and 2007, follows:

December 31	U.S.		Int'l	
	2008	2007	2008	2007
Asset Category				
Equity securities	62%	67%	40%	50%
Debt securities	30%	28%	56%	47%
Real estate	5%	4%	2%	1%
Cash	3%	1%	2%	2%
Total	100%	100%	100%	100%

The company's investment policy targets and ranges for each asset category are as follows:

Asset Category	U.S.		Int'l	
	Target	Range	Target	Range
Equity securities	68%	65-71%	46%	41-52%
Debt securities	26%	23-29%	52%	46-57%
Real estate	6%	3-9%	0%	0-3%
Cash	0%	0-5%	2%	0-4%

The company periodically reviews its asset allocation, taking into consideration plan liabilities, local regulatory requirements, plan payment streams and then-current capital market assumptions. The actual asset allocation for each plan is monitored at least quarterly, relative to the established policy targets and ranges. If the actual asset allocation is close to or out of any of the ranges, a review is conducted. Rebalancing will occur toward the target allocation, with due consideration given to the liquidity of the investments and transaction costs.

The objectives of the company's investment strategies are as follows: (a) to provide a total return that, over the long term, increases the ratio of plan assets to liabilities by maximizing investment return on assets, at a level of risk deemed appropriate, (b) to maximize return on assets by investing primarily in equity securities in the U.S. and for international plans by investing in appropriate asset classes, subject to the constraints of each plan design and local regulations, (c) to diversify investments within asset classes to reduce the impact of losses in single investments, and (d) for the U.S. plan to invest in compliance with the Employee Retirement Income Security Act of 1974 (ERISA), as amended and any subsequent applicable regulations and laws, and for international plans to invest in a prudent manner in compliance with local applicable regulations and laws.

The company sets the expected long-term rate of return based on the expected long-term return of the various asset categories in which it invests. The company considered the current expectations for future returns and the actual historical returns of each asset class. Also, since the company's investment policy is to actively manage certain asset classes where the potential exists to outperform the broader market, the expected returns for those asset classes were adjusted to reflect the expected additional returns.

The company expects to make cash contributions of approximately \$90 million to its worldwide defined benefit pension plans (principally international plans) in 2009. In accordance with regulations governing contributions to U.S. defined benefit pension plans, the company is not required to fund its U.S. qualified defined benefit pension plan in 2009.

As of December 31, 2008, the following benefit payments, which reflect expected future service where applicable, are expected to be paid from the defined benefit pension plans:

Year ending December 31 (millions)	U.S.	Int'l
2009	\$ 341.1	\$ 72.9
2010	342.2	77.5
2011	345.3	83.5
2012	349.6	92.2
2013	352.4	99.4
2014 - 2018	1,787.8	582.8

Other postretirement benefits A reconciliation of the benefit obligation, fair value of the plan assets and the funded status of the postretirement benefit plan at December 31, 2008 and 2007, follows:

December 31 (millions)	2008	2007
Change in accumulated benefit obligation		
Benefit obligation at beginning of year	\$ 189.7	\$ 203.7
Service cost	.5	-
Interest cost	12.5	12.1
Plan participants' contributions	9.1	11.4
Amendments	11.2	.8
Actuarial (gain) loss	(12.1)	(1.9)
Federal drug subsidy	4.9	1.0
Benefits paid	(31.2)	(37.4)
Benefit obligation at end of year	<u>\$ 184.6</u>	<u>\$ 189.7</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 11.5	\$ 12.8
Actual return on plan assets	.8	.3
Employer contributions	19.5	24.4
Plan participants' contributions	9.1	11.4
Benefits paid	(31.2)	(37.4)
Fair value of plan assets at end of year	<u>\$ 9.7</u>	<u>\$ 11.5</u>
Funded status at end of year	<u>\$ (174.9)</u>	<u>\$ (178.2)</u>
Amounts recognized in the consolidated balance sheets consist of:		
Other accrued liabilities	\$ (22.7)	\$ (18.8)
Long-term postretirement liabilities	(152.2)	(159.4)
Total funded status	<u>\$ (174.9)</u>	<u>\$ (178.2)</u>
Accumulated other comprehensive loss, net of tax		
Net loss	\$ 35.8	\$ 48.0
Prior service cost (benefit)	9.8	.4

