TIME WARNER INC.
Form 10-Q
November 07, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

for the quarterly period ended September 30, 2012 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 001-15062

TIME WARNER INC.

(Exact name of Registrant as specified in its charter)

Delaware	**13-4099534**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

One Time Warner Center

New York, NY 10019-8016

(Address of Principal Executive Offices) (Zip Code)

(212) 484-8000

(Registrant s Telephone Number, Including Area Code)

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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Description of Class	Shares Outstanding as of October 30, 2012
Common Stock $.01 par value	946,857,537

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OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

INTRODUCTION

Management s discussion and analysis of results of operations and financial condition (MD&A) is a supplement to the accompanying consolidated financial statements and provides additional information on Time Warner Inc. s (Time Warner or the Company) businesses, current developments, financial condition, cash flows and results of operations. MD&A is organized as follows:

Overview. This section provides a general description of Time Warner s business segments, as well as recent developments the Company believes are important in understanding the results of operations and financial condition or in understanding anticipated future trends.

Results of operations. This section provides an analysis of the Company s results of operations for the three and nine months ended September 30, 2012. This analysis is presented on both a consolidated and a business segment basis. In addition, a brief description of transactions and other items that affect the comparability of the results being analyzed is included.

Financial condition and liquidity. This section provides an analysis of the Company s financial condition as of September 30, 2012 and cash flows for the nine months ended September 30, 2012.

Caution concerning forward-looking statements. This section provides a description of the use of forward-looking information appearing in this report, including in MD&A and the consolidated financial statements.

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OVERVIEW

Time Warner is a leading media and entertainment company whose major businesses encompass an array of the most respected and successful media brands. Among the Company s brands are TNT, TBS, CNN, HBO, Cinemax, Warner Bros., New Line Cinema, *People*, *Sports Illustrated* and *Time*. During the nine months ended September 30, 2012, the Company generated Revenues of $20.565 billion (down 1% from $20.781 billion in 2011), Operating Income of $3.891 billion (down 6% from $4.132 billion in 2011), Net Income attributable to Time Warner shareholders of $1.851 billion (down 12% from $2.113 billion in 2011) and Cash provided by operations from continuing operations of $2.297 billion (up 7% from $2.146 billion in 2011).

Time Warner Businesses

Time Warner classifies its operations into three reportable segments: Networks, Film and TV Entertainment and Publishing. For additional information regarding Time Warner s segments, refer to Note 13, Segment Information to the accompanying consolidated financial statements. Effective for the first quarter of 2012, the Company changed the name of its Filmed Entertainment reportable segment to Film and TV Entertainment. This change did not affect the composition of the segment; accordingly, all prior period financial information related to this reportable segment was unaffected.

Networks. Time Warner s Networks segment consists of Turner Broadcasting System, Inc. (Turner) and Home Box Office, Inc. (Home Box Office). During the nine months ended September 30, 2012, the Networks segment recorded Revenues of $10.539 billion (51% of the Company s total Revenues) and $3.341 billion in Operating Income.

Turner operates domestic and international networks, including such recognized brands as TNT, TBS, truTV, CNN and Cartoon Network, which are among the leaders in advertising-supported television networks. The Turner networks generate revenues principally from providing programming to affiliates that have contracted to receive and distribute this programming and from the sale of advertising. Turner also provides online and mobile offerings for on-demand viewing of programs on its networks and live streaming of CNN, HLN and Cartoon Network to authenticated subscribers. Turner also operates various websites, including *CNN.com*, *NCAA.com*, *NASCAR.com* and *CartoonNetwork.com*, that generate revenues principally from the sale of advertising and sponsorships.

Home Box Office operates the HBO and Cinemax domestic multi-channel premium pay television services, with the HBO service ranking as the most widely distributed domestic multi-channel premium pay television service. HBO- and Cinemax-branded premium pay and basic tier television services are distributed in more than 60 countries in Latin America, Asia and Europe. HBO and Cinemax domestic pay television subscribers have access to the authenticated HBO GO and MAX GO streaming services, respectively, on various online and mobile platforms, and an authenticated HBO GO streaming service is available to international premium pay television subscribers of HBO in a number of countries. Home Box Office generates revenues principally from providing programming to affiliates that have contracted to receive and distribute such programming to their customers who subscribe to the HBO or Cinemax services. An additional source of revenues for Home Box Office is the licensing of its original programming, including *Game of Thrones*, *True Blood* and *Boardwalk Empire*.

