SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

# FORM 10-K

(Mark One)

[_X_] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1997

OR

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

For the transition period from ____________ to ____________.

Commission file number: 1-8729

UNISYS CORPORATION

(Exact name of registrant as specified in its charter)

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

| | |
|---|---|
| Township Line and Union Meeting Roads<br>Blue Bell, Pennsylvania | 19424 |
| (Address of principal executive offices) | (Zip Code) |

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

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

| TITLE OF EACH CLASS | NAME OF EACH EXCHANGE ON WHICH REGISTERED |
|---|---|
| Common Stock, par value $.01 | New York Stock Exchange |
| Series A Cumulative Convertible Preferred Stock, par value $1, $3.75 annual fixed dividend | New York Stock Exchange |
| Preferred Share Purchase Rights | New York Stock Exchange |
| 8 1/4% Convertible Subordinated Notes Due 2006 | New York Stock Exchange |

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

None

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 X NO ____

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

Aggregate market value of the voting stock held by non-affiliates: approximately $4,460,293,194 as of February 27, 1998. The amount shown is based on the closing price of Unisys Common Stock as reported on the New York Stock Exchange composite tape on that date. Voting stock beneficially held by officers and directors is not included in the computation. However, Unisys Corporation has not determined that such individuals are "affiliates" within the meaning of Rule 405 under the Securities Act of 1933.

Number of shares of Unisys Common Stock, par value $.01, outstanding as of February 27, 1998: 250,475,169.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Unisys Corporation 1997 Annual Report to Stockholders -- Part I, Part II and Part IV.

Portions of the Unisys Corporation Proxy Statement for 1998 Annual Meeting of Stockholders -- Part III.

PART I

## ITEM 1. BUSINESS

Unisys Corporation ("Unisys") is a major supplier of information services and solutions on a worldwide basis. Through its three business units, Information Services, Computer Systems, and Global Customer Services, Unisys provides systems and solutions designed to enhance the productivity, competitiveness and responsiveness of its clients.

Unisys operates primarily in one business segment - information services and systems. Financial information concerning revenue, operating profit and identifiable assets relevant to the segment is set forth in Note 15, "Business segment information," of the Notes to Consolidated Financial Statements appearing in the Unisys 1997 Annual Report to Stockholders, and such information is incorporated herein by reference.

The principal executive offices of Unisys are located at Township Line and Union Meeting Roads, Blue Bell, Pennsylvania 19424.

### PRINCIPAL PRODUCTS AND SERVICES

Information Services provides information solutions and services to help clients apply technology to improve the performance of their business-critical systems. Its major service lines are systems integration, outsourcing, industry-specific software solutions for select markets, document imaging, year 2000 services and Microsoft Windows NT application services.

Computer Systems provides computer hardware and software products that are the basis of enterprise-class information systems. Its major product lines are enterprise-class servers, network servers, desktop and mobile systems, system software and middleware, data and voice communications and information storage solutions.

Global Customer Services provides services and products to help clients manage, maintain and support their distributed network, desktop, and mobile computing assets. Its major service/product lines are local- and wide-area network integration, remote network management, life-cycle desktop support services, network and desktop consulting, multivendor hardware/software maintenance, computer supplies and traditional hardware/software maintenance.

Information about revenue by business unit for the three years ended December 31, 1997, appears under the heading "Customer revenue by business unit" appearing in the Unisys 1997 Annual Report to Stockholders, and such information is incorporated herein by reference.

Unisys markets its products and services throughout most of the world, primarily through direct sales forces. In certain foreign countries, Unisys markets primarily through distributors. Unisys manufactures a significant portion of its product lines. Some products, including certain personal computers, peripheral products, electronic components and subassemblies and software products, are manufactured for Unisys to its design or specifications by other business equipment manufacturers, component manufacturers or software suppliers.

## RAW MATERIALS

Raw materials essential to the conduct of the business are generally readily available at competitive prices in reasonable proximity to those plants utilizing such materials.

## PATENTS, TRADEMARKS AND LICENSES

Unisys owns many domestic and foreign patents relating to the design and manufacture of its products, has granted licenses under certain of its patents to others and is licensed under the patents of others. Unisys does not believe that its business is materially dependent upon any single patent or license or related group thereof. Trademarks used on or in connection with Unisys products are considered to be valuable assets of Unisys.

## BACKLOG

During 1997, the Company began, for the first time, to gather the information necessary to report its backlog of unfilled orders. At December 31, 1997, this backlog was approximately $3.6 billion ($2.9 billion in services and $.7 billion in computer equipment). Unfunded U.S. government orders are not included in the December 31, 1997 backlog amounts. Of the total, approximately 65% is expected to be filled in 1998. Comparable prior year numbers do not exist.

## CUSTOMERS

No single customer accounts for more than 10% of Unisys revenue. Sales of commercial products to various agencies of the U.S. government represented 12% of total consolidated revenue in 1997.

## COMPETITION

Unisys business is affected by rapid change in technology in the information systems and services field and aggressive competition from many domestic and foreign companies, including computer hardware manufacturers, software providers and information services companies. Unisys competes primarily on the basis of product performance, service, technological innovation and price. Unisys believes that its continued investment in engineering and research and development, coupled with its marketing capabilities, will have a favorable impact on its competitive position.

RESEARCH AND DEVELOPMENT

Unisys-sponsored research and development costs were $302.3 million in 1997, $342.9 million in 1996 and $404.5 million in 1995.

ENVIRONMENTAL MATTERS

Capital expenditures, earnings and the competitive position of Unisys have not been materially affected by compliance with federal, state and local laws regulating the protection of the environment. Capital expenditures for environmental control facilities are not expected to be material in 1998 and 1999.

EMPLOYEES

As of December 31, 1997, Unisys had approximately 32,600 employees.

INTERNATIONAL AND DOMESTIC OPERATIONS

Financial information by geographic area is set forth in Note 15, "Business segment information," of the Notes to Consolidated Financial Statements appearing in the Unisys 1997 Annual Report to Stockholders, and such information is incorporated herein by reference.

YEAR 2000

Many computer systems will experience problems handling dates beyond the year 1999 and therefore need to be modified prior to the year 2000 in order to remain functional. The Company has been taking actions to ensure both the internal readiness of its computer systems and the compliance of computer products and software for sale by it to customers for handling dates beginning in the year 2000. The Company does not believe that the cost of these actions will have a material adverse effect on the Company's results of operations or financial condition. However, future results may be adversely affected by a delay in, or increased costs associated with, the implementation of these actions, or by the Company's inability to implement them.

Unisys is also assessing the possible effects on its operations of the year 2000 readiness of its key suppliers and subcontractors. The potential impact and related costs of the failure of these entities to address year 2000 in the products they supply the Company are not known at this time.

ITEM 2. PROPERTIES

As of December 31, 1997, Unisys had 37 major facilities in the United States with an aggregate floor space of approximately 7.2 million square feet, located primarily in California, Illinois, Michigan, Minnesota, Pennsylvania, Utah and Virginia. Eight of these facilities, with an aggregate of approximately 1.9 million square feet of floor space, were owned by Unisys while 29 of these facilities, with approximately 5.3 million square feet of floor space, were leased to Unisys. Of the aggregate floor space of major facilities in the United States, approximately 5.7 million square feet were in current operation, approximately .9 million square feet were subleased to others and approximately .6 million square feet were being held in reserve or were declared surplus with disposition efforts in progress.

As of December 31, 1997, Unisys had 34 major facilities outside the United States with an aggregate floor space of approximately 3.5 million square feet, located primarily in Brazil, Canada, France, Germany, South Africa, Switzerland and the United Kingdom. Eight of these facilities, with approximately 1.1 million square feet of floor space, were owned by Unisys while 26 of these facilities, with approximately 2.4 million square feet of floor space, were leased to Unisys. Of the aggregate floor space of major facilities outside the United States, approximately 2.7 million square feet were in current operation, approximately .3 million square feet were subleased to others and approximately .5 million square feet were being held in reserve or were declared surplus with disposition efforts in progress.

Unisys major facilities include offices, laboratories, manufacturing plants, warehouses and distribution and sales centers. Unisys believes that its facilities are suitable and adequate for current and presently projected needs. Unisys continuously reviews its anticipated requirements for facilities, and, on the basis thereof, will from time to time acquire additional facilities, expand existing facilities and dispose of existing facilities or parts thereof.

## ITEM 3. LEGAL PROCEEDINGS

As of March 1, 1998, Unisys had no material pending legal proceedings reportable under the requirements of this Item 3.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders of Unisys during the fourth quarter of 1997.

## ITEM 10. EXECUTIVE OFFICERS OF THE REGISTRANT

Information concerning the executive officers of Unisys set forth below is as of March 1, 1998.

| NAME | AGE | POSITION WITH UNISYS |
|---|---|---|
| Lawrence A. Weinbach | 58 | Chairman of the Board, President and Chief Executive Officer |
| Gerald A. Gagliardi | 50 | Executive Vice President; President, Unisys Global Customer Services |
| George R. Gazerwitz | 57 | Executive Vice President; President, Unisys Computer Systems |
| Lawrence C. Russell | 59 | Executive Vice President; President, Unisys Information Services |
| David O. Aker | 51 | Senior Vice President, Worldwide Human Resources |
| Harold S. Barron | 61 | Senior Vice President, General Counsel and Secretary |
| Jack A. Blaine | 53 | Senior Vice President; President, Pacific Asia Americas |
| Robert H. Brust | 54 | Senior Vice President and Chief Financial Officer |
| Dewaine L. Osman | 63 | Senior Vice President, Strategic Development |
| Janet Brutschea Haugen | 39 | Vice President and Controller |
| James F. McGuirk II | 54 | Vice President; President Federal Systems |
| Jack F. McHale | 49 | Vice President, Investor Relations |
| Angus F. Smith | 56 | Vice President and Treasurer |

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

Mr. Weinbach has been the Chairman of the Board, President and Chief Executive Officer of Unisys since September 1997. Prior to that time, he held the position of managing partner-chief executive of Andersen Worldwide (Arthur Andersen and Andersen Consulting), a global professional services organization. He had been with Andersen Worldwide since 1961.

Mr. Gagliardi was elected an Executive Vice President of Unisys in 1996. He had been a Senior Vice President of Unisys and President of Unisys Global Customer Services since 1995. He held the positions of Vice President, Customer Services Worldwide from 1994 to 1995 and Vice President and General Manager, Customer Services and Support from 1991 to 1994. Mr. Gagliardi has been an officer since 1994.

Mr. Gazerwitz was elected an Executive Vice President of Unisys and President of Unisys Computer Systems in 1996. He had been a Vice President of Unisys and Executive Vice President of Nihon Unisys Limited from 1994 to October 1996 and Vice President, Marketing, of the United States Division from 1992 to 1994. Mr. Gazerwitz has been an officer since 1984.

Mr. Russell was elected an Executive Vice President of Unisys and President of Unisys Information Services in 1995. He was an officer of The First Manhattan Consulting Group, a management consulting firm, from 1993 to 1995. He was Chairman and Chief Executive Officer of Palaru Corporation, a printing company, from 1990 to 1993. Mr. Russell has been an officer since 1995.

Mr. Aker was elected Senior Vice President of Unisys Worldwide Human Resources in February 1997. He had been Vice President of Unisys Worldwide Human Resources since 1995 and Vice President, Human Resources, Information Services and Systems Group from 1994 to 1995. From 1991 to 1994, he was Vice President, Human Resources and Administration of Rolls-Royce of North America and a director of its subsidiary, Rolls-Royce Incorporated. Mr. Aker has been an officer since 1995.

Mr. Barron was elected Vice President and General Counsel of Unisys in 1991. In 1993, he was elected Senior Vice President and in 1994, he was also elected Secretary. Mr. Barron has been an officer since 1991.

Mr. Blaine has been a Senior Vice President of Unisys and President of Unisys Pacific Asia Americas since 1996. He was a Vice President of Unisys and President of the Latin America and Caribbean Division from 1995 to 1996. From 1990 to 1995, Mr. Blaine was Vice President of Unisys and General Manager of the Latin America and Caribbean Group of the Pacific Asia Americas Division. Mr. Blaine has been an officer since 1988.

Mr. Brust was elected Senior Vice President and Chief Financial Officer of Unisys in February 1997. Prior to that time he held the position of Vice President of Finance at G. E. Plastics, a unit of General Electric Company. He had been with General Electric Company since 1965. Mr. Brust has been an officer since 1997.