Net periodic postretirement benefit cost for 2008, 2007 and 2006, follows:

Year ended December 31 (millions)	2008	2007	2006
Service cost	\$.5	\$ -	\$ -
Interest cost	12.5	12.1	12.7
Expected return on assets	(.5)	(.5)	(.5)
Amortization of prior service cost (benefit)	1.9	(.1)	(1.9)
Recognized net actuarial loss	3.9	4.5	5.0
Net periodic benefit cost	<u>\$ 18.3</u>	<u>\$ 16.0</u>	<u>\$ 15.3</u>

Weighted-average assumptions used to determine net periodic postretirement benefit cost for the years ended December 31 were as follows:

Discount rate	6.58%	6.58%	6.46%
Expected return on plan assets	6.75%	6.75%	6.75%

Weighted-average assumptions used to determine benefit obligation at December 31 were as follows:

Discount rate	7.02%	6.58%	6.58%
---------------	-------	-------	-------

The expected pretax amortization in 2009 of net periodic postretirement benefit cost is as follows: net loss, \$3.5 million; and prior service cost, \$1.5 million.

The plan assets are invested as follows: 28% debt securities, 70% insurance contracts and 2% cash. The company reviews its asset allocation periodically, taking into consideration plan liabilities, plan payment streams and then-current capital market assumptions. The company sets the long-term expected return on asset assumption, based principally on the long-term expected return on debt securities. These return assumptions are based on a combination of current market conditions, capital market expectations of third-party investment advisors and actual historical returns of the asset classes.

The company expects to contribute approximately \$23 million to its postretirement benefit plan in 2009.

Assumed health care cost trend rates at December 31	2008	2007
Health care cost trend rate assumed for next year	8.6%	9.4%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	2014	2014

A one-percentage-point change in assumed health care cost trend rates would have the following effects (in millions of dollars):

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on service and interest cost	\$.5	\$ (.5)
Effect on postretirement benefit obligation	5.3	(7.9)

As of December 31, 2008, the following benefits are expected to be paid to or from the company's postretirement plan:

Year ending December 31 (millions)	Gross Medicare Part D Receipts	Gross Expected Payments
2009	\$3.4	\$29.2
2010	3.5	29.1
2011	3.3	28.0
2012	3.2	28.0
2013	3.2	27.6
2014 - 2018	7.4	75.0

18. Stockholders' equity

The company has 720 million authorized shares of common stock, par value \$.01 per share, and 40 million shares of authorized preferred stock, par value \$1 per share, issuable in series.

At December 31, 2008, 76.7 million shares of unissued common stock of the company were reserved principally for stock-based incentive and savings plans.

Comprehensive income (loss) for the three years ended December 31, 2008, includes the following components:

Year ended December 31 (millions)	2008	2007	2006
Net loss	\$ (130.1)	\$ (79.1)	\$ (278.7)
Other comprehensive income (loss)			
Cash flow hedges			
Income (loss), net of tax of \$ -, \$ - and \$(.3)	-	(.2)	(1.1)
Reclassification adjustments, net of tax of \$ -, \$ - and \$.3	-	.2	1.0
Foreign currency translation adjustments	(106.2)	37.8	(5.8)
Postretirement adjustments, net of tax of \$(8.8), \$(33.2) and \$(40.9)	(1,627.4)	405.3	1,544.6
Total other comprehensive income	(1,733.6)	443.1	1,538.7
Comprehensive income (loss)	\$(1,863.7)	\$364.0	\$1,260.0

Accumulated other comprehensive income (loss) as of December 31, 2008, 2007 and 2006, is as follows:

