UNISYS CORP
Form 10-Q
May 03, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2019
¨ 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 (State or other jurisdiction of incorporation or organization)	38-0387840 (I.R.S. Employer Identification No.)
801 Lakeview Drive, Suite 100 Blue Bell, Pennsylvania	19422
(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 ý NO ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES ý NO ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	ý
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ¨ NO ý

Number of shares of Common Stock outstanding as of March 31, 2019: 51,767,382.

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Part I - FINANCIAL INFORMATION
Item 1. Financial Statements

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

	Three Months Ended March 31,	
	2019	2018
Revenue		
Services	$612.1	$568.5
Technology	83.7	139.9
	695.8	708.4
Costs and expenses		
Cost of revenue:		
Services	511.9	470.9
Technology	34.0	36.3
	545.9	507.2
Selling, general and administrative	98.0	90.9
Research and development	9.0	8.5
	652.9	606.6
Operating income	42.9	101.8
Interest expense	15.5	16.6
Other income (expense), net	(30.4)	(22.6)
Income (loss) before income taxes	(3.0)	62.6
Provision for income taxes	13.8	20.9
Consolidated net income (loss)	(16.8)	41.7
Net income attributable to noncontrolling interests	2.6	1.1
Net income (loss) attributable to Unisys Corporation	$(19.4)	$40.6
Earnings (loss) per share attributable to Unisys Corporation		
Basic	$(0.38)	$0.80
Diluted	$(0.38)	$0.62

See notes to consolidated financial statements

UNISYS CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(Millions)

	Three Months Ended March 31,	
	2019	2018
Consolidated net income (loss)	$(16.8)	$41.7
Other comprehensive income:		
Foreign currency translation	(34.2)	(5.1)
Postretirement adjustments, net of tax of $(1.1) in 2019 and $1.0 in 2018	68.5	39.0
Total other comprehensive income	34.3	33.9
Comprehensive income	17.5	75.6
Less comprehensive income attributable to noncontrolling interests	0.5	2.3
Comprehensive income attributable to Unisys Corporation	$17.0	$73.3

See notes to consolidated financial statements

UNISYS CORPORATION
CONSOLIDATED BALANCE SHEETS (Unaudited)
(Millions)

	March 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$504.6	$ 605.0
Accounts receivable, net	522.7	509.2
Contract assets	30.3	29.7
Inventories:		
Parts and finished equipment	12.3	14.0
Work in process and materials	12.6	13.3
Prepaid expenses and other current assets	124.8	130.2
Total current assets	1,207.3	1,301.4
Properties	806.4	800.2
Less-Accumulated depreciation and amortization	683.8	678.9
Properties, net	122.6	121.3
Outsourcing assets, net	216.2	216.4
Marketable software, net	170.7	162.1
Operating lease right-of-use assets	115.5	—
Prepaid postretirement assets	151.4	147.6
Deferred income taxes	111.0	109.3
Goodwill	177.6	177.8
Restricted cash	12.2	19.1
Other long-term assets	200.0	202.6
Total assets	$2,484.5	$ 2,457.6
Liabilities and deficit		
Current liabilities:		
Current maturities of long-term debt	$7.3	$ 10.0
Accounts payable	213.8	268.9
Deferred revenue	292.2	294.4
Other accrued liabilities	348.6	350.0
Total current liabilities	861.9	923.3
Long-term debt	667.1	642.8
Long-term postretirement liabilities	1,927.2	1,956.5
Long-term deferred revenue	158.1	157.2
Long-term operating lease liabilities	97.2	—
Other long-term liabilities	55.5	77.4
Commitments and contingencies		
Deficit:		
Common stock, shares issued:		
2019; 55.3, 2018; 54.2	0.6	0.5
Accumulated deficit	(1,713.4)	(1,694.0)
Treasury stock, shares at cost:		
2019; 3.5, 2018; 3.1	(109.4)	(105.0)
Paid-in capital	4,543.7	4,539.8
Accumulated other comprehensive loss	(4,048.4)	(4,084.8)

Total Unisys stockholders' deficit	(1,326.9)	(1,343.5)
Noncontrolling interests	44.4	43.9
Total deficit	(1,282.5)	(1,299.6)
Total liabilities and deficit	$2,484.5	$ 2,457.6