Mr. Osman has been Senior Vice President, Strategic Development, since October 1997. From August 1996 to October 1997,he served as Senior Vice President, Information Technology and Strategic Development. He also served as President of Worldwide Sales and Marketing from July 1995 to January 1996 and as President of the Pacific Asia Americas Group from July 1995 to July 1996. He was Vice President, Corporate Planning and Business Development, from 1992 to 1995 and Vice President, Commercial Marketing, from 1993 to 1994. Mr. Osman was an officer from 1986 to 1991 and was reelected in 1992.

Ms. Haugen was elected Vice President and Controller of Unisys in 1996. Prior to that time, she held the position of audit partner at Ernst & Young LLP. She had been with Ernst & Young LLP since 1980. Ms. Haugen has been an officer since 1996.

Mr. McGuirk was elected a Vice President of Unisys in 1996 and has been President, Federal Systems since 1992. Mr. McGuirk has been an officer since 1996.

Mr. McHale has been Vice President, Investor Relations, since May 1997. From 1989 to May 1997, he was Vice President, Investor and Corporate Communications. Mr. McHale has been an officer since 1986.

Mr. Smith has been Vice President and Treasurer since June 1997. Prior to that time, he held the position of Treasurer of Rohm and Haas Company since 1980. He had been with Rohm and Haas Company since 1967. Mr. Smith has been an officer since 1997.

# PART II

## ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Unisys Common Stock (trading symbol "UIS") is listed for trading on the New York Stock Exchange and on exchanges in Amsterdam, Antwerp, Basel, Brussels, Geneva, Lausanne, London and Zurich. Information on the high and low sales prices for Unisys Common Stock is set forth under the heading "Quarterly financial information" in the Unisys 1997 Annual Report to Stockholders and is incorporated herein by reference. At December 31, 1997, there were 249.5 million shares outstanding and approximately 37,300 stockholders of record. Unisys has not declared or paid any cash dividends on its Common Stock since 1990.

On September 23, 1997, Unisys sold 84,881 shares of Unisys Common Stock to Lawrence A. Weinbach, the Chairman, President and Chief Executive Officer of Unisys, for an aggregate purchase price of $1 million. The sale was exempt from the registration requirements of the Securities Act of 1933 by reason of Section 4(2) thereof.

## ITEM 6. SELECTED FINANCIAL DATA

A summary of selected financial data for Unisys is set forth under the heading "Seven-year summary of selected financial data" in the Unisys 1997 Annual Report to Stockholders and is incorporated herein by reference.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis of financial condition and results of operations is set forth under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Unisys 1997 Annual Report to Stockholders and is incorporated herein by reference.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements of Unisys, consisting of the consolidated balance sheets at December 31, 1997 and 1996 and the related consolidated statements of income and cash flows for each of the three years in the period ended December 31, 1997, appearing in the Unisys 1997 Annual Report to Stockholders, together with the report of Ernst & Young LLP, independent auditors, on the financial statements at December 31, 1997 and 1996 and for each of the three years in the period ended December 31, 1997, appearing in the Unisys 1997 Annual Report to Stockholders, are incorporated herein by reference. Supplementary financial data, consisting of information appearing under the heading "Quarterly financial information" in the Unisys 1997 Annual Report to Stockholders, is incorporated herein by reference.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

# PART III

## ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

(a) Identification of Directors. Information concerning the directors of Unisys Corporation is set forth under the headings "Nominees for Election to the Board of Directors," "Members of the Board of Directors Continuing in Office -- Term Expiring in 1999" and "Members of the Board of Directors Continuing in Office -- Term Expiring in 2000" in the Unisys Proxy Statement for the 1998 Annual Meeting of Stockholders and is incorporated herein by reference.

(b) Identification of Executive Officers. Information concerning executive officers of Unisys Corporation is set forth under the caption "EXECUTIVE OFFICERS OF THE REGISTRANT" in Part I, Item 10, of this report.

(c) Section 16(a) Beneficial Ownership Reporting Compliance. Information included in the Unisys Proxy Statement for the 1998 Annual Meeting of Stockholders under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" is incorporated herein by reference.

## ITEM 11. EXECUTIVE COMPENSATION

Information concerning executive compensation is set forth under the heading "EXECUTIVE COMPENSATION" in the Unisys Proxy Statement for the 1998 Annual Meeting of Stockholders and is incorporated herein by reference.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

(a) FMR Corp., Edward C. Johnson 3d, Abigail P. Johnson and Fidelity Management & Research Company, 82 Devonshire Street, Boston, Massachusetts 02109, have jointly filed a Schedule 13G with the Securities and Exchange Commission dated February 14, 1998, reporting beneficial ownership of 29,585,516 shares (or 11.72%)of Unisys Common Stock. Of such shares, 3,406,141 represent shares issuable upon conversion of Unisys Corporation's convertible debt securities and preferred stock. Sole dispositive power has been reported for 29,585,516 shares. Sole voting power has been reported for 1,327,133 shares. To Unisys knowledge, as of March 1, 1998, no other person was the beneficial owner of more than 5% of the total outstanding shares of Unisys Common Stock.

(b) Security Ownership of Management. Certain information furnished by members of management with respect to shares of Unisys equity securities beneficially owned as of March 1, 1998, by all directors individually, by certain named officers and by all directors and officers of Unisys as a group is set forth under the heading "SECURITY OWNERSHIP BY CERTAIN BENEFICIAL OWNERS AND MANAGEMENT" in the Unisys Proxy Statement for the 1998 Annual Meeting of Stockholders and is incorporated herein by reference.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information concerning certain relationships and transactions between Unisys and members of its management is set forth under the headings "EXECUTIVE COMPENSATION" and "REPORT OF THE COMPENSATION AND ORGANIZATION COMMITTEE" in the Unisys Proxy Statement for the 1998 Annual Meeting of Stockholders and is incorporated herein by reference.

## PART IV

### ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this report:

1. Financial Statements from the Unisys 1997 Annual Report to Stockholders which are incorporated herein by reference:



2. Financial Statement Schedules filed as part of this report pursuant to Item 8 of this report:



The financial statement schedule should be read in conjunction with the consolidated financial statements and notes thereto in the Unisys 1997 Annual Report to Stockholders. Financial statement schedules not included with this report have been omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

Separate financial statements of subsidiaries not consolidated with Unisys and entities in which Unisys has a fifty percent or less ownership interest have been omitted because these operations do not meet any of the conditions set forth in Rule 3-09 of Regulation S-X.

3. Exhibits. Those exhibits required to be filed by Item 601 of Regulation S-K are listed in the Exhibit Index included in this report at pages 17 through 20. Management contracts and compensatory plans and arrangements are listed as Exhibits 10.1 through 10.21.

(b) Reports on Form 8-K.

During the quarter ended December 31, 1997, Unisys filed a Current Report on Form 8-K, dated October 7, 1997, to report under Items 5 and 7 of such Form.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By: /s/ Lawrence A. Weinbach
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Lawrence A. Weinbach
Chairman of the Board,
President and Chief
Executive Officer

Date: March 20, 1998

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 20, 1998.

/s/Lawrence A. Weinbach
- -----------------------
Lawrence A. Weinbach
Chairman of the Board,
President and Chief Executive
Officer (principal
executive officer) and
Director

*James J. Duderstadt
--------------------
James J. Duderstadt
Director

*Henry C. Duques
---------------------
Henry C. Duques
Director

/s/Robert H. Brust
- ---------------------
Robert H. Brust
Senior Vice President and
Chief Financial Officer
(principal financial officer)

*Gail D. Fosler
--------------------
Gail D. Fosler
Director

/s/Janet Brutschea Haugen
- -----------------------
Janet Brutschea Haugen
Vice President and
Controller (principal
accounting officer)

*Melvin R. Goodes
---------------------
Melvin R. Goodes
Director

*J. P. Bolduc
- ---------------------
J. P. Bolduc
Director

*Edwin A. Huston
---------------------
Edwin A. Huston
Director

| | |
|---|---|
| *Kenneth A. Macke | *Theodore E. Martin |
| - --------------------- | --------------------- |
| Kenneth A. Macke<br>Director | Theodore E. Martin<br>Director |
| *Robert McClements, Jr. | *Alan E. Schwartz |
| - --------------------- | --------------------- |
| Robert McClements, Jr.<br>Director | Alan E. Schwartz<br>Director |

*By:/s/Lawrence A. Weinbach
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Lawrence A. Weinbach
Attorney-in-Fact

UNISYS CORPORATION
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
(Millions)

| Description | Balance at Beginning of Period | Additions Charged to Costs and Expenses | Deductions (a) | Balance at End of Period |
|---|---|---|---|---|
| Allowance for Doubtful Accounts (deducted from accounts and notes receivable): | | | | |
| Year Ended December 31, 1995 | $ 74.5 | $21.0 | $( 8.8) | $ 86.7 |
| Year Ended December 31, 1996 | $ 86.7 | $ 2.5 | $( 5.3) | $ 83.9 |
| Year Ended December 31, 1997 | $ 83.9 | $ 9.8 | $ (24.2) | $ 69.5 |

(a) Write-off of bad debts less recoveries.

EXHIBIT INDEX

| Exhibit Number | Description |
|---|---|
| 3.1 | Amended and Restated Certificate of Incorporation of Unisys Corporation, incorporated by reference to Exhibit 4.1 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1997. |
| 3.2 | By-Laws of Unisys Corporation, incorporated by reference to Exhibit 3 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1995. |
| 4.1 | Agreement to furnish to the Commission on request a copy of any instrument defining the rights of the holders of long-term debt which authorizes a total amount of debt not exceeding 10% of the total assets of the registrant, incorporated by reference to Exhibit 4 to the registrant's Annual Report on Form 10-K for the year ended December 31, 1982 (File No. 1-145). |
| 4.2 | Form of Rights Agreement dated as of March 7, 1986 between Burroughs Corporation and Harris Trust Company of New York, as Rights Agent, which includes as Exhibit A, the Certificate of Designations for the Junior Participating Preferred Stock, and as Exhibit B, the Form of Rights Certificate, incorporated by reference to Exhibit 1 to the registrant's Registration Statement on Form 8-A, dated March 11, 1986. |
| 4.3 | Amendment No. 1, dated as of February 22, 1996, to Rights Agreement, dated as of March 7, 1986, between Unisys Corporation, a Delaware Corporation (then named Burroughs Corporation) and Harris Trust Company of New York, as Rights Agent, incorporated by reference to Exhibit 4 to the registrant's Current Report on Form 8-K dated February 22, 1996. |
| 10.1 | Deferred Compensation Plan for Executives of Unisys Corporation, as amended and restated effective May 22, 1997, incorporated by reference to Exhibit 10.4 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1997. |
| 10.2 | Deferred Compensation Plan for Directors of Unisys Corporation, as amended and restated effective May 22, 1997, incorporated by reference to Exhibit 10.5 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1997. |

10.3 Form of Executive Employment Agreement, incorporated by reference to Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1995.

10.4 Agreement, dated October 17, 1995, between the registrant and Lawrence C. Russell, incorporated by reference to Exhibit 10.4 to the registrant's Annual Report on Form 10-K for the year ended December 31, 1995.

10.5 Employment Agreement, dated July 2, 1997 between the registrant and James A. Unruh, incorporated by reference to Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1997.

10.6 Employment Agreement, dated September 23, 1997, between the registrant and Lawrence A. Weinbach, incorporated by reference to Exhibit 10.2 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1997.

10.7 Unisys Corporation Director Stock Unit Plan, as amended and restated, effective May 22, 1997, incorporated by reference to Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1997.

10.8 Summary of supplemental executive benefits provided to officers of Unisys Corporation, incorporated by reference to Exhibit 10(k) of the registrant's Annual Report on Form 10-K for the year ended December 31, 1992.

10.9 Unisys Executive Annual Variable Compensation Plan, incorporated by reference to Exhibit A to the registrant's Proxy Statement, dated March 23, 1993, for its 1993 Annual Meeting of Stockholders.

10.10 1982 Unisys Long-Term Incentive Plan, as amended and restated through September 1, 1989, incorporated by reference to Exhibit 10(p) to the registrant's Annual Report on Form 10-K for the year ended December 31, 1990.