During the nine months ended September 30, 2012, Turner shut down its general entertainment network, Imagine, in India and its TNT television operations in Turkey (collectively, the Imagine and TNT Turkey Shutdowns) as a result of the failure to meet performance and growth objectives. For the nine months ended September 30, 2012, the Company recognized $215 million of charges related to the Imagine and TNT Turkey Shutdowns, inclusive of a $6 million reduction of certain charges recorded during the three months ended September 30, 2012. These shutdowns will allow the Company to redirect its resources toward opportunities with stronger growth prospects. See Transactions and Other Items Affecting Comparability as well as Note 2, Acquisitions and Dispositions to the accompanying consolidated financial statements for further information.

The Company still anticipates that international expansion will continue to be an area of focus at the Networks segment for the foreseeable future.

Film and TV Entertainment. Time Warner s Film and TV Entertainment segment consists of businesses managed by the Warner Bros. Entertainment Group (Warner Bros.) that principally produce and distribute theatrical motion pictures,

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television shows and videogames. During the nine months ended September 30, 2012, the Film and TV Entertainment segment recorded Revenues of $8.295 billion (37% of the Company s total Revenues) and $676 million in Operating Income.

The Film and TV Entertainment segment s theatrical product revenues are generated principally through rentals from theatrical exhibition of films, including the following recently released films: *Argo*, *The Campaign*, *The Dark Knight Rises*, *Journey 2: The Mysterious Island, Magic Mike*, *Project X* and *Wrath of the Titans*, and subsequently through licensing fees received from the distribution of films on television networks and pay television programming services. Television product revenues are generated principally from the licensing of programs to television networks and pay television programming services. The segment also generates revenues for both its theatrical and television product through home video distribution on DVD and Blu-ray Discs and in various digital formats (e.g., electronic sell-through and video-on-demand). In addition, the segment generates revenues through the distribution of videogames.

Warner Bros. continues to be an industry leader in the television content business. For the 2012-2013 broadcast and cable season, Warner Bros. is producing more than 40 primetime series, with at least two series for each of the five broadcast networks (including *2 Broke Girls, Arrow, The Bachelor, The Big Bang Theory*, *Fringe*, *The Mentalist*, *The Middle*, *Mike & Molly*, *Person of Interest*, *Two and a Half Men, Vampire Diaries* and *The Voice*) and several original series for cable television networks (including *Dallas*, *Longmire, Major Crimes*, *Pretty Little Liars* and *Rizzoli & Isles*). Internationally, Warner Bros. operates a group of local television production companies in the U.K. and the Netherlands that focus on developing non-scripted programs and formats that can be sold internationally and adapted for sale in the U.S. Warner Bros. has also begun to create locally produced versions of programs owned by the studio as well as original local television programming.

The distribution of DVDs has been one of the largest contributors to the segment s revenues and profits over the last decade. However, in recent years, home video revenues have declined as a result of several factors, including consumers shifting to subscription rental services and discount rental kiosks, which generate significantly less revenue per transaction for the Company than DVD sales; the general economic downturn in the U.S. and many regions around the world; increasing competition for consumer discretionary time and spending; piracy; and the maturation of the standard definition DVD format. Reduced consumer spending on DVDs is being partially offset by growing sales of high definition Blu-ray Discs and increased sales through electronic delivery, which have higher incremental gross margins than standard definition DVDs. The decline in consumer spending on DVDs is also being partially offset by the licensing of theatrical and television content to subscription video-on-demand providers.

Publishing. Time Warner s Publishing segment consists principally of Time Inc. s magazine publishing and related websites, book publishing businesses and marketing services businesses. During the nine months ended September 30, 2012, the Publishing segment recorded Revenues of $2.469 billion (12% of the Company s total Revenues) and $220 million in Operating Income.

As of September 30, 2012, Time Inc. published 21 magazines in the U.S., including *People*, *Sports Illustrated* and *Time*, and over 70 magazines outside the U.S. All 21 of Time Inc. s U.S. magazines are available as tablet editions. The Publishing segment generates revenues primarily from the sale of advertising, magazine subscriptions and newsstand sales. The Publishing segment is experiencing declines in its newsstand sales and print advertising as a result of market conditions in the magazine publishing industry as well as the current economic environment. The Publishing segment is pursuing a number of initiatives to help mitigate these declines, including conducting additional brand marketing; developing innovative ways to sell branded magazine content outside of traditional channels, including websites, tablets and other mobile devices; developing integrated advertising solutions that will provide greater data insight and value to advertisers; deploying a new cross-platform content management system; and improving its operating efficiency through management of its cost structure (the Publishing Segment Initiatives).