See notes to consolidated financial statements

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

	Three Months Ended March 31, 2019	2018
Cash flows from operating activities		
Consolidated net income (loss)	$(16.8)	$41.7
Adjustments to reconcile consolidated net income (loss) to net cash used for operating activities:		
Foreign currency transaction losses	4.8	3.3
Non-cash interest expense	2.7	2.6
Employee stock compensation	4.7	4.0
Depreciation and amortization of properties	9.2	11.2
Depreciation and amortization of outsourcing assets	15.8	16.1
Amortization of marketable software	9.5	14.7
Other non-cash operating activities	(0.6)	(0.9)
Loss on disposal of capital assets	1.2	0.2
Postretirement contributions	(23.1)	(30.9)
Postretirement expense	23.5	19.3
(Increase) decrease in deferred income taxes, net	(3.1)	6.0
Changes in operating assets and liabilities:		
Receivables, net	5.5	(28.0)
Inventories	2.6	0.8
Accounts payable and other accrued liabilities	(121.0)	(130.1)
Other liabilities	14.8	21.2
Other assets	(0.1)	(1.4)
Net cash used for operating activities	(70.4)	(50.2)
Cash flows from investing activities		
Proceeds from investments	893.9	1,222.7
Purchases of investments	(887.2)	(1,208.7)
Investment in marketable software	(18.0)	(19.0)
Capital additions of properties	(10.7)	(5.1)
Capital additions of outsourcing assets	(29.4)	(24.4)
Net proceeds from sale of properties	(0.1)	—
Other	(0.4)	(0.4)
Net cash used for investing activities	(51.9)	(34.9)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	27.7	—
Payments of long-term debt	(8.7)	(0.7)
Other	(4.4)	(2.1)
Net cash provided by (used for) financing activities	14.6	(2.8)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	0.4	6.8
Decrease in cash, cash equivalents and restricted cash	(107.3)	(81.1)
Cash, cash equivalents and restricted cash, beginning of period	624.1	764.1
Cash, cash equivalents and restricted cash, end of period	$516.8	$683.0

See notes to consolidated financial statements

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UNISYS CORPORATION
CONSOLIDATED STATEMENTS OF DEFICIT (Unaudited)
(Millions)

		Unisys Corporation						
	Total	Total Unisys Corporation	Common Stock Par Value	Accumu-lated Deficit	Treasury Stock At Cost	Paid-in Capital	Accumu-lated Other Compre-hensive Loss	Non-controlling Interests
Balance at January 1, 2019	$(1,299.6)	$(1,343.5)	$ 0.5	$(1,694.0)	$(105.0)	$4,539.8	$(4,084.8)	$ 43.9
Consolidated net income (loss)	(16.8)	(19.4)		(19.4)				2.6
Stock-based activity	(0.4)	(0.4)	0.1		(4.4)	3.9		
Translation adjustments	(34.2)	(32.8)					(32.8)	(1.4)
Postretirement plans	68.5	69.2					69.2	(0.7)
Balance at March 31, 2019	$(1,282.5)	$(1,326.9)	$ 0.6	$(1,713.4)	$(109.4)	$4,543.7	$(4,048.4)	$ 44.4

		Unisys Corporation						
	Total	Total Unisys Corporation	Common Stock Par Value	Accumu-lated Deficit	Treasury Stock At Cost	Paid-in Capital	Accumu-lated Other Compre-hensive Loss	Non-controlling Interests
Balance at January 1, 2018	$(1,326.5)	$(1,354.7)	$ 0.5	$(1,963.1)	$(102.7)	$4,526.4	$(3,815.8)	$ 28.2
Cumulative effect adjustment - ASU No. 2014-09	(21.4)	(21.4)		(21.4)				
Consolidated net income	41.7	40.6		40.6				1.1
Stock-based activity	1.5	1.5			(2.1)	3.6		
Translation adjustments	(5.1)	(5.9)					(5.9)	0.8
Postretirement plans	39.0	38.6					38.6	0.4
Balance at March 31, 2018	$(1,270.8)	$(1,301.3)	$ 0.5	$(1,943.9)	$(104.8)	$4,530.0	$(3,783.1)	$ 30.5

See notes to consolidated financial statements

UNISYS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
(Dollars in millions, except share and per share amounts)