10.11 Amendment, dated December 11, 1989, to the 1982 Unisys Long-Term Incentive Plan, incorporated by reference to Exhibit 10(o) to the registrant's Annual Report on Form 10-K for the year ended December 31, 1989.

| | |
|---|---|
| 10.12 | Amendment, dated July 25, 1990, to 1982 Unisys Long-Term Incentive Plan, incorporated by reference to Exhibit 10(r) to the registrant's Annual Report on Form 10-K for the year ended December 31, 1990. |
| 10.13 | 1990 Unisys Long-Term Incentive Plan, effective as of January 1, 1990, incorporated by reference to Exhibit A to the registrant's Proxy Statement, dated March 20, 1990, for its 1990 Annual Meeting of Stockholders. |
| 10.14 | Amendment, dated May 26, 1994, to 1990 Unisys Long-Term Incentive Plan, effective as of February 22, 1990, incorporated by reference to Exhibit 10.15 to the registrant's Annual Report on Form 10-K for the year ended December 31, 1994. |
| 10.15 | Amendment, dated May 25, 1995, to 1990 Unisys Long-Term Incentive Plan, incorporated by reference to Exhibit 10.2 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1995. |
| 10.16 | Amendment, dated February 22, 1996, to 1990 Unisys Long-Term Incentive Plan, incorporated by reference to Exhibit 10 to registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1996. |
| 10.17 | Form of Loan Agreement including Note used for term loans to executive officers purchasing residences, incorporated by reference to Exhibit 10(ll) to the registrant's Annual Report on Form 10-K for the year ended December 31, 1986. |
| 10.18 | Unisys Corporation Officers' Car Allowance Program, effective as of July 1, 1991, incorporated by reference to Exhibit 10(hh) to the registrant's Annual Report on Form 10-K for the year ended December 31, 1991. |
| 10.19 | Form of Indemnification Agreement between Unisys Corporation and each of its Directors, incorporated by reference to Exhibit B to the registrant's Proxy Statement, dated March 22, 1988, for the 1988 Annual Meeting of Stockholders. |
| 10.20 | Unisys Corporation Elected Officer Pension Plan, as amended through May 22, 1997, incorporated by reference to Exhibit 10.2 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1997. |

| | |
|---|---|
| 10.21 | Unisys Corporation Supplemental Executive Retirement Income Plan, as amended through May 22, 1997, incorporated by reference to Exhibit 10.3 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1997. |
| 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, 1997. |
| 18 | Letter re Change in Accounting Principles. |
| 21 | Subsidiaries of Unisys Corporation. |
| 23 | Consent of Ernst & Young LLP, Independent Auditors. |
| 24 | Power of Attorney. |
| 27 | Financial Data Schedule. |

Exhibit 12

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

| | Years Ended December 31 | | | | |
|---|---|---|---|---|---|
| | 1997 | 1996 | 1995 | 1994 | 1993 |
| Income (loss) from continuing operations before income taxes | $(758.8) | $ 93.7 | $(781.1) | $ 14.6 | $370.9 |
| Add (deduct) share of loss (income) of associated companies | 5.9 | (4.9) | 5.0 | 16.6 | 14.5 |
| Subtotal | (752.9) | 88.8 | (776.1) | 31.2 | 385.4 |
| Interest expense (net of interest capitalized) | 233.2 | 249.7 | 202.1 | 203.7 | 241.7 |
| Amortization of debt issuance expenses | 6.7 | 6.3 | 5.1 | 6.2 | 6.6 |
| Portion of rental expense representative of interest | 56.2 | 59.2 | 65.3 | 65.0 | 70.5 |
| Total Fixed Charges | 296.1 | 315.2 | 272.5 | 274.9 | 318.8 |
| Earnings (loss) from continuing operations before income taxes and fixed charges | $(456.8) | $404.0 | $(503.6) | $306.1 | $704.2 |
| Ratio of earnings to fixed charges | * | 1.28 | * | 1.11 | 2.21 |

* Earnings for the years ended December 31, 1997 and 1995 were inadequate to cover fixed charges by approximately $752.9 million and $776.1 million, respectively.

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

### Overview

For 1997, the company reported net income before one-time charges of $199.0 million, compared to net income of $61.8 million before one-time charges for 1996. Before one-time items in both years, in 1997 the company earned $.46 per common share on a diluted basis after preferred dividends,compared to a loss of $.34 on a diluted basis after preferred dividends in 1996.

In the fourth quarter of 1997, the company recorded a one-time charge of $1.1 billion against net income. Including this charge, the company had a 1997 net loss of $853.6 million, or $5.30 per share, compared to 1996 net income of $49.7 million, or a loss of $.41 per share after preferred dividends. Net income in 1996 includes a charge for an extraordinary item of $12.1 million, or $.07 per share, for the early retirement of debt. The 1997 loss of $5.30 per share is computed based on the weighted average common shares outstanding. Earnings per share for 1997 before one-time charges ($.46) are computed on a diluted basis, which also includes additional shares from the assumed conversion of outstanding stock options and convertible debt.

The $1.1 billion charge in the fourth quarter of 1997 reflects a number of actions taken to focus the company's resources on enterprise-class servers and its services business, accelerate profitable revenue growth, and reduce debt. The charge included $127.0 million, or $.70 per share, principally related to the company's decision to discontinue the manufacturing and assembly of personal computers and low-end servers and to dispose of a small, non-strategic technology product. The company plans to meet customer needs for low-end systems through partnering arrangements.

Also included in the charge is the non-cash writeoff of $883.6 million, or $4.85 per share, of goodwill principally related to the 1986 merger of Burroughs Corporation and Sperry Corporation. The writeoff 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. For further information on the 1997 fourth quarter charges, see Note 3 of the Notes to the Consolidated Financial Statements.

## Results of operations

The following comparisons of income statement categories exclude all of the 1997 and 1996 one-time charges discussed above, as well as 1995 after-tax charges of $581.9 million for restructuring and $88.6 million for contract losses. See Note 3 of the Notes to the Consolidated Financial Statements.

Revenue for 1997 was $6.6 billion compared to $6.4 billion in 1996 and $6.3 billion in 1995. Revenue from international operations in 1997, 1996, and 1995 was $3.9 billion, $4.0 billion, and $3.9 billion, respectively. Revenue from U.S. operations was $2.7 billion in 1997 and $2.4 billion in both 1996 and 1995.

Revenue for 1997 rose 4% to $6.6 billion from $6.4 billion in 1996. Excluding the negative impact of foreign currency fluctuations, primarily in Europe, revenue in 1997 rose 7%. Currency and related financial issues in the Asian markets did not have a material impact on the company's operations in 1997.

Total gross profit percent was 35.1% in 1997, 33.3% in 1996, and 34.5% in 1995. The increase in 1997 over 1996 was due to higher gross profit percentages in both Information Services and Computer Systems.

Selling, general and administrative expenses in 1997 were $1.4 billion compared to $1.4 billion in 1996 and $1.5 billion in 1995.

Research and development expenses in 1997 were $297.4 million compared to $342.9 million in 1996 and $361.8 million in 1995. These declines were largely due to the company's cost reduction actions.

In 1997, the company reported operating income of $613.8 million (9.2% of revenue) compared to $327.4 million (5.1% of revenue) in 1996 and $284.5 million (4.5% of revenue) in 1995.

Information by business unit for 1997, 1996, and 1995 is presented below:

| (Millions of dollars) | Total | Eliminations | Information Services | Global Customer Services | Computer Systems |
|---|---|---|---|---|---|
| **1997** | | | | | |
| Customer revenue | $ 6,636.0 | | $ 2,056.0 | $ 2,148.1 | $ 2,431.9 |
| Intercompany | | $ (497.9) | 19.4 | 64.7 | 413.8 |
| Total revenue | $ 6,636.0 | $ (497.9) | $ 2,075.4 | $ 2,212.8 | $ 2,845.7 |
| Gross profit percent* | 35.1% | | 20.8% | 27.3% | 45.5% |
| Operating income percent* | 9.2% | | (2.9)% | 9.6% | 16.1% |
| **1996** | | | | | |
| Customer revenue | $ 6,370.5 | | $ 1,951.4 | $ 1,991.9 | $ 2,427.2 |
| Intercompany | | $ (557.0) | 9.9 | 100.0 | 447.1 |
| Total revenue | $ 6,370.5 | $ (557.0) | $ 1,961.3 | $ 2,091.9 | $ 2,874.3 |
| Gross profit percent* | 33.3% | | 17.8% | 29.7% | 41.0% |
| **1995** | | | | | |
| Customer revenue | $ 6,342.3 | | $ 1,836.8 | $ 1,884.1 | $ 2,621.4 |
| Intercompany | | $ (629.0) | | 119.7 | 509.3 |
| Total revenue | $ 6,342.3 | $ (629.0) | $ 1,836.8 | $ 2,003.8 | $ 3,130.7 |
| Gross profit percent* | 34.5% | | 15.1% | 30.3% | 41.9% |

*as a percent of total revenue

Note: Certain business unit amounts have been reclassified to conform with the current year presentation.

In Information Services, customer revenue for 1997 was $2.1 billion, up 5% from $2.0 billion in 1996. Customer revenue in 1996 increased 6% from $1.8 billion in 1995. The increases in both years were the result of growth in both systems integration and outsourcing. The gross profit percent was 20.8% in 1997, 17.8% in 1996, and 15.1% in 1995. The increase in 1997 compared to 1996 reflects the benefits of an improved bid quality and control process, as well as continued benefits from completing certain problem contracts. The increase in 1996 compared to 1995 was a result of management's efforts to constrain growth in certain markets to improve profitability.

In Global Customer Services, customer revenue for 1997 was $2.1 billion, up 8% from $2.0 billion in 1996. Customer revenue in 1996 increased 6% from $1.9 billion in 1995. The increase in revenue in both years was due to growth in distributed computing support services ("DCSS") revenue. A large part of these increases were due to the continued rollout of a large, low-margin federal government networking project. Growth in DCSS revenue in both years more than offset a continuing decline in core maintenance revenue. The gross profit percent for Global Customer Services was 27.3% in 1997, 29.7% in 1996,and 30.3% in 1995. The declines in gross profit margins continue to reflect heavy competition in the network integration market and commoditization of low-end, third-party hardware components that are typically part of a network integration project. Margins also reflect the continued rollout of the federal government networking project and the continued shift in the mix from proprietary maintenance toward DCSS. The company expects to continue to see pressure in Global Customer Services' gross margins going forward.

Computer Systems' customer revenue for 1997 was $2.4 billion compared to $2.4 billion in 1996 and $2.6 billion in 1995. Customer revenue for 1997 was only up slightly from 1996 due to a high volume of revenue in late 1996 of high-end models of the ClearPath enterprise servers. Customer revenue in 1996 decreased 7% from 1995 principally due to declines in large-scale enterprise servers caused by delays in availability for certain ClearPath models. The gross profit percent was 45.5% in 1997, 41.0% in 1996, and 41.9% in 1995. The increase in 1997 compared to 1996 was due in large part to a richer mix of enterprise servers and enterprise server software sales.

Interest expense was $233.2 million in 1997, $249.7 million in 1996, and $202.1 million in 1995. The decline in 1997 was due to lower average debt levels; the increase in 1996 was due to higher average debt levels.

Other income (expense), net, which can vary from year to year, was an expense of $64.8 million in 1997, income of $16.0 million in 1996, and an expense of $16.9 million in 1995. 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. The change in 1996 compared to 1995 was due principally to foreign exchange gains in 1996 compared to losses in 1995, a gain on the sale of an equity investment in 1996, and higher equity income.

Income from continuing operations before income taxes in 1997 was $315.8 million compared to $93.7 million in 1996 and $65.5 million in 1995.

Estimated income taxes in 1997 were $116.8 million compared to $31.9 million in 1996 and $22.3 million in 1995. 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. The effective income tax rate for 1998 is expected to be approximately one percentage point lower than in 1997 due to the reduction in the amount charged to income for goodwill, which was not deductible for tax purposes.

In 1995, the company sold its defense business for cash of $862 million. The net results of the defense operations for 1995 are reported separately in the Consolidated Statement of Income as "income from discontinued operations." See Note 4 of the Notes to Consolidated Financial Statements.

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 is no longer considered highly inflationary. This change is not expected to have a material effect on the company's consolidated financial position, consolidated results of operations, or liquidity.

During 1997, the company adopted Statement of Financial Accounting Standards ("SFAS") Nos. 125 and 128, and the American Institute of Certified Public Accountants Statement of Position ("SOP") 96-1. In 1998, the company will adopt SFAS No. 131 as well as SOP 97-2. For further information on these items, see Notes 2 and 5 of the Notes to Consolidated Financial Statements.

## Financial condition

Cash and cash equivalents at December 31, 1997 were $803.0 million compared to $1.0 billion at December 31, 1996.

