

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2001

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

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

Commission file number 1-8729

UNISYS CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

Number of shares of Common Stock outstanding as of September 30, 2001: 319,106,355.

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Part I - FINANCIAL INFORMATION

Item 1. Financial Statements.

UNISYS CORPORATION  
CONSOLIDATED BALANCE SHEET (UNAUDITED)  
(Millions)

	September 30, 2001	December 31, 2000
	-----	-----
Assets		
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Current assets		
Cash and cash equivalents	\$ 219.7	\$ 378.0
Accounts and notes receivable, net	989.3	1,247.4
Inventories		
Parts and finished equipment	247.1	249.4
Work in process and materials	151.3	176.1
Deferred income taxes	464.1	460.6
Other current assets	128.2	75.5
	-----	-----
Total	2,199.7	2,587.0
	-----	-----
Properties	1,429.4	1,400.6
Less-Accumulated depreciation	890.2	890.7

Properties, net	----- 539.2	----- 509.9
Investments at equity	204.7	225.8
Software, net of accumulated amortization	308.3	296.7
Prepaid pension cost	1,213.9	1,063.0
Deferred income taxes	583.6	583.6
Goodwill	168.6	186.3
Other assets	376.0	261.0
	-----	-----
Total	\$5,594.0 =====	\$5,713.3 =====

Liabilities and stockholders' equity  
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Current liabilities

Notes payable	\$ 278.5	\$ 209.5
Current maturities of long-term debt	4.2	16.8
Accounts payable	558.8	847.7
Other accrued liabilities	1,059.3	1,319.1
Income taxes payable	267.3	288.3

Total	----- 2,168.1	----- 2,681.4
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Long-term debt	611.9	536.3
Other liabilities	547.6	309.5

Stockholders' equity

Common stock, shares issued: 2001, 321.0; 2000, 317.3	3.2	3.2
Accumulated deficit	( 727.1)	( 829.4)
Other capital	3,700.3	3,656.0
Accumulated other comprehensive loss	( 710.0)	( 643.7)

Stockholders' equity	----- 2,266.4	----- 2,186.1
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Total	----- \$5,594.0 =====	----- \$5,713.3 =====
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See notes to consolidated financial statements.

UNISYS CORPORATION  
 CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)  
 (Millions, except per share data)

	Three Months Ended September 30		Nine Months Ended September 30	
	2001	2000	2001	2000
Revenue	\$1,376.0	\$1,690.9	\$4,461.2	\$4,956.7
Costs and expenses				
Cost of revenue	996.1	1,216.2	3,256.3	3,461.9
Selling, general and administrative	262.7	320.1	784.4	924.1
Research and development expenses	73.4	77.5	224.6	237.8
	1,332.2	1,613.8	4,265.3	4,623.8
Operating income	43.8	77.1	195.9	332.9
Interest expense	16.5	18.5	50.0	57.7
Other income (expense), net	3.9	6.4	32.6	36.5
Income before income taxes	31.2	65.0	178.5	311.7
Provision for income taxes	10.3	22.1	59.0	106.0
Income before extraordinary items	20.9	42.9	119.5	205.7
Extraordinary items			( 17.2)	(19.8)
Net income	\$ 20.9	\$ 42.9	\$ 102.3	\$ 185.9
Earnings per share				
Basic				
Before extraordinary items	\$ .07	\$ .14	\$ .37	\$ .66
Extraordinary items			(.05)	(.06)
Total	\$ .07	\$ .14	\$ .32	\$ .60
Diluted				
Before extraordinary items	\$ .07	\$ .14	\$ .37	\$ .65
Extraordinary items			(.05)	(.06)
Total	\$ .07	\$ .14	\$ .32	\$ .59

See notes to consolidated financial statements.