Note 1 - Basis of Presentation

The accompanying consolidated financial statements and footnotes of Unisys Corporation have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP). The financial statements and footnotes are unaudited. In the opinion of management, the financial information furnished herein reflects all adjustments necessary for a fair presentation of the results of operations, comprehensive income, financial position, cash flows and deficit for the interim periods specified. These adjustments consist only of normal recurring accruals except as disclosed herein. Because of seasonal and other factors, results for interim periods are not necessarily indicative of the results to be expected for the full year.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions about future events. These estimates and assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities and the reported amounts of revenue and expenses. Such estimates include the valuation of accounts receivable, contract assets, inventories, operating lease right-of-use assets, outsourcing assets, marketable software, goodwill and other long-lived assets, legal contingencies, indemnifications, assumptions used in the calculation for systems integration projects, income taxes and retirement and other post-employment benefits, among others. These estimates and assumptions are based on management’s best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Management adjusts such estimates and assumptions when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

The company’s accounting policies are set forth in detail in Note 1 of the Notes to Consolidated Financial Statements in the company’s Annual Report on Form 10-K for the year ended December 31, 2018 (2018 Form 10-K) filed with the Securities and Exchange Commission. Such Annual Report also contains a discussion of the company’s critical accounting policies and estimates. The company believes that these critical accounting policies and estimates affect its more significant estimates and judgments used in the preparation of the company’s consolidated financial statements.

As described in Note 3, effective January 1, 2019 the company adopted the requirements of Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842) using the effective date transition method. The company’s updated accounting policy on leases is described in Note 2 of this Form 10-Q.

Note 2 - Summary of Significant Accounting Policies

Leases

The company determines if an arrangement is a lease at inception. This determination generally depends on whether the arrangement conveys to the company the right to control the use of an explicitly or implicitly identified asset for a period of time in exchange for consideration. Control of an underlying asset is conveyed to the company if the company obtains the rights to direct the use of and to obtain substantially all of the economic benefits from using the underlying asset. The company has lease agreements that include lease and non-lease components, which the company accounts for as a single lease component for all personal property leases. Lease expense for variable leases and short-term leases is recognized when the expense is incurred.

Operating leases are included in operating lease right-of-use (ROU) assets, other accrued liabilities and long-term operating lease liabilities on the consolidated balance sheets. Operating lease ROU assets and lease liabilities are recognized at the commencement date of the lease based on the present value of lease payments over the lease term. Operating lease payments are recognized as lease expense on a straight-line basis over the lease term.

Finance leases are included in outsourcing assets, net and long-term debt on the consolidated balance sheets. Finance lease ROU assets and lease liabilities are initially measured in the same manner as operating leases. Finance lease ROU assets are amortized using the straight-line method. Finance lease liabilities are measured at amortized cost using the effective interest method.

The company has not capitalized leases with terms of twelve months or less.

As most of the company's leases do not provide an implicit rate, the company uses its incremental borrowing rate, based on the information available at the lease commencement date, in determining the present value of lease payments.

The lease term for all of the company's leases includes the non-cancelable period of the lease plus any additional periods covered by either a company option to extend (or not to terminate) the lease that the company is reasonably certain to exercise, or an option to extend (or not to terminate) the lease controlled by the lessor.

Lease payments included in the measurement of the lease liability are comprised of fixed payments, variable payments that depend on index or rate, amounts expected to be payable under a residual value guarantee and the exercise of the company option to purchase the underlying asset, if reasonably certain.

Variable lease payments associated with the company's leases are recognized when the event, activity, or circumstance in the lease agreement on which those payments are assessed occurs. Variable lease payments are presented as an operating expense in the company's consolidated results of operations in the same line item as expense arising from fixed lease payments (operating leases) or amortization of the ROU asset (finance leases).

The company uses the long-lived assets impairment guidance in ASC Subtopic 360-10 Property, Plant, and Equipment to determine whether an ROU asset is impaired, and if so, the amount of the impairment loss to recognize. If impaired, ROU assets for operating and finance leases are reduced for any impairment losses.

The company monitors for events or changes in circumstances that require a reassessment of its leases. When a reassessment results in the remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the corresponding ROU asset unless doing so would reduce the carrying amount of the ROU asset to an amount less than zero. In that case, the amount of the adjustment that would result in a negative ROU asset balance is recorded in the consolidated statement of income.

The company has commitments under operating leases for certain facilities and equipment used in its operations. The company also has finance leases for equipment. The company's leases generally have initial lease terms ranging from 1 year to 8 years, most of which include options to extend or renew the leases for up to 5 years, and some of which may include options to terminate the leases within 1 year. Certain lease agreements contain provisions for future rent increases.

