

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2004

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 1-8729

UNISYS CORPORATION  
(Exact name of registrant as specified in its charter)

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

Unisys Way 19424  
Blue Bell, Pennsylvania (Address of principal executive offices) (Zip Code)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). YES  NO

Number of shares of Common Stock outstanding as of September 30, 2004:  
335,930,924.

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Part I - FINANCIAL INFORMATION  
Item 1. Financial Statements.

UNISYS CORPORATION  
CONSOLIDATED BALANCE SHEETS  
(Millions)

	Sept. 30, 2004 (Unaudited)	December 31, 2003
	-----	-----
Assets		
-----		
Current assets		
Cash and cash equivalents	\$573.7	\$ 635.9
Accounts and notes receivable, net	962.0	1,027.8
Inventories		
Parts and finished equipment	102.2	121.7
Work in process and materials	117.7	116.9
Deferred income taxes	295.0	270.0
Other current assets	104.9	85.7

Total	2,155.5	2,258.0
Properties	1,364.9	1,352.7
Less-Accumulated depreciation and amortization	952.5	928.5
Properties, net	412.4	424.2
Outsourcing assets, net	510.9	477.5
Marketable software, net	341.3	332.2
Investments at equity	166.4	153.3
Prepaid pension cost	49.2	55.5
Deferred income taxes	1,385.7	1,384.6
Goodwill	185.3	177.5
Other long-term assets	203.5	211.8
Total	\$5,410.2	\$5,474.6
Liabilities and stockholders' equity		
Current liabilities		
Notes payable	\$ 20.0	\$ 17.7
Current maturities of long-term debt	150.8	2.2
Accounts payable	392.6	513.8
Other accrued liabilities	1,233.5	1,305.7
Income taxes payable	153.5	214.1
Total	1,950.4	2,053.5
Long-term debt	899.5	1,048.3
Accrued pension liabilities	471.6	433.6
Other long-term liabilities	551.1	544.0
Stockholders' equity		
Common stock, shares issued: 2004, 337.9; 2003, 333.8	3.4	3.3
Accumulated deficit	(341.3)	( 414.8)
Other capital	3,869.4	3,818.6
Accumulated other comprehensive loss	(1,993.9)	(2,011.9)
Stockholders' equity	1,537.6	1,395.2
Total	\$5,410.2	\$5,474.6

See notes to consolidated financial statements.

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UNISYS CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)  
(Millions, except per share data)

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Revenue				
Services	\$1,147.1	\$1,124.3	\$3,470.9	\$3,394.7
Technology	298.6	325.4	825.8	878.9
	1,445.7	1,449.7	4,296.7	4,273.6
Costs and expenses				
Cost of revenue:				
Services	965.7	886.1	2,821.6	2,675.4
Technology	139.0	138.5	375.5	393.9

	1,104.7	1,024.6	3,197.1	3,069.3
Selling, general and administrative expenses	303.7	251.0	837.8	737.1
Research and development expenses	75.3	68.2	218.1	198.7
	-----	-----	-----	-----
	1,483.7	1,343.8	4,253.0	4,005.1
	-----	-----	-----	-----
Operating income (loss)	(38.0)	105.9	43.7	268.5
Interest expense	16.2	17.2	51.4	51.3
Other income (expense), net	(3.0)	(4.7)	21.6	2.5
	-----	-----	-----	-----
Income (loss) before income taxes	(57.2)	84.0	13.9	219.7
Provision (loss) for income taxes	(82.4)	27.8	(59.6)	72.5
	-----	-----	-----	-----
Net income	\$ 25.2	\$ 56.2	\$ 73.5	\$ 147.2
	=====	=====	=====	=====
Earnings per share				
Basic	\$ .08	\$ .17	\$ .22	\$ .45
	=====	=====	=====	=====
Diluted	\$ .07	\$ .17	\$ .22	\$ .44
	=====	=====	=====	=====

See notes to consolidated financial statements.

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

	Nine Months Ended September 30	
	----- 2004	----- 2003
	-----	-----
Cash flows from operating activities		
Net income	\$ 73.5	\$ 147.2
Add(deduct) items to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of properties and outsourcing assets	181.7	154.9
Amortization of marketable software	96.6	92.2
(Increase) in deferred income taxes, net	(25.3)	( 2.5)
Decrease (increase) in receivables, net	97.2	( 32.3)
Decrease in inventories	19.1	43.0
(Decrease) in accounts payable and other accrued liabilities	(207.5)	(192.8)
(Decrease) increase in income taxes payable	(52.6)	19.8
Increase (decrease) in other liabilities	19.8	( 44.0)
(Increase) in other assets	(34.0)	( 29.9)
Other	44.7	6.5
	-----	-----
Net cash provided by operating activities	213.2	162.1
	-----	-----
Cash flows from investing activities		
Proceeds from investments	4,423.4	3,626.1
Purchases of investments	(4,427.4)	(3,663.2)
Investment in marketable software	(88.8)	(109.4)
Capital additions of properties and outsourcing assets	(192.4)	(177.9)
Purchases of businesses	(18.6)	( 2.0)
	-----	-----
Net cash used for investing activities	(303.8)	(326.4)
	-----	-----
Cash flows from financing activities		
Net reduction in short-term borrowings	(1.0)	( 57.0)
Proceeds from employee stock plans	30.9	21.0
Payments of long-term debt	( 2.3)	( 3.8)
Proceeds from issuance of long-term debt	-	293.3
	-----	-----

Net cash provided by financing activities	27.6	253.5
	-----	-----
Effect of exchange rate changes on cash and cash equivalents	.8	11.7
	-----	-----
Increase (decrease) in cash and cash equivalents	(62.2)	100.9
Cash and cash equivalents, beginning of period	635.9	301.8
	-----	-----
Cash and cash equivalents, end of period	\$ 573.7	\$ 402.7
	=====	=====

See notes to consolidated financial statements.

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UNISYS CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

In the opinion of management, the financial information furnished herein reflects all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods specified. These adjustments consist only of normal recurring accruals except as disclosed herein. Because of seasonal and other factors, results for interim periods are not necessarily indicative of the results to be expected for the full year.

- a. The following table shows how earnings per share were computed for the three and nine months ended September 30, 2004 and 2003 (dollars in millions, shares in thousands):

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
	-----	-----	-----	-----
Basic Earnings Per Share				
Net income	\$ 25.2	\$ 56.2	\$ 73.5	\$ 147.2
	=====	=====	=====	=====
Weighted average shares	335,576	330,033	334,236	328,675
	=====	=====	=====	=====
Basic earnings per share	\$ .08	\$ .17	\$ .22	\$ .45
	=====	=====	=====	=====
Diluted Earnings Per Share				
Net income	\$ 25.2	\$ 56.2	\$ 73.5	\$ 147.2
	=====	=====	=====	=====
Weighted average shares	335,576	330,033	334,236	328,675
Plus incremental shares from assumed exercises under employee stock plans	1,786	3,946	3,823	2,642
	-----	-----	-----	-----
Adjusted weighted average shares	337,362	333,979	338,059	331,317
	=====	=====	=====	=====
Diluted earnings per share	\$ .07	\$ .17	\$ .22	\$ .44
	=====	=====	=====	=====

At September 30, 2004, 35.9 million shares related to employee stock plans were not included in the computation of diluted earnings per share because the option prices are above the average market price of the company's common stock.