From the fourth quarter of 2010 through the first quarter of 2012, Turner managed the *SI.com* and *Golf.com* websites, including selling the advertising for the websites, and in exchange Time Inc. received a license fee from Turner. In the second quarter of 2012, Time Inc. assumed management of these websites from Turner and, with the transfer, Time Inc. now sells the advertising for these websites and no longer receives a license fee from Turner. This change did not affect the Company s consolidated results of operations for the three and nine months ended September 30, 2012.

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Recent Developments

Bleacher Report

During the third quarter of 2012, Turner acquired *Bleacher Report*, a leading sports digital property, for $170 million, net of cash acquired. See Note 2, Acquisitions and Dispositions to the accompanying consolidated financial statements.

2012 Debt Offering

On June 13, 2012, Time Warner issued $1.0 billion aggregate principal amount of debt securities from its shelf registration statement. See Financial Condition and Liquidity Outstanding Debt and Other Financing Arrangements for more information.

CME

During the nine months ended September 30, 2012, the Company purchased additional shares of Class A common stock and one share of preferred stock that is convertible into Class A common stock of Central European Media Enterprises Ltd. (CME), a publicly traded media and entertainment company that operates leading television networks in six Central and Eastern European countries. As a result of these purchases, the Company increased its economic interest in CME from 34% to 49.9%. For additional information regarding the transactions with CME, refer to Note 3, Investments to the accompanying consolidated financial statements.

RESULTS OF OPERATIONS

Recent Accounting Guidance

See Note 1, Description of Business and Basis of Presentation to the accompanying consolidated financial statements for a discussion of recent accounting guidance adopted.

Transactions and Other Items Affecting Comparability

As more fully described herein and in the related notes to the accompanying consolidated financial statements, the comparability of Time Warner s results has been affected by transactions and certain other items in each period as follows (millions):

	Three Months Ended		Nine Months Ended	
	9/30/12	9/30/11	9/30/12	9/30/11
Asset impairments	$ (3)	$ (4)	$ (182)	$ (15)
Gain (loss) on operating assets	2	1	(40)	6
Other	-	(6)	(33)	(18)
Impact on Operating Income	(1)	(9)	(255)	(27)
Investment gains (losses), net	(5)	2	(29)	(1)
Amounts related to the separation of Time Warner Cable Inc.	6	(15)	6	(10)
Amounts related to the disposition of the Warner Music Group	1	-	(5)	-

Pretax impact	1	(22)	(283)	(38)
Income tax impact of above items	(1)	8	59	22
Impact of items on net income attributable to Time Warner Inc. shareholders	$ -	$ (14)	$ (224)	$ (16)

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In addition to the items affecting comparability described above, the Company incurred Restructuring and severance costs of $35 million and $84 million for the three and nine months ended September 30, 2012, respectively, and $30 million and $84 million for the three and nine months ended September 30, 2011, respectively. For further discussion of Restructuring and severance costs, refer to Consolidated Results and Business Segment Results.

Asset Impairments

During the three and nine months ended September 30, 2012, the Company recognized a $1 million reversal and $178 million of charges, respectively, at the Networks segment in connection with the Imagine and TNT Turkey Shutdowns primarily related to certain receivables, including value added tax receivables, inventories and long-lived assets, including Goodwill. For both the three and nine months ended September 30, 2012, the Company also recognized $4 million of other miscellaneous noncash asset impairments consisting of $2 million at the Networks segment and $2 million at the Film and TV Entertainment segment.

During the three and nine months ended September 30, 2011, the Company recorded $1 million and $12 million, respectively, of noncash impairments of capitalized software costs at the Film and TV Entertainment segment as well as $3 million of other miscellaneous noncash asset impairments at the Film and TV Entertainment segment for both the three and nine months ended September 30, 2011.

Gain (Loss) on Operating Assets

For the three and nine months ended September 30, 2012, the Company recognized $1 million of income and a $41 million loss, respectively, at the Publishing segment in connection with the sale in the first quarter of 2012 of Time Inc. s school fundraising business, QSP (the QSP Business). For both the three and nine months ended September 30, 2012, the Company also recorded noncash income of $1 million at the Film and TV Entertainment segment related to a fair value adjustment on certain contingent consideration arrangements.

For the three and nine months ended September 30, 2011, the Company recognized miscellaneous gains on operating assets of $1 million and $6 million, respectively.

Other

Other reflects legal and other professional fees related to the defense of securities litigation matters for former employees totaling $1 million and $3 million for the three and nine months ended September 30, 2012, respectively, and $2 million and $6 million for the three and nine months ended September 30, 2011, respectively.