During 1997, cash provided by operations was $383.5 million compared to 1996 cash usage of $89.7 million. The increase in cash provided of $473.2 million was due in large part to improved working capital management, including improvements in inventory turns and accounts receivable days outstanding. Cash expenditures related to restructuring actions (which are included in operating activities) in 1997, 1996, and 1995 were $178.7 million, $220.8 million, and $133.0 million, respectively. Cash expenditures for restructuring actions, principally for work force reductions and facility costs, are expected to be approximately $180 million in 1998 and $58 million in 1999 and beyond. Personnel reductions in 1997 related to restructuring actions were approximately 2,600 and are expected to be approximately 1,400 thereafter, principally in 1998.

Cash used for investing activities during 1997 was $291.6 million compared to $218.8 million for 1996. The increased cash usage in 1997 was principally due to increased capital expenditures as a number of large-scale ClearPath enterprise servers were added to the company's rental machines base, and to an increase in investment for marketable software, principally for a new level of ClearPath software.

Cash used for financing activities during 1997 was $274.1 million compared to cash provided of $251.2 million in 1996. 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. The year-ago period included proceeds of $1.1 billion from issuances of debt and $766.4 million of principal payments of debt. Dividends paid on preferred stock were $113.1 million in 1997 compared to $120.8 million in 1996.

At December 31, 1997, total debt was $1.7 billion, a decline of $599.1 million from December 31, 1996. 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. On February 5, 1998, the company redeemed all $197.5 million of its 9 1/2% senior notes due on July 15, 1998. This redemption, combined with the two conversions, is expected to save the company more than $58 million in cash and interest expense in 1998.

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 10 5/8% senior notes due 1999 at 101.77%.

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.

In December 1997, Duff & Phelps Credit Rating Co. raised its credit ratings on the company's senior long-term debt and subordinated debt to BB from B+ and to BB- from B-, respectively. The credit ratings on the company's senior long-term debt and subordinated debt by Standard and Poor's Corporation are B+ and B-, respectively; Moodys' Investor Service ratings are B1 and B3, respectively.

The company has a $200 million revolving credit facility that expires in June 1999. The facility includes certain financial tests that must be met as conditions to a borrowing and provides that no amounts may be outstanding under the facility for a minimum of 20 consecutive days in each quarter. The facility may not be used to refinance other debt. The amount the company may borrow at any given time is dependent upon the amount of certain of its accounts receivable and inventory. As of December 31, 1997, there were no borrowings outstanding under the facility and the entire $200 million was available for borrowings.

At December 31, 1997, the company had deferred tax assets in excess of deferred tax liabilities of $1,435 million. For the reasons cited below, management determined that it is more likely than not that $1,035 million of such assets will be realized, therefore resulting in a valuation allowance of $400 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. The combination of these factors is expected to be sufficient to realize the $1,035 million of net deferred tax assets. Approximately $3.0 billion of future taxable income (predominantly U.S.) is needed to realize all of the net deferred tax assets.

The company's net deferred tax assets include substantial amounts of net operating loss and tax credit carryforwards. 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 decreased $400.1 million during 1997, principally reflecting the net loss of $853.6 million, preferred stock dividends declared of $113.1 million, and translation adjustments of $58.0 million, offset in part by $606.7 million related to conversions of convertible debt.

## 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 technology and services 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 the 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 60% 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.

Many computer systems will experience problems handling dates beyond the year 1999 and therefore need to be modified prior to the year 2000 in order to remain functional. The company has been taking actions to ensure both the internal readiness of its computer systems and the compliance of computer products and software sold by it to customers for handling dates beginning in the year 2000. The company does not believe that the cost of these actions will have a material adverse effect on the company's results of operations or financial condition. However, future results may be adversely affected by a delay in, or increased costs associated with, the implementation of these actions, or by the company's inability to implement them.

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.

CONSOLIDATED STATEMENT OF INCOME
Unisys Corporation

| Year Ended December 31 (Millions, except per share data) | 1997 | 1996 | 1995 |
|---|---|---|---|
| Revenue | $ 6,636.0 | $ 6,370.5 | $ 6,342.3 |
| Costs and expenses | | | |
| Cost of revenue | 4,402.4 | 4,252.1 | 4,650.1 |
| Selling, general and administrative expenses | 1,427.2 | 1,448.1 | 1,849.8 |
| Research and development expenses | 302.3 | 342.9 | 404.5 |
| Goodwill impairment | 883.6 | | |
| | 7,015.5 | 6,043.1 | 6,904.4 |
| Operating income (loss) | (379.5) | 327.4 | (562.1) |
| Interest expense | 233.2 | 249.7 | 202.1 |
| Other income (expense), net | (146.1) | 16.0 | (16.9) |
| Income (loss) from continuing operations before income taxes | (758.8) | 93.7 | (781.1) |
| Estimated income taxes (benefit) | 94.8 | 31.9 | (153.8) |
| Income (loss) from continuing operations before extraordinary item | (853.6) | 61.8 | (627.3) |
| Income from discontinued operations | | | 2.7 |
| Extraordinary item | | (12.1) | |
| Net income (loss) | (853.6) | 49.7 | (624.6) |
| Dividends on preferred shares | 111.1 | 120.8 | 120.3 |
| Earnings (loss) on common shares | $ (964.7) | $ (71.1) | $ (744.9) |
| Earnings (loss) per common share - basic | | | |
| Continuing operations | $ (5.30) | $ (.34) | $ (4.37) |
| Discontinued operations | | | .02 |
| Extraordinary item | | (.07) | |
| Total | $ (5.30) | $ (.41) | $ (4.35) |
| Earnings (loss) per common share - diluted | | | |
| Continuing operations | $ (5.30) | $ (.34) | $ (4.37) |
| Discontinued operations | | | .02 |
| Extraordinary item | | (.07) | |
| Total | $ (5.30) | $ (.41) | $ (4.35) |

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET
Unisys Corporation

| December 31 (Millions) | 1997 | 1996 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 803.0 | $ 1,029.2 |
| Accounts and notes receivable, net | 967.3 | 959.0 |
| Inventories | 560.8 | 642.3 |
| Deferred income taxes | 461.4 | 365.8 |
| Other current assets | 94.0 | 136.8 |
| Total | 2,886.5 | 3,133.1 |
| Long-term receivables, net | 47.4 | 59.3 |
| Properties | 1,774.1 | 1,950.3 |
| Less - Accumulated depreciation | 1,192.9 | 1,328.5 |
| Properties, net | 581.2 | 621.8 |
| Goodwill | 34.2 | 981.3 |
| Investments at equity | 215.7 | 244.4 |
| Deferred income taxes | 665.7 | 678.7 |
| Other assets | 1,160.6 | 1,248.5 |
| Total | $ 5,591.3 | $ 6,967.1 |
| **Liabilities and stockholders' equity** | | |
| Current liabilities | | |
| Notes payable | $ 40.6 | $ 13.9 |
| Current maturities of long-term debt | 213.1 | 5.8 |
| Accounts payable | 817.1 | 871.1 |
| Other accrued liabilities | 1,307.2 | 1,453.4 |
| Dividends payable | 26.6 | 26.6 |
| Estimated income taxes | 172.8 | 94.3 |
| Total | 2,577.4 | 2,465.1 |
| Long-term debt | 1,438.3 | 2,271.4 |
| Other liabilities | 369.7 | 474.6 |
| Redeemable preferred stock | | 150.0 |
| Stockholders' equity | | |
| Preferred stock | 1,420.1 | 1,420.2 |
| Common stock, shares issued: 1997 - 250.2; 1996 - 175.7 | 2.5 | 1.8 |
| Accumulated deficit | (1,736.8) | (770.1) |
| Other capital | 1,520.1 | 954.1 |
| Stockholders' equity | 1,205.9 | 1,606.0 |
| Total | $ 5,591.3 | $ 6,967.1 |

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
Unisys Corporation

| Year Ended December 31 (Millions) | 1997 | 1996 | 1995 |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Income (loss) from continuing operations | $ (853.6) | $ 61.8 | $ (627.3) |
| Add (deduct) items to reconcile income (loss) from continuing operations to net cash provided by (used for) operating activities: | | | |
| Effect of extraordinary item | | (12.1) | |
| Depreciation | 156.0 | 182.0 | 203.0 |
| Amortization: | | | |
| Marketable software | 97.0 | 101.6 | 151.7 |
| Goodwill | 963.9 | 46.1 | 40.9 |
| (Increase) in deferred income taxes, net | (25.3) | (51.0) | (223.1) |
| Decrease (increase) in receivables, net | 24.0 | 11.0 | (66.9) |
| Decrease (increase) in inventories | 81.5 | 32.1 | (15.4) |
| (Decrease) increase in accounts payable and other accrued liabilities | (220.6) | (258.4) | 565.6 |
| Increase (decrease) in estimated income taxes | 23.0 | (34.7) | (63.9) |
| (Decrease) increase in other liabilities | (71.1) | (85.9) | 215.5 |
| Decrease (increase) in other assets | 106.5 | (70.3) | (132.7) |
| Other | 102.2 | (11.9) | 50.3 |
| Net cash provided by (used for) operating activities | 383.5 | (89.7) | 97.7 |
| Cash flows from investing activities | | | |
| Proceeds from investments | 1,662.5 | 1,846.1 | 3,311.9 |
| Purchases of investments | (1,629.0) | (1,845.9) | (3,329.6) |
| Proceeds from marketable securities | 4.8 | | 14.4 |
| Proceeds from sales of properties | 5.1 | 77.4 | 30.3 |
| Investment in marketable software | (132.9) | (116.2) | (123.0) |
| Capital additions of properties | (179.9) | (162.3) | (195.0) |
| Purchases of businesses | (22.2) | (17.9) | (42.3) |
| Net cash used for investing activities | (291.6) | (218.8) | (333.3) |
| Cash flows from financing activities | | | |
| Redemption of redeemable preferred stock | (150.0) | | |
| Proceeds from issuance of debt | | 1,139.7 | |
| Principal payments of debt | | (766.4) | (68.2) |
| Costs of debt conversions | (46.1) | | |
| Net proceeds from (reduction in) short-term borrowings | 26.7 | (1.9) | 3.1 |
| Dividends paid on preferred shares | (113.1) | (120.8) | (120.2) |
| Other | 8.4 | .6 | 2.8 |
| Net cash (used for) provided by financing activities | (274.1) | 251.2 | (182.5) |
| Effect of exchange rate changes on cash and cash equivalents | (24.9) | (7.3) | 5.7 |
| Net cash used for continuing operations | (207.1) | (64.6) | (412.4) |
| Discontinued operations | | | |
| Proceeds from sale | | | 862.0 |
| Other | (19.1) | (20.5) | (203.7) |
| Net cash (used for) provided by discontinued operations | (19.1) | (20.5) | 658.3 |
| (Decrease) increase in cash and cash equivalents | (226.2) | (85.1) | 245.9 |
| Cash and cash equivalents, beginning of year | 1,029.2 | 1,114.3 | 868.4 |
| Cash and cash equivalents, end of year | $ 803.0 | $1,029.2 | $1,114.3 |

See notes to consolidated financial statements.

## Notes to Consolidated Financial Statements

Unisys Corporation

### 1 Summary of significant accounting policies

#### Principles of consolidation

The consolidated financial statements include the accounts of all majority-owned subsidiaries including Unisys Receivables, Inc. ("URI") to which the company sells accounts receivable which URI then sells to a master trust. 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. Leasehold improvements are amortized over the shorter of the asset lives or the terms of the respective leases. The principal rates used are summarized below by classification of properties:

| | Rate per Year (%) |
|---|---|
| Buildings | 2 - 5 |
| Machinery and equipment | 5 - 25 |
| Tools and test equipment | 10 - 33 1/3 |
| Rental equipment | 25 |

#### Revenue recognition

Sales revenue is recorded upon shipment of product in the case of sales contracts, upon shipment of the program in the case of software, and upon installation in the case of sales-type leases. Revenue from services and equipment maintenance is recorded as earned over the lives of the respective contracts.

Revenue under systems integration and services contracts is recognized when services have been performed and accepted or milestones have been met. Cost of revenue under such contracts is charged based on current estimated total costs.

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 since such amounts are expected to be reinvested indefinitely.

#### Software capitalization

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. Unamortized marketable software costs (which are included in other assets) at December 31, 1997 and 1996 were $259.0 and $223.1 million, respectively.

#### Goodwill

Goodwill represents the excess of cost over fair value of net assets acquired, which is being amortized on the straight-line method. Accumulated amortization at December 31, 1997 and 1996 was $5.7 and $617.1 million, respectively.