- b. As part of its ongoing efforts to reduce its cost base and enhance its administrative efficiency, on September 30, 2004, the company consolidated facility space and committed to a reduction of approximately 1,400 employees, primarily in general and administrative areas. These actions resulted in a pretax charge of \$82.0 million, or \$.18 per diluted share. The charge related to headcount reductions is approximately \$75.3 million and is broken down as follows: (a) approximately 750 employees in the U.S. for a charge of about \$23.2 million and (b) 650 employees outside the U.S.

for a charge of about \$52.1 million. The charge for employee reductions is principally related to severance costs. Other employee-related costs are not significant. The facility charge of approximately \$6.7 million relates principally to a single U.S. leased property that as of September 30, 2004 the company ceased using. The facility charge represents the fair value of the liability at the cease-use date and was determined based on the remaining lease rental payments, reduced by estimated sublease rentals that could be reasonably obtained for the property.

The employee reductions are expected to be substantially completed by the end of the second quarter of 2005. The company estimates that the cash requirements for the cost reduction actions will be about \$85 million, mostly in 2005. The company anticipates that these actions will yield approximately \$70 million of annualized cost savings on a run-rate basis by the end of 2005, thereby making the company better able to compete in the marketplace.

The pretax charge was recorded in the following statement of income classifications: cost of revenue-services, \$28.1 million; selling, general and administrative expenses, \$50.2 million; research and development

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expenses, \$8.4 million; and other income (expense), net, \$4.7 million. The income recorded in other income (expense), net relates to minority shareholders' portion of the charge related to a 51% owned subsidiary which is fully consolidated by the company.

- c. During the September 2004 quarter, the U.S. Congressional Joint Committee on Taxation approved an income tax refund to the company related to the settlement of tax audit issues dating from the mid-1980s. The refund, including interest, is approximately \$40 million and is recorded in current accounts receivable in the company's consolidated balance sheet. After payment of related state taxes, the company expects a net cash refund of approximately \$30 million by the end of 2004 or in early 2005. As a result of the resolution of these audit issues, the company has recorded favorable adjustments to its existing tax liability reserves, which resulted in an after-tax benefit of \$68.2 million, or \$.20 per diluted share, to net income in the third quarter of 2004.
- d. The company has two business segments: Services and Technology. Revenue classifications by segment are as follows: Services - consulting and systems integration, outsourcing, infrastructure services and core maintenance; Technology - enterprise-class servers and specialized technologies. The accounting policies of each business segment are the same as those followed by the company as a whole. Intersegment sales and transfers are priced as if the sales or transfers were to third parties. Accordingly, the Technology segment recognizes intersegment revenue and manufacturing profit on hardware and software shipments to customers under Services contracts. The Services segment, in turn, recognizes customer revenue and marketing profits on such shipments of company hardware and software to customers. The Services segment also includes the sale of hardware and software products sourced from third parties that are sold to customers through the company's Services channels. In the company's consolidated statements of income, the manufacturing costs of products sourced from the Technology segment and sold to Services customers are reported in cost of revenue for Services.

Also included in the Technology segment's sales and operating profit are sales of hardware and software sold to the Services segment for internal use in Services engagements. The amount of such profit included in operating income of the Technology segment for the three and nine months ended September 30, 2004 and 2003 was \$7.2 million and \$6.7 million, and \$9.8 million and \$18.6 million, respectively. The profit on these transactions is eliminated in Corporate.

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

A summary of the company's operations by business segment for the three and nine month periods ended September 30, 2004 and 2003 is presented below (in millions of dollars):

	Total	Corporate	Services	Technology
Three Months Ended September 30, 2004	-----	-----	-----	-----
Customer revenue	\$1,445.7		\$1,147.1	\$298.6
Intersegment		\$ (63.6)	5.2	58.4
Total revenue	----- \$1,445.7	----- \$ (63.6)	----- \$1,152.3	----- \$357.0
Operating income (loss)	=====	=====	=====	=====
Operating income (loss)	\$ (38.0)	\$ (85.4)	\$ (2.3)	\$ 49.7
Three Months Ended September 30, 2003	-----	-----	-----	-----
Customer revenue	\$1,449.7		\$1,124.3	\$ 325.4
Intersegment		\$ (66.4)	7.3	59.1
Total revenue	----- \$1,449.7	----- \$ (66.4)	----- \$1,131.6	----- \$ 384.5
Operating income (loss)	=====	=====	=====	=====
Operating income (loss)	\$ 105.9	\$ (1.3)	\$ 43.8	\$ 63.4
Nine Months Ended September 30, 2004	-----	-----	-----	-----
Customer revenue	\$4,296.7		\$3,470.9	\$ 825.8
Intersegment		\$ (166.6)	14.5	152.1
Total revenue	----- \$4,296.7	----- \$ (166.6)	----- \$3,485.4	----- \$ 977.9
Operating income (loss)	=====	=====	=====	=====
Operating income (loss)	\$ 43.7	\$ (85.4)	\$ 35.1	\$ 94.0
Nine Months Ended September 30, 2003	-----	-----	-----	-----
Customer revenue	\$4,273.6		\$3,394.7	\$ 878.9
Intersegment		\$ (225.6)	19.2	206.4
Total revenue	----- \$4,273.6	----- \$ (225.6)	----- \$3,413.9	----- \$1,085.3
Operating income (loss)	=====	=====	=====	=====
Operating income (loss)	\$ 268.5	\$ ( 3.6)	\$ 142.3	\$ 129.8

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	----	----	----	----
Total segment operating income	\$ 47.4	\$107.2	\$129.1	\$272.1
Interest expense	(16.2)	(17.2)	(51.4)	(51.3)
Other income (expense), net	(3.0)	( 4.7)	21.6	2.5
Corporate and eliminations	1.3	( 1.3)	1.3	( 3.6)
Cost reduction charge	(86.7)		(86.7)	
Total income (loss) before income taxes	=====	=====	=====	=====
	\$ (57.2)	\$ 84.0	\$ 13.9	\$219.7

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	-----	-----	-----	-----

	----	----	----	----
Services				
Consulting and systems integration	\$ 403.3	\$ 378.9	\$1,194.3	\$1,121.3
Outsourcing	411.8	396.2	1,274.2	1,227.3
Infrastructure services	193.1	207.5	572.6	620.1
Core maintenance	138.9	141.7	429.8	426.0
	-----	-----	-----	-----
	1,147.1	1,124.3	3,470.9	3,394.7
Technology				
Enterprise-class servers	249.6	249.7	636.9	661.3
Specialized technologies	49.0	75.7	188.9	217.6
	-----	-----	-----	-----
	298.6	325.4	825.8	878.9
	-----	-----	-----	-----
Total	\$1,445.7	\$1,449.7	\$4,296.7	\$4,273.6
	=====	=====	=====	=====

e. Comprehensive income for the three and nine months ended September 30, 2004 and 2003 includes the following components (in millions of dollars):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	----	----	----	----
Net income	\$ 25.2	\$ 56.2	\$73.5	\$147.2
Other comprehensive income (loss)				
Cash flow hedges				
Income (loss), net of tax of \$(.1), \$(2.5), \$.3, and \$(5.1)	(.2)	(4.6)	.7	(9.4)
Reclassification adjustments, net of tax of \$.6, \$1.1, \$2.2, and \$3.1	1.3	2.0	4.2	5.8
Foreign currency translation adjustments	6.1	7.2	13.1	38.1
	-----	-----	-----	-----
Total other comprehensive income	7.2	4.6	18.0	34.5
	-----	-----	-----	-----
Comprehensive income	\$ 32.4	\$ 60.8	\$91.5	\$181.7
	=====	=====	=====	=====

Accumulated other comprehensive income (loss) is as follows (in millions of dollars):