Other also reflects external costs related to mergers, acquisitions or dispositions, which included income of $1 million and charges of $30 million for the three and nine months ended September 30, 2012, respectively, as compared to charges of $4 million and $12 million for the three and nine months ended September 30, 2011, respectively. The external costs related to mergers, acquisitions or dispositions for the three and nine months ended September 30, 2012 included a reversal of $5 million and charges of $21 million, respectively, related to the Imagine and TNT Turkey Shutdowns.

Amounts related to securities litigation and government investigations and external costs related to mergers, acquisitions or dispositions are included in Selling, general and administrative expenses in the accompanying Consolidated Statement of Operations.

Investment Gains (Losses), Net

For the three and nine months ended September 30, 2012, the Company recognized $5 million and $29 million, respectively, of net miscellaneous investment losses, including, for the nine months ended September 30, 2012, a $16 million loss on an investment in a network in Turkey recognized as part of the Imagine and TNT Turkey Shutdowns.

For the three and nine months ended September 30, 2011, the Company recognized $2 million of net miscellaneous investment gains and $1 million of net miscellaneous investment losses, respectively. Investment losses, net are included in Other loss, net in the accompanying Consolidated Statement of Operations.

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Amounts Related to the Separation of Time Warner Cable Inc.

For both the three and nine months ended September 30, 2012, the Company recognized other income of $6 million, and for the three and nine months ended September 30, 2011, recognized other loss of $10 million and $5 million, respectively, related to the expiration, exercise and net change in the estimated fair value of Time Warner equity awards held by Time Warner Cable Inc. (TWC) employees, which has been reflected in Other loss, net in the accompanying Consolidated Statement of Operations. For both the three and nine months ended September 30, 2011, the Company also recognized $5 million of other loss related to changes in the value of a TWC tax indemnification receivable, which has also been reflected in Other loss, net in the accompanying Consolidated Statement of Operations.

Amounts Related to the Disposition of the Warner Music Group

For the three and nine months ended September 30, 2012, the Company recognized $1 million of income and $5 million of losses, respectively, related to the disposition of the Warner Music Group (WMG) in 2004, which for the nine months ended September 30, 2012 related primarily to a tax indemnification obligation. These amounts have been reflected in Other loss, net in the accompanying Consolidated Statement of Operations.

Income Tax Impact

The income tax impact reflects the estimated tax provision or tax benefit associated with each item affecting comparability. Such estimated tax provision or tax benefit can vary based on certain factors, including the taxability or deductibility of the items and foreign tax on certain items.

Consolidated Results

The following discussion provides an analysis of the Company s results of operations and should be read in conjunction with the accompanying Consolidated Statement of Operations.

Revenues. The components of Revenues are as follows (millions):

	Three Months Ended			Nine Months Ended		
	9/30/12	9/30/11	% Change	9/30/12	9/30/11	% Change
Subscription	$ 2,501	$ 2,376	5%	$ 7,460	$ 7,135	5%
Advertising	1,360	1,395	(3%)	4,436	4,452	-
Content	2,801	3,130	(11%)	8,095	8,709	(7%)
Other	180	167	8%	574	485	18%
Total revenues	$ 6,842	$ 7,068	(3%)	$ 20,565	$ 20,781	(1%)

The increase in Subscription revenues for the three and nine months ended September 30, 2012 was primarily related to an increase at the Networks segment. Advertising revenues decreased for the three months ended September 30, 2012, primarily related to decreases at both the Publishing and Networks segments. Advertising revenues for the nine months ended September 30, 2012 were essentially flat as an increase at the Networks segment was offset by a decrease at the Publishing segment. The decrease in Content revenues for the three and nine months ended September 30, 2012 was due primarily to a decrease at the Film and TV Entertainment segment. The increase in Other revenues for the three and nine months ended September 30, 2012 was primarily related to an increase at the Film and TV Entertainment segment.

Each of the revenue categories is discussed in greater detail by segment in Business Segment Results.

Costs of Revenues. For the three months ended September 30, 2012 and 2011, Costs of revenues totaled $3.657 billion and $3.808 billion, respectively, and for the nine months ended September 30, 2012 and 2011, Costs of revenues totaled $11.498 billion and $11.579 billion, respectively. For the three and nine months ended September 30, 2012, Costs of revenues decreased reflecting declines at the Film and TV Entertainment and Publishing segments, partially offset by an increase at the Networks segment. The segment variations are discussed in Business Segment Results.