UNISYS CORPORATION  
CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)  
(Millions)

	Nine Months Ended September 30	
	----- 2001	----- 2000
	-----	-----
Cash flows from operating activities		
Income before extraordinary items	\$ 119.5	\$ 205.7
Add(deduct) items to reconcile income before extraordinary items to net cash provided by (used for) operating activities:		
Extraordinary items	( 17.2)	(19.8)
Depreciation	100.6	103.9
Amortization:		
Marketable software	88.3	90.2
Goodwill	12.5	14.6
(Increase) in deferred income taxes, net	( 3.5)	( 9.6)
Decrease in receivables, net	168.8	8.4
Decrease (increase) in inventories	27.0	( 46.2)
(Decrease) in accounts payable and other accrued liabilities	(561.7)	(335.6)
(Decrease) increase in income taxes payable	( 21.0)	10.5
Increase(decrease) in other liabilities	241.9	( 3.4)
(Increase) in other assets	(226.8)	(110.6)
Other	6.9	19.2
	-----	-----
Net cash used for operating activities	( 64.7)	( 72.7)
	-----	-----
Cash flows from investing activities		
Proceeds from investments	1,976.6	525.1
Purchases of investments	(1,967.5)	(454.0)
Investment in marketable software	( 100.0)	(113.6)
Capital additions of properties	( 134.8)	(143.2)
Purchases of businesses	( 2.2)	( 13.9)
Proceeds from sales of properties		17.0
	-----	-----
Net cash used for investing activities	( 227.9)	(182.6)
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Cash flows from financing activities		
Proceeds from issuance of long-term debt	389.9	
Payments of long-term debt	( 354.3)	(447.2)
Net proceeds from short-term borrowings	68.9	442.5
Proceeds from employee stock plans	26.2	42.5
	-----	-----
Net cash provided by financing activities	130.7	37.8
	-----	-----
Effect of exchange rate changes on cash and cash equivalents	3.6	( 11.6)
	-----	-----
Decrease in cash and cash equivalents	( 158.3)	(229.1)
Cash and cash equivalents, beginning of period	378.0	464.0
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Cash and cash equivalents, end of period	\$ 219.7	\$ 234.9
	=====	=====

See notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

- a. The following table shows how earnings per share were computed for the three and nine months ended September 30, 2001 and 2000 (dollars in millions, shares in thousands):

	Three Months Ended September 30		Nine Months Ended September 30	
	2001	2000	2001	2000
Basic Earnings Per Share				
Income before extraordinary items	\$ 20.9	\$ 42.9	\$ 119.5	\$ 205.7
Extraordinary items			( 17.2)	( 19.8)
Net income	\$ 20.9	\$ 42.9	\$ 102.3	\$ 185.9
Weighted average shares	318,761	313,744	317,576	312,473
Basic earnings per share				
Before extraordinary items	\$ .07	\$ .14	\$ .37	\$ .66
Extraordinary items			(.05)	(.06)
Total	\$ .07	\$ .14	\$ .32	\$ .60
Diluted Earnings Per Share				
Income before extraordinary items	\$ 20.9	\$ 42.9	\$ 119.5	\$ 205.7
Extraordinary items			( 17.2)	( 19.8)
Net income	\$ 20.9	\$ 42.9	\$ 102.3	\$ 185.9
Weighted average shares	318,761	313,744	317,576	312,473
Plus incremental shares from assumed exercise of employee stock plans	1,394	1,772	1,951	4,066
Adjusted weighted average shares	320,155	315,516	319,527	316,539
Diluted earnings per share				
Before extraordinary items	\$ .07	\$ .14	\$ .37	\$ .65
Extraordinary items			(.05)	(.06)
Total	\$ .07	\$ .14	\$ .32	\$ .59

At September 30, 2001, 24.3 million shares related to employee stock plans were not included in the computation of diluted earnings per share because the option prices are above the average market price of the company's common stock.

- b. Effective January 1, 2001, the company adopted Statement of Financial Accounting Standards ("SFAS") No. 133 "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS No. 133 requires a company to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The cumulative effect of the change in accounting principle due to the adoption of SFAS No. 133 resulted in the recognition of income of \$3.3 million (net of \$1.8 million of tax) in other comprehensive income.
- c. A summary of the company's operations by business segment for the three and nine-month periods ended September 30, 2001 and 2000 is presented below (in millions of dollars):