The carrying value of goodwill is reviewed for impairment whenever events or changes in circumstances indicate that it may not be recoverable. If such an event occurred, the company would prepare projections of future cash flows for the applicable business. If such projections indicated that goodwill would not be recoverable, the company's carrying value of such asset would be reduced by the estimated excess of such value over projected discounted cash flow.

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 a separate component of stockholders' equity. Exchange gains and losses on intercompany balances of a long-term investment nature are reported in the separate component of stockholders' equity.

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 level of the underlying rate, price, or index. 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 item.

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 1997 presentation.

## 2 Earnings per share

As of December 31, 1997, the company adopted Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share." This statement establishes new standards for computing and presenting earnings per share. Adoption of SFAS No. 128 and restatement of prior periods' earnings per share were required in the fourth quarter of 1997. For the company, earnings per share under SFAS No. 128 for 1997 was the same as if it were computed in accordance with the prior rule. The effect of restatement on prior periods was immaterial.

| Year ended December 31<br>(Millions, except per share data) | 1997 | 1996 | 1995 |
|---|---|---|---|
| Earnings per share computation - basic | | | |
| Income (loss) from continuing operations before extraordinary item | $ (853.6) | $ 61.8 | $ (627.3) |
| Less dividends on preferred shares | (111.1) | (120.8) | (120.3) |
| Income (loss) available to common stockholders | (964.7) | (59.0) | (747.6) |
| Discontinued operations | | | 2.7 |
| Extraordinary item | | (12.1) | |
| Net income (loss) available to common stockholders | $ (964.7) | $ (71.1) | $ (744.9) |
| Weighted average shares (thousands) | 182,016 | 172,507 | 171,238 |
| Earnings per share - basic | | | |
| Income (loss) from continuing operations before extraordinary item | $ (5.30) | $ (.34) | $ (4.37) |
| Discontinued operations | | | .02 |
| Extraordinary item | | (.07) | |
| Net income (loss) | $ (5.30) | $ (.41) | $ (4.35) |
| Earnings per share computation - diluted | | | |
| Income (loss) available to common stockholders | $ (964.7) | $ (59.0) | $ (747.6) |
| Discontinued operations | | | 2.7 |
| Extraordinary item | | (12.1) | |
| Net income (loss) available to common stockholders | $ (964.7) | $ (71.1) | $ (744.9) |
| Weighted average shares (thousands) | 182,016 | 172,507 | 171,238 |
| Earnings per share - diluted | | | |
| Income (loss) from continuing operations before extraordinary item | $ (5.30) | $ (.34) | $ (4.37) |
| Discontinued operations | | | .02 |
| Extraordinary item | | (.07) | |
| Net income (loss) | $ (5.30) | $ (.41) | $ (4.35) |

The average 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) | 1997 | 1996 | 1995 |
|---|---|---|---|
| Employee stock plans | 4,154 | 723 | 719 |
| 8 1/4% convertible notes due 2006 | 40,946 | 35,486 | |
| 8 1/4% convertible notes due 2000 | 27,016 | 33,697 | 33,697 |
| Series A preferred stock | 47,454 | 47,454 | 47,454 |

## 3 Significant fourth-quarter events

### Restructuring charges

In the fourth quarter of 1997, the company recorded a pretax charge of $149.0 million, $127.0 million after tax, or $.70 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 (principally in Europe) of approximately 1,000 people, including severance, notice pay, medical, and other benefits, (b) $81.6 million for product and program discontinuances, and goodwill associated with these businesses, and (c) $2.5 million associated with facilities.

In the fourth quarter of 1995, the company recorded a pretax charge of $717.6 million, $581.9 million after tax, or $3.39 per diluted common share. The charge included (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 associated with product and program discontinuances.

Cash expenditures related to restructuring in 1997, 1996, and 1995 were $178.7 million, $220.8 million, and $133.0 million, respectively. Cash expenditures are expected to be $180 million in 1998 and $58 million in 1999 and beyond, principally for work-force reductions and facility costs. Personnel reductions in 1997 related to restructuring actions were approximately 2,600 and are expected to be approximately 1,400 thereafter, principally in 1998. Actual costs incurred are charged to the accrued liability when the actions are taken.

Activity related to the restructuring reserve during the years ended December 31, 1997 and 1996 was as follows:

| (Millions) | Total | Work-Force Reductions(1) | Facilities(2) | Products(3) |
|---|---|---|---|---|
| Balance at Dec. 31, 1995 | $ 734.3 | $ 473.3 | $ 249.6 | $ 11.4 |
| Utilized | (300.4) | (155.6) | (62.9) | (81.9) |
| Provided | 84.0 | | 13.0 | 71.0 |
| Other(4) | (84.0) | (110.2) | (7.4) | 33.6 |
| Balance at Dec. 31, 1996 | 433.9 | 207.5 | 192.3 | 34.1 |
| Provided | 149.0 | 64.9 | 2.5 | 81.6 |
| Utilized | (284.2) | (140.9) | (76.5) | (66.8) |
| Other(4) | (9.7) | (1.0) | (15.1) | 6.4 |
| Balance at Dec. 31, 1997 | $ 289.0 | $ 130.5 | $ 103.2 | $ 55.3 |

(1) Includes severance, notice pay, medical, and other benefits.
(2) Includes consolidation of office facilities and manufacturing capacity.
(3) Includes product and program discontinuances, and goodwill.
(4) Includes changes in estimates, reversals of excess reserves, and translation adjustments.

During 1996, the company experienced lower-than-anticipated costs for work-force reductions. Revisions of estimates for these costs were offset by additional provisions for product and program discontinuances and facility consolidations, $84 million of which were recorded in the fourth quarter.

### Other charges

In the fourth quarter of 1997, the company recorded a charge of $883.6 million, or $4.85 per diluted common share, for the writeoff of goodwill principally related to the 1986 merger of Burroughs Corporation and Sperry Corporation. Yearly amortization of such goodwill was approximately $36 million. Effective December 31, 1997, the company elected to change its method of measuring goodwill impairment. 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. 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 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.

In the fourth quarter of 1995, the company recorded a charge (in cost of revenue) for contract losses of $129.0 million, $88.6 million after tax, or $.51 per diluted share, related to certain services contracts, primarily a few large multi-year, fixed-price systems integration contracts. Included in the charge was $65.5 million related to fourth-quarter developments with respect to contract terminations and $63.5 million related to contract performance issues including schedule slippages, late deliveries, and cost overruns that arose in that quarter.

## Summary

The 1997 and 1995 charges for restructurings and other charges were recorded in the following statement of income classifications:

| Year ended December 31 (Millions) | 1997 | 1995 |
|---|---|---|
| Cost of revenue | $ 92.5 | $ 498.7 |
| Selling, general and administrative expenses | 12.3 | 305.2 |
| Research and development expenses | 4.9 | 42.7 |
| Goodwill impairment | 883.6 | |
| Other income (expense), net | 81.3 | |
| Total | $1,074.6 | $ 846.6 |

## 4 Discontinued operations

During the year ended December 31, 1995, the company sold its defense business for cash of $862 million. The net results of the defense operations for 1995 are reported separately in the Consolidated Statement of Income as "income from discontinued operations."

The following is a summary of the results of operations of the company's defense business:

| Year ended December 31 (Millions) | 1995 |
|---|---|
| Revenue | $ 258.1* |
| Income from operations, net of taxes of $6.5 | $ 12.5* |
| Loss on sale, net of taxes of $98.2 | (9.8) |
| Income from discontinued operations | $ 2.7 |

* Reflects results for the period January 1 through March 31, 1995.

## 5 Accounting changes and extraordinary items

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 the American Institute of Certified Public Accountants ("AICPA") Statement of Position ("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.

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

In October of 1997, the AICPA issued SOP 97-2, "Software Revenue Recognition." This SOP provides guidance on applying generally accepted accounting principles in recognizing revenue on software transactions. The SOP is effective for transactions entered into after December 31, 1997. The company will adopt this SOP effective January 1, 1998 and such adoption is not expected to have a material effect on the company's consolidated financial position, consolidated results of operations, or liquidity.

In June 1997, the Financial Accounting Standards Board issued 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 and is effective for financial statements for periods beginning after December 15, 1997. The company expects to adopt SFAS No. 131 for the year ended December 31, 1998, in its 1998 annual report. The company has not yet made a determination of its operating segments. Adoption of SFAS No. 131 will have no effect on the company's consolidated financial position, consolidated results of operations, or liquidity.

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.

## 6 Inventories

Inventories comprise the following:

| December 31 (Millions) | 1997 | 1996 |
|---|---|---|
| Finished equipment and supplies | $ 289.7 | $ 325.5 |
| Work in process and raw materials | 271.1 | 316.8 |
| Total inventories | $ 560.8 | $ 642.3 |

At December 31, 1997 and 1996, work in process inventories included $140.7 and $154.7 million, respectively, of costs related to long-term contracts.

## 7 Estimated income taxes

| Year ended December 31 (Millions) | 1997 | 1996 | 1995 |
|---|---|---|---|
| Income (loss) from continuing operations before income taxes | | | |
| United States | $(954.1) | $ (91.1) | $(482.7) |
| Foreign | 195.3 | 184.8 | (298.4) |
| Total income (loss) from continuing operations before income taxes | $(758.8) | $ 93.7 | $(781.1) |
| Estimated income taxes (benefit) | | | |
| Current | | | |
| United States | $ 28.0 | $ (15.0) | $ (83.6) |
| Foreign | 69.0 | 87.0 | 60.5 |
| State and local | 23.1 | 10.9 | (5.7) |
| Total | 120.1 | 82.9 | (28.8) |
| Deferred | | | |
| United States | (26.0) | (70.9) | (140.4) |
| Foreign | 1.0 | 12.4 | 15.4 |
| State and local | (.3) | 7.5 | |
| Total | (25.3) | (51.0) | (125.0) |
| Total estimated income taxes (benefit) | $ 94.8 | $ 31.9 | $(153.8) |

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) | 1997 | 1996 | 1995 |
|---|---|---|---|
| United States statutory income tax (benefit) | $(265.6) | $ 32.8 | $(273.4) |
| Difference in estimated income taxes on foreign earnings, losses, and remittances | (35.4) | 7.9 | 192.8 |
| State taxes | 14.8 | 11.8 | (3.6) |
| Tax refund claims, audit issues, and other matters | 42.7 | (12.9) | (85.4) |
| Amortization of goodwill | 335.1 | 12.6 | 12.6 |
| Reversal of valuation allowances | | (24.8) | |
| Other | 3.2 | 4.5 | 3.2 |
| Estimated income taxes (benefit) | $ 94.8 | $ 31.9 | $(153.8) |

The tax effects of temporary differences and carryforwards that give rise to significant portions of deferred tax assets and liabilities at December 31, 1997 and 1996, were as follows:

| December 31 (Millions) | 1997 | 1996 |
|---|---|---|
| Deferred tax assets | | |
| Tax loss carryforwards | $ 433.3 | $ 469.4 |
| Foreign tax credit carryforwards | 479.8 | 407.8 |
| Other tax credit carryforwards | 82.2 | 77.5 |
| Capitalized research and development | 327.4 | 242.4 |
| Depreciation | 55.7 | 61.3 |
| Postretirement benefits | 88.0 | 85.0 |
| Employee benefits | 65.4 | 73.0 |
| Restructuring | 115.9 | 196.4 |
| Other | 253.1 | 250.4 |
| | 1,900.8 | 1,863.2 |
| Valuation allowance | (400.7) | (434.9) |
| Total deferred tax assets | $1,500.1 | $1,428.3 |
| Deferred tax liabilities | | |
| Pensions | $ 319.5 | $ 315.1 |
| Other | 146.0 | 103.9 |
| Total deferred tax liabilities | $ 465.5 | $ 419.0 |
| Net deferred tax asset | $1,034.6 | $1,009.3 |

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 1997, the net decrease in the valuation allowance was $34.2 million.

Cumulative undistributed earnings of foreign subsidiaries, for which no U.S. income or foreign withholding taxes have been recorded, approximated $615 million at December 31, 1997. 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 1997, 1996, and 1995 for income taxes was $80.0, $112.7, and $132.2 million, respectively.

At December 31, 1997, the company has U.S. federal and state and local tax loss carryforwards and foreign tax loss carryforwards for certain foreign subsidiaries, the tax effect of which is approximately $433.3 million. These carryforwards will expire as follows (in millions): 1998, $2.0; 1999, $6.5; 2000, $7.6; 2001, $10.9; 2002, $6.9; and $399.4 thereafter. The company also has available tax credit carryforwards of approximately $562.0 million, which will expire as follows (in millions): 1998, $106.9; 1999, $118.3; 2000, $96.3; 2001, $100.3; 2002, $83.0; and $57.2 thereafter.