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Selling, General and Administrative Expenses. For the three months ended September 30, 2012, Selling, general and administrative expenses decreased 3% to $1.511 billion from $1.563 billion for the three months ended September 30, 2011 primarily due to decreases at the Publishing and Networks segments, partially offset by an increase at the Film and TV Entertainment segment. For the nine months ended September 30, 2012, Selling, general and administrative expenses decreased 2% to $4.692 billion from $4.775 billion for the nine months ended September 30, 2011 primarily related to declines at the Publishing, Film and TV Entertainment and Networks segments. The segment variations are discussed in Business Segment Results.

Included in Costs of revenues and Selling, general and administrative expenses is depreciation expense of $165 million and $480 million for the three and nine months ended September 30, 2012, respectively, and $160 million and $487 million for the three and nine months ended September 30, 2011, respectively.

Amortization Expense. Amortization expense decreased to $57 million for the three months ended September 30, 2012 from $68 million for the three months ended September 30, 2011 and decreased to $178 million for the nine months ended September 30, 2012 from $202 million for the nine months ended September 30, 2011.

Restructuring and Severance Costs. For the three and nine months ended September 30, 2012 and 2011, the Company incurred Restructuring and severance costs primarily related to employee terminations and other exit activities. Restructuring and severance costs by segment are as follows (millions):

	Three Months Ended		Nine Months Ended	
	9/30/12	9/30/11	9/30/12	9/30/11
Networks	$ 18	$ 16	$ 40	$ 34
Film and TV Entertainment	11	11	19	33
Publishing	6	3	24	15
Corporate	-	-	1	2
Total restructuring and severance costs	$ 35	$ 30	$ 84	$ 84

Operating Income. Operating Income decreased to $1.581 billion for the three months ended September 30, 2012 from $1.596 billion for the three months ended September 30, 2011. Excluding the items noted under Transactions and Other Items Affecting Comparability totaling $1 million and $9 million of expense for the three months ended September 30, 2012 and 2011, respectively, Operating Income decreased $23 million, mainly reflecting a decrease at the Film and TV Entertainment segment, offset in part by an increase at the Networks segment and lower intersegment eliminations.

Operating Income decreased to $3.891 billion for the nine months ended September 30, 2012 from $4.132 billion for the nine months ended September 30, 2011. Excluding the items noted under Transactions and Other Items Affecting Comparability totaling $255 million and $27 million of expense for the nine months ended September 30, 2012 and 2011, respectively, Operating Income decreased $13 million, reflecting decreases at the Film and TV Entertainment and Publishing segments, offset in part by an increase at the Networks segment.

The segment variations are discussed under Business Segment Results.

Interest Expense, Net. For the three months ended September 30, 2012, Interest expense, net increased to $318 million from $310 million for the three months ended September 30, 2011. For the nine months ended September 30, 2012, Interest expense, net increased to $946 million from $898 million for the nine months ended September 30, 2011. The increase for the nine months ended September 30, 2012 reflected higher average net debt in 2012, including the issuance of $4 billion aggregate principal amount of debt securities in April 2011, October 2011 and June 2012.

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Other Loss, Net. Other loss, net detail is shown in the table below (millions):

	Three Months Ended		Nine Months Ended	
	9/30/12	**9/30/11**	**9/30/12**	**9/30/11**
Investment gains (losses), net	$ (5)	$ 2	$ (29)	$ (1)
Amounts related to the separation of TWC	6	(15)	6	(10)
Amounts related to the disposition of WMG	1	-	(5)	-
Loss from equity method investees	(7)	(17)	(37)	(27)
Other	(2)	(3)	11	(11)
Other loss, net	$ (7)	$ (33)	$ (54)	$ (49)

Investment gains (losses), net and amounts related to the separation of TWC and the disposition of WMG are discussed under Transactions and Other Items Affecting Comparability. The remaining changes in Other loss, net for the three months ended September 30, 2012 were primarily due to lower net losses from equity method investees. The remaining changes in Other loss, net for the nine months ended September 30, 2012 included an adjustment to reduce a liability for deferred compensation and higher net losses from equity method investees.