	Total	Translation Adjustments	Cash Flow Hedges	Minimum Pension Liability
	----	-----	-----	-----
Balance at December 31, 2002	\$(2,236.9)	\$(745.0)	\$( 1.5)	\$(1,490.4)
Change during period	225.0	65.3	( 5.1)	164.8
	-----	-----	-----	-----
Balance at December 31, 2003	(2,011.9)	(679.7)	( 6.6)	(1,325.6)
Change during period	18.0	13.1	4.9	
	-----	-----	-----	-----
Balance at September 30, 2004	\$(1,993.9)	\$(666.6)	\$( 1.7)	\$(1,325.6)
	=====	=====	=====	=====

f. The amount credited to stockholders' equity for the income tax benefit related to the company's stock plans for the nine months ended September 30, 2004 and 2003 was \$3.6 million and \$3.1 million, respectively. The company expects to realize these tax benefits on future Federal income tax returns.

g. For equipment manufactured by the company, the company warrants that it will substantially conform to relevant published specifications for 12 months after shipment to the customer. The company will repair or replace, at its option and expense, items of equipment that do not meet this warranty. For

company software, the company warrants that it will conform substantially to then-current published functional specifications for 90 days from customer's

receipt. The company will provide a workaround or correction for material errors in its software that prevents its use in a production environment.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Balance at beginning of period	\$15.0	\$21.1	\$20.8	\$19.2
Accruals for warranties issued during the period	2.0	5.5	9.1	17.2
Settlements made during the period	(3.8)	(4.7)	(12.7)	(13.8)
Changes in liability for pre-existing warranties during the period, including expirations	(.4)	(.8)	(4.4)	(1.5)
Balance at September 30	\$12.8	\$21.1	\$12.8	\$21.1

- h. The company applies the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its stock-based employee compensation plans. For stock options, no compensation expense is reflected in net income as all stock options granted had an exercise price equal to or greater than the market value of the underlying common stock on the date of grant. In addition, no compensation expense is recognized for common stock purchases under the Employee Stock Purchase Plan. Pro forma information regarding net income and earnings per share is required by Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," and has been determined as if the company had accounted for its stock plans under the fair value method of SFAS No. 123. For purposes of the pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The following table illustrates the effect on net income and earnings per share if the company had applied the fair value recognition provisions of SFAS No. 123 (in millions of dollars):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Net income as reported	\$ 25.2	\$ 56.2	\$ 73.5	\$147.2
Deduct total stock-based employee compensation expense determined under fair value method for all awards, net of tax	( 7.6)	(10.4)	(25.3)	(35.2)
Pro forma net income	\$ 17.6	\$ 45.8	\$ 48.2	\$112.0
Earnings per share				
Basic - as reported	\$ .08	\$ .17	\$ .22	\$ .45
Basic - pro forma	\$ .05	\$ .14	\$ .14	\$ .34
Diluted - as reported	\$ .07	\$ .17	\$ .22	\$ .44
Diluted - pro forma	\$ .05	\$ .14	\$ .14	\$ .34

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- i. Net periodic pension expense (income) for the three and nine months ended September 30, 2004 and 2003 is presented below (in millions of dollars):



	Three Months Ended Sept. 30, 2004			Three Months Ended Sept. 30, 2003		
	Total	U.S. Plans	Int'l. Plans	Total	U.S. Plans	Int'l. Plans
Service cost	\$ 29.2	\$ 16.8	\$12.4	\$ 25.4	\$ 14.7	\$ 10.7
Interest cost	90.3	66.0	24.3	87.0	66.9	20.1
Expected return on plan assets	(123.9)	(94.7)	(29.2)	(124.9)	(100.9)	(24.0)
Amortization of prior service (benefit) cost	(1.6)	(1.9)	.3	(2.8)	(3.0)	.2
Recognized net actuarial loss	29.5	23.3	6.2	8.3	5.1	3.2
Settlement/curtailment loss	-----	-----	-----	(1.5)	-----	(1.5)
Net periodic pension expense (income)	\$23.5	\$ 9.5	\$14.0	\$ (8.5)	\$ (17.2)	\$ 8.7

	Nine Months Ended Sept. 30, 2004			Nine Months Ended Sept. 30, 2003		
	Total	U.S. Plans	Int'l. Plans	Total	U.S. Plans	Int'l. Plans
Service cost	\$87.1	\$ 50.4	\$ 36.7	\$ 74.1	\$ 44.1	\$ 30.0
Interest cost	270.5	198.3	72.2	260.4	200.5	59.9
Expected return on plan assets	(370.7)	(284.2)	(86.5)	(376.0)	(302.7)	(73.3)
Amortization of prior service (benefit) cost	(4.6)	(5.7)	1.1	(8.1)	(9.0)	.9
Recognized net actuarial loss	88.2	69.8	18.4	26.1	15.5	10.6
Settlement/curtailment loss	-----	-----	-----	.7	-----	.7
Net periodic pension expense (income)	\$70.5	\$28.6	\$41.9	\$ (22.8)	\$ (51.6)	\$ 28.8

The company currently expects to make cash contributions of approximately \$66 million to its worldwide defined benefit pension plans in 2004 compared with \$62.5 million in 2003. For the nine months ended September 30, 2004 and 2003, \$41.4 million and \$36.0 million, respectively of cash contributions have been made. In accordance with regulations governing contributions to U.S. defined benefit pension plans, the company is not required to fund its U.S. qualified defined benefit pension plan in 2004.

Net periodic postretirement benefit expense for the three and nine months ended Sept. 30, 2004 and 2003 is presented below (in millions of dollars):

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2004	2003	2004	2003
Interest cost	\$ 3.5	\$ 3.6	\$10.5	\$10.8
Amortization of prior service benefit	(.5)	(.5)	(1.5)	(1.5)
Recognized net actuarial loss	1.0	.7	3.0	2.1
Net periodic postretirement benefit expense	\$ 4.0	\$ 3.8	\$12.0	\$11.4

The company expects to make cash contributions of approximately \$25 million to its postretirement benefit plan in 2004. For the nine months ended September 30, 2004, \$20 million of cash contributions have been made.

- j. Substantially all of the company's investments at equity consist of Nihon Unisys, Ltd., a publicly traded Japanese company ("NUL"). NUL is the exclusive supplier of the company's hardware and software products in Japan. The company owns approximately 28% of NUL's outstanding common stock. Prior to January 1, 2004, the company's share of NUL's earnings or losses were recorded semiannually in the second quarter and fourth quarter on a quarter-lag basis since NUL's quarterly financial results were not available. Due to recent regulatory changes in Japan, NUL is required to publish its earnings quarterly. Accordingly, effective January 1, 2004, the company has begun to record its equity earnings in NUL quarterly on a quarter-lag basis, and recorded equity income (loss) of \$(7.2) million and \$7.2 million for the three and nine months ended September 30, 2004, respectively.
- k. Cash paid during the nine months ended September 30, 2004 and 2003 for income taxes was \$47.0 million and \$63.2 million, respectively.

Cash paid during the nine months ended September 30, 2004 and 2003 for interest was \$57.7 million and \$51.4 million, respectively.

- l. In November 2003, the company purchased KPMG's Belgian consulting business for approximately \$3.3 million of cash plus assumed liabilities. The preliminary purchase price allocation was completed in December 2003 and assumed that the excess of the purchase price over the assets acquired and liabilities assumed was allocated to goodwill. An outside company completed its appraisal during the March 2004 quarter. Approximately \$1.5 million of amortizable intangibles (principally customer relationships) were identified and recorded. The intangible assets have a weighted average life of approximately 5.5 years. The goodwill from this acquisition has been assigned to the Services segment.

In April 2004, the company purchased the document services business unit of Interpay Nederlands B.V. ("Interpay") for \$5.2 million. This business unit processes approximately 110 million paper-related payments a year for Dutch banks. The purchase price was allocated to assets acquired and liabilities assumed based on their estimated fair values, and resulted in goodwill of \$3.4 million. The acquisition provides for the company to make contingent payments to Interpay based on the achievement of certain future revenue levels. The contingent consideration will be recorded as additional goodwill when the contingencies are resolved and consideration is issued or becomes issuable. The goodwill from this acquisition has been assigned to the Services segment.