	Total	Corporate	Services	Technology
Three Months Ended September 30, 2001 -----				
Customer revenue	\$1,376.0		\$1,051.3	\$ 324.7
Intersegment		\$(102.0)	20.3	81.7
Total revenue	\$1,376.0	\$(102.0)	\$1,071.6	\$ 406.4
Operating income(loss)	\$ 43.8	\$( 10.0)	\$ 23.5	\$ 30.3
Three Months Ended September 30, 2000 -----				
Customer revenue	\$1,690.9		\$1,200.2	\$ 490.7
Intersegment		\$( 92.8)	10.6	82.2
Total revenue	\$1,690.9	\$( 92.8)	\$1,210.8	\$ 572.9
Operating income	\$ 77.1	\$ 2.8	\$ 18.1	\$ 56.2
Nine Months Ended September 30, 2001 -----				
Customer revenue	\$4,461.2		\$3,311.7	\$1,149.5
Intersegment		\$(267.0)	51.8	215.2
Total revenue	\$4,461.2	\$(267.0)	\$3,363.5	\$1,364.7
Operating income (loss)	\$ 195.9	\$( 29.6)	\$ 60.4	\$ 165.1
Nine Months Ended September 30, 2000 -----				
Customer revenue	\$4,956.7		\$3,454.1	\$1,502.6
Intersegment		\$(326.7)	35.2	291.5
Total revenue	\$4,956.7	\$(326.7)	\$3,489.3	\$1,794.1
Operating income	\$ 332.9	\$ 20.4	\$ 37.5	\$ 275.0

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Total segment operating income	\$ 53.8	\$ 74.3	\$225.5	\$312.5
Interest expense	(16.5)	(18.5)	(50.0)	(57.7)
Other income (expense), net	3.9	6.4	32.6	36.5
Corporate and eliminations	(10.0)	2.8	(29.6)	20.4
Total income before income taxes	\$ 31.2	\$ 65.0	\$178.5	\$311.7

d. Comprehensive income for the three and nine months ended September 30, 2001 and 2000 includes the following components (in millions of dollars):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Net income	\$ 20.9	\$ 42.9	\$102.3	\$185.9
Other comprehensive income (loss)				
Cumulative effect of change in accounting principle (SFAS No. 133), net of tax of \$1.8			3.3	
Cash flow hedges				
Income (loss), net of tax of \$(2.3) and \$2.1	(4.2)		3.9	
Reclassification adjustments, net of tax of \$(.9) and \$(3.5)	(1.6)		(6.5)	
Foreign currency translation adjustments, net of tax of \$0, \$5.1, \$0, and \$13.7	( 6.2)	( 3.1)	(67.0)	(35.2)
Total other comprehensive income (loss)	(12.0)	( 3.1)	(66.3)	(35.2)
Comprehensive income (loss)	\$ 8.9	\$ 39.8	\$ 36.0	\$150.7

Accumulated other comprehensive income (loss) as of December 31, 2000 and September 30, 2001 is as follows (in millions of dollars):

	Total	Translation Adjustments	Cash Flow Hedges
Balance at December 31, 1999	\$(570.4)	\$(570.4)	\$ -
Current-period change	( 73.3)	( 73.3)	-
Balance as December 31, 2000	(643.7)	(643.7)	-
Current-period change	( 66.3)	( 67.0)	.7
Balance at September 30, 2001	\$(710.0)	\$(710.7)	\$ .7

e. The amount credited to stockholders' equity for the income tax benefit related to the company's stock plans for the nine months ended September 30, 2001 and 2000 was \$4.1 million and \$10.5 million, respectively. The company expects to realize these tax benefits on future Federal income tax returns.

f. Certain prior-period amounts have been reclassified to conform with the current-period presentation.

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

Overview

During the third quarter of 2001, the company continued to face a very challenging economic environment, with economic uncertainty compounded by the events of September 11, 2001. Nevertheless, the company managed its business profitably in the quarter, primarily through tight controls on expenses and actions taken to strengthen its balance sheet and reduce interest expense.

In this economic environment, the company saw its customers, particularly in airlines and travel, financial services, and communications, delay planned IT decisions. This resulted, late in the quarter, in a sharp falloff in demand in key areas of the company's business, particularly high-end enterprise servers and networking and systems integration projects. Given the global economic uncertainty and the impact it has had on demand for the company's products and services, the company plans to take additional actions in the fourth quarter of 2001 to further reduce its cost structure. The company expects to take an estimated pre-tax charge of \$200 million in the fourth quarter of 2001 to cover a workforce reduction of approximately 3,000 people and other actions. Included in the charge is an early retirement incentive for certain eligible groups of U.S. employees. At the same time, the company plans to continue to invest in enhancing its skills mix in services and funding further development and marketing of its high-end, CMP-based servers.