Income Tax Provision. Income tax provision decreased to $418 million and $1.043 billion for the three and nine months ended September 30, 2012, respectively, from $431 million and $1.075 billion for the three and nine months ended September 30, 2011, respectively. The Company s effective tax rate was 33% and 36% for the three and nine months ended September 30, 2012, respectively, compared to 34% for both the three and nine months ended September 30, 2011. The decrease in the effective tax rate for thZE="1"> 0 0

Douglas & Judith Ross Family Trust (20)

241 * 241 0 0

Foreman Trust (20)

241 * 241 0 0

Leslie Brumagin-Nelson TTEE FBO The Leslie Brumagin Trust (20)

241 * 241 0 0

Linda Brumagin TTEE FBO The Linda Brumagin Trust (20)

241 * 241 0 0

Ross Estates Corp. Defined Benefit Plan FBO Douglas Ross (20)

241 * 241 0 0

Ross Estates Corp. Defined Benefit Plan FBO Judith Ross (20)

241 * 241 0 0

Stephen M. Kurtzer Living Trust (20)

241 * 241 0 0

Barry J. & Rochelle Lazar Living Trust DTD 9/13/85 (20)

160 * 160 0 0

Daniel Rosenbaum IRA(20)

160 * 160 0 0

Douglas & Judith Ross TTEE FBO Denise Eckstrom Trust (20)

160 * 160 0 0

Hamilton Family Trust (20)

160 * 160 0 0

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The HCF Trust UAD 7/15/98 Richard F. Lee (20)	160	*	160	0	0
Peter & Barbara L. Lackner Living Trust (20)	160	*	160	0	0
SGAM Fund Bonds US (18)	160	*	160	0	0
Stillegungsfonds Fur Kernanlagen	160	*	160	0	0
The Hartford Balanced Income Fund (29)	96	*	96	0	0
John Hancock Trust Investment Quality Bond Trust (29)	96	*	96	0	0
Andree Phillips TTEE of the Phillips Family Trust of 1986 (20)	80	*	80	0	0
Barbara Jay IND (20)	80	*	80	0	0
Colin C. Carneigie IRA Rollover (20)	80	*	80	0	0
Douglas & Judith Ross TTEE FBO Brian Ross Trust (20)	80	*	80	0	0
Douglas Ross IRA (20)	80	*	80	0	0
Elaine Mura Trust U/A/D 5/29/98 (20)	80	*	80	0	0
Foreman Trust FBO Maintenance & Repair (20)	80	*	80	0	0
Friends of Santa Barbara Public (20)	80	*	80	0	0
Harriet Wolf TTEE FBO The Harriet Wolf TR DTD 2/14/03 (20)	80	*	80	0	0
Jerold Wellen (20)	80	*	80	0	0
John O Brien & Marsha MacDonald Rev. Trust (20)	80	*	80	0	0
Larry & Toni Wellen JTWROS (20)	80	*	80	0	0
Larry Redfern IRA Rollover (20)	80	*	80	0	0
Leslie Jay (20)	80	*	80	0	0
Sherry Shelley TTEE of the Shelley Family Trust DTD 3/27/89 (20)	80	*	80	0	0
Toni & Larry Wellen TTEES of the Mendelson Trust (20)	80	*	80	0	0
Prime Partners, LLLP (38)	64	*	64	0	0
John Hancock Funds II Investment Quality Bond Fund (29)	32	*	32	0	0
Total (1)	5,071,907	11.91%	4,906,063	0	0

* Less than 1%.

(1) Because certain of the selling stockholders may have sold, transferred or otherwise disposed of all or a portion of their shares of our common stock since the date on which they provided the information presented in this table, this prospectus may not reflect the exact number of shares of common stock held by each selling stockholder on the date hereof. The aggregate number of shares of common stock covered by the registration statement to which this prospectus relates is 5,242,165.

Additional selling stockholders not named in this prospectus will not be able to use this prospectus for resales until they are named in the table above by prospectus supplement or post-effective amendment. Transferees, successors and donees of identified selling stockholders will not be able to use this prospectus for resales until they are named in the table above by prospectus supplement or post-effective amendment. If required, we will add transferees, successors and donees by prospectus supplement in instances where the transferee, successor or donee has acquired its shares from holders named in this prospectus after the effective date of this prospectus.

(2) Calculated based on Rule 13d-3(d)(1)(i) of the Exchange Act using 42,576,470 shares of common stock outstanding as of April 26, 2010.

(3) The selling stockholder is a registered broker-dealer.

(4) Brevan Howard Investment Products Limited, as investment manager of Brevan Howard Master Fund Limited, exercises dispositive powers with respect to the shares of common stock.

(5) The selling stockholder has hedged its exposure through a short sale of 238,300 publicly traded shares of common stock as protection against price fluctuations in the shares. This hedge remains in place as of April 27, 2010.

(6) Eric Goodman, Chief Investment Officer of AEGON USA Investment Management, LLC, exercises dispositive power with respect to the selling stockholder s shares of our common stock. Representatives of the selling stockholder have advised us that it is an affiliate of the following registered broker-dealers: Diversified Investors Securities Corp., InterSecurities, Inc., Transamerica Capital Inc., Transamerica Financial Advisors, Inc., Transamerica Securities Sales Corporation, World Group Securities, Inc. and Clark Securities, Inc.