In June 2004, the company purchased the security services and identity and access management solutions business of ePresence, Inc., whose consultants design and implement enterprise directory and security solutions that enable identity management within and across organizations. The purchase price of \$10.6 million was allocated to assets acquired and liabilities assumed based on their estimated fair values. An outside company completed its appraisal during the September 2004 quarter. Approximately \$0.7 million of amortizable intangible assets (principally customer relationships) were identified and recorded. The intangible assets have a weighted average life of approximately 3.8 years. The goodwill from this acquisition (approximately \$7.5 million) has been assigned to the Services segment.

In July 2004, the company purchased Baesch Computer Consulting, Inc., a provider of technology solutions and services to the U.S. intelligence and defense communities, for \$6.0 million. The purchase price was allocated to assets acquired and liabilities assumed based on their estimated fair values, and resulted in goodwill of \$6.3 million. The goodwill from this acquisition has been assigned to the Services segment.

- m. In January 2003, the Financial Accounting Standards Board ("FASB") issued interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities, an interpretation of ARB 51." The primary objectives of this interpretation are to provide guidance on the identification of entities for which control is achieved through means other than through voting rights ("variable interest entities") and how to determine when and which business enterprise (the "primary beneficiary") should consolidate the variable interest entity. This new model for consolidation applies to an entity in which either (i) the equity investors (if any) do not have a controlling financial interest, or (ii) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. In addition, FIN 46 requires that the primary beneficiary, as well as all other enterprises with a significant

variable interest in a variable interest entity, make additional disclosures. Certain disclosure requirements of FIN 46 were effective for

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financial statements issued after January 31, 2003. In December 2003, the FASB issued FIN 46 (revised December 2003), "Consolidation of Variable Interest Entities" ("FIN 46-R") to address certain FIN 46 implementation issues.

The provisions of FIN 46 were applicable for variable interests in entities obtained after January 31, 2003. The adoption of the provisions applicable to special purpose entities ("SPE") and all other variable interests obtained after January 31, 2003 did not have a material impact on the company's consolidated financial position, consolidated results of operations, or liquidity.

Effective March 31, 2004, the company adopted the provisions of FIN 46-R applicable to Non-SPEs created prior to February 1, 2003. Adoption of FIN 46-R had no impact on the company's consolidated financial position, consolidated results of operations, or liquidity.

On May 19, 2004, the FASB issued Staff Position No. FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003", ("FSP No. 106-2"). The above Act introduces a prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. FSP No. 106-2 is effective for the first interim period beginning after June 15, 2004 and provides that an employer shall measure the accumulated plan benefit obligation ("APBO") and net periodic postretirement benefit cost taking into account any subsidy received under the Act. As of September 30, 2004, the company's measurements of both the APBO and the net postretirement benefit cost do not reflect any amounts associated with the subsidy because the company has not yet been able to conclude whether the benefits provided by its postretirement medical plan are actuarially equivalent to Medicare Part D under the Act.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

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For the three months ended September 30, 2004, the company reported net income of \$25.2 million, or \$.07 per diluted share, compared with \$56.2 million, or \$.17 per share, for the three months ended September 30, 2003. During the quarter ended September 30, 2004, the company's results of operations were affected by two significant items.

During the quarter, the U.S. Congressional Joint Committee on Taxation approved an income tax refund to the company related to the settlement of tax audit issues dating from the mid-1980s. The refund, including interest, is approximately \$40 million. After payment of related state taxes, the company expects a net cash refund of approximately \$30 million by the end of 2004 or in early 2005. As a result of the resolution of these audit issues, the company has recorded favorable adjustments to its existing tax liability reserves, which resulted in an after-tax benefit of \$68.2 million, or \$.20 per diluted share, to net income in the third quarter of 2004.

In addition, as part of its ongoing efforts to reduce its cost base and enhance its administrative efficiency, on September 30, 2004, the company consolidated facility space and committed to a reduction in global headcount of about 1,400 employees, primarily in general and administrative areas. These actions resulted in an after-tax charge to earnings of \$60 million, or \$.18 per share, in the third quarter of 2004. The company anticipates these actions will yield approximately \$70 million of annualized cost savings on a run-rate basis by the end of 2005. The company anticipates cash requirements for these actions of about \$85 million, mostly in year 2005,

before the effect of cash savings from these actions and the tax refund.

The current quarter results were also impacted by pretax pension expense of \$23.5 million compared with pretax pension income of \$8.5 million in the year-ago quarter as well as lower margins in the outsourcing business.

#### Results of Operations

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Total revenue for the quarter ended September 30, 2004 was \$1.45 billion, which was flat when compared with the quarter ended September 30, 2003. Foreign currency translations had a 3% positive impact on revenue in the quarter when compared with the year-ago period. In the current quarter, Services revenue increased 2% from the prior year and Technology revenue decreased 8% from the prior year.

U.S. revenue decreased 4% in the current quarter compared with the year-ago period and revenue in international markets was up 3% driven by increases in Europe and Pacific/Asia which were partially offset by declines in Latin America. On a constant currency basis, international revenue declined 3% in the quarter.

The company recorded \$23.5 million of pension expense for the three months ended September 30, 2004 compared with \$8.5 million of pension income for the three months ended September 30, 2003. The change was due to the following: (1) a decline in the discount rate used for the U.S. pension plan to 6.25% at December 31, 2003 from 6.75% at December 31, 2002, (2) an increase in amortization of net unrecognized losses, (3) lower expected returns on plan assets due to amortization of the difference between the calculated value of plan assets and the fair value of plan assets, and (4) for international plans, declines in discount rates and currency translation. The company records pension income or expense, as well as other employee-related costs such as FICA and medical insurance costs, in operating income in the following income statement categories: cost of sales; selling, general and administrative expenses; and research and development expenses. The amount allocated to each income statement line is based on where the salaries of the active employees are charged. The company currently expects to report pension expense of approximately \$90 - \$95 million in 2004 compared with pension income of \$22.6 million in 2003.

Total gross profit margin was 23.6% in the third quarter of 2004 compared with 29.3% in the year-ago period. The change principally reflected a \$28.1 million charge in the current quarter relating to the cost reduction actions, lower margins in the outsourcing business due to higher costs in the current period relating principally to modification of two agreements, as well as pension expense of \$17.1 million in the current quarter compared with pension income of \$1.7 million in the year-ago quarter.

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For the three months ended September 30, 2004, selling, general and administrative expenses were \$303.7 million (21.0% of revenue) compared with \$251.0 million (17.3% of revenue) for the three months ended September 30, 2003. The increase principally reflected a \$50.2 million charge in the current quarter relating to the cost reductions actions, as well as pension expense of \$4.4 million in the current year compared with \$3.2 million of pension income in the year-ago period.

Research and development ("R&D") expense was \$75.3 million compared with \$68.2 million a year ago. The company continues to invest in high-end Cellular MultiProcessing server technology and in key programs within its industry practices. R&D in the current period includes a charge relating to the cost reductions actions of \$8.4 million as well as \$2.0 million of pension expense compared with pension income of \$3.6 million in the year-ago period.

For the third quarter of 2004, the company reported an operating income (loss) percent of (2.6%) compared with 7.3% for the third quarter of 2003. The change principally reflected a charge relating to the cost reductions actions of \$86.7 million in the current quarter as well as pension expense of \$23.5 million in the current quarter compared with pension income of \$8.5 million in the year-ago period.

Interest expense for the three months ended September 30, 2004 was \$16.2 million compared with \$17.2 million for the three months ended September 30, 2003.