The components of lease expense for the three months ended March 31, 2019 are as follows:

	Three Months Ended March 31, 2019
Operating lease cost	$ 14.8
Finance lease cost	
Amortization of right-of-use assets	0.4
Interest on lease liabilities	—
Total finance lease cost	0.4
Short-term lease costs	0.1
Variable lease cost	3.9
Sublease income	(0.5)
Total lease cost	$ 18.7

Supplemental balance sheet information related to leases is as follows:

	March 31, 2019	
Operating Leases		
Operating lease right-of-use assets	$ 115.5	
Other accrued liabilities	45.9	
Long-term operating lease liabilities	97.2	
Total operating lease liabilities	$ 143.1	
Finance Leases		
Outsourcing assets, net	$ 4.7	
Current maturities of long-term debt	$ 1.6	
Long-term debt	3.8	
Total finance lease liabilities	$ 5.4	
Weighted-Average Remaining Lease Term		
Operating leases	3.9	
Finance leases	3.3	
Weighted-Average Discount Rate		
Operating leases	6.3	%
Finance leases	2.5	%

Supplemental cash flow information related to leases is as follows:

	Three Months Ended March 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Cash payments for operating leases included in operating activities	$ 13.4
Cash payments for finance leases included in financing activities	0.5

Right-of-use assets obtained in exchange for lease obligations are as follows:

	Three Months Ended March 31, 2019
Operating leases	$ 6.7
Finance leases	—

Maturities of lease liabilities as of March 31, 2019 are as follows:

Year	Finance Leases	Operating Leases
2019	$ 1.4	$ 40.4
2020	1.6	47.0
2021	1.6	28.9
2022	1.0	17.8
2023	—	20.7
Thereafter	—	6.6
Total lease payments	5.6	161.4
Less imputed interest	0.2	18.3
Total	$ 5.4	$ 143.1

Maturities of lease liabilities as of December 31, 2018, prior to the adoption of ASU No. 2016-02 as described in Note 3, "Accounting Standards," are as follows:

Year	Finance Leases	Operating Leases[i]
2019	$ 1.6	$ 48.5
2020	1.6	42.1
2021	1.6	30.0
2022	1.0	20.8
2023	—	14.3
Thereafter	—	24.4
Total	$ 5.8	$ 180.1

[i]Such rental commitments have been reduced by minimum sublease rentals of $2.7 million, due in the future under noncancelable leases.

For transactions where the company is considered the lessor, revenue for operating leases is recognized on a monthly basis over the term of the lease and for sales-type leases at the inception of the lease term. These amounts were immaterial for the three months ended March 31, 2019.

As of March 31, 2019, receivables under sales-type leases before the allowance for unearned income were collectible as follows:

Year	
2019	$21.2
2020	15.2
2021	10.7
2022	10.1
2023	10.2
Thereafter	8.6
Total	$76.0

Marketable software

The cost of development of computer software to be sold or leased, incurred subsequent to establishment of technological feasibility, is capitalized and amortized to cost of sales over the estimated revenue-producing lives of the products. In assessing the estimated revenue-producing lives and recoverability of the products, the company considers operating strategies, underlying technologies utilized, estimated economic life and external market factors, such as expected levels of competition, barriers to entry by potential competitors, stability in the market and governmental regulation. The company continually

reassesses the estimated revenue-producing lives of the products and any change in the company's estimate could result in the remaining amortization expense being accelerated or spread out over a longer period.

Previously, the estimated revenue-producing lives of the company's proprietary enterprise software was three years. Due to the maturity of the company's proprietary enterprise software product, the company increased the time between its major releases as its product has a longer useful life. In addition, the company modified its commitment to provide post-contract support from an average of three years to five years following each new proprietary enterprise software release. In the first quarter of 2019, the company validated that the revised extended timeline between major product releases and the revised post-contract support period has achieved market acceptance. The company's historical experience is that its significant customers typically renew the software on average every five years. As a result, the company adjusted the remaining useful life of its proprietary enterprise software product, which represents approximately 64% of the company's marketable software, to five years. This change in estimate was applied prospectively effective January 1, 2019. The adjustment resulted in a $4.4 million decrease to cost of revenue in the three months ended March 31, 2019, and accordingly decreased consolidated net loss by $4.4 million or $0.08 per diluted loss per share. The useful lives of the remaining products classified as marketable software remain at three years, which is consistent with prior years. As of March 31, 2019, $90.1 million of marketable software was in process and the remaining $80.6 million has a weighted-average remaining life of 3.03 years. The company performs quarterly reviews to ensure that unamortized costs remain recoverable from future revenue. As of March 31, 2019, the company believes that all unamortized costs are fully recoverable.