The company's net deferred tax assets include substantial amounts of net operating loss and tax credit carryforwards. Failure to achieve forecasted taxable income might affect the ultimate realization of the net deferred tax assets. In recent years, the information services and systems industry has undergone dramatic changes and 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. For Convergent, Inc., the company is awaiting a report from the Internal Revenue Service confirming the treatment of settled issues for the years 1985-1988. In management's opinion, adequate provisions for income taxes have been made for all years.

## 8 Properties

Properties comprise the following:

| December 31 (Millions) | 1997 | 1996 |
|---|---|---|
| Land | $ 24.5 | $ 24.6 |
| Buildings | 208.7 | 218.5 |
| Machinery and equipment | 1,180.6 | 1,269.0 |
| Tools and test equipment | 103.5 | 138.3 |
| Unamortized leasehold improvements | 35.3 | 42.5 |
| Construction in progress | 18.6 | 19.6 |
| Rental equipment | 202.9 | 237.8 |
| Total properties | $ 1,774.1 | $ 1,950.3 |

## 9 Long-term debt

Long-term debt comprises the following:

| December 31 (Millions) | 1997 | 1996 |
|---|---|---|
| 9 1/2% notes due 1998 | $ 197.5 | $ 197.5 |
| 10 5/8% senior notes due 1999 | 330.1 | 330.1 |
| 12% senior notes due 2003 | 425.0 | 425.0 |
| 11 3/4% senior notes due 2004 | 450.0 | 450.0 |
| 9 3/4% senior sinking fund debentures due 2016 | 190.0 | 190.0 |
| 8 1/4% convertible subordinated notes due 2006 | 27.8 | 299.0 |
| 8 1/4% convertible subordinated notes due 2000 | - | 345.0 |
| Other | 31.0 | 40.6 |
| Total | 1,651.4 | 2,277.2 |
| Less - Current maturities | 213.1 | 5.8 |
| Total long-term debt | $ 1,438.3 | $ 2,271.4 |

Total long-term debt maturities in 1998, 1999, 2000, 2001, and 2002 are $213.1, $344.7, $15.6, $11.8, and $11.6 million, respectively.

Cash paid during 1997, 1996, and 1995 for interest was $253.1, $255.1, and $201.3 million, respectively.

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 its 8 1/4% convertible subordinated notes due 2000 and $271.2 million of its 8 1/4% convertible subordinated notes due 2006. The conversion of the notes due 2006 was in response to a special offer to pay holders of these notes a cash premium for each note converted. As discussed in Note 3, the company recorded a one-time charge of $42.0 million to cover the cost of this special offer.

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 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.

The company has a $200 million revolving credit facility that expires in June 1999. The facility includes certain financial tests that must be met as conditions to a borrowing and provides that no amounts may be outstanding under the facility for a minimum of 20 consecutive days in each quarter. The facility may not be used to refinance other debt. The amount the company may borrow at any given time is dependent upon the amount of certain of its accounts receivable and inventory. As of December 31, 1997, there were no borrowings outstanding under the facility and the entire $200 million was available for borrowings. The company pays commitment fees on the unused amount of the facility. In addition, international subsidiaries maintain short-term credit arrangements with banks in accordance with local customary practice.

## 10 Other accrued liabilities

Other accrued liabilities (current) comprise the following:

| December 31 (Millions) | 1997 | 1996 |
|---|---|---|
| Payrolls and commissions | $ 288.7 | $ 305.6 |
| Customers' deposits and prepayments | 540.2 | 551.9 |
| Taxes other than income taxes | 130.5 | 164.6 |
| Restructuring* | 224.0 | 294.7 |
| Other | 123.8 | 136.6 |
| Total other accrued liabilities | $1,307.2 | $1,453.4 |

* At December 31, 1997 and 1996, an additional $65.0 million and $139.2 million, respectively, was reported in other liabilities (long term) on the consolidated balance sheet.

## 11 Comprehensive income

Comprehensive income for the three years ended December 31, 1997, includes the following components:

| Year ended December 31 (Millions) | 1997 | 1996 | 1995 |
|---|---|---|---|
| Net income (loss) | $(853.6) | $ 49.7 | $(624.6) |
| Other comprehensive income (loss) | | | |
| Foreign currency translation adjustments* | (40.4) | (35.8) | (22.7) |
| Related tax expense (benefit) | 17.6 | 15.1 | (24.3) |
| Total other comprehensive income (loss) | (58.0) | (50.9) | 1.6 |
| Comprehensive (loss) | $(911.6) | $ (1.2) | $(623.0) |

* Net of income on translation adjustments reclassified to income upon sale or writeoff of ownership interest in foreign investments as follows: 1997, $2.8 million; 1996, $1.5 million; and 1995, $.9 million.

## 12 Leases

Rental expense, less income from subleases, for 1997, 1996, and 1995 was $168.5 $177.7, and $195.8 million, respectively.

Minimum net rental commitments under noncancelable operating leases outstanding at December 31, 1997, substantially all of which relate to real properties, were as follows: 1998, $142.9 million; 1999, $117.8 million; 2000, $90.3 million; 2001, $71.2 million; 2002, $54.4 million; and thereafter, $336.0 million. Such rental commitments have been reduced by minimum sublease rentals of $113.9 million due in the future under non-cancelable subleases.

## 13 Financial instruments

The company uses derivative financial instruments to reduce its exposure to market risks from changes in foreign 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 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 prepaid expenses in the consolidated balance sheet. At December 31, 1997, such prepaid expense was $5.5 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.

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, 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, 1996, the company had a total of $200.0 million of such contracts, $144.7 million to sell foreign currencies, and $55.3 million to buy foreign currencies. At December 31, 1997, a realized net gain on such contracts of approximately $1.7 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) | 1997 | 1996 |
|---|---|---|
| Outstanding | | |
| Long-term debt | $ 1,651.4 | $ 2,277.2 |
| Foreign exchange forward contracts* | 205.4 | 200.0 |
| Foreign exchange options* | 284.4 | 282.3 |
| Estimated fair value | | |
| Long-term debt | $ 1,823.4 | $ 2,374.3 |
| Foreign exchange forward contracts | (6.1) | (2.2) |
| Foreign exchange options | 5.9 | 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, 1997, 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 1997 and 1996, as well as unrealized gains or losses at December 31, 1997, were immaterial. Receivables are due from a large number of customers that are dispersed worldwide across many industries. At December 31, 1997 and 1996, 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 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.

## 14 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.

## 15 Business segment information

The company operates primarily in one business segment - information services and systems. This segment represents more than 90% of consolidated revenue, operating profit, and identifiable assets. The company's products and services include enterprise-class and network servers, desktop/mobile systems, software, systems integration, consulting and outsourcing services, distributed computing support services, and hardware/software maintenance. These products and services are marketed throughout the world to commercial businesses and governments. While the company's worldwide operations are structured to achieve consolidated objectives, the majority of manufacturing costs and research and development is incurred in the United States. As a result, significant interdependencies and overlaps exist among the company's operating units. Accordingly, the revenue, operating profit, and identifiable assets shown for each geographic area may not be indicative of the amounts that would have been reported if the operating units were independent of one another.

Sales and transfers between geographic areas are generally priced to recover certain cost plus an appropriate mark-up for profit. Operating profit is revenue less related costs and direct and allocated operating expenses, excluding interest and the unallocated portion of corporate expenses. Corporate assets are those assets maintained for general purposes, principally cash and cash equivalents, goodwill, prepaid pension assets, deferred taxes, investments at equity, and corporate facilities. No single customer accounts for more than 10% of revenue. Revenue from various agencies of the U.S. Government approximated $791, $542, and $530 million in 1997, 1996, and 1995, respectively.

A summary of the company's operations by geographic area follows:

| (Millions) | 1997 | 1996 | 1995 |
|---|---|---|---|
| United States | | | |
| Customer revenue | $ 2,705.5 | $ 2,350.0 | $ 2,405.5 |
| Affiliate revenue | 914.7 | 720.2 | 721.6 |
| Total | $ 3,620.2 | $ 3,070.2 | $ 3,127.1 |
| Operating profit (loss) | $ 155.0 | $ (23.7) | $ (306.9) |
| Identifiable assets | 1,193.3 | 1,314.9 | 1,368.5 |
| Europe and Africa | | | |
| Customer revenue | $ 2,005.9 | $ 2,063.5 | $ 2,090.3 |
| Affiliate revenue | 27.0 | 28.2 | 28.8 |
| Total | $ 2,032.9 | $ 2,091.7 | $ 2,119.1 |
| Operating profit (loss) | $ 90.0 | $ 76.0 | $ (505.0) |
| Identifiable assets | 751.3 | 777.5 | 827.8 |
| Americas/Pacific | | | |
| Customer revenue | $ 1,924.6 | $ 1,957.0 | $ 1,846.5 |
| Affiliate revenue | 83.0 | 122.3 | 138.7 |
| Total | $ 2,007.6 | $ 2,079.3 | $ 1,985.2 |
| Operating profit | $ 437.5 | $ 420.9 | $ 408.0 |
| Identifiable assets | 520.5 | 492.6 | 496.1 |
| Adjustments and eliminations | | | |
| Affiliate revenue | $ (1,024.7) | $ (870.7) | $ (889.1) |
| Operating profit | (29.0) | (4.8) | 21.5 |
| Identifiable assets | (54.2) | (28.7) | (23.9) |
| Consolidated | | | |
| Revenue | $ 6,636.0 | $ 6,370.5 | $ 6,342.3 |
| Operating profit (loss) | $ 653.5 | $ 468.4 | $ (382.4) |
| General corporate expenses* | (1,179.1) | (125.0) | (196.6) |
| Interest expense | (233.2) | (249.7) | (202.1) |
| Income (loss) from continuing operations before income taxes | $ (758.8) | $ 93.7 | $ (781.1) |
| Identifiable assets | $ 2,410.9 | $ 2,556.3 | $ 2,668.5 |
| Corporate assets | 3,180.4 | 4,410.8 | 4,444.7 |
| Total assets | $ 5,591.3 | $ 6,967.1 | $ 7,113.2 |

* Includes $883.6 million in 1997 related to goodwill impairment.

## 16 Employee plans

### Retirement benefits

Defined benefit retirement income plans cover the majority of domestic employees and certain employees in countries outside the United States. In the United States, the company has a retirement plan under which funds are deposited with a trustee. Major subsidiaries outside the United States provide for employee pensions in accordance with local requirements and customary practices, and several maintain funded defined benefit plans.

For the U.S. plan, which is covered by the Employee Retirement Income Security Act ("ERISA"), the company's funding policy is to fund in accordance with ERISA funding standards. The various benefit formulas and the funding methods used in the international plans are in accordance with local requirements. Plan assets generally are invested in common stocks, fixed-income securities, insurance contracts, and real estate.

Net curtailment gains of $3.2, $10.5, and $14.9 million have been recognized in 1997, 1996, and 1995, respectively.

### 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 become exercisable in annual installments over a two-, three-, or 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, 1997 and 1996, .7 and 2.9 million shares of restricted stock and restricted stock units were granted at a weighted average grant date price of $8.79 and $7.06 per share, .3 and .5 million shares and units were forfeited, and $6.4 and $4.6 million was charged to income, respectively.

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 its stock option plans.

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 was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for 1997, 1996, and 1995, respectively: risk-free interest rates of 6.59%, 6.34%, and 6.70%, volatility factors of the expected market price of the company's common stock of 55%, a weighted average expected life of the options of 5 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, 1997, 1996, and 1995, respectively, follows: 1997, $(858.3) million, or a loss of $5.33 per share; 1996, $46.0 million, or a loss of $.43 per share; and 1995, $(626.9) million, or a loss of $4.36 per share. Since the fair value of options is recognized over the vesting period, the initial impact on pro forma net income may not be representative of pro forma results in future years, when the effect of multiple awards would be reflected in the pro forma results.

