

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

AMENDMENT NO. 2

TO

ANNUAL REPORT

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

For the fiscal year ended December 31, 1998

Commission file number: 1-8729

UNISYS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

Unisys Way  
Blue Bell, Pennsylvania  
(Address of principal executive offices)

19424  
(Zip Code)

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

The undersigned registrant hereby amends its annual report on Form 10-K for the fiscal year ended December 31, 1998 as follows:

(a) Exhibit 13 (portions of the Unisys 1998 Annual Report to Stockholders) is deleted and is replaced with the attached Exhibit 13. The Unisys 1998 Annual Report to Stockholders is incorporated by reference into Items 1, 5, 6, 7, 7A, 8 and 14 of the Form 10-K for the year ended December 31, 1998. All references in such Items to the Unisys 1998 Annual Report to Stockholders shall be deemed to be references to Exhibit 13 to this Amendment No. 2 on Form 10-K/A.

The attached Exhibit 13 contains revisions made by the company in response to comments received from the SEC. These revisions consist primarily of (1) expanded disclosure related to the one-time charges recorded by the company in the fourth quarter of 1997, (2) reclassifications of certain impairment charges from "Other income (expense), net" to "Impairment charges," and (3) revisions made to address SEC comments concerning product warranty costs for company-manufactured personal computers. With respect to these product warranty costs, the company has restated its Consolidated Statement of Income for 1997 to remove the one-time charge to accrue for these costs and has restated prior years to record the liability on an accrual basis.

The effect on the company's consolidated statements of income is shown in the following table:

Years ended December 31  
(\$ in millions, except per share data)

	1997			1996		
	As Reported	Adj.	As Restated	As Reported	Adj.	As Restated
Revenue	\$6,636.0		\$6,636.0	\$6,370.5		\$6,370.5
Costs and expenses						
Cost of revenue	4,402.4	\$(29.0)	4,373.4	4,252.1	\$7.0	4,259.1

Selling, general and administrative	1,427.2		1,427.2	1,448.1		1,448.1
Research and development	302.3		302.3	342.9		342.9
Impairment charges	883.6	39.3	922.9			
	7,015.5	10.3	7,025.8	6,043.1	7.0	6,050.1
Operating income (loss)	(379.5)	(10.3)	(389.8)	327.4	(7.0)	320.4
Interest expense	233.2		233.2	249.7		249.7
Other income (expense), net	(146.1)	39.3	(106.8)	16.0		16.0
Income (loss) before income taxes	(758.8)	29.0	(729.8)	93.7	(7.0)	86.7
Estimated income taxes	94.8	9.9	104.7	31.9	(2.4)	29.5
Income (loss) before extraordinary item	(853.6)	19.1	(834.5)	61.8	(4.6)	57.2
Extraordinary item	0.0		0.0	(12.1)		(12.1)
Net income (loss)	(853.6)	19.1	(834.5)	49.7	(4.6)	45.1
Dividends on preferred shares	111.1		111.1	120.8		120.8
Earnings (loss) on common shares	\$(964.7)	\$19.1	\$(945.6)	\$(71.1)	\$(4.6)	\$(75.7)
EPS - basic and diluted						
Before extraordinary item	\$(5.30)	\$0.10	\$(5.20)	\$(0.34)	\$(0.03)	\$(0.37)
Extraordinary item				(0.07)		(0.07)
Total	\$(5.30)	\$0.10	\$(5.20)	\$(0.41)	\$(0.03)	\$(0.44)

The revisions do not affect cash or cash flow nor do they negatively affect the company's current or future operations.

The following portions of the Unisys 1998 Annual Report to Stockholders have been revised to reflect the expanded disclosures, reclassifications, and revisions:

- . Management's Discussion and Analysis of Financial Condition and Results of Operations
- . Consolidated Statement of Income
- . Consolidated Statement of Cash Flows
- . Consolidated Statement of Stockholders' Equity
- . Notes to Consolidated Financial Statements
  - Note 1, Summary of significant accounting policies
  - Note 2, Earnings per share
  - Note 3, One-time charges
  - Note 4, Accounting changes, adjustments and extraordinary item
  - Note 6, Estimated income taxes
  - Note 9, Other accrued liabilities
  - Note 10, Comprehensive income
  - Note 14, Segment information
  - Note 15, Employee plans
- . Supplemental Financial Data

(b) Exhibit 12 (Computation of Ratio of Earnings to Fixed Charges) is deleted and is replaced with the attached Exhibit 12.

(c) Restated Financial Data Schedules for the years ended December 31, 1997 and 1996 are filed as Exhibits 27.1 and 27.2.

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

UNISYS CORPORATION

Date: July 14, 1999

By: /s/ Janet Brutschea Haugen  
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Janet Brutschea Haugen  
Vice President and Controller

Exhibit Index

Exhibit No. -----	Description -----
12	Computation of Ratio of Earnings to Fixed Charges
13	Portions of the Annual Report to Stockholders of the registrant for the year ended December 31, 1998
23	Consent of Ernst & Young LLP, Independent Auditors
27.1	Restated Financial Data Schedule for the year ended December 31, 1997
27.2	Restated Financial Data Schedule for the year ended December 31, 1996

UNISYS CORPORATION  
 COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES (UNAUDITED)  
 (\$ in millions)

	Years Ended December 31				
	1998	1997	1996	1995	1994
Income (loss) from continuing operations before income taxes	\$604.7	\$ (729.8)	\$ 86.7	\$ (781.1)	\$ 14.6
Add (deduct) share of loss (income) of associated companies	(.3)	5.9	(4.9)	5.0	16.6
Subtotal	604.4	(723.9)	81.8	(776.1)	31.2
Interest expense	171.7	233.2	249.7	202.1	203.7
Amortization of debt issuance expenses	4.6	6.7	6.3	5.1	6.2
Portion of rental expense representative of interest	48.5	51.2	59.2	65.3	65.0
Total Fixed Charges	224.8	291.1	315.2	272.5	274.9
Earnings (loss) from continuing operations before income taxes and fixed charges	\$829.2	\$ (432.8)	\$397.0	\$ (503.6)	\$306.1
Ratio of earnings to fixed charges	3.69	*	1.26	*	1.11

\* Earnings for the years ended December 31, 1997 and 1995 were inadequate to cover fixed charges by approximately \$723.9 and \$776.1 million, respectively.

## Unisys Corporation

Management's Discussion and Analysis of  
Financial Condition and Results of Operations

## Results of operations

For 1998, the company reported net income of \$387.0 million, or \$1.06 per diluted common share, compared to net income, before one-time charges, of \$194.8 million, or \$.44 per diluted common share, for 1997. In 1996, income before an extraordinary item was \$57.2 million, or a loss of \$.37 per common share.

In the fourth quarter of 1997, the company undertook a strategic review of its worldwide operations. The results of this review suggested the need for further transformation of the company's operations to ensure the continued emphasis on investment in services growth, the transition of its enterprise class servers to a truly open architecture, and aggressive debt reduction initiatives. This review and the resulting recommendations were finalized in December 1997. These recommendations included the discontinuance of PC and low-end server manufacturing and the disposal of a small, non-strategic technology product in view of the continued inefficiencies of these operations and in order to allow management to focus on the company's core competencies. Additionally, in late 1997, the company announced a strategic partnership with Microsoft to integrate Windows NT with enterprise computing. These changes in strategic direction, together with the continuing trends toward common platforms and commodity components, market shifts from higher-profit margin proprietary systems to lower-margin open systems and continued declines in core maintenance revenues, represented indicators of a potential impairment, which caused the company to undertake an in-depth assessment of the recoverability of the goodwill related to the 1986 Sperry Corporation acquisition. This review indicated a continuation of the trend of declining revenue from Sperry-related proprietary products and maintenance. However, this revenue decline is expected to be more than offset by increased revenue from open systems products and maintenance, and the company's aggressive expansion of services related revenue. Therefore, the company does not expect that the decline in Sperry-related revenue will have a material adverse effect on the company's consolidated results of operations or liquidity.

In the fourth quarter of 1997, as a result of the strategic review discussed above, the company recorded a one-time charge of \$1.0 billion against net income. Including this charge, the company had a 1997 net loss of \$834.5 million or \$5.20 per share.

The \$1.0 billion charge included \$103.7 million, or \$0.58 per share, principally related to the company's decisions to discontinue the manufacturing and assembly of personal computers and low-end servers and outsource the procurement of these products, and to dispose of a small, non-strategic technology product. In March 1998, the company announced that it had reached a PC outsourcing agreement with a third party to build notebooks, desktops, and entry-level servers for the company's customers. As a result, the company ceased manufacturing and assembly of these products in September 1998. In July 1998, the company completed the sale of the operations relating to the non-strategic technology product.

Also included in the charge is the non-cash write-off of \$883.6 million, or \$4.85 per share, of goodwill principally related to the 1986 merger of Burroughs Corporation and Sperry Corporation. The write-off reflects the rapid changes that continue to occur in the marketplace away from the proprietary technology and maintenance businesses and the continuing declines in revenue and margins in these businesses, as well as the company's decision to change the method used for measuring the remaining value of goodwill. Yearly amortization of this goodwill was approximately \$36 million.

The final component of the fourth-quarter charge was \$42.0 million, or \$.23 per share, related to the conversion of convertible debt. During the fourth quarter of 1997, the company reduced its long-term debt by \$616 million through the conversion of convertible notes into 73.2 million shares of common stock. Approximately \$271 million of the debt was converted in response to a special offer by the company to pay a cash premium for each note converted. The \$42.0 million charge represents the cost of the special offer.

The following comparisons of income statement categories exclude the one-time charges discussed above.

Revenue for 1998 was \$7.2 billion compared to \$6.6 billion in 1997 and \$6.4 billion in 1996. Revenue from international operations in 1998, 1997, and 1996 was \$4.1 billion, \$3.9 billion, and \$4.0 billion, respectively. Revenue from U.S. operations was \$3.1 billion in 1998, \$2.7 billion in 1997, and \$2.4 billion in 1996.

Total gross profit percent was 34.0% in 1998, 35.0% in 1997, and 33.1% in 1996. The decrease in 1998 reflects the company's shift to higher-growth, lower-margin services businesses.

Selling, general and administrative expenses in 1998 were \$1.3 billion compared to \$1.4 billion in both 1997 and 1996. The decline in 1998 was largely due to the company's cost reduction programs, as well as stringent controls over all discretionary expenditures.

Research and development expenses in 1998 were \$296.6 million compared to \$297.4 million in 1997 and \$342.9 million in 1996. The decline in 1997 compared to 1996 was largely due to the company's cost reduction actions.

In 1998, the company reported operating income of \$810.2 million (11.2% of revenue) compared to \$607.4 million (9.2% of revenue) in 1997 and \$320.4 million (5.0% of revenue) in 1996.

In 1998, the company adopted Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures About Segments of an Enterprise and Related Information." See Note 14 of the Notes to the Consolidated Financial Statements. Prior to its adoption, the company reported information on its Information Services, Global Customer Services and Computer Systems business units. For the most part, the company now combines the Information Services and Global Customer Services businesses into a segment called Services, and now reports the Computer Systems business under the Technology segment.