Other income (expense), net was an expense of \$3.0 million in the current quarter compared with an expense of \$4.7 million in the year-ago quarter.

Income before income taxes was a loss of \$57.2 million in the third quarter of 2004 compared with \$84.0 million income last year. The provision for income taxes was a benefit of \$82.4 million in the current period compared with a provision of \$27.8 million in the year-ago period. The current period includes a benefit of \$68.2 million related to the tax refund as well as a \$22.0 million benefit related to the cost reduction charge. Included in the \$22.0 million tax benefit on the cost reduction action is an increase in valuation allowances on deferred tax assets of approximately \$7 million related to countries where the company has assessed the realization of the tax benefits to be less than likely.

For the nine months ended September 30, 2004, the company reported net income of \$73.5 million, or \$.22 per diluted share, compared with \$147.2 million, or \$.44 per diluted share, for the nine months ended September 30, 2003.

Total revenue for the nine months ended September 30, 2004 was \$4.30 billion, up 1% from revenue of \$4.27 billion for the nine months ended September 30, 2003. Foreign currency translations had a 5% positive impact on revenue in the nine months when compared with the year-ago period. In the current nine-month period, Services revenue increased 2% and Technology revenue decreased 6%.

U.S. revenue decreased 2% in the current nine-month period compared with the year-ago period. Revenue in international markets increased 3% driven by an increase in Europe which was partially offset by declines in other international regions. On a constant currency basis, international revenue declined 6% in the nine months ended September 30, 2004.

Pension expense for the nine months ended September 30, 2004 was \$70.5 million compared with \$22.8 million of pension income for the nine months ended September 30, 2003.

Total gross profit margin was 25.6% in the nine months ended September 30, 2004 compared with 28.2% in the year-ago period. The change principally reflected a \$28.1 million charge relating to the cost reduction actions in the current nine-month period as well as pension expense of \$50.4 million in the current period compared with pension income of \$4.4 million in the year-ago period.

For the nine months ended September 30, 2004, selling, general and administrative expenses were \$837.8 million (19.5% of revenue) compared with \$737.1 million (17.2% of revenue) for the nine months ended September 30, 2003. Selling, general and administrative expenses in the current period includes a \$50.2 million charge relating to the cost reduction actions as well as \$14.1 million of pension expense compared with pension income of \$7.6 million in the year-ago period.

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R&D expense for the nine months ended September 30, 2004 was \$218.1 million compared with \$198.7 million a year ago. R&D in the current period includes an \$8.4 million charge relating to the cost reduction actions as well as \$6.0 million of pension expense compared with pension income of \$10.8 million in the year-ago period.

For the nine months ended September 30, 2004, the company reported an operating income percent of 1.0% compared with 6.3% for the nine months ended September 30, 2003. The change principally reflected an \$86.7 million charge relating to the cost reduction actions in the current nine-month period as well as pension expense of \$70.5 million in the current period compared with pension income of \$22.8 million in the year-ago period.

Interest expense for the nine months ended September 30, 2004 was \$51.4 million compared with \$51.3 million for the nine months ended September 30, 2003.

Other income (expense), net was income of \$21.6 million in the current nine-month period compared with income of \$2.5 million in the year-ago period. The increase in income was principally due to foreign exchange losses of \$3.4 million in the current year compared with losses of \$15.0 million in the prior-year period as well as \$4.7 million income in the current period related to minority shareholders' portion of the cost reduction charge of a 51% owned subsidiary which is fully consolidated by the company.

Income before income taxes was \$13.9 million in the nine months ended September 30, 2004 compared with \$219.7 million last year. The provision for income taxes was a benefit of \$59.6 million in the current period compared with a provision of \$72.5 million in the year-ago period. The current nine-month period includes a benefit of \$68.2 million related to the tax refund as well as a \$22.0 million benefit related to the cost reduction charge.

For 2005, pension expense cannot be reliably estimated until after December 31, 2004 when the actual amount of pension plan assets is known and the discount rate can be determined. However, based on 2004 stock market performance expectations as well as the long-term interest rate environment, the company's U.S. pension expense could increase by as much as 100-200% from an expected 2004 level of \$38 million. Currently the company estimates approximately \$56 million of expense for all other defined benefit pension plans for 2004; current estimates indicate slightly higher 2005 expense for these plans.

Despite the estimated increase in 2005 pension expense, in accordance with regulations governing contributions to U.S. defined benefit pension plans, the company currently expects that it will not be required to fund its U.S. qualified defined benefit pension plan in 2005. The company also currently expects that cash contributions to its other defined benefit pension plans will be somewhat higher than in 2004.

The 2005 pension estimates mentioned above are preliminary and can vary significantly from actual amounts. The 2005 pension expense will be determined in January 2005 when the December 31, 2004 employee levels, pension plan assets and discount rates are known.

Segment results  
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The company has two business segments: Services and Technology. Revenue classifications are as follows: Services - consulting and systems integration, outsourcing, infrastructure services, and core maintenance; Technology - enterprise-class servers and specialized technologies. The accounting policies of each business segment are the same as those followed by the company as a whole. Intersegment sales and transfers are priced as if the sales or transfers were to third parties. Accordingly, the Technology segment recognizes intersegment revenue and manufacturing profit on hardware and software shipments to customers under Services contracts. The Services segment, in turn, recognizes customer revenue and marketing profit on such shipments of company hardware and software to customers. The Services segment also includes the sale of hardware and software products sourced from third parties that are sold to customers through the company's Services channels. In the company's consolidated statements of income, the manufacturing costs of products sourced from the Technology segment and sold to Services customers are reported in cost of revenue for Services.

Also included in the Technology segment's sales and operating profit are sales of hardware and software sold to the Services segment for internal use in Services engagements. The amount of such profit included in operating income of the Technology segment for the three months ended September 30, 2004 and 2003, was \$7.2 million and \$6.7 million, respectively. The profit on these transactions is eliminated in Corporate.

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

Information by business segment is presented below (in millions of dollars):

	Total	Elimi-	Services	Technology
	-----	nations	-----	-----
		-----		
Three Months Ended				
September 30, 2004				
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Customer revenue	\$1,445.7		\$1,147.1	\$298.6

Intersegment		\$ (63.6)	5.2	58.4
Total revenue	\$1,445.7	\$ (63.6)	\$1,152.3	\$357.0
Gross profit percent	23.6%		16.2%	51.0%
Operating income (loss) percent	(2.6)%		(0.2)%	13.9%
Three Months Ended September 30, 2003				
Customer revenue	\$1,449.7		\$1,124.3	\$325.4
Intersegment		\$ ( 66.4)	7.3	59.1
Total revenue	\$1,449.7	\$ ( 66.4)	\$1,131.6	\$384.5
Gross profit percent	29.3%		19.8%	53.1%
Operating income percent	7.3%		3.9%	16.5%

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

In the Services segment, customer revenue was \$1.15 billion for the three months ended September 30, 2004, compared with \$1.12 billion for the three months ended September 30, 2003. Foreign currency translations had about a 3% positive impact on Services revenue in the quarter when compared with the year-ago period. Consulting and systems integration revenue grew 6% (\$403 million in 2004 compared with \$379 million in 2003) and outsourcing revenue grew 4% (\$412 million in 2004 compared with \$396 million in 2003). These increases were partially offset by a 2% decline in core maintenance revenue (\$139 million in 2004 compared with \$142 million in 2003) and a 7% decline in infrastructure services revenue (\$193 million in 2004 compared with \$207 million in 2003).