Note 3 - Accounting Standards

Accounting Pronouncements Adopted

Effective January 1, 2019, the company adopted ASU No. 2016-02 Leases (Topic 842) issued by the Financial Accounting Standards Board (FASB) which is intended to improve financial reporting about leasing transactions. The ASU requires organizations that lease assets, referred to as lessees, to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The standard also requires disclosures to help investors and other financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. The company adopted the new standard using the effective date transition method by applying a cumulative-effect adjustment to the balance sheet through the addition of ROU assets and lease liabilities at January 1, 2019. Prior-period results were not restated.

The company applied certain practical expedients, including the package of practical expedients, permitted under the transition guidance within Topic 842 to leases that commenced before January 1, 2019. The election of the package of practical expedients resulted in the company not reassessing prior conclusions under FASB Topic 840 Leases related to lease identification, lease classification and initial direct costs for existing leases at January 1, 2019.

The adoption had a material impact on the consolidated financial position and did not have a material impact on the consolidated results of operations or cash flows as of and for the three months ended March 31, 2019. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases, while the company's accounting for finance leases remained substantially unchanged.

Accounting Pronouncements Not Yet Adopted

In August 2018, the FASB issued ASU No. 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract which clarifies the accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. This update is effective for fiscal years ending after December 15, 2019, with earlier adoption permitted, including adoption in any interim period. The new guidance can be applied retrospectively or prospectively to all implementation costs incurred after the date of adoption. The company is currently assessing when it will choose to adopt, and is currently evaluating the impact of the adoption on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments which introduces a new model for recognizing credit losses on financial instruments based on an estimate of current expected losses. This includes trade and other receivables, loans and other financial instruments. This update is effective for annual periods beginning after December 15, 2019, with earlier adoption permitted. The company will adopt the new guidance on January 1, 2020 through a cumulative-effect adjustment to retained earnings. The company is currently evaluating the impact of the adoption on its consolidated financial statements.

Note 4 - Cost-Reduction Actions

During the three months ended March 31, 2019, the company recognized cost-reduction charges and other costs of $2.6 million. Charges were comprised of $3.5 million for lease abandonment and asset write-offs and $(0.9) million for changes in estimates principally related to work-force reductions. The charges were recorded in the following statement of income classifications: cost of revenue – services, $(3.7) million; selling, general and administrative expenses, $5.0 million; and research and development expenses, $1.3 million.

No provisions for cost-reduction actions were recorded during the three months ended March 31, 2018; however, a benefit of $2.9 million was recorded in the prior period for changes in estimates. The benefit was recorded in the following statement of income classifications: cost of revenue - services, $(3.0) million and selling, general and administrative expenses, $0.1 million.

Liabilities and expected future payments related to the company's work-force reduction actions are as follows:

	Total	U.S.	International
Balance at December 31, 2018	$86.2	$6.1	$ 80.1
Payments	(13.9)	(0.5)	(13.4)
Changes in estimates	(1.0)	(0.8)	(0.2)
Translation adjustments	(0.2)	—	(0.2)
Balance at March 31, 2019	$71.1	$4.8	$ 66.3
Expected future utilization on balance at March 31, 2019:			
2019 remaining nine months	$59.8	$4.8	$ 55.0
Beyond 2019	$11.3	$—	$ 11.3

Note 5 - Pension and Postretirement Benefits

Net periodic pension expense for the three months ended March 31, 2019 and 2018 is presented below:

	Three Months Ended March 31, 2019			Three Months Ended March 31, 2018		
	Total	U.S. Plans	International Plans	Total	U.S. Plans	International Plans
Service cost[(i)]	$0.7	$—	$ 0.7	$0.8	$—	$ 0.8
Interest cost	66.7	49.2	17.5	64.0	46.6	17.4
Expected return on plan assets	(81.2)	(54.5)	(26.7)	(87.2)	(57.6)	(29.6)
Amortization of prior service benefit	(1.2)	(0.6)	(0.6)	(1.5)	(0.6)	(0.9)
Recognized net actuarial loss	37.6	28.9	8.7	42.1	31.2	10.9
Net periodic pension expense (benefit)	$22.6	$23.0	$ (0.4)	$18.2	$19.6	$ (1.4)

[(i)]Service cost is reported in selling, general and administrative expense. All other components of net periodic pension expense are reported in other income (expense), net in the consolidated statements of income.