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Information by these business segments for 1998, 1997, and 1996 is presented below:

(Millions of dollars)	Total	Eliminations	Services	Technology
<b>1998</b>				
Customer revenue	\$ 7,208.4		\$ 4,909.3	\$ 2,299.1
Intersegment		\$ (511.2)	73.7	437.5
Total revenue	\$ 7,208.4	\$ (511.2)	\$ 4,983.0	\$ 2,736.6
Gross profit percent	34.0%		24.2%	46.9%
Operating income percent	11.2%		6.9%	18.7%
<b>1997</b>				
Customer revenue	\$ 6,636.0		\$ 4,281.0	\$ 2,355.0
Intersegment		\$ (483.8)	70.0	413.8
Total revenue	\$ 6,636.0	\$ (483.8)	\$ 4,351.0	\$ 2,768.8
Gross profit percent	35.0%		24.2%	46.2%
Operating income percent	9.2%		3.8%	16.0%
<b>1996</b>				
Customer revenue	\$ 6,370.5		\$ 4,008.8	\$ 2,361.7
Intersegment		\$ (529.3)	82.1	447.2
Total revenue	\$ 6,370.5	\$ (529.3)	\$ 4,090.9	\$ 2,808.9
Gross profit percent	33.1%		24.0%	41.5%
Operating income percent	5.0%		3.0%	8.9%

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

In the Services segment, customer revenue was \$4.9 billion in 1998, \$4.3 billion in 1997, and \$4.0 billion in 1996. The growth in customer revenue was 15% in 1998 and 7% in 1997 led by increases in network services, systems

integration, and outsourcing revenue. In both years, these increases more than offset the decline in proprietary maintenance revenue. Gross profit, although relatively constant, reflects benefits from improvements in bid quality and control processes and from completion of certain problem contracts, offset by: (a) heavy competition in the network services market, (b) commoditization of low-end, third-party hardware components that are typically part of a network integration project, (c) continued roll out of a large low-margin federal government networking project, and (d) continued shift in mix away from proprietary maintenance. Operating profit in the segment was 6.9% in 1998, 3.8% in 1997, and 3.0% in 1996. The increases in operating profit were largely due to cost reduction programs as well as stringent cost controls over all discretionary expenditures.

In the Technology segment, customer revenue was \$2.3 billion in 1998 and \$2.4 billion in both 1997 and 1996. In 1998, revenue for ClearPath enterprise servers remained strong, which offset declines, as expected, in personal computer revenue. Earlier in 1998, the company outsourced the supply of notebooks, PCs, and entry-level servers to focus on its more profitable enterprise server business. The gross profit percent was 46.9% in 1998, 46.2% in 1997, and 41.5% in 1996. The increases in gross profit percent were due in large part to a richer mix of enterprise servers and enterprise server software sales. Operating profit in this segment was 18.7% in 1998, 16.0% in 1997, and 8.9% in 1996. The increases in operating profit, above the respective increases in gross profit, were largely due to cost reduction programs as well as stringent controls over all discretionary expenditures.

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Interest expense was \$171.7 million in 1998, \$233.2 million in 1997, and \$249.7 million in 1996. The declines were due to lower average debt levels.

Other income (expense), net, which can vary from year to year, was an expense of \$33.8 million in 1998 and \$64.8 million in 1997, and income of \$16.0 million in 1996. The difference in 1998 compared to 1997 was principally due to lower goodwill amortization and higher equity income. In addition in 1998, a net gain on the sale of properties was offset by charges related to certain legal disputes and the early extinguishment of debt. The difference in 1997 compared to 1996 was principally due to lower interest and equity income in 1997 and a gain on the sale of an equity investment in 1996.

Income before income taxes in 1998 was \$604.7 million compared to \$309.4 million in 1997 and \$86.7 million in 1996.

Estimated income taxes in 1998 were \$217.7 million compared to \$114.6 million in 1997 and \$29.5 million in 1996. The 1996 tax provision included a benefit of \$24.8 million related to reversals of deferred tax valuation allowances due to additional tax planning strategies available to the company.

Effective January 1, 1998, the company changed the functional currency of its Brazilian operations from the U.S. dollar to the Brazilian local currency because the Brazilian economy was no longer considered highly inflationary. This change did not have a material effect on the company's consolidated financial position, consolidated results of operations, or liquidity.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement, which is effective for the year beginning January 1, 2000, establishes accounting and reporting standards for derivative instruments and for hedging activities. SFAS No. 133 requires a company to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Management is evaluating the impact this statement may have on the company's financial statements.

#### Financial condition

Cash and cash equivalents at December 31, 1998 were \$604.3 million compared to \$803.0 million at December 31, 1997.

During 1998, cash provided by operations was \$650.0 million compared to \$383.5 million in 1997. This increase was due in large part to higher net income and improved working capital management, including improvements in inventory turns. Operational cash flow in both years was reduced by a decline in sales of accounts receivable. In October 1998, the company terminated its \$120 million

U.S. facility used to sell accounts receivable. In 1997, the company reduced sales of accounts receivables, principally outside the United States, by \$151 million. Cash expenditures related to prior-year restructuring actions (which are included in operating activities) in 1998, 1997, and 1996 were \$118.4 million, \$178.7 million, and \$220.8 million, respectively. Cash expenditures for restructuring actions, principally for work-force reductions and facility costs, are expected to be approximately \$67 million in 1999 and \$35 million thereafter. Personnel reductions in 1998 related to restructuring actions were approximately 900 and are expected to be approximately 450 thereafter, principally in 1999.

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Cash used for investing activities during 1998 was \$275.0 million compared to \$291.6 million for 1997.

Cash used for financing activities during 1998 was \$570.7 million compared to \$274.1 million in 1997. Included in 1998 were payments of debt of \$748.5 million (described below) partially offset by proceeds of \$195.2 million from issuance of 7 7/8% senior notes due 2008. In 1997, the company redeemed all \$150.0 million of its Series B and C Cumulative Convertible Preferred Stock and spent \$46.1 million in connection with the conversions of debt into common stock described below. Dividends paid on preferred stock were \$106.5 million in 1998 compared to \$113.1 million in 1997.

At December 31, 1998, total debt was \$1.2 billion, a decline of \$532.2 million from December 31, 1997. Debt retirements during 1998 were as follows. On February 5, 1998, the company redeemed all \$197.5 million of its 9 1/2% senior notes due on July 15, 1998. On March 2, 1998, the company redeemed \$200 million principal amount of its 10 5/8% senior notes due 1999. On September 15, 1998, the company made a \$30 million sinking fund payment, which included a \$20 million optional prepayment, on its 9 3/4% sinking fund debentures. On October 1, 1998, the company redeemed at par the remaining \$130 million outstanding of its 10 5/8% notes, one year ahead of the due date in October 1999. On December 4, 1998, the company redeemed the remaining \$160.0 million of its 9 3/4% sinking fund debentures at the stated redemption price of 103.61% of principal.

In the fourth quarter of 1997, \$616.2 million of the company's convertible subordinated notes were converted into 73.2 million shares of common stock. These conversions included all \$345.0 million of the company's 8 1/4% convertible subordinated notes due 2000 and \$271.2 million of its 8 1/4% convertible subordinated notes due 2006.

In December 1998, the company called 2.0 million shares of its Series A Cumulative Convertible Preferred Stock for redemption on January 21, 1999. The preferred stock is convertible into shares of the company's common stock, at the option of the holder, at a conversion rate of approximately 1.67 shares of common stock for each preferred share converted.

On January 21, 1999, 1.9 million shares of the preferred stock were converted into 3.2 million shares of the company's common stock and 270 thousand shares of preferred stock were redeemed for \$13.5 million. Included in the above number were 184 thousand shares of preferred stock that were voluntarily converted into the company's common stock during the call period.

In addition, on January 21, 1999, the company announced that it was calling for redemption on March 4, 1999, an additional 6.0 million shares of its preferred stock. This call, when combined with the January 21, 1999 conversions and redemptions, will save \$30.7 million of annual dividend payments and will be accretive to 1999 diluted earnings per common share.

In January 1999, the company called for redemption on March 15, 1999, the remaining \$27 million of its 8 1/4% convertible subordinated notes due 2006. The notes will be redeemed at 105.775% of par, plus accrued interest. Each note is convertible into approximately 145.45 shares of the company's common stock.

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

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The company has on file with the Securities and Exchange Commission an



effective registration statement covering \$700 million of debt or equity securities, which enables the company to be prepared for future market opportunities.

In June 1998, the company entered into a \$400 million, three-year credit agreement. The new facility replaced the company's more restrictive \$200 million credit agreement established in June 1997. As of December 31, 1998, there were no borrowings under the agreement.

In May 1998, Moody's Investor Services raised its credit rating on the company's senior long-term debt to Ba3 from B1. In June 1998, Standard & Poor's Corporation raised its credit rating on the company's senior long-term debt to BB- from B+. In February 1999, Duff & Phelps Credit Rating Co. increased its rating on the company's senior long-term debt to BB+ from BB.

At December 31, 1998, the company had deferred tax assets in excess of deferred tax liabilities of \$1,384 million. For the reasons cited below, management determined that it is more likely than not that \$1,061 million of such assets will be realized, therefore resulting in a valuation allowance of \$323 million.

The company evaluates quarterly the realizability of its net deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization are the company's forecast of future taxable income, which is adjusted by applying probability factors, and available tax planning strategies that could be implemented to realize deferred tax assets. Failure to achieve forecasted taxable income might affect the ultimate realization of the net deferred tax assets. See "Factors that may affect future results" below. The combination of these factors is expected to be sufficient to realize the entire amount of net deferred tax assets. Approximately \$3.2 billion of future taxable income (predominantly U.S.) is needed to realize all of the net deferred tax assets.

Stockholders' equity increased \$311.1 million during 1998, principally reflecting net income of \$387.0 million, proceeds from the issuance of stock under stock option and other plans of \$89.7 million, and \$30.6 million of tax benefits related to stock plans, offset in part by preferred stock dividends of \$106.5 million and translation adjustments of \$83.5 million.

#### Market risk disclosure

The company has exposure to interest rate risk from its short-term and long-term debt. In general, the company's long-term debt is fixed rate and the short-term debt is variable rate. See Note 8 of the Notes to Consolidated Financial Statements for components of the company's long-term debt.

The company is also exposed to foreign currency exchange rate risks. The company uses derivative financial instruments to reduce its exposure to market risks from changes in foreign currency exchange rates. The derivative instruments used are foreign exchange forward contracts and options. These derivatives, which are over-the-counter instruments, are non-leveraged and involve little complexity. The company does not hold or issue derivatives for speculative trading purposes. See Note 12 of the Notes to Consolidated Financial Statements for additional information on the company's derivative financial instruments.

The company has performed a sensitivity analysis assuming a hypothetical 10% adverse movement in foreign currency exchange rates and interest rates applied to the hedging contracts and debt instruments described above. As of December 31, 1998, the analysis indicated that such market movements would not have had a material effect on the company's consolidated results of operations or on the fair value of its risk-sensitive financial instruments. Based on changes in the timing and amount of interest rate and foreign currency exchange rate movements and the company's portfolio of risk-sensitive financial instruments, actual effects on operations in the future may differ materially from that analysis.

#### Year 2000 readiness disclosure

Many computer systems and embedded technology may experience problems handling

dates beyond the year 1999 and therefore may need to be modified prior to the year 2000 in order to remain functional. The company is taking steps to ensure both the readiness of its product offerings to customers and the readiness of its internal systems for handling dates beginning in the year 2000.

As part of its development efforts, the company's current product offerings have been designed or are being redesigned to be year 2000 ready, as defined by the company. However, certain of the company's hardware and software products currently used by customers will require upgrades or other remediation to become year 2000 ready. Some of these products are used in critical applications where the impact of non-performance to these customers and other parties could be significant. The company has taken steps to notify customers of the year 2000 issue, provide information and resources on the company's year 2000 web site, emphasize the importance of customer testing of their own systems in their own unique business environment and offer consulting services to assist customers in assessing their year 2000 risk.

The company is also in the process of assessing the year 2000 readiness of its key suppliers. The company's reliance on suppliers, and therefore, on the proper functioning of their products, information systems, and software, means that their failure to address year 2000 issues could affect the company's business. However, the potential impact and related costs are not known at this time. The company is in the process of inquiring about the year 2000 readiness of key suppliers providing services to the company. It is also in the process of trying to obtain year 2000 readiness warranties from key vendors supplying product to the company for incorporation into the company's products for resale. The company expects to identify alternate sources or strategies where necessary if significant exposure is identified.

The company's year 2000 internal systems effort involves three stages: inventory and assessment of its hardware, software and embedded systems, remediation or replacement of those that are not year 2000 ready, and testing the systems. In 1997, the company completed an inventory and year 2000 assessment of its internal information technology ("IT") systems, and developed a work plan to remediate non-compliant systems or replace or consolidate these systems as part of the company's efforts to reduce and simplify, on a worldwide basis, its IT systems.