Results of Operations

The following discussion of results of operations compares the results for the three and nine months ended September 30, 2001 with both the as reported and pro forma results for the comparable periods of 2000. The pro forma results exclude low-margin commodity hardware business that the company has de-emphasized as a result of its focus on higher value-added business areas. For the three and nine months ended September 30, 2000, financial highlights on an as reported and on a pro forma basis are as follows (in millions of dollars, except per share data):

	Three Months Ended September 30, 2000		Nine Months Ended September 30, 2000	
	As Reported	Pro Forma	As Reported	Pro Forma
Revenue	\$1,690.9	\$1,460.6	\$4,956.7	\$4,414.2
Cost of revenue	1,216.2	994.7	3,461.9	2,942.3
Gross profit %	28.1%	31.9%	30.2%	33.3%
S,G&A	320.1	311.4	924.1	900.5
S,G&A as a % of revenue	18.9%	21.3%	18.6%	20.4%
Operating income	77.1	79.1	332.9	340.5
Operating income as a % of revenue	4.6%	5.4%	6.7%	7.7%
Income before extraordinary items	42.9	44.2	205.7	211.0
Diluted earnings per share - before extraordinary items	.14	.14	.65	.67

For the three months ended September 30, 2001, the company reported net income of \$20.9 million, or \$.07 per diluted share, compared to \$42.9 million, or \$.14 per diluted share, for the three months ended September 30, 2000.

Total revenue for the quarter ended September 30, 2001 was \$1.38 billion, down 19% from revenue of \$1.69 billion for the quarter ended September 30, 2000. The decrease in revenue was principally due to lower sales of commodity products (discussed above) and enterprise servers. Excluding the negative impact of



foreign currency translations, revenue in the quarter was down 15% when compared to the year-ago period. When compared to pro forma revenue of \$1.46 billion for the third quarter of 2000, revenue for the current quarter decreased 6% (1% on a constant currency basis).

Total gross profit was 27.6% in the third quarter of 2001 compared to 28.1% in the year-ago period, principally due to a lower mix of higher-margin products and services than in the year-ago quarter as well as pricing pressures.

For the three months ended September 30, 2001, selling, general and administrative expenses were \$262.7 million (19.1% of revenue) compared to \$320.1 million (18.9% of revenue) for the three months ended September 30, 2000. The decrease reflected tight controls placed on discretionary spending during the quarter as well as the benefits of the restructuring actions announced in the fourth quarter of 2000.

For the third quarter of 2001, the company reported an operating income percent of 3.2% compared to 4.6% (5.4% on a pro forma basis) for the third quarter of 2000.

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

	Total	Elimi- nations	Services	Technology
	-----	-----	-----	-----
Three Months Ended September 30, 2001 -----				
Customer revenue	\$1,376.0		\$1,051.3	\$324.7
Intersegment		\$(102.0)	20.3	81.7
Total revenue	\$1,376.0	\$(102.0)	\$1,071.6	\$406.4
	=====	=====	=====	=====
Gross profit percent	27.6%		20.8%	42.1%
	=====		=====	=====
Operating income percent	3.2%		2.2%	7.5%
	=====		=====	=====
Three Months Ended September 30, 2000 - As Reported -----				
Customer revenue	\$1,690.9		\$1,200.2	\$490.7
Intersegment		\$( 92.8)	10.6	82.2
Total revenue	\$1,690.9	\$( 92.8)	\$1,210.8	\$572.9
	=====	=====	=====	=====
Gross profit percent	28.1%		21.6%	38.9%
	=====		=====	=====
Operating income percent	4.6%		1.5%	9.8%
	=====		=====	=====
Three Months Ended September 30, 2000 - Pro Forma -----				
Customer revenue	\$1,460.6		\$1,048.0	\$412.6
Intersegment		\$( 96.1)	21.7	74.4
Total revenue	\$1,460.6	\$( 96.1)	\$1,069.7	\$487.0
	=====	=====	=====	=====
Gross profit percent	31.9%		23.8%	46.0%
	=====		=====	=====
Operating income percent	5.4%		1.6%	12.3%
	=====		=====	=====