Services gross profit was 16.2% for the three months ended September 30, 2004 compared with 19.8% in the year-ago period. This change was principally due to the impact of pension expense of \$16.7 million in the current quarter compared with pension income of \$1.0 million in the year-ago period as well as higher costs in the current period relating to modifications of two outsourcing agreements. Services operating income percent was (0.2)% for the three months ended September 30, 2004 compared with 3.9% last year. The principal reason for the decline in operating income was due to the impact of pension accounting. In the current period, operating profit included \$20.6 million of pension expense compared with pension income of \$3.9 million in the year-ago quarter. The remaining reason for the decline in operating income related to modifications of two outsourcing agreements, which resulted in higher current-period cost and a write down to net realizable value of certain outsourcing assets related to such agreements.

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In the Technology segment, customer revenue was \$299 million for the three months ended September 30, 2004, down 8% compared with \$325 million for the three months ended September 30, 2003. Foreign currency translations had about a 3% positive impact on Technology revenue in the quarter when compared with the year-ago period. The decrease in revenue was due to a 35% decrease in sales of specialized technology products (\$49 million in 2004 compared with \$75 million in 2003). Sales of enterprise-class servers were flat at \$249.6 million compared with the year-ago period. The decrease in specialized technology revenue was caused by lower sales of semiconductor test systems and payment systems. Sales of these systems can vary significantly from quarter to quarter depending on customer needs. Technology gross profit was 51.0% for the three months ended September 30, 2004 compared with 53.1% in the year-ago period, and Technology operating income percent was 13.9% for the three months ended September 30, 2004 compared with 16.5% last year. The gross profit decrease primarily reflected a lower proportion of higher-margin products within the specialized technology product line. The decline in operating income percent was principally due to pension expense of \$2.9 million in the current period compared with pension income of \$4.6 million in the prior-year period.

## New Accounting Pronouncements

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In January 2003, the Financial Accounting Standards Board ("FASB") issued interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities, an interpretation of ARB 51." The primary objectives of this interpretation are to provide guidance on the identification of entities for which control is achieved through means other than through voting rights ("variable interest entities") and how to determine when and which business enterprise (the "primary beneficiary") should consolidate the variable interest entity. This new model for consolidation applies to an entity in which either (i) the equity investors (if any) do not have a controlling financial interest, or (ii) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. In addition, FIN 46 requires that the primary beneficiary, as well as all other enterprises with a significant variable interest in a variable interest entity, make additional disclosures. Certain disclosure requirements of FIN 46 were effective for financial statements issued after January 31, 2003. In December 2003, the FASB issued FIN 46 (revised December 2003), "Consolidation of Variable Interest Entities" ("FIN 46-R") to address certain FIN 46 implementation issues.

The provisions of FIN 46 were applicable for variable interests in entities obtained after January 31, 2003. The adoption of the provisions applicable to special purpose entities ("SPE") and all other variable interests obtained after January 31, 2003 did not have a material impact on the company's consolidated financial position, consolidated results of operations, or liquidity.

Effective March 31, 2004, the company adopted the provisions of FIN 46-R applicable to Non-SPEs created prior to February 1, 2003. Adoption of FIN 46-R had no impact on the company's consolidated financial position, consolidated results of operations, or liquidity.

On May 19, 2004, the FASB issued Staff Position No. FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003", ("FSP No. 106-2"). The above Act introduces a prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. FSP No. 106-2 is effective for the first interim period beginning after June 15, 2004 and provides that an employer shall measure the accumulated plan benefit obligation ("APBO") and net periodic postretirement benefit cost taking into account any subsidy received under the Act. As of September 30, 2004, the company's measurements of both the APBO and the net postretirement benefit cost do not reflect any amounts associated with the subsidy because the company has not yet been able to conclude whether the benefits provided by its postretirement medical plan are actuarially equivalent to Medicare Part D under the Act.

## Financial Condition

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Cash and cash equivalents at September 30, 2004 were \$573.7 million compared with \$635.9 million at December 31, 2003.

During the nine months ended September 30, 2004, cash provided by operations was \$213.2 million compared with \$162.1 million for the nine months ended September 30, 2003. Operating cash flow increased principally due to lower expenditures on prior-year restructuring and improved working capital management. Cash expenditures in the nine months ended September 30, 2004 related to prior-year restructuring charges (which are included in operating activities) were approximately \$10 million compared with \$51 million for the prior-year period. Cash expenditures for the 2004 cost reduction actions are expected to be approximately \$3 million for the remainder of 2004 and \$82 million in total for all subsequent years (primarily in 2005), principally for work-force reductions.

Cash used for investing activities for the nine months ended September 30, 2004 was \$303.8 million compared with \$326.4 million during the nine months ended September 30, 2003. The decrease in cash used was principally due to net purchases of investments of \$4.0 million in the current period compared with net purchases of \$37.1 million in the prior-year period. In addition, the current period investment in marketable software was \$88.8 million compared with \$109.4 million in the prior-year. Capital additions were \$192.4 million for the nine



months ended September 30, 2004 compared with \$177.9 million in the prior-year period. The increase in current year capital expenditures was principally related to the move of the company's Federal headquarters into a new facility. Cash expenditures for purchases of businesses was \$18.6 million for the nine months ended September 30, 2004 compared with \$2.0 million in the prior year.

Cash provided by financing activities during the nine months ended September 30, 2004 was \$27.6 million compared with \$253.5 million in the prior year. The prior period includes net proceeds from issuance of long-term debt of \$293.3 million in connection with the company's issuance in March 2003 of \$300 million of 6 7/8% senior notes due 2010.

At September 30, 2004 and December 31, 2003, total debt was \$1.1 billion.

The company has a \$500 million credit agreement that expires in May 2006. As of September 30, 2004, there were no borrowings under this facility, and the entire \$500 million was available for borrowings. Borrowings under the agreement bear interest based on the then-current LIBOR or prime rates and the company's credit rating. The credit agreement contains financial and other covenants, including maintenance of certain financial ratios, a minimum level of net worth and limitations on certain types of transactions, which could reduce the amount the company is able to borrow. Events of default under the credit agreement include failure to perform covenants, material adverse change, change of control and default under other debt aggregating at least \$25 million. If an event of default were to occur under the credit agreement, the lenders would be entitled to declare all amounts borrowed under it immediately due and payable. The occurrence of an event of default under the credit agreement could also cause the acceleration of obligations under certain other agreements and the termination of the company's U.S. trade accounts receivable facility, described below.

In addition, the company and certain international subsidiaries have access to certain uncommitted lines of credit from various banks. Other sources of short-term funding are operational cash flows, including customer prepayments, and the company's U.S. trade accounts receivable facility. Using this facility, the company sells, on an on-going basis, up to \$225 million of its eligible U.S. trade accounts receivable through a wholly owned subsidiary, Unisys Funding Corporation I. The facility is renewable annually at the purchasers' option and expires in December 2006. At both September 30, 2004 and December 31, 2003, the company had sold \$225 million of eligible receivables.

At September 30, 2004, the company has met all covenants and conditions under its various lending and funding agreements. Since the company believes that it will continue to meet these covenants and conditions, the company believes that it has adequate sources and availability of short-term funding to meet its expected cash requirements.

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

The company has on file with the Securities and Exchange Commission a registration statement covering \$1.2 billion of debt or equity securities, which enables the company to be prepared for future market opportunities.

At September 30, 2004, the company had deferred tax assets in excess of deferred tax liabilities of \$2,073 million. For the reasons cited below, management determined that it is more likely than not that \$1,609 million of such assets will be realized, therefore resulting in a valuation allowance of \$464 million.

The American Jobs Creation Act of 2004 extends the excess foreign tax credit carryforward period from five to ten years and limits the carryback period to one year. This should provide the company with more opportunities to fully utilize its foreign tax credits.