The company is initially focusing on the IT systems that are critical to running its business. The company expects to complete the remediation or replacement/consolidation of such systems by March 1999 and to complete integrated testing of these systems by mid 1999. The company expects to remediate or replace/consolidate its other IT systems by mid 1999 and to test these systems throughout 1999.

The company has completed an inventory and assessment of its key non-IT systems, such as data and voice communications, building management, and manufacturing systems. The company is in the process of remediating those systems that are not year 2000 ready and expects to have such remediation and testing completed by mid 1999.

The company estimates that, as of December 31, 1998, the cost of remediating its internal systems has been approximately \$12 million, and it expects to spend approximately \$3 million in 1999. The company is funding this effort through normal working capital. This estimate does not include the cost of replacing or consolidating IT systems in connection with the company's worldwide IT simplification project, which was undertaken for reasons unrelated to year 2000 issues, potential costs related to any customer or other claims, the costs associated with making the company's product offerings year 2000 ready, and the costs of any disruptions caused by suppliers not being year 2000 ready. This estimate is based on a current assessment of the year 2000 projects and is subject to change as the projects progress.

Although the company does not believe that it will incur material costs or experience material disruptions in its business associated with the year 2000, there can be no assurance that the company will not experience serious unanticipated negative consequences and/or material costs. The company may see increased customer satisfaction costs related to year 2000 over the next few years. In addition, some commentators have stated that a significant amount of litigation may arise out of year 2000 compliance issues, and the company is aware of a growing number of lawsuits against information technology and solutions providers. Although the company believes it has taken adequate

measures to address year 2000 issues, because of the unprecedented nature of such litigation, it is uncertain to what extent the company may be affected by it. It is also unknown whether customer spending patterns may be impacted by the year 2000 issue. Efforts by customers to address year 2000 issues may absorb a substantial part of their IT budgets in the near term, and customers may either accelerate or delay the purchase of new applications and systems. While this behavior may increase demand for certain of the company's products and services, including its year 2000 offerings, it could also soften demand. These events could affect the company's revenues or change its revenue patterns. In addition, there can be no assurance that the company's current product offerings do not contain undetected errors or defects associated with year 2000 date functions that may result in increased costs to the company. With respect to its internal systems, the worst case scenarios might include corruption of data contained in the company's internal IT systems, hardware failures, the failure of the company's significant suppliers, and the failure of infrastructure services provided by utilities and other third parties such as electricity, phone service, water transport and internet services.

The company is in the initial stages of developing contingency plans in the event it does not complete all phases of its year 2000 program. The company plans to evaluate the status of completion of its year 2000 program in the second quarter of 1999 and to begin implementing such plans as it deems necessary.

#### Conversion to the euro currency

On January 1, 1999, certain member countries of the European Union established fixed conversion rates between their existing currencies and the European Union's common currency (the "euro"). The transition period for the introduction of the euro began on January 1, 1999. Beginning January 1, 2002, the participating countries will issue new euro-denominated bills and coins for use in cash transactions. No later than July 1, 2002, the participating countries will withdraw all bills and coins denominated in the legacy currencies, so that the legacy currencies no longer will be legal tender for any transactions, making the conversion to the euro complete.

The company is addressing the issues involved with the introduction of the euro. The more important issues facing the company include converting information technology systems, reassessing currency risk, and negotiating and amending agreements. Based on progress to date, the company believes that the use of the euro will not have a significant impact on the manner in which it conducts its business. Accordingly, conversion to the euro is not expected to have a material effect on the company's consolidated financial position, consolidated results of operations, or liquidity.

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#### Factors that may affect future results

From time to time, the company provides information containing "forward-looking" statements, as defined in the Private Securities Litigation Reform Act of 1995. All forward-looking statements rely on assumptions and are subject to risks, uncertainties, and other factors that could cause the company's actual results to differ materially from expectations. In addition to changes in general economic and business conditions and natural disasters, these include, but are not limited to, the factors discussed below.

The company operates in an industry characterized by aggressive competition, rapid technological change, evolving technology standards, and short product life cycles.

Future operating results will depend on the company's ability to design, develop, introduce, deliver, or obtain new products and services on a timely and cost-effective basis; on its ability to mitigate the effects of competitive pressures and volatility in the information services and technology industry on revenues, pricing, and margins; on its ability to effectively manage the shift of its business mix away from traditional high-margin product and services offerings; and on its ability to successfully attract and retain highly skilled people.

Certain of the company's systems integration contracts are fixed-price contracts under which the company assumes the risk for delivery of the contracted services at an agreed-upon price. Future results will depend on the

company's ability to profitably perform these services contracts and bid and obtain new contracts.

Approximately 57% of the company's total revenue derives from international operations. The risks of doing business internationally include foreign currency exchange rate fluctuations, changes in political or economic conditions, trade protection measures, and import or export licensing requirements.

In the course of providing complex, integrated solutions to customers, the company frequently forms alliances with third parties that have complementary products, services, or skills. Future results will depend in part on the performance and capabilities of these third parties, including their ability to deal effectively with the year 2000 issue. Future results will also depend upon the ability of external suppliers to deliver components at reasonable prices and in a timely manner and on the financial condition of and the company's relationship with distributors and other indirect channel partners.

Future results may also be adversely affected by a delay in, or increased costs associated with, the implementation of the year 2000 actions discussed above, or by the company's inability to implement them.

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Unisys Corporation  
Consolidated Financial Statements

Consolidated Statement of Income

Year Ended December 31 (Millions, except per share data)	1998	1997	1996
Revenue	\$7,208.4	\$6,636.0	\$6,370.5
Costs and expenses			
Cost of revenue	4,758.6	4,373.4	4,259.1
Selling, general and administrative expenses	1,343.0	1,427.2	1,448.1
Research and development expenses	296.6	302.3	342.9
Impairment charges		922.9	
	6,398.2	7,025.8	6,050.1
Operating income (loss)	810.2	(389.8)	320.4
Interest expense	171.7	233.2	249.7
Other income (expense), net	(33.8)	(106.8)	16.0
Income (loss) before income taxes	604.7	(729.8)	86.7
Estimated income taxes	217.7	104.7	29.5
Income (loss) before extraordinary item	387.0	(834.5)	57.2
Extraordinary item			(12.1)
Net income (loss)	387.0	(834.5)	45.1
Dividends on preferred shares	106.5	111.1	120.8
Earnings (loss) on common shares	\$ 280.5	\$ (945.6)	\$ (75.7)
Earnings (loss) per common share - basic			
Before extraordinary item	\$ 1.11	\$ (5.20)	\$ (.37)
Extraordinary item			(.07)
Total	\$ 1.11	\$ (5.20)	\$ (.44)
Earnings (loss) per common share - diluted			
Before extraordinary item	\$ 1.06	\$ (5.20)	\$ (.37)
Extraordinary item			(.07)
Total	\$ 1.06	\$ (5.20)	\$ (.44)

See notes to consolidated financial statements.

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Unisys Corporation  
Consolidated Balance Sheet

December 31 (Millions)	1998	1997
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 604.3	\$ 803.0
Accounts and notes receivable, net	1,232.0	967.3
Inventories	463.3	560.8
Deferred income taxes	428.8	461.4
Other current assets	88.3	94.0
<b>Total</b>	<b>2,816.7</b>	<b>2,886.5</b>
Properties		
Less - Accumulated depreciation	1,720.5	1,774.1
	1,139.6	1,192.9
<b>Properties, net</b>	<b>580.9</b>	<b>581.2</b>
Investments at equity	184.6	215.7
Software, net of accumulated amortization	246.6	259.0
Prepaid pension cost	833.8	762.4
Deferred income taxes	694.4	665.7
Other assets	220.7	220.8
<b>Total</b>	<b>\$ 5,577.7</b>	<b>\$ 5,591.3</b>
<b>Liabilities and stockholders' equity</b>		
Current liabilities		
Notes payable	\$ 50.6	\$ 40.6
Current maturities of long-term debt		
Accounts payable	4.0	213.1
Other accrued liabilities	922.7	817.1
Dividends payable	1,301.9	1,307.2
Estimated income taxes	26.6	26.6
	276.7	172.8
<b>Total</b>	<b>2,582.5</b>	<b>2,577.4</b>
Long-term debt	1,105.2	1,438.3
Other liabilities	373.0	369.7
Stockholders' equity		
Preferred stock	1,420.0	1,420.1
Common stock, shares issued: 1998 - 257.9; 1997 - 250.2	2.6	2.5
Accumulated deficit	(1,456.3)	(1,736.8)
Other capital	2,082.3	1,968.2
Accumulated other comprehensive loss	(531.6)	(448.1)
<b>Stockholders' equity</b>	<b>1,517.0</b>	<b>1,205.9</b>
<b>Total</b>	<b>\$ 5,577.7</b>	<b>\$ 5,591.3</b>

See notes to consolidated financial statements.

## Unisys Corporation

### Consolidated Statement of Cash Flows

Year Ended December 31 (Millions)	1998	1997	1996
Cash flows from operating activities			
Income (loss) before extraordinary item	\$ 387.0	\$ (834.5)	\$ 57.2
Add (deduct) items to reconcile income (loss) before extraordinary item to net cash provided by (used for) operating activities:			
Effect of extraordinary item			(12.1)
Depreciation	145.7	156.0	182.0
Amortization:			
Marketable software	111.8	97.0	101.6
Goodwill	8.9	963.9	46.1
(Increase) in deferred income taxes, net	(26.8)	(25.3)	(51.0)
(Increase) decrease in receivables, net	(276.1)	24.0	11.0
Decrease in inventories	98.2	81.5	32.1
Increase (decrease) in accounts payable and other accrued liabilities	100.5	(235.1)	(254.9)
Increase (decrease) in estimated income taxes	148.0	32.9	(37.1)
Increase (decrease) in other liabilities	11.8	(85.6)	(82.4)
(Increase) decrease in other assets	(57.3)	106.5	(70.3)
Other	(1.7)	102.2	(11.9)
<b>Net cash provided by (used for) operating activities</b>	<b>650.0</b>	<b>383.5</b>	<b>(89.7)</b>
Cash flows from investing activities			
Proceeds from investments	1,991.0	1,662.5	1,846.1
Purchases of investments	(2,006.5)	(1,629.0)	(1,845.9)
Proceeds from sales of properties	51.1	5.1	77.4
Investment in marketable software	(99.4)	(132.9)	(116.2)

Capital additions of properties	(207.3)	(179.9)	(162.3)
Purchases of businesses	(3.9)	(22.2)	(17.9)
Proceeds from marketable securities		4.8	
Net cash used for investing activities	(275.0)	(291.6)	(218.8)
Cash flows from financing activities			
Proceeds from issuance of long-term debt	195.2		1,139.7
Payments of long-term debt	(748.5)		(766.4)
Net proceeds from (reduction in) short-term borrowings	10.0	26.7	(1.9)
Dividends paid on preferred shares	(106.5)	(113.1)	(120.8)
Proceeds from employee stock plans	79.1	8.4	.6
Redemption of redeemable preferred stock		(150.0)	
Costs of debt conversions		(46.1)	
Net cash (used for) provided by financing activities	(570.7)	(274.1)	251.2
Effect of exchange rate changes on cash and cash equivalents	(3.0)	(24.9)	(7.3)
Net cash used for continuing operations	(198.7)	(207.1)	(64.6)
Net cash used for discontinued operations		(19.1)	(20.5)
Decrease in cash and cash equivalents	(198.7)	(226.2)	(85.1)
Cash and cash equivalents, beginning of year	803.0	1,029.2	1,114.3
Cash and cash equivalents, end of year	\$ 604.3	\$ 803.0	\$ 1,029.2

See notes to consolidated financial statements.