In the Services segment, customer revenue was \$1.05 billion, down 12% from \$1.20 billion in the year-ago period, principally due to a decline in proprietary maintenance and lower sales of commodity products. The gross profit percent declined to 20.8% in the current quarter compared to 21.6% in the prior-year period, principally reflecting the startup of large outsourcing contracts, and a lower mix of higher-margin proprietary maintenance revenue in the quarter. Operating income percent increased to 2.2% in the current quarter from 1.5% last year, principally due to a decline in selling, general and administrative expenses. Customer revenue in the Services segment was flat in the current quarter compared to pro forma revenue in the year-ago quarter.

In the Technology segment, customer revenue declined 34% to \$325 million in the third quarter of 2001 from \$491 million in the prior-year period, principally due to declines in enterprise server revenue and lower commodity hardware sales. The gross profit percent was 42.1% in the current quarter compared to 38.9% in the prior period, reflecting lower sales of low-margin commodity hardware products in the current quarter. Operating profit in this segment was 7.5% in the current quarter compared to 9.8% in 2000. Customer revenue in the Technology segment declined 21% in the current period from pro forma revenue in the year-ago period.

Interest expense for the three months ended September 30, 2001 was \$16.5 million compared to \$18.5 million for the three months ended September 30, 2000.

Other income (expense), net, which can vary from quarter to quarter, was income of \$3.9 million in the current quarter compared to income of \$6.4 million in the year-ago quarter.

Income before income taxes was \$31.2 million in the third quarter of 2001 compared to \$65.0 million last year. The provision for income taxes was \$10.3 million in the current period (33% effective rate) compared to \$22.1 million in the year-ago period (34% effective rate). The decline in the effective tax rate was principally due to tax planning strategies.

For the nine months ended September 30, 2001, net income was \$102.3 million, or \$.32 per diluted share, compared to net income of \$185.9 million, or \$.59 per diluted share, last year. Both periods include an extraordinary item for the early extinguishment of debt: \$17.2 million, or \$.05 per share, for the nine months ended September 30, 2001, and \$19.8 million, or \$.06 per share, for the nine months ended September 30, 2000. Excluding these items, income in the current period was \$119.5 million, or \$.37 per share, compared to \$205.7 million, or \$.65 per share, in the year-ago period.

In September 2000, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This statement revises the accounting standards for securitizations and other transfers of financial assets and collateral and requires certain disclosures. This statement is effective for transfers and servicing of financial assets occurring after March 31, 2001. Adoption of SFAS No. 140 had no effect on the company's consolidated financial position, consolidated results of operations, or liquidity.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 and prohibits the use of the pooling-of-interests method. SFAS No. 141 also includes guidance on the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination that is completed after June 30, 2001. SFAS No. 142 no longer permits the amortization of goodwill and indefinite-lived intangible assets. Instead, these assets must be reviewed annually for impairment in accordance with this statement. The company is required to adopt SFAS No. 142 effective January 1, 2002. In anticipation of adoption, the company reclassified certain items in its financial statements and disclosed the amount of goodwill as a separate line item in its balance sheet. An initial impairment test must be performed in 2002 as of January 1, 2002. An impairment charge, if any, from this initial test will be reported as a change in accounting principle. The company is currently

assessing the impact that these statements will have on its consolidated financial position, consolidated results of operations or liquidity. However, the company anticipates that all amortization of goodwill as a charge to earnings (approximately \$17 million yearly) will be eliminated.

#### Financial Condition

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Cash and cash equivalents at September 30, 2001 were \$219.7 million compared to \$378.0 million at December 31, 2000.