The company evaluates quarterly the realizability of its deferred tax assets and adjusts the amount of the related valuation allowance, if necessary. The factors used to assess the likelihood of realization are the company's forecast of future taxable income, and available tax planning strategies that could be implemented to realize deferred tax assets. Approximately \$4.9 billion of future taxable income (predominantly U.S.) is needed to realize all of the net 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.

Stockholders' equity increased \$142.4 million during the nine months ended September 30, 2004, principally reflecting net income of \$73.5 million, \$47.2 million for issuance of stock under stock option and other plans, \$3.6 million of tax benefits related to employee stock plans and currency translation of \$13.1 million.

At December 31 of each year, accounting rules require a company to recognize a liability on its balance sheet for each defined benefit pension plan if the fair value of the assets of that pension plan is less than the present value of the pension obligation (the accumulated benefit obligation, or "ABO"). This liability is called a "minimum pension liability." Concurrently, any existing prepaid pension asset for the pension plan must be removed. These adjustments are recorded as a charge in "accumulated other comprehensive income (loss)" in stockholders' equity. If at any future year-end, the fair value of the pension plan assets exceeds the ABO, the charge to stockholders' equity would be reversed for such plan. Alternatively, if the fair market value of pension plan assets experiences further declines or the discount rate is reduced, additional charges to accumulated other comprehensive income (loss) may be required at a future year-end.

At December 31, 2002, for all of the company's defined benefit pension plans, the ABO exceeded the fair value of pension plan assets. At December 31, 2003, the difference between the ABO and the fair value of pension plan assets decreased. As a result, at December 31, 2003, the company adjusted its minimum pension liability as follows: decreased its pension plan liabilities by approximately \$300 million, increased its investments at equity by approximately \$6 million relating to the company's share of the change in NUL's minimum pension liability, decreased prepaid pension asset by \$56 million, and offset these changes by a credit to other comprehensive income of approximately \$250 million, or \$165 million net of tax.

This accounting has no effect on the company's net income, liquidity or cash flows. Financial ratios and net worth covenants in the company's credit agreements and debt securities are unaffected by charges or credits to stockholders' equity caused by adjusting a minimum pension liability.

In accordance with regulations governing contributions to U.S. defined benefit pension plans, the company is not required to fund its U.S. qualified defined benefit plan in 2004. The company expects to make cash contributions of approximately \$66 million to its other defined benefit pension plans during 2004.

#### Factors That May Affect Future Results

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From time to time, the company provides information containing "forward-looking" statements, as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements provide current expectations of future events and include any statement that does not directly relate to any historical or current fact. Words such as "anticipates," "believes," "expects," "intends," "plans," "projects" and similar expressions may identify such forward-looking statements. All forward-looking statements rely on assumptions and are subject to risks, uncertainties and other factors that could cause the company's actual results to differ materially from expectations. Statements in this report concerning anticipated savings from cost reduction actions are subject to the risk that the company may not implement the headcount reductions as quickly or as fully as currently planned. Other factors that could affect future results include, but are not limited to, those discussed below. Any forward-looking statement speaks only as of the date on which that statement is made. The company assumes no obligation to update any forward-looking statement to reflect events or circumstances that occur after the date on which the statement is made.

The company's business is affected by changes in general economic and business conditions. The company continues to face a highly competitive business environment and economic weakness in certain geographic regions. In this environment, many organizations are delaying planned purchases of information technology products and services. If the level of demand for the company's products and services declines in the future, the company's business could be adversely affected. The company's business could also be affected by acts of

war, terrorism or natural disasters. Current world tensions could escalate and this could have unpredictable consequences on the world economy and on our business.

The information services and technology markets in which the company operates include a large number of companies vying for customers and market share both domestically and internationally. The company's competitors include consulting and other professional services firms, systems integrators, outsourcing providers, infrastructure services providers, computer hardware manufacturers and software providers. Some of the company's competitors may develop competing products and services that offer better price performance or that reach the market in advance of the company's offerings. Some competitors also have or may develop greater financial and other resources than the company, with enhanced ability to compete for market share, in some instances through significant economic incentives to secure contracts. Some also may be better able to compete for skilled professionals. Any of these factors could have an adverse effect on the company's business. Future results will depend on the company's ability to mitigate the effects of aggressive competition on revenues, pricing and margins and on the company's ability to attract and retain talented people.

The company operates in a highly volatile industry characterized by rapid technological change, evolving technology standards, short product life cycles and continually changing customer demand patterns. Future success will depend in part on the company's ability to anticipate and respond to these market trends and to design, develop, introduce, deliver or obtain new and innovative products and services on a timely and cost-effective basis. The company may not be successful in anticipating or responding to changes in technology, industry standards or customer preferences, and the market may not demand or accept its services and product offerings. In addition, products and services developed by competitors may make the company's offerings less competitive.

The company's future results will depend in part on its ability to grow outsourcing and infrastructure services. The company's outsourcing contracts are multiyear engagements under which the company takes over management of a client's technology operations, business processes or networks. The company will need to maintain a strong financial position in order to grow its outsourcing business. In a number of these arrangements, the company hires certain of its clients' employees and may become responsible for the related employee obligations, such as pension and severance commitments. In addition, system development activity on outsourcing contracts may require the company to make significant upfront investments.

As long-term relationships, outsourcing contracts provide a base of recurring revenue. However, outsourcing contracts are highly complex, and can involve the design, development, implementation and operation of new solutions and the transitioning of clients from their existing business processes to the new environment. In the early phases of these contracts, gross margins may be lower than in later years when an integrated solution has been implemented, the duplicate costs of transitioning from the old to the new system have been eliminated and the work force and facilities have been rationalized for efficient operations. Future results will depend on the company's ability to effectively and timely complete these implementations, transitions and rationalizations.

Future results will also depend in part on the company's ability to drive profitable growth in consulting and systems integration. The company's ability to grow profitably in this business will depend in part on an improvement in economic conditions and a pick-up in demand for systems integration projects. It will also depend on the success of the actions the company has taken to enhance the skills base and management team in this business and to refocus the business on integrating best-of-breed, standards-based solutions to solve client needs. In addition, profit margins in this business are largely a function of the rates the company is able to charge for services and the chargeability of its professionals. If the company is unable to maintain the rates it charges or appropriate chargeability for its professionals, profit margins will suffer. The rates the company is able to charge for services are affected by a number of factors, including clients' perception of the company's ability to add value through its services; introduction of new services or products by the company or its competitors; pricing policies of competitors; and general economic conditions. Chargeability is also affected by a number of factors, including the company's ability to transition employees from completed projects to new engagements, and its ability to forecast demand for services and thereby maintain an appropriate head count.

Future results will also depend, in part, on market acceptance of the company's high-end enterprise servers. In its technology business, the company is focusing its resources on high-end enterprise servers based on its Cellular MultiProcessing (CMP) architecture. The company's CMP servers are designed to provide mainframe-class capabilities with compelling price-performance by making use of standards-based technologies such as Intel chips and Microsoft operating system software. The company has transitioned both its legacy ClearPath servers and its Intel-based ES7000s to the CMP platform, creating a common platform for all the company's high-end server lines. Future results will depend, in part, on customer acceptance of the new CMP-based ClearPath Plus systems and the company's ability to maintain its installed base for ClearPath and to develop next-generation ClearPath products that are purchased by the installed base. In addition, future results will depend, in part, on the company's ability to generate new customers and increase sales of the Intel-based ES7000 line. The company believes there is significant growth potential in the developing market for high-end, Intel-based servers running Microsoft and Linux operating system software. However, competition in these new markets is likely to intensify in coming years, and the company's ability to succeed will depend on its ability to compete effectively against enterprise server competitors with more substantial resources and its ability to achieve market acceptance of the ES7000 technology by clients, systems integrators, and independent software vendors.