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## Unisys Corporation

### Consolidated Statement of Stockholders' Equity

(Millions)	Preferred Stock	Common Stock	Accumulated Deficit	Treasury Stock	Other, Principally Paid-In Capital	Accumulated Other Comprehensive Income (Loss) *	Comprehensive Income (Loss)
Balance at December 31, 1995	\$ 1,570.3	\$ 1.7	\$ (717.1)	\$ (16.3)	\$ 1,346.3	\$ (339.2)	
Transfer to "redeemable preferred stock"	(150.0)						
Issuance of stock under stock option and other plans		.1			23.6		
Net income			45.1				\$ 45.1
Other comprehensive income - translation adjustments						(50.9)	(50.9)
Comprehensive loss							\$ (5.8)
Dividends			(117.2)				
Unearned compensation					(9.4)		
Other	(.1)						
Balance at December 31, 1996	1,420.2	1.8	(789.2)	(16.3)	1,360.5	(390.1)	
Conversions to common stock	(.1)	.7			606.0		
Issuance of stock under stock option and other plans				4.0	8.4		
Net loss			(834.5)				\$ (834.5)
Other comprehensive income - translation adjustments						(58.0)	(58.0)
Comprehensive loss							\$ (892.5)
Dividends			(113.1)				
Unearned compensation					3.0		
Tax benefit related to stock plans					1.5		
Other				.1	1.0		
Balance at December 31, 1997	1,420.1	2.5	(1,736.8)	(12.2)	1,980.4	(448.1)	
Conversions to common stock	(.1)				.5		
Issuance of stock under stock option and other plans		.1		(11.4)	89.6		
Net income			387.0				\$ 387.0
Other comprehensive income - translation adjustments						(83.5)	(83.5)
Comprehensive income							\$ 303.5
Dividends			(106.5)				
Unearned compensation					4.8		
Tax benefit related to stock plans					30.6		
Balance at December 31, 1998	\$ 1,420.0	\$ 2.6	\$ (1,456.3)	\$ (23.6)	\$2,105.9	\$ (531.6)	

\* Entire amount relates to foreign currency translation adjustments.  
See notes to consolidated financial statements.

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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 generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash equivalents. All short-term investments purchased with a maturity of three months or less are classified as cash equivalents.

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

Properties and depreciation. Properties are carried at cost and are depreciated over the estimated lives of such assets using the straight-line method. Outsourcing equipment is depreciated over the shorter of the asset lives or the terms of the contract. For other classifications of properties, the principal rates used are summarized below:

	Rate per Year (%)
	-----
Buildings	2-5
Machinery and office equipment	5-25
Rental equipment	25

Revenue recognition. Sales revenue is recorded upon shipment of product in the case of sales contracts and upon installation in the case of sales-type leases. Revenue from equipment maintenance is recorded as earned over the lives of the respective contracts. Revenue from software licenses is recorded when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectibility is probable. Revenue for post-contract software support arrangements, which are marketed separately, is recorded over the support period or as the contract elements are delivered.

Revenue under systems integration and services contracts is recognized on the basis of the estimated percentage of completion of services rendered or when services have been performed and accepted, depending on the nature of the project.

Accounting for large multi-year, fixed-price systems integration contracts involves considerable use of estimates in determining revenue, costs, and profits. When estimates indicate a loss under a contract, cost of revenue is charged with a provision for such loss. Revisions in profit estimates are reflected in the period in which the facts that give rise to the revision become known.

Income taxes. Income taxes are provided on taxable income at the statutory rates applicable to such income. Deferred taxes have not been provided on the cumulative undistributed earnings of foreign subsidiaries because such amounts are expected to be reinvested indefinitely.

Marketable software. The cost of development of computer software to be sold or leased 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.

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. Exchange gains and losses on intercompany balances of a long-term investment nature are also reported in other comprehensive income.

For those international subsidiaries operating in hyper-inflationary economies, the U.S. dollar is the functional currency and, as such, non-monetary assets and liabilities are translated at historical exchange rates and monetary assets and liabilities are translated at current exchange rates. Exchange gains and losses arising from translation are included in other income.

Derivative financial instruments. The derivative financial instruments used by the company are foreign exchange forward contracts and options. The company does not hold or issue derivatives for speculative trading purposes. These instruments have been designated as hedges of certain forecasted transactional exposures. For these financial instruments, no impact on financial position or results of operations would result from a change in the underlying exchange rate. All of the company's foreign currency contracts and options have been designated as and are effective as hedges against specific exposures and have been accounted for as such. Therefore, a change in the derivative's value would be offset by an opposite change in the hedged exposure.

The company monitors and controls its risks in the derivative transactions referred to above by periodically assessing the cost of replacing, at market rates, those contracts in the event of default by the counterparty. The company believes such risk to be remote. In addition, before entering into derivative contracts, and periodically during the life of the contract, the company reviews the counterparties' financial condition.

Gains or losses on foreign exchange forward contracts and the cost of foreign currency options are deferred in current liabilities and prepaid expenses, respectively, and are recognized in income (either in revenue or cost of revenue) when the transactions being hedged are recorded. Cash flows on such instruments are reported in investing activities as proceeds or purchases of investments.

If the criteria for hedge accounting discussed above were not met, gains or losses on these instruments would be included in income currently and would not be deferred. If a derivative financial instrument is terminated before the transaction date of the hedged transaction, any deferred gain or loss would continue to be deferred until the transaction date. If a forecasted transaction is no longer likely to occur, any deferred gains or losses on financial instruments that hedge such a transaction would be reported in income immediately.

Reclassifications. Certain prior-year amounts have been reclassified to conform with the 1998 presentation.

## 2 Earnings per share

The following table shows how earnings per share was computed for the three years ended December 31, 1998.

Year ended December 31 (Millions, except per share data)	1998	1997	1996
Earnings per share computation - basic			
Income (loss) before extraordinary item	\$ 387.0	\$ (834.5)	\$ 57.2
Less dividends on preferred shares	(106.5)	(111.1)	(120.8)
Income (loss) available to common stockholders before extraordinary item	280.5	(945.6)	(63.6)
Extraordinary item			(12.1)
Net income (loss) available to common stockholders	\$ 280.5	\$ (945.6)	\$ (75.7)
Weighted average shares (thousands)	251,786	182,016	172,507
Earnings per share - basic			
Income (loss) before extraordinary item	\$ 1.11	\$ (5.20)	\$ (.37)
Extraordinary item			(.07)
Net income (loss)	\$ 1.11	\$ (5.20)	\$ (.44)
Earnings per share computation - diluted			
Income (loss) available to common stockholders before extraordinary item	\$ 280.5	\$ (945.6)	\$ (63.6)
Plus interest expense on assumed conversion of 8 1/4% Convertible Notes due 2006, net of tax	1.5		



Income (loss) available to common stockholders before extraordinary item	282.0	(945.6)	(63.6)
Extraordinary item			(12.1)
Net income (loss) available to common stockholders	\$ 282.0	\$ (945.6)	\$ (75.7)
Weighted average shares (thousands)	251,786	182,016	172,507
Plus incremental shares from assumed conversions:			
Employee stock plans	11,164		
8 1/4% Convertible Notes due 2006	3,994		
Adjusted weighted average shares	266,944	182,016	172,507
Earnings per share - diluted			
Income (loss) before extraordinary item	\$ 1.06	\$ (5.20)	\$ (.37)
Extraordinary item			(.07)
Net income (loss)	\$ 1.06	\$ (5.20)	\$ (.44)

The shares listed below were not included in the computation of diluted earnings per share because to do so would have been antidilutive for the periods presented.

Year ended December 31 (thousands)	1998	1997	1996
Employee stock plans	101	22,792	20,636
Series A preferred stock	47,448	47,450	47,454
8 1/4% convertible notes due 2006		4,042	43,491
8 1/4% convertible notes due 2000			33,697

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### 3 One-time charges

Strategic realignments. In the fourth quarter of 1997, the company recorded a pretax charge of \$113.6 million, \$103.7 million after tax, or \$.58 per diluted common share. The charge was related to plans to discontinue the manufacturing and assembly of personal computers and low-end servers, and to dispose of a small, non-strategic technology product. The charge included (a) \$64.9 million for work-force reductions of approximately 1,000 people (500 US-based and 500 European-based), (b) \$46.2 million for product and program discontinuances, and (c) \$2.5 million associated with facilities. A further breakdown of these costs is as follows (in millions of dollars):

Cost Category	Total	Personal Computers Manufacturing	Non-Strategic Technology Product
Work-force reductions-			
Europe	\$ 54.5	\$ 47.7	\$ 6.8
US	10.4	10.4	
Subtotal	64.9	58.1	6.8
Products and Programs-			
Provision for asset write-downs	15.0	13.7	1.3
Associated goodwill	33.7	18.3	15.4
Cumulative translation adjustments	(2.5)		(2.5)
Subtotal	46.2	32.0	14.2
Facilities (representing provision for idle lease costs)	2.5		2.5
Total charge	\$113.6	\$ 90.1	\$23.5

Activity related to these 1997 restructuring actions during the years ended December 31, 1998 and 1997, was as follows:

(Millions)	Total	Work-Force Reductions/(1)/	Facilities	Products
	-----	-----	-----	-----

Total charge	\$113.6	\$ 64.9	\$ 2.5	\$ 46.2
Immediate asset write-downs	(31.2)			(31.2)
	-----	-----	-----	-----
Bal. at Dec. 31, 1997	82.4	64.9	2.5	15.0
Utilized	(40.0)	(32.0)		(8.0)
Other/(2)/	(20.8)	(18.3)	(2.5)	
	-----	-----	-----	-----
Bal. Dec. 31, 1998	\$ 21.6	\$ 14.6	\$ -	\$ 7.0
	=====	=====	=====	=====
Expected future utilization:				
1999	\$ 17.2	\$ 11.9		\$ 5.3
2000	4.4	2.7		1.7

/(1)/ Includes severance, notice pay, medical and other benefits.

/(2)/ Includes changes in estimates, reversals of excess reserves, translation adjustments, and additional provisions.

In 1998, there was a reduction in accrued workforce provisions, principally for the reversal of unneeded reserves due to approximately 150 voluntary terminations, and the favorable results of negotiations on termination indemnities relating principally to PC manufacturing personnel. In addition, as a result of the sale of the non-strategic technology product operations in 1998 on more favorable terms than originally anticipated, the company reversed \$6.0 million of unneeded accruals, principally for termination indemnities for approximately 130 people.

Cash expenditures in 1998 relating to the above restructuring actions were \$32.6 million. Employee levels were reduced in 1998 by 600 people through termination actions. In addition, approximately 100 additional people will be terminated in 1999 as certain support operations are phased out in completion of the original plan to discontinue PC manufacturing. The \$14.6 million balance of the reserve at December 31, 1998 for work-force reductions represents amounts of termination indemnities expected for these actions.

Other Restructuring Actions. The amounts below relate principally to restructuring actions taken in 1995. In October 1995, the company announced that it would realign internally into three business units - information services, support services, and computer systems - each with its own marketing and sales organization. In the fourth quarter of 1995, in connection with this realignment, the company recorded a restructuring charge of \$717.6 million. The charge initially covered (a) \$436.6 million for work force reductions of approximately 7,900 people including severance, notice pay, medical, and other benefits, (b) \$218.6 million for consolidation of office facilities and manufacturing capacity, and (c) \$62.4 million for costs associated with product and program discontinuances. Activity during the years ended December 31, 1998, 1997 and 1996 in the reserves related to these restructuring actions was as follows.

(Millions)	Total	Work-Force Reductions/(1)/	Facilities/(2)/	Products
	-----	-----	-----	-----
Balance at Dec. 31, 1995	\$ 734.3	\$ 473.3	\$ 249.6	\$ 11.4
Utilized	(300.4)	(155.6)	(62.9)	(81.9)
Other/(3)/	-	(110.2)	5.6	104.6
	-----	-----	-----	-----
Balance at Dec. 31, 1996	433.9	207.5	192.3	34.1
Utilized	(253.0)	(140.9)	(76.5)	(35.6)
Other/(3)/	(9.7)	(1.0)	(15.1)	6.4
	-----	-----	-----	-----
Balance at Dec. 31, 1997	171.2	65.6	100.7	4.9
Utilized	(87.3)	(48.0)	(36.0)	(3.3)
Other/(3)/	2.0	10.8	(8.3)	(.5)
	-----	-----	-----	-----
Balance at Dec. 31, 1998	\$ 85.9	\$ 28.4	\$ 56.4	\$ 1.1
	=====	=====	=====	=====
Expected future utilization:				
1999	\$ 53.9	\$ 20.8	\$ 32.0	\$ 1.1
2000 and thereafter	32.0	7.6	24.4	-

- /(1)/ Includes severance, notice pay, medical, and other benefits.
- /(2)/ Includes consolidation of office facilities and manufacturing capacity.
- /(3)/ Includes changes in estimates, reversals of excess reserves, translation adjustments, and additional provisions.