During the nine months ended September 30, 2001, cash used for operations was \$64.7 million compared to a cash usage of \$72.7 million for the nine months ended September 30, 2000, principally reflecting an improvement in working capital management, mainly a higher level of advance payments under long-term contracts. Cash expenditures in the nine months ended September 30, 2001 related to prior-year restructuring charges (which are included in operating activities) were \$41 million compared to \$15 million for the prior-year period, and are expected to be approximately \$10 million for the remainder of 2001 and \$18 million in total for all subsequent years, principally for work-force reductions and facility costs. Personnel reductions in the nine months ended September 30, 2001 related to prior-year restructuring actions were approximately 678 and are expected to be approximately 211 for the remainder of the year.

Cash used for investing activities for the nine months ended September 30, 2001 was \$227.9 million compared to \$182.6 million during the nine months ended September 30, 2000 principally due to lower net proceeds from investments. The prior-year period included \$27.5 million for the termination of a euro swap in proceeds from investments.

Cash provided by financing activities during the first nine months of 2001 was \$130.7 million compared to cash provided of \$37.8 million in the prior year. The current period includes net proceeds from issuance of long-term debt of \$389.9 million and payments of long-term debt of \$354.3 million, as described below. Included in the prior period were payments of long-term debt of \$447.2 million and net proceeds of \$442.5 million from short-term borrowings.

At September 30, 2001, total debt was \$894.6 million, an increase of \$132.0 million from December 31, 2000.

In May and August 2001, the company issued \$350 million and \$50 million, respectively of 8 1/8% senior notes due 2006. In June 2001, the company completed a cash tender offer for \$319.2 million principal amount of its 11 3/4% senior notes due 2004. As a result of the tender, the company recorded an extraordinary after-tax charge of \$17.2 million, net of \$9.3 million tax benefit, or \$.05 per diluted share, in the second quarter of 2001 for the premium paid, unamortized debt-related expenses and transaction costs of the tender offer. On October 15, 2001, the company redeemed the remaining \$14.9 million outstanding 11 3/4% senior notes due 2004 at 103.917% of par.

In March 2001, the company entered into a new three-year \$450 million unsecured credit agreement, which replaced the \$400 million three-year facility that was to expire in June 2001. As of September 30, 2001, \$150.0 million was borrowed under this agreement at a rate of 4.6%. In addition, \$20.0 million was borrowed under unsecured U.S. credit lines at a rate of 3.1%.

In April 2000, the company redeemed all of its \$399.5 million outstanding 12% senior notes. The redemption was funded through a combination of cash and short-term borrowings. In March 2000, the company entered into an additional \$150 million credit agreement expiring April 2001 for the purpose of funding this redemption. On April 12, 2001, the then outstanding balance was repaid at maturity and the agreement expired.

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

The company has on file with the Securities and Exchange Commission an effective registration statement covering \$300 million of debt or equity securities, which enables the company to be prepared for future market opportunities.

At September 30, 2001, the company had deferred tax assets in excess of deferred tax liabilities of \$1,301 million. For the reasons cited below, management determined that it is more likely than not that \$992 million of such assets will be realized, therefore resulting in a valuation allowance of \$309 million.

The company evaluates quarterly the realizability of its deferred tax assets and adjusts the amount of the related valuation allowance, if necessary. The factors used to assess the likelihood of realization are the company's forecast of future taxable income, and available tax planning strategies that could be implemented to realize deferred tax assets. Approximately \$3.0 billion of future taxable income (predominantly U.S.) is needed to realize all of the net deferred tax assets. Failure to achieve forecasted taxable income might affect the ultimate realization of the net deferred tax assets. See "Factors that may affect future results" below.

Stockholders' equity increased \$80.3 million during the nine months ended September 30, 2001, principally reflecting net income of \$102.3 million, \$40.1 million for issuance of stock under stock option and other plans and \$4.1 million of tax benefits related to employee stock plans, offset in part by currency translation of \$66.3 million.

#### Conversion to the Euro Currency

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On January 1, 1999, certain member countries of the European Union established fixed conversion rates between their existing currencies and the European Union's common currency (the "euro"). The transition period for the introduction of the euro began on January 1, 1999. The company is addressing the issues involved with the introduction of the euro. The more important issues facing the company include converting information technology systems, reassessing currency risk, and negotiating and amending agreements.

Based on progress to date, the company believes that the use of the euro will not have a significant impact on the manner in which it conducts its business. Accordingly, conversion to the euro is not expected to have a material effect on the company's consolidated financial position, consolidated results of operations, or liquidity.