In 2019, the company expects to make cash contributions of approximately $105.0 million to its worldwide defined benefit pension plans, which are comprised of $67.2 million for the company's U.S. qualified defined benefit pension plans and $37.8 million primarily for the company's international defined benefit pension plans. In 2018, the company made cash contributions of $129.7 million to its worldwide defined benefit pension plans. For the three months ended March 31, 2019 and 2018, the company made cash contributions of $21.2 million and $27.4 million, respectively.

Net periodic postretirement benefit expense for the three months ended March 31, 2019 and 2018 is presented below:

	Three Months Ended March 31,	
	2019	2018
Service cost[(i)]	$0.1	$0.2
Interest cost	1.2	1.2
Expected return on assets	(0.1)	(0.1)
Recognized net actuarial loss	0.1	0.3
Amortization of prior service benefit	(0.4)	(0.5)
Net periodic postretirement benefit expense	$0.9	$1.1

[(i)]Service cost is reported in selling, general and administrative expense. All other components of net periodic postretirement benefit expense are reported in other income (expense), net in the consolidated statements of income.

The company expects to make cash contributions of approximately $8.0 million to its postretirement benefit plans in 2019 compared to $9.0 million in 2018. For the three months ended March 31, 2019 and 2018, the company made cash contributions of $1.9 million and $3.5 million, respectively.

Note 6 - Stock Compensation

Under stockholder approved stock-based plans, stock options, stock appreciation rights, restricted stock and restricted stock units may be granted to officers, directors and other key employees. At March 31, 2019, 1.6 million shares of unissued common stock of the company were available for granting under these plans.

As of March 31, 2019, the company has granted non-qualified stock options and restricted stock units under these plans. The company recognizes compensation cost, net of a forfeiture rate, in selling, general and administrative expense, and recognizes compensation cost only for those awards expected to vest. The company estimates the forfeiture rate based on its historical experience and its expectations about future forfeitures.

During the three months ended March 31, 2019 and 2018, the company recorded $4.7 million and $4.0 million of share-based compensation expense, respectively, which was comprised of $4.7 million and $3.9 million of restricted stock unit expense and zero and $0.1 million of stock option expense, respectively.

There were no grants of stock option awards during the three months ended March 31, 2019 and 2018. As of March 31, 2019, 554,407 stock option awards with a weighted-average exercise price of $23.49 are outstanding.

Restricted stock unit awards may contain time-based units, performance-based units, total shareholder return market-based units, or a combination of these units. Each performance-based and market-based unit will vest into zero to two shares depending on the degree to which the performance or market conditions are met. Compensation expense for performance-based awards is recognized as expense ratably for each installment from the date of grant until the date the restrictions lapse, and is based on the fair market value at the date of grant and the probability of achievement of the specific performance-related goals. Compensation expense for market-related awards is recognized as expense ratably over the measurement period, regardless of the actual level of achievement, provided the service requirement is met. Time-based restricted stock unit grants for the company’s directors vest upon award and compensation expense for such awards is recognized upon grant.

A summary of restricted stock unit activity for the three months ended March 31, 2019 follows (shares in thousands):

	Restricted Stock Units	Weighted-Average Grant-Date Fair Value
Outstanding at December 31, 2018	2,151	$ 12.90
Granted	1,296	15.04
Vested	(1,074)	13.23
Forfeited and expired	(30)	13.47
Outstanding at March 31, 2019	2,343	14.11

The aggregate weighted-average grant-date fair value of restricted stock units granted during the three months ended March 31, 2019 and 2018 was $16.5 million and $17.3 million, respectively. The fair value of restricted stock units with time and performance conditions was determined based on the trading price of the company's common shares on the date of grant. The fair value of awards with market conditions was estimated using a Monte Carlo simulation with the following weighted-average assumptions:

	Three Months Ended March 31,	
	2019	2018
Weighted-average fair value of grant	$16.58	$15.20
Risk-free interest rate[(i)]	2.49 %	2.26 %
Expected volatility[(ii)]	47.91 %	52.97 %
Expected life of restricted stock units in years[(iii)]	2.87	2.88
Expected dividend yield	— %	— %

[(i)]Represents the continuously compounded semi-annual zero-coupon U.S. treasury rate commensurate with the remaining performance period

[(ii)]Based on historical volatility for the company that is commensurate with the length of the performance period

[(iii)]Represents the remaining life of the longest performance period

As of March 31, 2019, there was $23.9 million of total unrecognized compensation cost related to outstanding restricted stock units granted under the company's plans. That cost is expected to be recognized over a weighted-average period of 2.4 years. The aggregate weighted-average grant-date fair value of restricted stock units vested during the three months ended March 31, 2019 and 2018 was $14.2 million and $9.1 million, respectively.