During 1996, the company experienced lower-than-anticipated costs for work-force reductions. Revisions of estimates for these previously provided costs were offset by additional provisions for product and program discontinuances and facility consolidations.

Cash expenditures associated with these restructuring actions in 1998, 1997 and 1996 were \$85.8 million, \$178.7 million and \$220.8 million, respectively. Personnel reductions related to these restructuring actions during 1998, 1997, and 1996 were approximately 300, 2,600 and 5,000, respectively. The \$28.4 million balance of the reserve at December 31, 1998 for work-force reductions represents the remaining balance of \$17.2 million of extended payment severance packages for terminated employees and an accrual of \$11.2 million for planned work-force reductions of approximately 350 people, which were identified in 1998 and late 1997 and which are expected to be completed by early 2000. The \$56.4 million 1998 ending reserve balance for facility consolidations represents contractual obligations (reduced by sub-lease income) existing under long-term leases of vacated facilities.

Other Charges. Effective December 31, 1997, the company elected to change its method of measuring goodwill impairment which is reported as a change in accounting principle that is inseparable from a change in estimate. Prior to the change, when impairment indicators existed, goodwill was evaluated for impairment and any impairment would have been measured based on comparing the unamortized goodwill to projected undiscounted operating results. Under the company's new accounting method, any impairment of goodwill indicated by such comparison would be measured by discounting projected cash flows using a discount rate commensurate with the risks involved. If the estimate of the future discounted cash flows, net of the carrying amount of tangible net assets, is less than the carrying amount of goodwill, the difference would be charged to operations. When a goodwill impairment must be recognized, the company believes the discounted cash flow method is a better measurement of the remaining value of goodwill, considering the company's circumstances, particularly the rapid changes that continue to occur in the marketplace away from the proprietary technology and maintenance businesses, and the continuing declines in revenue and margins in these businesses.

In the fourth quarter of 1997, the company recorded an impairment charge of \$883.6 million, or \$4.85 per diluted common share, principally for the write-off of goodwill related to the 1986 acquisition of Sperry Corporation. Yearly amortization of the goodwill was approximately \$36 million.

In connection with a strategic operations review in the fourth quarter of 1997, indicators of a potential impairment were identified, and the company concluded that it should test the remaining Sperry goodwill for recoverability. The most significant impairment indicator was an expected decline in Sperry-related revenue. The majority of Sperry-related revenue results from hardware and associated operating systems software. Since the acquisition of Sperry in 1986, experience has seen a shift from centralized processing to desktop computing with customer demand for open architectures. This shift in market demand led to industry-wide erosions in demand for mainframe systems and continued competitive pricing pressure. Another significant aspect to the decline in Sperry-related revenue is the continuing industry-wide erosion of proprietary maintenance revenue and margin streams. The company prepared an estimate of projected cash flows relating to the remaining Sperry businesses. The sum of these expected future undiscounted cash flows were less than the carrying amount of the remaining Sperry goodwill, which indicated the existence of an impairment loss. In preparing the cash flow analysis used by the company to measure goodwill impairment for Sperry, the following major assumptions were used: (1) the company's one year detail plan and its three-year strategic plan were used as a basis to project future results, (2) a risk-based rate of 17.3% was used to discount future cash flows, (3) a 6% compounded annual decline in Sperry-related revenue, (4) a continuation of declining gross profit margins, (5) expense levels were based on a percent of revenue, consistent with historical experience, and (6) a 40% effective income tax rate. The projections of Sperry related cash flows were based on management's best estimate of future results. Actual results could differ materially from those estimates.

In addition, in the fourth quarter of 1997, the company completed the conversion

of \$271.2 million of its 8 1/4% convertible subordinated notes due 2006. The conversion was in response to a special offer to pay holders of these notes a cash premium for each note converted. The company recorded a one-time charge of \$42.0 million, or \$.23 per diluted common share, to cover the cost of this special offer.

Summary. The 1997 restructuring and other charges were recorded in the following statement of income classifications: Cost of revenue, \$57.1 million; selling, general and administrative expenses, \$12.3 million; research and development expenses, \$4.9 million; impairment charges, \$922.9 million; and other income expense, net, \$42.0 million.

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#### 4 Accounting changes, adjustments and extraordinary item

Effective January 1, 1998, the company adopted the American Institute of Certified Public Accountants ("AICPA") Statement of Position ("SOP") 97-2, "Software Revenue Recognition" and SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." SOP 97-2 provides guidance on applying generally accepted accounting principles in recognizing revenue on software transactions, and SOP 98-1 provides guidance on accounting for the costs of computer software developed or obtained for internal use. Adoption of SOP 97-2 and 98-1 did not have a material effect on the company's consolidated financial position, consolidated results of operations, or liquidity.

As discussed in Note 14, effective January 1, 1998, the company adopted Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information." This statement establishes standards for the way that companies report information about operating segments. Adoption of SFAS No. 131 had no effect on the company's consolidated financial position, consolidated results of operations, or liquidity.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement, which is effective for the year beginning January 1, 2000, establishes accounting and reporting standards for derivative instruments and for hedging activities. SFAS No. 133 requires a company to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Management is evaluating the impact this statement may have on the company's financial statements.

As discussed in Note 3, effective December 31, 1997, the company elected to change its method of measuring goodwill impairment.

Effective January 1, 1997, the company adopted SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This statement requires that if a transfer of financial assets does not meet certain criteria for recording the transaction as a sale, the transfer must be accounted for as a secured borrowing. The adoption of SFAS No. 125 did not have a material effect on the company's consolidated financial position, consolidated results of operations, or liquidity.

Effective January 1, 1997, the company adopted SOP 96-1, "Environmental Remediation Liabilities." The SOP provides authoritative guidance on the recognition, measurement, display, and disclosure of environmental remediation liabilities. Adoption of SOP 96-1 did not have a material effect on the company's consolidated financial position, consolidated results of operations, or liquidity.

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Effective January 1, 1996, the company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123 requires the recognition or disclosure of compensation expense for grants of stock options or other equity instruments issued to employees based upon their fair value. As permitted by SFAS No. 123, the company adopted the disclosure-only option and therefore will continue to apply APB Opinion 25 for its stock plans. Accordingly, no compensation expense has been recognized for

its stock option or purchase plans. The adoption of these statements had no effect on the company's consolidated financial position, consolidated results of operations, or liquidity.

The balance of accumulated deficit at December 31, 1996 has been restated from amounts previously reported to reflect an adjustment of \$19.1 million (\$29.0 million, net of taxes of \$9.9 million) to recognize product warranty costs for company-manufactured personal computers and low-end servers. Of this amount, \$4.6 million (\$7.0 million, net of taxes of \$2.4 million), or \$.03 per share, is applicable to 1996 and has been reflected as a decrease in net income for that year, the balance (applicable to years prior to 1996) being charged to accumulated deficit at December 31, 1995. In 1997, the company provided for this obligation in connection with the restructuring charge related to its decision to discontinue the manufacture and assembly of personal computers and low-end servers. Prior to 1997, the company recognized warranty costs as expended based on its belief that providing for this contingent obligation would not have materially affected the company's consolidated financial statements. Following discussions with the staff of the Securities and Exchange Commission, the company agreed to recognize such amounts by means of a prior period adjustment, which had the effect of reducing the net loss reported in 1997 by \$19.1 million, or \$.10 per share. In addition, the company has reclassified \$39.3 million of impairment charges in 1997 previously reported in other income (expense), net. These changes had no effect on shareholders' equity at December 31, 1997 or on the 1998 results of operations.

In 1996, the company recorded an extraordinary charge for extinguishment of debt of \$12.1 million, net of \$6.5 million of income tax benefits, or \$.07 per diluted common share.

#### 5 Inventories

Inventories comprise the following:

December 31 (Millions)	1998	1997
Parts and finished equipment	\$263.6	\$289.7
Work in process and materials	199.7	271.1
Total inventories	\$463.3	\$560.8

At December 31, 1998 and 1997, work in process inventories included \$85.9 and \$140.7 million, respectively, of costs related to long-term contracts.

#### 6 Estimated income taxes

Year ended December 31 (Millions)	1998	1997	1996
Income (loss) before income taxes			
United States	\$ 408.3	\$ (942.1)	\$ (94.1)
Foreign	196.4	212.3	180.8
Total income (loss) before income taxes	\$ 604.7	\$ (729.8)	\$ 86.7
Estimated income taxes (benefit)			
Current			
United States	\$ 26.7	\$ 28.0	\$ (15.0)
Foreign	51.8	69.0	87.0
State and local	23.3	23.1	10.9
Total	101.8	120.1	82.9
Deferred			
United States	115.2	(21.9)	(71.9)
Foreign	.7	6.8	11.0
State and local		(.3)	7.5
Total	115.9	(15.4)	(53.4)
Total estimated income taxes	\$ 217.7	\$ 104.7	\$ 29.5

Following is a reconciliation of estimated income taxes at the United States statutory tax rate to estimated income taxes as reported:

Year ended December 31 (Millions)	1998	1997	1996
United States statutory income tax (benefit)	\$ 211.6	\$ (255.4)	\$ 30.3
Difference in estimated income taxes on foreign earnings, losses, and remittances	(46.1)	(35.7)	8.0
State taxes	15.1	14.8	11.8
Tax refund claims, audit issues, and other matters	31.2	42.7	(12.9)
Amortization of goodwill	1.8	335.1	12.6
Reversal of valuation allowances			(24.8)
Other	4.1	3.2	4.5
Estimated income taxes	\$ 217.7	\$ 104.7	\$ 29.5

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The tax effects of temporary differences and carryforwards that give rise to significant portions of deferred tax assets and liabilities at December 31, 1998 and 1997, were as follows:

December 31 (Millions)	1998	1997
Deferred tax assets		
Capitalized research and development	\$ 591.6	\$ 327.4
Tax loss carryforwards	256.9	433.3
Foreign tax credit carryforwards	232.3	479.8
Other tax credit carryforwards	138.2	82.2
Prepayments	109.7	
Postretirement benefits	91.0	88.0
Employee benefits	63.9	65.4
Depreciation	60.8	55.7
Restructuring	50.7	103.9
Other	236.9	265.1
	1,832.0	1,900.8
Valuation allowance	(323.3)	(400.7)
Total deferred tax assets	\$ 1,508.7	\$ 1,500.1
Deferred tax liabilities		
Pensions	\$ 337.3	\$ 319.5
Other	110.0	146.0
Total deferred tax liabilities	\$ 447.3	\$ 465.5
Net deferred tax asset	\$ 1,061.4	\$ 1,034.6

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. During 1998, the net decrease in the valuation allowance was \$77.4 million.

Cumulative undistributed earnings of foreign subsidiaries, for which no U.S. income or foreign withholding taxes have been recorded, approximated \$650 million at December 31, 1998. Such earnings are expected to be reinvested indefinitely. Determination of the amount of unrecognized deferred tax liability with respect to such earnings is not practicable. The additional taxes payable on the earnings of foreign subsidiaries, if remitted, would be substantially offset by U.S. tax credits for foreign taxes already paid. While 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 during 1998, 1997, and 1996 for income taxes was \$92.7, \$80.0, and \$112.7 million, respectively.

At December 31, 1998, the company has state and local tax loss carryforwards and foreign tax loss carryforwards for certain foreign

subsidiaries, the tax effect of which is approximately \$256.9 million. These carryforwards will expire as follows (in millions): 1999, \$3.8; 2000, \$4.9; 2001, \$14.3; 2002, \$1.7; 2003, \$6.4; and \$225.8 thereafter. The company also has available tax credit carryforwards of approximately \$370.5 million, which will expire as follows (in millions): 1999, \$59.2; 2000, \$49.4; 2001, \$89.6; 2002, \$55.5; 2003, \$7.2; and \$109.6 thereafter.