#### Factors That May Affect Future Results

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From time to time, the company provides information containing "forward-looking" statements, as defined in the Private Securities Litigation Reform Act of 1995. 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, acts of war, terrorism 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 succeed in the high-end information technology services segment; on its ability to effectively manage the shift in its technology business into higher growth, standards-based server products; on its ability to mitigate the effects of competitive pressures and volatility in the information technology and services industry on revenues, pricing and margins; and on its ability to successfully attract and retain highly skilled people. In addition, future operating results could be impacted by market demand for and acceptance of the company's service and product offerings.

A number of the company's contracts are long-term contracts for network services, outsourcing, help desk and similar services, for which volumes are not guaranteed. Future results will depend upon the company's ability to meet performance levels over the terms of these contracts.

Certain of the company's systems integration contracts are fixed-price contracts under which the company assumes the risk for delivery of the contracted services at an agreed-upon price. Future results will depend on the company's ability to profitably perform these services contracts and bid and obtain new contracts.

The company frequently enters into contracts with governmental entities. Associated risks and uncertainties include the availability of appropriated funds and contractual provisions allowing governmental entities to terminate agreements in their discretion before the end of their terms.

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

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

## Part II - OTHER INFORMATION

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## Item 1. Legal Proceedings

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The company has previously reported, most recently in its Quarterly Report on Form 10-Q for the period ended June 30, 2001, its involvement in a consolidated class action lawsuit captioned In re: Unisys Corporation Securities Litigation, filed in the U.S. District Court for the Eastern District of Pennsylvania. In the third quarter of 2001, the parties executed a settlement agreement, the terms of which would not have a material adverse effect on the company's consolidated financial position, consolidated results of operations or liquidity. The settlement is subject to approval of the court.

## Item 6. Exhibits and Reports on Form 8-K

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## (a) Exhibits

See Exhibit Index

## (b) Reports on Form 8-K

During the quarter ended September 30, 2001, the company filed a Current Report on Form 8-K, dated August 16, 2001, to report under items 5 and 7 of such Form.

SIGNATURES

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

UNISYS CORPORATION

Date: October 18, 2001

By: /s/ Janet M. Brutschea Haugen

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

## EXHIBIT INDEX

Exhibit  
Number

Description

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12	Statement of Computation of Ratio of Earnings to Fixed Charges



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

	Nine Months Ended Sept. 30, 2001	Years Ended December 31				
		2000	1999	1998	1997	1996
Fixed charges						
Interest expense	\$ 50.0	\$ 79.8	\$127.8	\$171.7	\$233.2	\$249.7
Interest capitalized during the period	8.5	11.4	3.6	-	-	-
Amortization of debt issuance expenses	2.1	3.2	4.1	4.6	6.7	6.3
Portion of rental expense representative of interest	31.7	42.2	46.3	49.1	51.8	59.8
<b>Total Fixed Charges</b>	<b>92.3</b>	<b>136.6</b>	<b>181.8</b>	<b>225.4</b>	<b>291.7</b>	<b>315.8</b>
Earnings						
Income (loss) from continuing operations before income taxes	178.5	379.0	770.3	594.2	(748.1)	80.2
Add (deduct) the following:						
Share of loss (income) of associated companies	(12.1)	(20.5)	8.9	(.3)	5.9	(4.9)
Amortization of capitalized interest	3.8	2.2	-	-	-	-
<b>Subtotal</b>	<b>170.2</b>	<b>360.7</b>	<b>779.2</b>	<b>593.9</b>	<b>(742.2)</b>	<b>75.3</b>
Fixed charges per above	92.3	136.6	181.8	225.4	291.7	315.8
Less interest capitalized during the period	(8.5)	(11.4)	(3.6)	-	-	-
<b>Total earnings (loss)</b>	<b>\$254.0</b>	<b>\$485.9</b>	<b>\$957.4</b>	<b>\$819.3</b>	<b>\$(450.5)</b>	<b>\$391.1</b>
Ratio of earnings to fixed charges	2.75	3.56	5.27	3.63	*	1.24

\* Earnings for the year ended December 31, 1997 were inadequate to cover fixed charges by approximately \$742.2 million.