Common stock issued upon exercise of stock options or upon lapse of restrictions on restricted stock units are newly issued shares. In light of its tax position, the company is currently not recognizing any tax benefits from the exercise of stock options or upon issuance of stock upon lapse of restrictions on restricted stock units.

Note 7 - Income Taxes

Accounting rules governing income taxes require that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. These rules also require that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or the entire deferred tax asset will not be realized.

The company evaluates the realizability of its 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 historical profitability, forecast of future taxable income and available tax-planning strategies that could be implemented to realize the net deferred tax assets. The company uses tax-planning strategies to realize or renew net deferred tax assets to avoid the potential loss of future tax benefits.

A full valuation allowance is currently maintained for all U.S. and certain foreign deferred tax assets in excess of deferred tax liabilities. The company will record a tax provision or benefit for those international subsidiaries that do not have a full valuation allowance against their net deferred tax assets. Any profit or loss recorded for the company's U.S. operations will have no provision or benefit associated with it due to such valuation allowance, except with respect to withholding taxes not creditable against future taxable income. As a result, the company's provision or benefit for taxes may vary significantly depending on the geographic distribution of income.

Note 8 — Earnings Per Share

The following table shows how earnings (loss) per share attributable to Unisys Corporation was computed for the three months ended March 31, 2019 and 2018 (shares in thousands):

	Three Months Ended March 31, 2019	2018
Basic earnings (loss) per common share computation:		
Net income (loss) attributable to Unisys Corporation	$(19.4)	$ 40.6
Weighted average shares	51,418	50,748
Basic earnings (loss) per common share	$(0.38)	$ 0.80
Diluted earnings (loss) per common share computation:		
Net income (loss) attributable to Unisys Corporation	$(19.4)	$ 40.6
Add interest expense on convertible senior notes, net of tax of zero	—	4.8
Net income (loss) attributable to Unisys Corporation for diluted earnings per share	$(19.4)	$ 45.4
Weighted average shares	51,418	50,748
Plus incremental shares from assumed conversions:		
Employee stock plans	—	327
Convertible senior notes	—	21,868
Adjusted weighted average shares	51,418	72,943
Diluted earnings (loss) per common share	$(0.38)	$ 0.62
Anti-dilutive weighted-average stock options and restricted stock units(i)	1,401	2,044
Anti-dilutive weighted-average common shares issuable upon conversion of the 5.50% convertible senior notes(i)	21,868	—

(i)Amounts represent shares excluded from the computation of diluted earnings per share, as their effect, if included, would have been anti-dilutive for the periods presented.

Note 9 - Contract Assets and Contract Liabilities

Contract assets represent rights to consideration in exchange for goods or services transferred to a customer when that right is conditional on something other than the passage of time. Contract liabilities represent deferred revenue.

Net contract assets (liabilities) as of March 31, 2019 and December 31, 2018 are as follows:

	March 31, 2019	December 31, 2018
Contract assets - current	$ 30.3	$ 29.7
Contract assets - long-term(i)	21.9	22.2
Deferred revenue - current	(292.2)	(294.4)
Deferred revenue - long-term	(158.1)	(157.2)

(i)Reported in other long-term assets on the company's consolidated balance sheets

As of March 31, 2019 and December 31, 2018, deposit liabilities of $16.5 million and $21.2 million, respectively, were principally included in current deferred revenue. These deposit liabilities represent upfront consideration received from customers for services such as post-contract support and maintenance that allow the customer to terminate the contract at any time for convenience.

Significant changes during the three months ended March 31, 2019 and 2018 in the above contract asset and liability balances were as follows: revenue of $104.9 million and $104.6 million was recognized that was included in deferred revenue at December 31, 2018 and 2017, respectively.