(7) Andrew Redleaf exercises dispositive powers with respect to the shares of common stock.

(8) D.W. Investment Management, as investment manager of Brevan Howard Credit Catalysts Master Fund Ltd, exercises dispositive power with respect to the shares of common stock.

(9) Nicholas-Applegate Capital Management LLC (Nicholas-Applegate) is an investment adviser registered under the Investment Advisers Act of 1940. Nicholas-Applegate is an affiliate of Nicholas-Applegate Securities LLC, a limited purpose broker-dealer registered with FINRA (formerly NASD), effective April 1993. Nicholas-Applegate Securities LLC was organized in December 1992 for the sole purpose of distributing mutual funds sponsored by Nicholas-Applegate. This selling stockholder has delegated full investment authority to Nicholas-Applegate, as investment adviser, over the shares of common stock, including full dispositive power. The Chief Investment Officer of Nicholas-Applegate is Horacio A. Valeiras, CFA who, in such capacity, has oversight authority over all portfolio managers at Nicholas-Applegate.

(10) Goldman, Sachs & Co. (Goldman) has completed three advisory assignments for Unisys, including acting as a dealer manager in connection with the exchange offers, for total compensation to Goldman of $10.25 million. From time to time, Goldman may provide investment banking, commercial banking and advisory and other services for Unisys for customary compensation, and may hold Unisys securities from time to time.

(11) In accordance with the SEC Release No. 34-39538 (January 12, 1998) (the Release), beneficial ownership of these shares reflects the securities beneficially owned by certain operating units (collectively, the Goldman Sachs Reporting Units) of The Goldman Sachs Group, Inc. and its subsidiaries and affiliates (collectively, GSG). This information does not reflect securities, if any, beneficially owned by any operating units of GSG whose ownership of securities is disaggregated from that of the Goldman Sachs Reporting Units in accordance with the Release. The Goldman Sachs Reporting Units disclaim beneficial ownership of the securities beneficially owned by (i) any client accounts with respect to which the Goldman Sachs Reporting Units or their employees have voting or investment discretion, or both and (ii) certain investment entities of which the Goldman Sachs Reporting Units act as the general partner, managing general partner or other manager, to the extent interests in such entities are held by persons other than the Goldman Sachs Reporting Units. GS Investment Strategies, LLC (GSIS) and Goldman Sachs Investment Partners, GP, LLC (GSIP GP) are the investment manager and general partner of the selling stockholder, respectively, and are wholly owned subsidiaries of The Goldman Sachs Group, Inc., a reporting company. No individual within GSIS and GSIP GP has sole voting and investment power with respect to the shares of common stock. Representatives of the selling stockholder have advised us that certain subsidiaries of the Goldman Sachs Group, Inc. are registered broker-dealers. The selling stockholder has sold 48,219 shares of common stock in short sales.

(12) Matthew Li, LLC, Matthew Li and Fore Research & Management, LP exercise dispositive powers with respect to the shares of common stock. The shares of common stock are currently hedged using put options, which remain in place.

(13) Varkki Chacko exercises dispositive powers with respect to the shares of common stock.

(14) PPM America, Inc. (PPM), a registered investment adviser and an affiliate of the selling stockholder, acts as investment manager to the selling stockholder. PPM has investment discretionary authority to vote and dispose of the shares of common stock held by the selling stockholder and may be deemed to be a beneficial owner of the shares of common stock. Anthony Balestrieri, a portfolio manager and employee of PPM, may also be deemed to have dispositive powers with respect to the shares of common stock. Mr. Balestrieri disclaims any beneficial ownership of the shares of common stock. PPM also acts as investment manager to another selling stockholder: JNL/PPM America High Yield Bond Fund, a series of JNL Series Trust (JNL Fund). The JNL Fund previously sold its 6,429 shares of common stock under the registration statement to which this prospectus relates. PPM has investment discretionary authority to vote and dispose of the shares of common stock held by JNL Fund and may be deemed to be a beneficial owner of the shares of common stock held by JNL Fund. The selling stockholder disclaims beneficial ownership of the shares of common stock beneficially owned by JNL Fund. In addition, representatives of the selling stockholder have advised us that it is an affiliate of the following registered broker-dealers: National Planning Corporation, IFC Holdings, Inc., SII Investments, Inc., Investment Centers of America, Inc., Jackson National Life Distributors LLC and Curian Clearing LLC.