The company's net deferred tax assets include substantial amounts of capitalized research and development, and tax credit carryforwards. Failure to achieve forecasted taxable income might affect the ultimate realization of the net deferred tax assets. There can be no assurance that in the future there would not be increased competition or other factors that may result in a decline in sales or margins, loss of market share, delays in product availability, or technological obsolescence.

The company is currently contesting issues before the Internal Revenue Service in connection with Sperry Corporation for the years ended March 31, 1978, through September 16, 1986. In management's opinion, adequate provisions for income taxes have been made for all years.

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## 7 Properties

Properties comprise the following:

December 31 (Millions)	1998	1997
Land	\$ 10.3	\$ 24.5
Buildings	166.4	208.7
Machinery and office equipment	1,247.0	1,250.0
Rental and outsourcing equipment	296.8	290.9
Total properties	\$ 1,720.5	\$ 1,774.1

## 8 Long-term debt

Long-term debt comprises the following:

December 31 (Millions)	1998	1997
12% senior notes due 2003	\$ 425.0	\$ 425.0
11 3/4% senior notes due 2004	450.0	450.0
7 7/8% senior notes due 2008	200.0	
8 1/4% convertible subordinated notes due 2006	27.0	27.8
9 3/4% senior sinking fund debentures		190.0
9 1/2% notes		197.5
10 5/8% senior notes		330.1
Other, net of unamortized discounts	7.2	31.0
Total	1,109.2	1,651.4
Less - Current maturities	4.0	213.1
Total long-term debt	\$ 1,105.2	\$ 1,438.3

Total long-term debt maturities in 1999, 2000, 2001, 2002, and 2003 are \$4.0, \$4.6, \$.6, \$.4, and \$425.0 million, respectively.

Cash paid during 1998, 1997, and 1996 for interest was \$185.6, \$253.1, and \$255.1 million, respectively.

On January 30, 1998, the company issued \$200 million of 7 7/8% senior notes due 2008. The net proceeds from the sale of the notes were used to call \$200 million principal amount of the 10 5/8% senior notes due October 1999 at 101.77%. On February 5, 1998, the company redeemed all \$197.5 million of the 9 1/2% senior notes due on July 15, 1998.

On September 15, 1998, the company made a \$30.0 million sinking fund payment, which included a \$20.0 million optional prepayment, on the 9 3/4% sinking fund debentures. On October 1, 1998, the company redeemed at par the remaining \$130.1 million outstanding of the 10 5/8% notes.

On December 4, 1998, the company redeemed the remaining \$160.0 million of the 9 3/4% sinking fund debentures at the stated redemption price of 103.61% of principal.

The company has a \$400 million, three year credit agreement expiring June 2001. As of December 31, 1998, there were no borrowings outstanding under the facility and the entire \$400 million was available for borrowings. The company pays commitment fees on the total amount of the facility. In addition, international subsidiaries maintain short-term credit arrangements with banks in accordance with local customary practice.

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## 9 Other accrued liabilities

Other accrued liabilities (current) comprise the following:

December 31 (Millions)	1998	1997
Payrolls and commissions	\$ 331.8	\$ 288.7
Customers' deposits and prepayments	628.9	540.2
Taxes other than income taxes	132.9	130.5
Restructuring*	70.7	205.2
Other	137.6	142.6
Total other accrued liabilities	\$1,301.9	\$1,307.2

\* At December 31, 1998 and 1997, an additional \$36.8 million and \$48.4 million, respectively, was reported in other liabilities (long term) on the consolidated balance sheet.

## 10 Comprehensive income

Comprehensive income for the three years ended December 31, 1998, includes the following components:

Year ended December 31 (Millions)	1998	1997	1996
Net income (loss)	\$ 387.0	\$ (834.5)	\$ 45.1
Other comprehensive income (loss)			
Foreign currency translation adjustments*	(89.6)	(40.4)	(35.8)
Related tax (benefit) expense	(6.1)	17.6	15.1
Total other comprehensive income (loss)	(83.5)	(58.0)	(50.9)
Comprehensive income (loss)	\$ 303.5	\$ (892.5)	\$ (5.8)

\* Net of income (loss) on translation adjustments reclassified to income upon sale or writeoff of ownership interest in foreign investments as follows: 1998, \$(.1) million; 1997, \$2.8 million; and 1996, \$1.5 million.

## 11 Leases

Rental expense, less income from subleases, for 1998, 1997, and 1996 was \$145.6, \$153.5, and \$177.7 million, respectively.

Minimum net rental commitments under noncancelable operating leases outstanding at December 31, 1998, substantially all of which relate to real properties, were as follows: 1999, \$133.6 million; 2000, \$106.2 million; 2001, \$85.6 million; 2002, \$66.2 million; 2003, \$49.3 million; and thereafter, \$330.6



million. Such rental commitments have been reduced by minimum sublease rentals of \$97.9 million due in the future under noncancelable subleases.

## 12 Financial instruments

The company uses derivative financial instruments to reduce its exposure to market risks from changes in foreign currency exchange rates. The derivative instruments used are foreign exchange forward contracts and options. These derivatives, which are over-the-counter instruments, are non-leveraged and involve little complexity.

Due to its foreign operations, the company is exposed to the effects of foreign currency exchange rate fluctuations on the U.S. dollar. Foreign exchange forward contracts and options generally having maturities of less than nine months are entered into for the sole purpose of hedging certain transactional exposures.

The cost of foreign currency options is recorded in other current assets in the consolidated balance sheet. At December 31, 1998, such amount was \$4.2 million. When the U.S. dollar strengthens against foreign currencies, the decline in value of the underlying exposures is partially offset by gains in the value of purchased currency options designated as hedges. When the U.S. dollar weakens, the increase in the value of the underlying exposures is reduced only by the premium paid to purchase the options. The cost of options and any gains thereon are reported in income when the related transactions being hedged (generally within 12 months) are recognized.

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The company also enters into foreign exchange forward contracts. Gains and losses on such contracts, which hedge transactional exposures, are deferred and included in current liabilities until the corresponding transaction is recognized. At December 31, 1998, the company had a total of \$192.3 million (of notional value) of such contracts, \$181.9 million to sell foreign currencies, and \$10.4 million to buy foreign currencies. At December 31, 1997, the company had a total of \$205.4 million (of notional value) of foreign exchange forward contracts, \$159.1 million to sell foreign currencies, and \$46.3 million to buy foreign currencies. At December 31, 1998, a realized net loss on such contracts of approximately \$9.2 million was deferred and included in current liabilities. Gains or losses on foreign exchange forward contracts that hedge foreign currency transactions are reported in income when the related transactions being hedged (generally within 12 months) are recognized.

Financial instruments comprise the following:

December 31 (Millions)	1998	1997
-----		
Outstanding:		
Long-term debt	\$1,109.2	\$1,651.4
Foreign exchange forward contracts*	192.3	205.4
Foreign exchange options*	262.2	284.4
-----		
Estimated fair value:		
Long-term debt	\$1,350.4	\$1,823.4
Foreign exchange forward contracts	1.5	(6.1)
Foreign exchange options	2.8	5.9
-----		

\* notional value

Financial instruments also include temporary cash investments and customer accounts receivable. Temporary investments are placed with creditworthy financial institutions, primarily in over-securitized treasury repurchase agreements, Euro-time deposits, or commercial paper of major corporations. At December 31, 1998, the company's cash equivalents principally have maturities of less than one month. Due to the short maturities of these instruments, they are carried on the balance sheet at cost plus accrued interest, which approximates market value. Realized gains or losses during 1998 and 1997, as well as unrealized gains or losses at December 31, 1998, were immaterial. Receivables are due from a large number of customers that are dispersed worldwide across many industries. At December 31, 1998 and 1997, the company had no significant concentrations of credit risk.

The carrying amount of cash and cash equivalents approximates fair value

because of the short maturity of these instruments. The fair value of the company's long-term debt is based on the quoted market prices for publicly traded issues. For debt that is not publicly traded, the fair value is estimated, after considering any conversion terms, based on current yields to maturity for the company's publicly traded debt with similar maturities. In estimating the fair value of its derivative positions, the company utilizes quoted market prices, if available, or quotes obtained from outside sources.

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### 13 Litigation

There are various lawsuits, claims, and proceedings that have been brought or asserted against the company. Although the ultimate results of these lawsuits, claims, and proceedings are not currently determinable, management does not expect that these matters will have a material adverse effect on the company's consolidated financial position, consolidated results of operations, or liquidity.

### 14 Segment information

In 1998, the company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 establishes standards for the way that companies report information about operating segments, geographic areas, and major customers in annual financial statements and requires that those companies report selected information about operating segments in interim financial reports. The adoption of SFAS No. 131 had no effect on the company's consolidated financial position, consolidated results of operations, or liquidity.

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. The major service and product lines by segment are as follows: Services - systems integration, including repeatable and custom solutions, outsourcing, network services, and multivendor maintenance; Technology - enterprise-class servers, specialized technologies, and personal computers.

The accounting policies of each business segment are the same as those described in the summary of significant accounting policies, except for warranty obligations related to company-manufactured PCs in the Technology business segment. For segment reporting purposes, prior to 1998, such costs are accounted for on a cash basis, whereas on a total company basis, such costs are accounted for on an accrual basis. In 1998, the company outsourced the manufacture of such products and any warranty costs related to company-manufactured PCs are considered corporate costs. The effect of the difference between the cash and accrual basis in 1996 and 1997 was immaterial. Intersegment sales and transfers are priced as if the sales or transfers were to third parties. The company evaluates business segment performance on operating income exclusive of restructuring charges and unusual and nonrecurring items. All corporate and centrally incurred costs are allocated to the business segments based principally on assets, revenue, employees, square footage, or usage.

Corporate assets are principally cash and cash equivalents, goodwill related to the acquisition of Sperry Corporation, prepaid pension assets, and deferred income taxes. The expense or income related to corporate assets are allocated to the business segments. In addition, corporate assets include an offset for accounts receivable that have been recorded as sales in accordance with SFAS No. 125 because such receivables are included in the assets of the business segments.

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, approximated \$917, \$791, and \$542 million in 1998, 1997, and 1996, respectively.

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A summary of the company's operations by business segment for 1998, 1997, and 1996 is presented below:

(Millions of dollars)	Total	Corporate	Services	Technology
-----				
1998				
-----				
Customer revenue	\$ 7,208.4		\$ 4,909.3	\$ 2,299.1
Intersegment		\$ (511.2)	73.7	437.5
Total revenue	\$ 7,208.4	\$ (511.2)	\$ 4,983.0	\$ 2,736.6
-----				
Operating income (loss)	\$ 810.2	\$ (45.3)	\$ 343.5	\$ 512.0
Depreciation and amortization	266.4		84.1	182.3
Total assets	5,577.7	2,705.7	1,814.2	1,057.8
Investments at equity	184.6	2.1		182.5
Capital expenditures for properties	207.3	44.2	84.7	78.4
1997				
-----				
Customer revenue	\$ 6,636.0		\$ 4,281.0	\$ 2,355.0
Intersegment		\$ (483.8)	70.0	413.8
Total revenue	\$ 6,636.0	\$ (483.8)	\$ 4,351.0	\$ 2,768.8
-----				
Operating income (loss)	\$ (389.8)	\$ (1,001.1)	\$ 167.2	\$ 444.1
Depreciation and amortization	1,216.9	952.2	86.8	177.9
Total assets	5,591.3	2,769.8	1,554.6	1,266.9
Investments at equity	215.7	9.9		205.8
Capital expenditures for properties	179.9		77.7	102.2
1996				
-----				
Customer revenue	\$ 6,370.5		\$ 4,008.8	\$ 2,361.7
Intersegment		\$ (529.3)	82.1	447.2
Total revenue	\$ 6,370.5	\$ (529.3)	\$ 4,090.9	\$ 2,808.9
-----				
Operating income (loss)	\$ 320.4	\$ (54.0)	\$ 123.1	\$ 251.3
Depreciation and amortization	329.7	36.9	101.4	191.4
Total assets	6,967.1	3,709.4	1,702.3	1,555.4
Investments at equity	244.4	10.1		234.3
Capital expenditures for properties	162.3		62.5	99.8
-----				