A summary of the status of stock option activity follows:

| Year ended December 31 (Shares in thousands) | 1997 | | 1996 | | 1995 | |
|---|---|---|---|---|---|---|
| | Shares | Weighted Avg. Exercise Price | Shares | Weighted Avg. Exercise Price | Shares | Weighted Avg. Exercise Price |
| Outstanding at beginning of year | 18,224 | $10.16 | 17,429 | $11.48 | 17,474 | $11.81 |
| Granted | 5,259 | 7.49 | 4,493 | 6.23 | 4,332 | 9.99 |
| Exercised | (944) | 8.45 | (119) | 4.20 | (471) | 5.98 |
| Forfeited and expired | (2,258) | 9.36 | (3,579) | 11.87 | (3,906) | 11.99 |
| Outstanding at end of year | 20,281 | 9.67 | 18,224 | 10.16 | 17,429 | 11.48 |
| Exercisable at end of year | 11,237 | 11.26 | 10,499 | 11.57 | 9,997 | 12.14 |
| Shares available for granting options at end of year | 4,058 | | 4,351 | | 4,480 | |
| Weighted average fair value of options granted during the year | | $ 3.99 | | $ 3.40 | | $ 5.58 |

| At December 31, 1997 (Shares in thousands) | Outstanding | | | Exercisable | |
|---|---|---|---|---|---|
| Exercise Price Range | Shares | Average Life* | Average Exercise Price | Shares | Average Exercise Price |
| $4-7 | 7,928 | 8.34 | $6.06 | 1,593 | $5.25 |
| $7-11 | 3,909 | 6.10 | 9.96 | 2,760 | 9.91 |
| $11-13 | 4,750 | 6.68 | 11.59 | 3,278 | 11.60 |
| $13-40 | 3,694 | 2.37 | 14.62 | 3,606 | 14.64 |
| Total | 20,281 | 6.43 | 9.67 | 11,237 | 11.26 |

* Average contractual remaining life in years.

### Other postretirement benefits

The company provides certain health care benefits for U.S. employees who retired or terminated after qualifying for such benefits. Most international employees are covered by government-sponsored programs and the cost to the company (which is expensed principally on a pay-as-you-go-basis) is not significant.

In 1992, the company announced changes to its postretirement benefit plans to phase out the company's subsidy by January 1, 1996. Several lawsuits have been brought by plan participants challenging the announced changes to the plans, and the company is defending them vigorously.

Net periodic postretirement benefit cost for 1997, 1996, and 1995 includes the following components:

| Year ended December 31 (Millions) | 1997 | 1996 | 1995 |
|---|---|---|---|
| Interest cost on accumulated postretirement benefit obligation | $ 16.3 | $ 16.0 | $ 17.6 |
| Amortization of prior service benefit | (2.7) | (2.7) | (8.5) |
| Net amortization and deferral | 1.2 | (1.5) | 3.6 |
| Return on plan assets | (1.8) | (1.0) | (4.2) |
| Service cost - benefits earned during the period | | | .1 |
| Net periodic postretirement benefit cost | $ 13.0 | $ 10.8 | $ 8.6 |

The status of the plan and amounts recognized in the company's consolidated balance sheet at December 31, 1997 and 1996, were as follows:

| December 31 (Millions) | 1997 | 1996 |
|---|---|---|
| Actuarial present value of accumulated postretirement benefit obligation | $ 227.4 | $ 221.6 |
| Less plan assets at fair value | (15.4) | (24.8) |
| Accrued postretirement benefit liability in excess of plan assets | 212.0 | 196.8 |
| Unrecognized net loss | (19.3) | (10.7) |
| Unrecognized prior service benefit | 25.5 | 28.3 |
| Accrued postretirement benefit obligation recognized in the consolidated balance sheet | $ 218.2 | $ 214.4 |

As of December 31, 1997 and 1996, the entire liability was classified as long term.

The assumed rate of return on plan assets, which are principally invested in fixed-income securities, was 8% in 1997 and 1996, and the weighted average discount rate used to measure the accumulated postretirement benefit obligation was 7.3% at December 31, 1997, and 7.5% at December 31, 1996. The assumed health care cost trend rate used in measuring the expected cost of benefits covered by the plan was 9.2% for 1998, gradually declining to 5.5% in 2006 and thereafter. A one-percentage point increase in the assumed health care cost trend rate would increase the accumulated postretirement benefit obligation at December 31, 1997, by $10.8 million and increase the aggregate of the service and interest cost components of net periodic postretirement health care benefit cost by $.8 million.

Retirement benefits

The plans' funded status and amounts recognized in the company's consolidated balance sheet at December 31, 1997 and 1996, were as follows:

| (Millions) | Assets Exceed Accumulated Benefits: U.S. Plan 1997 | U.S. Plan 1996 | Int'l Plans 1997 | Int'l Plans 1996 | Accumulated Benefits Exceed Assets: U.S. Plan 1997 | U.S. Plan 1996 | Int'l Plans 1997 | Int'l Plans 1996 |
|---|---|---|---|---|---|---|---|---|
| Actuarial present value of benefit obligations | | | | | | | | |
| Vested benefit obligation | $ 3,356.1 | $ 3,142.3 | $ 617.1 | $ 669.4 | $ 54.1 | $ 52.0 | $ 20.0 | $ 30.2 |
| Accumulated benefit obligation | $ 3,435.1 | $ 3,193.4 | $ 627.5 | $ 683.3 | $ 55.8 | $ 53.5 | $ 20.3 | $ 32.9 |
| Projected benefit obligation | $ 3,484.4 | $ 3,246.2 | $ 662.8 | $ 710.6 | $ 59.3 | $ 53.5 | $ 22.6 | $ 37.2 |
| Plan assets at fair value | 4,107.1 | 3,662.8 | 775.6 | 871.7 | | | 13.7 | 20.2 |
| Projected benefit obligation less than (in excess of) plan assets | 622.7 | 416.6 | 112.8 | 161.1 | (59.3) | (53.5) | (8.9) | (17.0) |
| Unrecognized net loss (gain) | 158.1 | 330.5 | (59.2) | (42.0) | 13.8 | 11.2 | (4.7) | (9.7) |
| Unrecognized prior service (benefit) cost | (40.4) | (50.4) | 6.8 | 7.0 | 4.7 | 2.2 | .2 | 1.1 |
| Unrecognized net (asset) obligation at date of adoption | (.2) | (.3) | (.8) | (2.1) | 2.4 | 3.2 | 1.8 | 3.3 |
| Prepaid pension cost (pension liability) recognized in the consolidated balance sheet | $ 740.2 | $ 696.4 | $ 59.6 | $ 124.0 | $ (38.4) | $ (36.9) | $ (11.6) | $ (22.3) |

Net periodic pension cost for 1997, 1996, and 1995 includes the following components:

| (Millions) | U.S. Plans 1997 | U.S. Plans 1996 | U.S. Plans 1995 | International Plans 1997 | International Plans 1996 | International Plans 1995 |
|---|---|---|---|---|---|---|
| Service cost - benefits earned during the period | $ 33.4 | $ 34.6 | $ 33.8 | $ 14.2 | $ 20.9 | $ 22.9 |
| Interest cost on projected benefit obligation | 247.3 | 242.5 | 245.2 | 42.8 | 45.8 | 49.5 |
| Return on assets | (680.4) | (507.8) | (684.1) | (105.6) | (101.5) | (85.6) |
| Net amortization and deferral | 364.8 | 197.8 | 355.2 | 50.9 | 38.2 | 25.3 |
| Net periodic pension (income) cost | $ (34.9) | $ (32.9) | $ (49.9) | $ 2.3 | $ 3.4 | $ 12.1 |
| The assumptions used to determine the above data were as follows: | | | | | | |
| Discount rate | 7.25% | 7.75% | 7.50% | 6.77% | 7.11% | 7.23% |
| Rate of increase in compensation levels | 5.40% | 5.40% | 5.40% | 3.74% | 3.88% | 4.08% |
| Expected long-term rate of return on assets | 10.00% | 10.00% | 10.00% | 8.25% | 8.33% | 8.37% |

17 Stockholders' equity

Changes in stockholders' equity during the three years ended December 31, 1997, were as follows:

| (Millions) | Preferred Stock | | | Common Stock | Retained Earnings (Accumulated Deficit) | Other Capital | | |
|---|---|---|---|---|---|---|---|---|
| | Series A | Series B | Series C | | | Treasury Stock | Accumulated Other Comprehensive Income (Loss)* | Other, Principally Paid-in Capital |
| Balance at December 31, 1994 | $ 1,420.3 | $ 50.0 | $ 100.0 | $ 1.7 | $ 45.7 | $ (16.0) | $ (340.8) | $ 1,343.6 |
| Issuance of stock under stock option and other plans | | | | | | (.3) | | 2.7 |
| Net income (loss) | | | | | (624.6) | | | |
| Dividends | | | | | (123.7) | | | |
| Translation adjustments | | | | | | | 1.6 | |
| Balance at December 31, 1995 | 1,420.3 | 50.0 | 100.0 | 1.7 | (702.6) | (16.3) | (339.2) | 1,346.3 |
| Transfer to "redeemable preferred stock" | | (50.0) | (100.0) | | | | | |
| Issuance of stock under stock option and other plans | | | | .1 | | | | 23.6 |
| Net income | | | | | 49.7 | | | |
| Dividends | | | | | (117.2) | | | |
| Unearned compensation | | | | | | | | (9.4) |
| Translation adjustments | | | | | | | (50.9) | |
| Other | (.1) | | | | | | | |
| Balance at December 31, 1996 | 1,420.2 | - | - | 1.8 | (770.1) | (16.3) | (390.1) | 1,360.5 |
| Conversions to common stock | (.1) | | | .7 | | | | 606.0 |
| Issuance of stock under stock option and other plans | | | | | | 4.0 | | 8.4 |
| Net income (loss) | | | | | (853.6) | | | |
| Dividends | | | | | (113.1) | | | |
| Unearned compensation | | | | | | | | 3.0 |
| Translation adjustments | | | | | | | (58.0) | |
| Other | | | | | | .1 | | 2.5 |
| Balance at December 31, 1997 | $ 1,420.1 | $ - | $ - | $ 2.5 | $ (1,736.8) | $ (12.2) | $ (448.1) | $ 1,980.4 |

* Entire amount relates to foreign currency translation adjustments.

The company has 360.0 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. If, on the date used to determine stockholders of record for a meeting of stockholders at which directors are to be elected, preferred stock dividends are in arrears in an amount equal to at least six quarterly dividends, the number of members of the Board of Directors will be increased by two as of the date of such stockholders' meeting and the holders of shares of Series A Preferred Stock will be entitled to vote for and elect such two additional directors.

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

Each outstanding share of common stock has attached to it one preferred share purchase right. Each right entitles the registered holder to purchase for $75, under certain circumstances, one three-hundredth of a share of Junior Participating Preferred Stock, par value $1 per share. 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. If the company is acquired (or survives in a reverse merger transaction) or 50% or more of its consolidated assets or earnings power are sold, each right will entitle its holder to purchase a number of the acquiring company's common shares (or the company's common shares) having a market value of $150. The company will be entitled to redeem the rights at one and two-thirds cents per right prior to the earlier of the expiration of the rights, or the time that a 20% position has been acquired. Until the rights become exercisable, they have no dilutive effect on net income per common share.

At December 31, 1997, 77.1 million shares of unissued common stock of the company were reserved for the following: 47.5 million for convertible preferred stock, 4.0 million for the 8 1/4% convertible subordinated notes due 2006, and 25.6 million for stock options and stock purchase plans.