(millions)	Total	Translation Adjustments	Cash Flow Hedges	Postretirement Plans
Balance at December 31, 2005	\$(1,844.9)	\$(627.3)	\$.1	\$ (1,217.7)
Change during period	1,538.7	(5.8)	(.1)	1,544.6
Adoption of SFAS No. 158	(1,319.8)	-	-	(1,319.8)
Balance at December 31, 2006	(1,626.0)	(633.1)	-	(992.9)
Change during period	443.1	37.8	-	405.3
Balance at Dec. 31, 2007	(1,182.9)	(595.3)	-	(587.6)
Change during period	(1,733.6)	(106.2)	-	(1,627.4)
Balance at December 31, 2008	\$(2,916.5)	\$(701.5)	\$ -	\$(2,215.0)

Report of Management on the Financial Statements

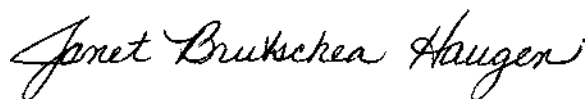
The management of the company is responsible for the integrity of its financial statements. These statements have been prepared in conformity with U.S. generally accepted accounting principles and include amounts based on the best estimates and judgments of management. Financial information included elsewhere in this report is consistent with that in the financial statements.

KPMG LLP, an independent registered public accounting firm, has audited the company's 2008 financial statements. Its accompanying report is based on an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States).

The Board of Directors, through its Audit Committee, which is composed entirely of independent directors, oversees management's responsibilities in the preparation of the financial statements and selects the independent registered public accounting firm, subject to stockholder ratification. The Audit Committee meets regularly with the independent registered public accounting firm, representatives of management, and the internal auditors to review the activities of each and to assure that each is properly discharging its responsibilities. To ensure complete independence, the internal auditors and representatives of KPMG LLP have full access to meet with the Audit Committee, with or without management representatives present, to discuss the results of their audits and their observations on the adequacy of internal controls and the quality of financial reporting.



J. Edward Coleman
Chairman of the Board and
Chief Executive Officer



Janet Brutschea Haugen
Senior Vice President and
Chief Financial Officer

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Unisys Corporation

We have audited the accompanying consolidated balance sheet of Unisys Corporation and subsidiaries as of December 31, 2008, and the related consolidated statements of income, stockholders' equity (deficit) and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Unisys Corporation and subsidiaries as of December 31, 2008, and the results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Unisys Corporation's internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 2, 2009 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP

Philadelphia, Pennsylvania
March 2, 2009

Report of Independent Registered Public Accounting Firm on the Financial Statements

To the Board of Directors and Shareholders of Unisys Corporation

We have audited the accompanying consolidated balance sheet of Unisys Corporation as of December 31, 2007, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2007. These financial statements are the responsibility of Unisys Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Unisys Corporation at December 31, 2007, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

Philadelphia, Pennsylvania
February 28, 2008

Report of Management on Internal Control Over Financial Reporting

The management of Unisys Corporation (the company) is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

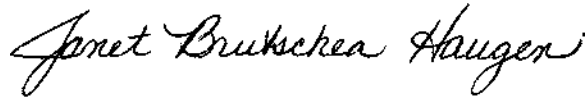
Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, we assert that the company maintained effective internal control over financial reporting as of December 31, 2008, based on the specified criteria.

KPMG LLP, an independent registered public accounting firm, has audited the company's internal control over financial reporting as of December 31, 2008, as stated in their attestation report that appears on the following page.



J. Edward Coleman
Chairman of the Board and
Chief Executive Officer



Janet Brutschea Haugen
Senior Vice President and
Chief Financial Officer

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Unisys Corporation

We have audited Unisys Corporation's internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Unisys Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Unisys Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Unisys Corporation and subsidiaries as of December 31, 2008, and the related consolidated statements of income, stockholders' equity (deficit) and cash flows for the year then ended, and our report dated March 2, 2009 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Philadelphia, Pennsylvania

March 2, 2009