A number of the company's long-term contracts for infrastructure services, outsourcing, help desk and similar services do not provide for minimum transaction volumes. As a result, revenue levels are not guaranteed. In addition, some of these contracts may permit termination or may impose other penalties if the company does not meet the performance levels specified in the contracts.

Some of the company's systems integration contracts are fixed-priced contracts under which the company assumes the risk for delivery of the contracted services and products at an agreed-upon fixed price. At times the company has experienced problems in performing some of these fixed-price contracts on a profitable basis and has provided periodically for adjustments to the estimated cost to complete them. Future results will depend on the company's ability to perform these services contracts profitably.

The company frequently enters into contracts with governmental entities. Risks and uncertainties associated with these government contracts include the availability of appropriated funds and contractual provisions that allow governmental entities to terminate agreements at their discretion before the end of their terms.

The success of the company's business is dependent on strong, long-term client relationships and on its reputation for responsiveness and quality. As a result, if a client is not satisfied with the company's services or products, its reputation could be damaged and its business adversely affected. In addition, if the company fails to meet its contractual obligations, it could be subject to legal liability, which could adversely affect its business, operating results and financial condition.

The company has commercial relationships with suppliers, channel partners and other parties that have complementary products, services or skills. Future results will depend, in part, on the performance and capabilities of these third parties, on 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.

Approximately 54% 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, import or export licensing requirements, multiple and possibly overlapping and conflicting tax laws, and weaker intellectual property protections in some jurisdictions.

The company cannot be sure that its services and products do not infringe on the intellectual property rights of third parties, and it may have infringement claims asserted against it or against its clients. These claims could cost the company money, prevent it from offering some services or products, or damage its reputation.

Item 4. Controls and Procedures  
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The company's management, with the participation of the company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the company's disclosure controls and procedures as of September 30, 2004. Based on this evaluation, the company's Chief Executive Officer and Chief Financial Officer concluded that the company's disclosure controls and procedures are effective for gathering, analyzing and disclosing the information the company is required to disclose in the reports it files under the Securities Exchange Act of 1934, within the time periods specified in the SEC's rules and forms. Such evaluation did not identify any change in the company's internal control over financial reporting that occurred during the quarter ended September 30, 2004 that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

Part II - OTHER INFORMATION  
-----Item 5. Other Information  
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(a) The company's independent auditor, Ernst & Young LLP (E&Y), has recently notified the SEC, the Public Company Accounting Oversight Board and the audit committee of the company's board of directors that certain non-audit work it has performed in China has raised questions regarding E&Y's independence with respect to its performance of audit services for the company.

During the period from January 2001 to July 2003, E&Y performed tax calculation and tax preparation services for certain of the company's subsidiaries in China and Taiwan for fees aggregating approximately \$48,000 over the period. E&Y disclosed that, in the course of providing these services, its affiliates in China held tax related funds of the subsidiaries and paid such funds to the applicable tax authorities in settlement of the relevant taxes. Having custody of the assets of an audit client is not permitted under the auditor independence rules in Regulation S-X of the SEC. E&Y discontinued this handling of funds in mid 2003.

The company's audit committee and E&Y have considered the impact that the holding and paying of these funds may have had on E&Y's independence with respect to the company, and each has concluded that there has been no impairment of E&Y's independence. In making this determination, the company's audit committee considered the ministerial nature of the actions, that the subsidiaries involved were not material to the consolidated financial statements of the company and that neither the amount of associated fees received by E&Y nor the amount of funds involved was significant. In addition, E&Y has informed the company that none of its personnel involved in providing these tax services performed any audit or audit-related services for the company.

Item 6. Exhibits  
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See Exhibit Index

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

UNISYS CORPORATION

Date: October 22, 2004

By: /s/ Janet M. Brutschea Haugen

-----  
Janet M. Brutschea Haugen  
Senior Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

By: /s/ Carol S. Sabochick

-----  
Carol S. Sabochick  
Vice President and  
Corporate Controller  
(Chief Accounting Officer)

EXHIBIT INDEX

Exhibit Number -----	Description -----
3.1	Restated Certificate of Incorporation of Unisys Corporation (incorporated by reference to Exhibit 3.1 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999)
3.2	Bylaws of Unisys Corporation, as amended through April 22, 2004 (incorporated by reference to Exhibit 3 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004)
12	Statement of Computation of Ratio of Earnings to Fixed Charges
31.1	Certification of Lawrence A. Weinbach required by Rule 13a-14(a) or Rule 15d-14(a)
31.2	Certification of Janet Brutschea Haugen required by Rule 13a-14(a) or Rule 15d-14(a)
32.1	Certification of Lawrence A. Weinbach required by Rule 13a-14(b) or Rule 15d-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
32.2	Certification of Janet Brutschea Haugen required by Rule 13a-14(b) or Rule 15d-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350

## Exhibit 12

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

	Nine Months Ended Sept. 30,	Years Ended December 31				
	2004	2003	2002	2001	2000	1999
Fixed charges						
Interest expense	\$ 51.4	\$ 69.6	\$ 66.5	\$ 70.0	\$ 79.8	\$127.8
Interest capitalized during the period	12.0	14.5	13.9	11.8	11.4	3.6
Amortization of debt issuance expenses	2.6	3.8	2.6	2.7	3.2	4.1
Portion of rental expense representative of interest	41.4	55.2	53.0	53.9	42.2	46.3
<b>Total Fixed Charges</b>	<b>107.4</b>	<b>143.1</b>	<b>136.0</b>	<b>138.4</b>	<b>136.6</b>	<b>181.8</b>
Earnings						
Income (loss) from continuing operations before income taxes	13.9	380.5	332.8	(73.0)	348.5	751.7
Add (deduct) the following:						
Share of loss (income) of associated companies	( 6.1)	(16.2)	14.2	(8.6)	(20.5)	8.9
Amortization of capitalized interest	8.6	10.2	8.8	5.4	2.2	-
<b>Subtotal</b>	<b>16.4</b>	<b>374.5</b>	<b>355.8</b>	<b>(76.2)</b>	<b>330.2</b>	<b>760.6</b>
Fixed charges per above	107.4	143.1	136.0	138.4	136.6	181.8
Less interest capitalized during the period	(12.0)	(14.5)	(13.9)	(11.8)	(11.4)	(3.6)
<b>Total earnings</b>	<b>\$111.8</b>	<b>\$503.1</b>	<b>\$477.9</b>	<b>\$ 50.4</b>	<b>\$455.4</b>	<b>\$938.8</b>
Ratio of earnings to fixed charges	1.04	3.52	3.51	*	3.33	5.16

\* Earnings for the year ended December 31, 2001 were inadequate to cover fixed charges by approximately \$88 million.

CERTIFICATION

I, Lawrence A. Weinbach, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Unisys Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
  - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 22, 2004

/s/ Lawrence A. Weinbach

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Name: Lawrence A. Weinbach  
Title: Chairman and Chief  
Executive Officer



CERTIFICATION

I, Janet Brutschea Haugen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Unisys Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
  - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 22, 2004

/s/ Janet Brutschea Haugen

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Name: Janet Brutschea Haugen  
Title: Senior Vice President and  
Chief Financial Officer

CERTIFICATION OF PERIODIC REPORT

I, Lawrence A. Weinbach, Chairman and Chief Executive Officer of Unisys Corporation (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- (1) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2004 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 22, 2004

/s/ Lawrence A. Weinbach

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Lawrence A. Weinbach  
Chairman and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION OF PERIODIC REPORT

I, Janet Brutschea Haugen, Senior Vice President and Chief Financial Officer of Unisys Corporation (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- (1) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2004 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 22, 2004

/s/ Janet Brutschea Haugen  
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Janet Brutschea Haugen  
Senior Vice President and  
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.