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

Year Ended December 31 (Millions)	1998	1997	1996
-----			
Total segment operating income	\$ 855.5	\$ 611.3	\$ 374.4
Interest expense	(171.7)	(233.2)	(249.7)
Other income (expense), net	(33.8)	(106.8)	16.0
Impairment charges		(922.9)	
Other special charges		(74.3)	
Corporate and eliminations	(45.3)	(3.9)	(54.0)
Total income (loss) before income taxes	\$ 604.7	\$ (729.8)	\$ 86.7
-----			

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

December 31 (Millions)	1998	1997	1996
-----			
Total segment assets	\$ 2,872.0	\$ 2,821.5	\$ 3,257.7
Cash and cash equivalents	604.3	803.0	1,029.2
Prepaid pension assets	833.8	762.4	788.5

Deferred income taxes	1,123.2	1,127.1	1,044.5
Elimination for sale of receivables	(28.4)	(125.9)	(276.9)
Goodwill			924.6
Other corporate assets	172.8	203.2	199.5
	-----		
Total assets	\$ 5,577.7	\$ 5,591.3	\$ 6,967.1
	-----		

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

(Millions)	1998	1997	1996
	-----		
Revenue			
United States	\$ 3,118.8	\$ 2,705.5	\$ 2,350.0
Foreign	4,089.6	3,930.5	4,020.5
	-----		
Total	\$ 7,208.4	\$ 6,636.0	\$ 6,370.5
	-----		
Properties, net			
United States	\$ 317.8	\$ 307.4	\$ 340.3
Brazil	61.9	67.9	56.1
Other foreign	201.2	205.9	225.4
	-----		
Total	\$ 580.9	\$ 581.2	\$ 621.8
	-----		

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#### 15 Employee plans

Stock plans. Under plans approved by the stockholders, stock options, stock appreciation rights, restricted stock, and restricted stock units may be granted to officers and other key employees.

Options have been granted to purchase the company's common stock at 100% of the fair market value at the date of grant. Options have a maximum duration of ten years and generally become exercisable in annual installments over a four-year period following date of grant.

Restricted stock and restricted stock units have been granted and are subject to forfeiture until the expiration of a specified period of service commencing on the date of grant. Compensation expense resulting from the awards is charged to income ratably from the date of grant until the date the restrictions lapse and is based on fair market value at the date of grant. During the year ended December 31, 1998, there were no grants or forfeitures. During the year ended December 31, 1997, .7 million shares of restricted stock and restricted stock units were granted at a weighted average fair market value of \$8.79 per share, and .3 million shares and units were forfeited. During the year ended December 31, 1996, 2.9 million shares of restricted stock and restricted stock units were granted at a weighted average fair market value of \$7.06 per share, and .5 million shares and units were forfeited. During the years ended December 31, 1998, 1997, and 1996, \$6.0, \$6.4, and \$4.6 million was charged to income, respectively.

Effective July 1, 1998, the company implemented a world-wide Employee Stock Purchase Plan ("ESPP"), which enables substantially all regular employees to purchase full or fractional shares of the company's common stock through payroll deductions of up to 10% of eligible pay. The price the employee pays is 85% of the market price at the beginning or end of a calendar quarter, whichever is lower. During the year ended December 31, 1998, employees purchased shares, all of which were newly issued shares, for which \$5.6 million was paid to the company.

U.S. employees are eligible to participate in an employee savings plan. Under this plan, a percentage of the employee's pay may be contributed to various investment alternatives. Effective July 1, 1998, a company match for up

to 1% of pay was reinstated. The match consists of the company contributing newly issued shares of its common stock to the plan. The charge to income, related to such company match, was \$4.1 million in 1998.

Effective January 1, 1996, the company adopted the disclosure-only option under SFAS No. 123, "Accounting for Stock-Based Compensation." The company continues to apply APB Opinion 25 for its stock plans. Accordingly, no compensation expense has been recognized for stock options granted and for common stock purchases under the ESPP.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123, and has been determined as if the company had accounted for its stock plans under the fair value method of SFAS No. 123. The fair value of stock options is estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for 1998, 1997, and 1996, respectively: risk-free interest rates of 5.67%, 6.59%, and 6.34%, volatility factors of the expected market price of the company's common stock of 55%, a weighted average expected life of the options of five years, and no dividends.

For purposes of the pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The company's pro forma net income (loss) for the years ended December 31, 1998, 1997, and 1996, respectively, follows: 1998, \$373.2 million, or income of \$1.00 per diluted share; 1997, \$(839.2) million, or a loss of \$5.22 per share; and 1996, \$41.4 million, or a loss of \$.46 per share.

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A summary of the status of stock option activity follows:

Year ended December 31 (Shares in thousands)	1998		1997		1996	
	Shares	Weighted Avg. Exercise Price	Shares	Weighted Avg. Exercise Price	Shares	Weighted Avg. Exercise Price
Outstanding at beginning of year	20,281	\$ 9.67	18,224	\$10.16	17,429	\$11.48
Granted	5,305	22.74	5,259	7.49	4,493	6.23
Exercised	(6,839)	10.75	(944)	8.45	(119)	4.20
Forfeited and expired	(770)	13.07	(2,258)	9.36	(3,579)	11.87
Outstanding at end of year	17,977	12.97	20,281	9.67	18,224	10.16
Exercisable at end of year	7,494	10.27	11,237	11.26	10,499	11.57
Shares available for granting options at end of year	4,592		4,058		4,351	
Weighted average fair value of options granted during the year		\$12.16		\$ 3.99		\$ 3.40

December 31, 1998 (Shares in thousands)	Outstanding			Exercisable	
	Shares	Average Life *	Average Exercise Price	Shares	Average Exercise Price
\$4-7	6,031	7.79	\$ 6.20	1,997	\$ 6.07
\$7-20	6,971	5.08	11.76	5,482	11.75
\$20-33	4,975	9.32	22.87	15	26.20
Total	17,977	7.16	12.97	7,494	10.27

\* Average contractual remaining life in years.

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Retirement benefits

Retirement plans funded status and amounts recognized in the company's consolidated balance sheet at December 31, 1998 and 1997, follows:

December 31 (Millions)	U.S. Plans		International Plans	
	1998	1997	1998	1997
<b>Change in benefit obligation</b>				
Benefit obligation at beginning of year	\$3,543.7	\$3,299.7	\$685.4	\$747.8
Service cost	35.7	33.4	15.3	14.2
Interest cost	248.3	247.3	45.8	42.8
Plan participants' contributions			9.7	10.5
Plan amendments	.6	2.5	3.0	
Actuarial loss	105.8	202.5	76.5	43.4
Benefits paid	(250.0)	(237.8)	(34.5)	(31.0)
Effect of settlements/curtailments		(3.9)		(24.4)
Foreign currency translation adjustment			10.5	(56.4)
Other				(61.5)
<b>Benefit obligation at end of year</b>	<b>\$3,684.1</b>	<b>\$3,543.7</b>	<b>\$811.7</b>	<b>\$685.4</b>
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of year	\$4,107.1	\$3,662.8	\$789.3	\$891.9
Actual return on plan assets	597.2	680.4	86.6	105.6
Employer contribution	4.8	4.6	13.9	13.9
Plan participants' contributions			9.7	10.5
Benefits paid	(250.0)	(237.8)	(34.5)	(31.0)
Effect of settlements		(2.9)		(75.1)
Foreign currency translation adjustment			10.6	(66.7)
Other			2.3	(59.8)
<b>Fair value of plan assets at end of year</b>	<b>\$4,459.1</b>	<b>\$4,107.1</b>	<b>\$877.9</b>	<b>\$789.3</b>
<b>Funded status</b>				
Unrecognized net actuarial loss (gain)	\$775.0	\$563.4	\$66.2	\$103.9
Unrecognized prior service (benefit) cost	13.1	171.9	(17.8)	(63.9)
Unrecognized prior service (benefit) cost	(28.0)	(35.7)	9.1	7.0
Unrecognized net obligation at date of adoption	1.5	2.2	1.0	1.0
<b>Prepaid pension cost</b>	<b>\$761.6</b>	<b>\$701.8</b>	<b>\$58.5</b>	<b>\$48.0</b>
<b>Amounts recognized in the statement of financial position consist of:</b>				
Prepaid pension cost	\$761.6	\$701.8	\$72.2	\$60.6
Other liabilities			(13.7)	(12.6)
	<b>\$761.6</b>	<b>\$701.8</b>	<b>\$58.5</b>	<b>\$48.0</b>

The projected benefit obligations, accumulated benefit obligations and fair value of plan assets for plans with accumulated benefit obligations in excess of plan assets was as follows (in millions of dollars): \$92.0 million, \$86.2 million, and \$13.3 million at December 31, 1998; and \$81.9 million, \$76.1 million, and \$13.7 million at December 31, 1997.

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Net periodic pension costs for 1998, 1997, and 1996 includes the following components:

Year ended December 31 (Millions)	U.S. Plans			International Plans		
	1998	1997	1996	1998	1997	1996
Service cost	\$ 35.7	\$ 33.4	\$ 34.6	\$ 15.3	\$ 14.2	\$ 20.9
Interest cost	248.3	247.3	242.5	45.8	42.8	45.8
Expected return on plan assets	(356.5)	(332.6)	(323.0)	(56.8)	(53.7)	(61.6)
Amortization of prior service (benefit) cost	(6.6)	(7.3)	(8.0)	.8	.7	.9
Amortization of asset or liability at adoption	.7	.7	.7		.1	.1
Recognized net actuarial loss (gain)	23.7	23.6	20.3	(.1)	(1.8)	(2.7)
Settlement/curtailment (gain) loss	(.4)	(2.8)	(6.6)		.4	3.9
<b>Net periodic pension (income) cost</b>	<b>\$ (55.1)</b>	<b>\$ (37.7)</b>	<b>\$ (39.5)</b>	<b>\$ 5.0</b>	<b>\$ 2.7</b>	<b>\$ 7.3</b>
<b>Weighted-average assumptions as of December 31 were as follows:</b>						
Discount rate	7.00%	7.25%	7.75%	6.36%	6.77%	7.11%
Rate of compensation increase	5.40%	5.40%	5.40%	4.07%	3.74%	3.88%
Expected long-term rate of return on assets	10.00%	10.00%	10.00%	8.23%	8.25%	8.33%

Other postretirement benefits

A reconciliation of the benefit obligation, fair value of the plan assets, and the funded status of the postretirement medical plan at December 31, 1998 and 1997, follows:

December 31 (Millions)	1998	1997
-----		
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 227.4	\$ 221.6
Interest cost	15.5	16.3
Plan participants' contributions	24.6	26.9
Actuarial (gain) loss	(2.1)	9.9
Benefits paid	(39.6)	(47.3)
	-----	
Benefit obligation at end of year	\$ 225.8	\$ 227.4
-----		
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 15.4	\$ 24.8
Actual return on plan assets	1.0	1.8
Employer contributions	11.9	9.2
Plan participants' contributions	24.6	26.9
Benefits paid	(39.6)	(47.3)
	-----	
Fair value of plan assets at end of year	\$ 13.3	\$ 15.4
-----		
Funded status	\$ (212.5)	\$ (212.0)
Unrecognized net actuarial loss	16.8	19.3
Unrecognized prior service benefit	(22.9)	(25.5)
	-----	
Accrued benefit cost	\$ (218.6)	\$ (218.2)
-----		

Net periodic postretirement benefit cost for 1998, 1997, and 1996 follows:

Year ended December 31 (Millions)	1998	1997	1996
-----			
Interest cost	\$15.5	\$16.3	\$16.0
Expected return on plan assets	(1.1)	(1.8)	(2.1)
Amortization of prior service benefit	(2.7)	(2.7)	(2.7)
Recognized net actuarial loss (gain)	.6	1.2	(.4)
	-----		
Net periodic benefit cost	\$12.3	\$13.0	\$10.8
-----			

Weighted-average assumptions as of December 31 were as follows:

	7.20%	7.30%	7.50%
Discount rate	7.20%	7.30%	7.50%
Expected return on plan assets	8.00%	8.00%	8.00%
-----			

The assumed health care cost trend rate used in measuring the expected cost of benefits covered by the plan was 8.75% for 1999, gradually declining to 5.5% in 2006 and thereafter. A one-percentage point increase (decrease) in the assumed health care cost trend rate would increase (decrease) the accumulated postretirement benefit obligation at December 31, 1998, by \$10.8 million and \$(9.9) million, respectively, and increase (decrease) the aggregate of the service and interest cost components of net periodic postretirement benefit cost for 1998 by \$.8 million and \$(.7) million, respectively.