Changes in issued shares during the three years ended December 31, 1997, were as follows:

| (Thousands) | Series A Preferred Stock | Common Stock | Treasury Stock |
|---|---|---|---|
| Balance at December 31, 1994 | 28,405 | 171,827 | (865) |
| Issuance of stock under stock option and other plans | | 489 | (28) |
| 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) |

## 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, 1997 and 1996, and the related consolidated statements of income and cash flows for each of the three years in the period ended December 31, 1997. 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, 1997 and 1996, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1997, 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 15, 1998, except for the fourth paragraph of Note 9,
as to which the date is February 5, 1998

Supplemental Financial Data (Unaudited)
Unisys Corporation
Quarterly financial information

| (Millions, except per share data) | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Year |
|---|---|---|---|---|---|
| 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 | 604.5 | 2,233.6 |
| Income (loss) before income taxes | 30.6 | 66.5 | 80.8 | (936.7) | (758.8) |
| Net income (loss)* | 19.3 | 41.9 | 50.9 | (965.7) | (853.6) |
| 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 | (992.3) | (964.7) |
| Earnings (loss) per common share - basic | (.06) | .08 | .14 | (4.75) | (5.30) |
| Earnings (loss) per common share - diluted* | (.06) | .08 | .13 | (4.75) | (5.30) |
| 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 |
| 1996 | | | | | |
| Revenue | $1,423.1 | $1,505.0 | $1,630.9 | $1,811.5 | $6,370.5 |
| Gross profit | 438.9 | 491.9 | 530.0 | 657.6 | 2,118.4 |
| Income (loss) before income taxes | (20.3) | 8.0 | 21.5 | 84.5 | 93.7 |
| Net income (loss) before extraordinary item | (13.4) | 5.3 | 14.2 | 55.7 | 61.8 |
| Net income (loss) | (13.4) | 5.3 | 14.2 | 43.6 | 49.7 |
| Dividends on preferred shares | 30.2 | 30.2 | 30.2 | 30.2 | 120.8 |
| Earnings (loss) on common shares | (43.6) | (24.9) | (16.0) | 13.4 | (71.1) |
| Earnings (loss) per common share - basic | | | | | |
| Before extraordinary item | (.25) | (.14) | (.09) | .15 | (.34) |
| Extraordinary item | | | | (.07) | (.07) |
| Total | (.25) | (.14) | (.09) | .08 | (.41) |
| Earnings (loss) per common share - diluted | | | | | |
| Before extraordinary item | (.25) | (.14) | (.09) | .14 | (.34) |
| Extraordinary item | | | | (.06) | (.07) |
| Total | (.25) | (.14) | (.09) | .08 | (.41) |
| Market price per common share - high | 7 3/4 | 9 1/8 | 7 1/4 | 7 3/4 | 9 1/8 |
| - low | 5 3/8 | 5 5/8 | 5 3/8 | 5 7/8 | 5 3/8 |

* In the fourth quarter of 1997, the company recorded one-time charges to net income of $1,052.6 million. Before these charges, fourth-quarter net income was $86.9 million, or $.25 per diluted common share, and full-year net income was $199.0 million, or $.46 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.

Seven-year summary of selected financial data

| (Millions, except per share data) | 1997(1) | 1996 | 1995(1) | 1994(1) | 1993 | 1992 | 1991(1) |
|---|---|---|---|---|---|---|---|
| **Results of operations** | | | | | | | |
| Revenue | $ 6,636.0 | $ 6,370.5 | $ 6,342.3 | $ 6,095.5 | $ 6,107.1 | $ 6,715.6 | $ 6,908.8 |
| Operating income (loss) | (379.5) | 327.4 | (562.1) | 271.7 | 698.7 | 688.2 | (614.3) |
| Income (loss) from continuing operations before income taxes | (758.8) | 93.7 | (781.1) | 14.6 | 370.9 | 301.3 | (1,425.6) |
| Income (loss) from continuing operations before extraordinary items and changes in accounting principles | (853.6) | 61.8 | (627.3) | 12.1 | 286.3 | 166.3 | (1,520.2) |
| Net income (loss) | (853.6) | 49.7 | (624.6) | 100.5 | 565.4 | 361.2 | (1,393.3) |
| Dividends on preferred shares | 111.1 | 120.8 | 120.3 | 120.1 | 121.6 | 122.1 | 121.2 |
| Earnings (loss) on common shares | (964.7) | (71.1) | (744.9) | (19.6) | 443.8 | 239.1 | (1,514.5) |
| Earnings (loss) from continuing operations per common share | | | | | | | |
| Basic | (5.30) | (.34) | (4.37) | (.63) | 1.01 | .27 | (10.16) |
| Diluted | (5.30) | (.34) | (4.37) | (.63) | .92 | .27 | (10.16) |
| **Financial position** | | | | | | | |
| Working capital | $ 309.1 | $ 668.0 | $ 71.3 | $ 1,015.7 | $ 681.0 | $ 513.3 | $ 384.3 |
| Total assets | 5,591.3 | 6,967.1 | 7,113.2 | 7,193.4 | 7,349.4 | 7,322.1 | 8,218.7 |
| Long-term debt | 1,438.3 | 2,271.4 | 1,533.3 | 1,864.1 | 2,025.0 | 2,172.8 | 2,694.6 |
| Common stockholders' equity(2) | (214.2) | 185.8 | 289.9 | 1,034.2 | 1,057.3 | 541.8 | 342.1 |
| Common stockholders' equity per share | (.86) | 1.06 | 1.69 | 6.05 | 6.21 | 3.35 | 2.12 |
| **Other data** | | | | | | | |
| Research and development | $ 302.3 | $ 342.9 | $ 404.5 | $ 458.5 | $ 489.3 | $ 505.6 | $ 610.6 |
| Capital additions of properties | 179.9 | 162.3 | 195.0 | 208.2 | 173.5 | 227.0 | 222.7 |
| Investment in marketable software | 132.9 | 116.2 | 123.0 | 121.3 | 118.7 | 110.2 | 167.7 |
| Depreciation | 156.0 | 182.0 | 203.0 | 226.2 | 252.0 | 311.4 | 412.1 |
| Amortization | | | | | | | |
| Marketable software | 97.0 | 101.6 | 151.7 | 150.5 | 144.6 | 131.8 | 241.0 |
| Goodwill | 963.9 | 46.1 | 40.9 | 36.9 | 36.7 | 36.8 | 246.6 |
| Common shares outstanding (millions) | 249.5 | 174.8 | 171.4 | 171.0 | 170.4 | 161.9 | 161.7 |
| Stockholders of record (thousands) | 37.3 | 39.2 | 41.5 | 45.3 | 47.8 | 51.7 | 54.6 |
| Employees (thousands) | 32.6 | 32.9 | 37.4 | 37.8 | 38.2 | 41.7 | 46.4 |

(1) Includes special pretax charges of $1,074.6 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) After deduction of cumulative preferred dividends in arrears in 1991, 1992, and 1993.

Customer revenue by business unit

| Year ended December 31 (Millions) | 1997 | | 1996 | | 1995 | |
|---|---|---|---|---|---|---|
| Information Services | $2,056.0 | 31% | $1,951.4 | 31% | $1,836.8 | 29% |
| Global Customer Services | 2,148.1 | 32 | 1,991.9 | 31 | 1,884.1 | 30 |
| Computer Systems | 2,431.9 | 37 | 2,427.2 | 38 | 2,621.4 | 41 |
| Total | $6,636.0 | 100% | $6,370.5 | 100% | $6,342.3 | 100% |

EXHIBIT 18

January 15, 1998

Mr. Lawrence A. Weinbach
Chairman, President and Chief Executive Officer
Unisys Corporation
P.O. Box 500
M.S. A-1
Blue Bell, PA 19424

Dear Mr. Weinbach:

Note 3 to the Consolidated Financial Statements of Unisys Corporation (the "Company") included in its 1997 Annual Report to Stockholders, to be incorporated by reference in its Form 10-K for the year ended December 31, 1997, describes a change in the method of accounting for measuring goodwill impairment. 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. You have advised us that you believe that the change is to a preferable method in your circumstances because when a goodwill impairment must be recognized, the discounted cash flow method is a better measurement of the remaining value of goodwill, particularly considering 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.

There are no authoritative criteria for determining a `preferable' method of measuring the impairment of goodwill based on the particular circumstances; however, we conclude that the change in the method of measuring the impairment of goodwill by discounting projected cash flows is to an acceptable alternative method which, based on your business judgment to make this change for the reasons cited above, is preferable in your circumstances.

Very truly yours,

/s/ Ernst & Young LLP
Philadelphia, Pennsylvania

Exhibit 21

SUBSIDIARIES OF THE REGISTRANT

Unisys Corporation, the registrant, a Delaware company, has no parent. The registrant owns directly or indirectly all the voting securities of the following subsidiaries:

| Name of Company | State or Other Jurisdiction Under the Laws of Which Organized |
|---|---|
| Unisys Canada Inc. | Canada |
| Convergent Technologies, Inc. | California |
| Unisys Australia Limited | Michigan |
| Unisys New Zealand Limited | New Zealand |
| Unisys Espana S. A. | Spain |
| Unisys (Schweiz) A.G. | Switzerland |
| Unisys Belgium | Belgium |
| Unisys Deutschland G.m.b.H. | Germany |
| Unisys Eletronica Ltda. | Brazil |
| Unisys France | France |
| Unisys Italia S.p.A. | Italy |
| Unisys Limited | England |
| Unisys Nederland N.V. | Netherlands |
| Unisys de Mexico, S.A. de C.V. | Mexico |
| Unisys Korea Limited | Korea |
| Unisys South Africa, Inc. | Delaware |
| Unisys de Colombia, S.A. | Delaware |

The names of certain subsidiaries are omitted from the above list; such subsidiaries, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.

# Consent of Independent Auditors

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Unisys Corporation of our report dated January 15, 1998 (except for the fourth paragraph of Note 9, as to which the date is February 5, 1998), included in the 1997 Annual Report to Stockholders of Unisys Corporation.

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 a whole, presents fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in the following Registration Statements:
(1) Registration Statement (Form S-8 No. 33-20588) pertaining to the Unisys Savings Plan, (2) Registration Statement (Form S-8 No. 33-7893) pertaining to the Burroughs LTIP, (3) Registration Statement (Form S-8 No. 33-4317) pertaining to the Burroughs 1985 Payroll Deduction Stock Purchase Plan, (4) Registration Statement (Form S-8 No. 33-20204) pertaining to the Unisys Retirement Investment Plan, (5) Registration Statement (Form S-8 No. 33-20205) pertaining to the Unisys Retirement Investment Plan II, (6) Registration Statement (Form S-3 No. 33-25715) of Unisys Corporation, (7) Registration Statement (Form S-8 No. 33-3937) pertaining to the Burroughs LTIP, (8) Registration Statement (Form S-8 No. 2-63842) pertaining to the Burroughs LTIP, (9) Registration Statement (Form S-8 No. 33-34771) pertaining to the Unisys Retirement Investment Plan, (10) Registration Statement (Form S-8 No. 33-38711) pertaining to the Unisys Savings Plan, (11) Registration Statement (Form S-8 No. 33-38712) pertaining to the Unisys Retirement Investment Plan II, (12) Registration Statement (Form S-8 No. 33-38713) pertaining to the Unisys Retirement Investment Plan, (13) Registration Statement (Form S-8 No. 33-40259) pertaining to the Unisys LTIP, (14) Registration Statement (Form S-3 No. 33-51747) of Unisys Corporation and (15) Registration Statement (Form S-3 No. 333-20373) of Unisys Corporation; of our report dated January 15, 1998 (except for the fourth paragraph of Note 9, as to which the date is February 5, 1998), with respect to the consolidated financial statements incorporated herein by reference and our report included in the preceding paragraph with respect to the financial statement schedule included in this Annual Report (Form 10-K) of Unisys Corporation.

/s/ ERNST & YOUNG LLP

Philadelphia, Pennsylvania
March 19, 1998

Exhibit 24

POWER OF ATTORNEY
Unisys Corporation
Annual Report on Form 10-K
for the year ended December 31, 1997

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below does hereby make, constitute and appoint LAWRENCE A. WEINBACH, HAROLD S. BARRON, ROBERT H. BRUST AND JANET BRUTSCHEA HAUGEN, and each one of them severally, his true and lawful attorneys-in-fact and agents, for such person and in such person's name, place and stead, to sign the Unisys Corporation Annual Report on Form 10-K for the year ended December 31, 1997, and any and all amendments thereto and to file such Annual Report on Form 10-K and any and all amendments thereto with the Securities and Exchange Commission, and does hereby grant unto such attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as said person might or could do in person, hereby ratifying and confirming all that such attorney-in-fact and agents and each of them may lawfully do or cause to be done by virtue hereof.

Dated: February 26, 1998

/s/ J.P. Bolduc
J. P. Bolduc
Director

/s/ James J. Duderstadt
James J. Duderstadt
Director

/s/ Henry C. Duques
Henry C. Duques
Director

/s/ Gail D. Fosler
Gail D. Fosler
Director

/s/ Melvin R. Goodes
Melvin R. Goodes
Director

/s/ Edwin A. Huston
Edwin A. Huston
Director

/s/ Kenneth A. Macke
Kenneth A. Macke
Director

/s/ Theodore E. Martin
Theodore E. Martin
Director

/s/ Robert McClements, Jr.
Robert McClements, Jr.
Director

/s/ Alan E. Schwartz
Alan E. Schwartz
Director

/s/ Lawrence A. Weinbach
Lawrence A. Weinbach
Chairman of the Board,
President and Chief Executive
Officer; Director

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS INCLUDED IN THE COMPANY'S FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000,000

YEAR
DEC-31-1997
DEC-31-1997
803
0
951
(65)
561
2,887
1,774
1,193
5,591
2,577
1,438
0
1,420
3
(217)
5,591
2,846
6,636
1,552
4,402
0
10
233
(759)
95
(854)
0
0
0
(854)
(5.30)
(5.30)