Note 10 - Capitalized Contract Costs

The company’s incremental direct costs of obtaining a contract consist of sales commissions which are deferred and amortized ratably over the initial contract life. These costs are classified as current or noncurrent based on the timing of when the company expects to recognize the expense. The current and noncurrent portions of deferred commissions are included in prepaid expenses and other current assets and in other long-term assets, respectively, in the company’s consolidated balance sheets. At March 31, 2019 and December 31, 2018, the company had $12.2 million and $12.1 million, respectively, of deferred commissions. For the three months ended March 31, 2019 and 2018, $1.0 million and $1.7 million, respectively, of amortization expense related to deferred commissions was recorded in selling, general and administrative expense in the company’s consolidated statements of income.

Costs on outsourcing contracts are generally expensed as incurred. However, certain costs incurred upon initiation of an outsourcing contract (costs to fulfill a contract), principally initial customer setup, are capitalized and expensed over the initial contract life. These costs are included in outsourcing assets, net in the company’s consolidated balance sheets. The amount of such cost at March 31, 2019 and December 31, 2018 was $79.3 million and $79.5 million, respectively. These costs are amortized over the initial contract life and reported in Services cost of sales. During the three months ended March 31, 2019 and 2018, $6.2 million and $3.6 million, respectively, was amortized. The remaining balance of outsourcing assets, net is comprised of fixed assets and software used in connection with outsourcing contracts. These costs are capitalized and depreciated over the shorter of the initial contract life or in accordance with the company’s fixed asset policy.

Note 11 - Financial Instruments and Fair Value Measurements

Due to its foreign operations, the company is exposed to the effects of foreign currency exchange rate fluctuations on the U.S. dollar, principally related to intercompany account balances. The company uses derivative financial instruments to reduce its exposure to market risks from changes in foreign currency exchange rates on such balances. The company enters into foreign exchange forward contracts, generally having maturities of three months or less, which have not been designated as hedging instruments. At March 31, 2019 and December 31, 2018, the notional amount of these contracts was $385.4 million and $384.7 million, respectively. The fair value of these forward contracts is based on quoted prices for similar but not identical financial instruments; as such, the inputs are considered Level 2 inputs.

The following table summarizes the fair value of the company’s foreign exchange forward contracts as of March 31, 2019 and December 31, 2018.

	March 31, 2019	December 31, 2018
Balance Sheet Location		
Prepaid expenses and other current assets	$ 0.3	$ 3.4
Other accrued liabilities	3.9	0.3
Total fair value	$ (3.6)	$ 3.1

The following table summarizes the location and amount of gains and losses recognized on foreign exchange forward contracts for the three months ended March 31, 2019 and 2018.

	Three months ended March 31, 2019	2018
Statement of Income Location		
Other income (expense), net	$0.1	$10.7

Financial assets with carrying values approximating fair value include cash and cash equivalents and accounts receivable. Financial liabilities with carrying values approximating fair value include accounts payable and other liabilities. The carrying amounts of these financial assets and liabilities approximate fair value due to their short maturities. Such financial instruments are not included in the following table that provides information about the estimated fair values of other financial instruments that are not measured at fair value in the consolidated balance sheets as of March 31, 2019 and December 31, 2018.

	March 31, 2019		December 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt:				
10.75% senior secured notes due 2022	$432.6	$487.6	$432.0	$486.8
5.50% convertible senior notes due 2021	$196.2	$299.3	$194.2	$298.5

Long-term debt is carried at amortized cost and its estimated fair value is based on market prices classified as Level 2 in the fair value hierarchy.

Note 12 - Goodwill

At March 31, 2019, the amount of goodwill allocated to reporting units with negative net assets was as follows: Business Process Outsourcing Services, $10.3 million.

Changes in the carrying amount of goodwill by segment for the three months ended March 31, 2019 were as follows:

	Total	Services	Technology
Balance at December 31, 2018	$177.8	$ 69.1	$ 108.7
Translation adjustments	(0.2)	(0.2)	—
Balance at March 31, 2019	$177.6	$ 68.9	$ 108.7

Note 13 - Debt

Long-term debt is comprised of the following:

	March 31, 2019	December 31, 2018
10.75% senior secured notes due April 15, 2022 ($440.0 million face value less unamortized discount and fees of $7.4 million and $8.0 million at March 31, 2019 and December 31, 2018, respectively)	$ 432.6	$ 432.0
5.50% convertible senior notes due March 1, 2021 ($213.5 million face value less unamortized discount and fees of $17.3 million and $19.3 million at March 31, 2019 and December 31, 2018, respectively)	196.2	194.2
Finance leases	5.4	5.8
Other debt	40.2	20.8
Total	674.4	652.8
Less – current maturities	7.3	10.0
Total long-term debt	$ 667.1	$ 642.8