16 Stockholders' equity

The company has 720.0 million authorized shares of common stock, par value \$.01 per share, and 40.0 million shares of authorized preferred stock, par value \$1 per share, issuable in series. The company has authorization to issue up to 30.0 million shares of Series A Cumulative Convertible Preferred Stock ("Series A Preferred Stock").

Each share of Series A Preferred Stock (i) accrues quarterly cumulative dividends of \$3.75 per share per annum, (ii) has a liquidation preference of \$50.00 plus accrued and unpaid dividends, (iii) is convertible into 1.67 shares of the company's common stock, subject to customary anti-dilution adjustments, and (iv) is redeemable at the option of the company under certain circumstances at \$50.00 per share. In addition, shares of Series A Preferred Stock have priority as to dividends over holders of the company's common stock that rank junior with regard to dividends.

In 1997, the company redeemed at stated value all \$150.0 million of its Series B and C Preferred Stock.

In December 1998, the company called 2.0 million of its Series A Preferred Stock for redemption. On January 21, 1999, 1.9 million shares of Series A Preferred Stock were converted into 3.2 million shares of the company's common stock and 270 thousand shares of Series A Preferred Stock were redeemed for \$13.5 million. Included in the above number were 184 thousand shares of Series A Preferred Stock that were voluntarily converted into the company's common stock during the call period. In addition, on January 21, 1999, the company announced that it was calling for redemption on March 4, 1999, an additional 6.0 million shares of its Series A Preferred Stock.

Each outstanding share of common stock has attached to it one preferred share purchase right. The rights become exercisable only if a person or group acquires 20% or more of the company's common stock, or announces a tender or exchange offer for 30% or more of the common stock. Until the rights become exercisable, they have no dilutive effect on net income per common share.

At December 31, 1998, 82.0 million shares of unissued common stock of the company were reserved for the following: 47.4 million for convertible preferred stock, 3.9 million for the 8 1/4 % convertible subordinated notes due 2006, and 30.7 million for stock options and for stock purchase and savings plans.

Changes in issued shares during the three years ended December 31, 1998, were as follows:

(Thousands)	Series A Preferred Stock	Common Stock	Treasury Stock
Balance at December 31, 1995	28,405	172,316	(893)
Issuance of stock under stock option and other plans		3,426	(6)
Other		1	
Balance at December 31, 1996	28,405	175,743	(899)
Conversions to common stock	(2)	73,150	
Issuance of stock under stock option and other plans		1,245	160
Other		84	
Balance at December 31, 1997	28,403	250,222	(739)
Conversions to common stock	(2)	110	
Issuance of stock under stock option and other plans		7,557	(553)
Balance at December 31, 1998	28,401	257,889	(1,292)

Report of Independent Auditors

To the Board of Directors of Unisys Corporation

We have audited the accompanying consolidated balance sheets of Unisys Corporation at December 31, 1998 and 1997, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1998. 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 generally accepted auditing standards. 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, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

As described in Note 3 to the consolidated financial statements, effective December 31, 1997, Unisys Corporation changed its method of accounting for the measurement of goodwill impairment.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania  
January 14, 1999, except for the fourth paragraph of Note 16,  
as to which the date is January 21, 1999

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Unisys Corporation

Supplemental Financial Data (Unaudited)

Quarterly financial information

(Millions, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
-----					
1998	-----				
Revenue	\$1,649.7	\$1,728.5	\$1,781.4	\$2,048.8	\$7,208.4
Gross profit	559.2	582.9	600.2	707.5	2,449.8
Income before income taxes	98.0	140.8	149.4	216.5	604.7
Net income	62.7	90.1	95.6	138.6	387.0
Dividends on preferred shares	26.7	26.6	26.6	26.6	106.5
Earnings on common shares	36.0	63.5	69.0	112.0	280.5
Earnings per common share - basic	.14	.25	.27	.44	1.11
- diluted	.14	.24	.26	.42	1.06
Market price per common share - high	20 3/16	28 3/8	30 11/16	35 3/8	35 3/8
- low	13 5/16	17 1/4	17 5/8	18 1/8	13 5/16
-----					
1997	-----				
Revenue	\$1,530.7	\$1,585.3	\$1,621.4	\$1,898.6	\$6,636.0
Gross profit	515.7	538.4	575.0	633.5	2,262.6
Income (loss) before income taxes	30.6	66.5	80.8	(907.7)	(729.8)
Net income (loss)*	19.3	41.9	50.9	(946.6)	(834.5)
Dividends on preferred shares	30.1	27.8	26.6	26.6	111.1
Earnings (loss) on common shares	(10.8)	14.1	24.3	(973.2)	(945.6)
Earnings (loss) per common share - basic	(.06)	.08	.14	(4.66)	(5.20)
- diluted*	(.06)	.08	.13	(4.66)	(5.20)
Market price per common share - high	7 5/8	8	15 3/4	16 1/2	16 1/2
- low	6 1/4	5 3/4	7 3/8	11 1/8	5 3/4
-----					

\* In the fourth quarter of 1997, the company recorded one-time charges to net income of \$1,029.3 million. Before these charges, fourth-quarter net income was \$82.7 million, or \$.23 per diluted common share, and full-year net income was \$194.8 million, or \$.44 per diluted common share. See Note 3 of the Notes to Consolidated Financial Statements.

The individual quarterly per-common share amounts may not total to the per-common share amount for the full year because of accounting rules governing the computation of earnings per common share.

Market prices per common share are as quoted on the New York Stock Exchange composite listing.

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Eight-year summary of selected financial data

(Millions, except per share data)	1998	1997(1)	1996	1995(1)	1994(1)	1993	1992	1991(1)
Results of operations(2)								
Revenue	\$7,208.4	\$6,636.0	\$6,370.5	\$6,342.3	\$6,095.5	\$6,107.1	\$6,715.6	\$6,908.8
Operating income (loss)	810.2	(389.8)	320.4	(562.1)	271.7	698.7	688.2	(614.3)
Income (loss) from continuing operations before income taxes	604.7	(729.8)	86.7	(781.1)	14.6	370.9	301.3	(1,425.6)
Income (loss) from continuing operations before extraordinary items and changes in accounting principles	387.0	(834.5)	57.2	(627.3)	12.1	286.3	166.3	(1,520.2)
Net income (loss)	387.0	(834.5)	45.1	(624.6)	100.5	565.4	361.2	(1,393.3)
Dividends on preferred shares	106.5	111.1	120.8	120.3	120.1	121.6	122.1	121.2
Earnings (loss) on common shares	280.5	(945.6)	(75.7)	(744.9)	(19.6)	443.8	239.1	(1,514.5)
Earnings (loss) from continuing operations per common share								
Basic	1.11	(5.20)	(.37)	(4.37)	(.63)	1.01	.27	(10.16)
Diluted	1.06	(5.20)	(.37)	(4.37)	(.63)	.92	.27	(10.16)
Financial position.(2)								
Working capital	\$ 234.2	\$ 309.1	\$ 663.4	\$ 67.8	\$1,012.2	\$ 677.5	\$ 509.8	\$ 380.8
Total assets	5,577.7	5,591.3	6,967.1	7,113.2	7,193.4	7,349.4	7,322.1	8,218.7
Long-term debt	1,105.2	1,438.3	2,271.4	1,533.3	1,864.1	2,025.0	2,172.8	2,694.6
Common stockholders' equity(3)	97.0	(214.2)	166.7	275.4	1,019.7	1,042.8	527.3	327.6
Common stockholders' equity per share	.38	(.86)	.95	1.61	5.96	6.12	3.26	2.03
Other data								
Research and development	\$ 296.6	\$ 302.3	\$ 342.9	\$ 404.5	\$ 458.5	\$ 489.3	\$ 505.6	\$ 610.6
Capital additions of properties	207.3	179.9	162.3	195.0	208.2	173.5	227.0	222.7
Investment in marketable software	99.4	132.9	116.2	123.0	121.3	118.7	110.2	167.7
Depreciation	145.7	156.0	182.0	203.0	226.2	252.0	311.4	412.1
Amortization								
Marketable software	111.8	97.0	101.6	151.7	150.5	144.6	131.8	241.0
Goodwill	8.9	963.9	46.1	40.9	36.9	36.7	36.8	246.6
Common shares outstanding (millions)	256.6	249.5	174.8	171.4	171.0	170.4	161.9	161.7
Stockholders of record (thousands)	28.6	37.3	39.2	41.5	45.3	47.8	51.7	54.6
Employees (thousands)	33.2	32.6	32.9	37.4	37.8	38.2	41.7	46.4

(1) Includes special pretax charges of \$1,039.2 million, \$846.6 million, \$186.2 million, and \$1,200.0 million for the years ended December 31, 1997, 1995, 1994, and 1991, respectively.

(2) See Note 4 of the Notes to Consolidated Financial Statements concerning adjustments of previously reported amounts.

(3) After deduction of cumulative preferred dividends in arrears in 1991, 1992, and 1993.

Consent of Independent Auditors

We consent to the use of our report dated January 14, 1999 (except for the fourth paragraph of Note 16, as to which the date is January 21, 1999), included in the 1998 Annual Report to Stockholders of Unisys Corporation, with respect to the consolidated financial statements, as amended, incorporated by reference in this Form 10-K/A.

Our audits also included the financial statement schedule of Unisys Corporation listed in Item 14(a). This schedule is the responsibility of Unisys Corporation's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as whole, presents fairly in all material respects the information set forth therein.

We consent to the incorporation by reference in the following Registration Statements: (1) Registration Statement (Form S-8 No. 33-7893) pertaining to the Burroughs LTIP, (2) Registration Statement (Form S-8 No. 33-4317) pertaining to the Burroughs 1985 Payroll Deduction Stock Purchase Plan, (3) Registration Statement (Form S-3 No. 33-25715) of Unisys Corporation, (4) Registration Statement (Form S-8 No. 33-3937) pertaining to the Burroughs LTIP, (5) Registration Statement (Form S-8 No. 2-63842) pertaining to the Burroughs LTIP, (6) Registration Statement (Form S-8 No. 33-38711) pertaining to the Unisys Savings Plan, (7) Registration Statement (Form S-8 No. 33-38712) pertaining to the Unisys Retirement Investment Plan II, (8) Registration Statement (Form S-8 No. 33-38713) pertaining to the Unisys Retirement Investment Plan, (9) Registration Statement (Form S-8 No. 33-40259) pertaining to the Unisys LTIP, (10) Registration Statement (Form S-3 No. 33-51747) of Unisys Corporation, (11) Registration Statement (Form S-3 No. 333-20373) of Unisys Corporation, (12) Registration Statement (Form S-3 No. 333-51885) of Unisys Corporation, (13) Registration Statement (Form S-8 No. 333-51887) pertaining to the Unisys LTIP, (14) Registration Statement (Form S-8 No. 333-51889) pertaining to the Unisys Global Employee Stock Purchase Plan and (15) Registration Statement (Form S-8 No. 333-73399) pertaining to the Unisys Deferred Compensation Plan for Executives; of our report dated January 14, 1999 (except for the fourth paragraph of Note 16, as to which the date is January 21, 1999), with respect to the consolidated financial statements, as amended, incorporated herein by reference and our report included in the preceding paragraph with respect to the financial statement schedule included in this Form 10-K/A.

/s/ ERNST & YOUNG LLP  
Philadelphia, Pennsylvania

July 14, 1999

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE COMPANY'S FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE COMPANY'S FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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