(15) Stonehill Capital Management LLC, a Delaware limited liability company (SCM), and Stonehill Advisers LLC, an Idaho limited liability company (Advisers), are the investment advisers of Stonehill Offshore Partners Limited (Stonehill Offshore). By virtue of such relationship, SCM and Advisers may be deemed to have voting and dispositive power over the shares of common stock owned by Stonehill Offshore. SCM and Advisers disclaim beneficial ownership of such shares of common stock. Mr. John Motulsky, Mr. Christopher Wilson, Mr. Wayne Teetsel, Mr. Thomas Varkey, Mr. Jonathan Sacks, and Mr. Peter Sisitsky (collectively, the Members) are the managing members of SCM and Advisers, and may be deemed to have shared voting and dispositive power over the shares of common stock owned by Stonehill Offshore. The Members disclaim beneficial ownership of such shares of common stock. Stonehill Offshore has sold short 16,500 shares of our common stock. The shares of common stock covered by this registration statement will not be used to cover that short sale.

(16) Svend Rolf Larsen and Peter Guldberg exercise dispositive powers with respect to the shares of common stock.

(17) Stonehill Capital Management LLC, a Delaware limited liability company (SCM), is the investment adviser of Stonehill Institutional Partners, L.P. (Stonehill Institutional). By virtue of such relationship, SCM may be deemed to have voting and dispositive power over the shares of common stock owned by Stonehill Institutional. SCM disclaims beneficial ownership of such shares of common stock. Mr. John Motulsky, Mr. Christopher Wilson, Mr. Wayne Teetsel, Mr. Thomas Varkey, Mr. Jonathan Sacks and Mr. Peter Sisitsky (collectively, the Members) are the managing members of SCM, and may be deemed to have shared voting and dispositive power over the shares of common stock owned by Stonehill Institutional. The Members disclaim beneficial ownership of such shares of common stock. Stonehill Institutional has sold short 13,500 shares of our common stock. The shares of common stock covered by this registration statement will not be used to cover that short sale.

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(18) Mark Attanasio exercises dispositive powers with respect to the shares of common stock.
(19) The selling stockholder has hedged its exposure through a short sale of 12,858 publicly traded shares of common stock as protection against price fluctuations in the shares. The selling stockholder is unable at this time to determine the duration of this hedge.
(20) Peritus I Asset Management LLC exercises dispositive powers with respect to the shares of common stock.
(21) Bennett S. Lebow exercises dispositive powers with respect to the shares of common stock.
(22) The selling stockholder is a fraternal benefit society owned by its policyholders and subject to regulation by state insurance commissioners. Its board has delegated investment authority to its Chief Investment Officer who has sub-delegated authority within its Investment Division. Representatives of the selling stockholder have advised us that it is an affiliate of Thrivent Investment Management Inc.
(23) Solon Director Limited and Alanna M.T. Woods, as directors of Woodpile Investments Ltd., exercise dispositive powers with respect to the shares of common stock.
(24) Stephen Sautel, Michael Damaso, Kaitlin Trinh and Anthony Minella exercise dispositive powers with respect to the shares of common stock.
(25) Margaret E. McConn exercises dispositive powers with respect to the shares of common stock.
(26) Mason Street Advisors, LLC, a wholly owned company of The Northwestern Mutual Life Insurance Company (Northwestern Mutual), is an investment adviser to Northwestern Mutual Series Fund, Inc. and therefore may be deemed to be an indirect beneficial owner with shared voting power/investment power with respect to the above-referenced shares of common stock. Andrew T. Wassweiler is a portfolio manager for Mason Street Advisors, LLC and manages the portfolio which holds the shares of common stock and therefore may be deemed to be an indirect beneficial owner with shared voting power/investment power with respect to the shares of common stock. However, pursuant to Rule 13d-4 under the Exchange Act, the immediately preceding sentence shall not be construed as an admission that Mr. Wassweiler is, for purposes of Section 13(d) or 13(g) of the Exchange Act, the beneficial owner of any shares of common stock covered by this registration statement. The following FINRA (formerly NASD) members are affiliated with Northwestern Mutual Series Fund, Inc. by virtue of its relationship with Northwestern Mutual and its affiliates: Northwestern Mutual Investment Services, LLC, Russell Implementation Services, Inc. and Russell Financial Services, Inc. In the ordinary course of business, the broker-dealer affiliates which may be deemed to be affiliated with Northwestern Mutual Series Fund, Inc. (by virtue of their relationship with Northwestern Mutual) listed in the immediately preceding sentence may, from time to time, have acquired or disposed of, or may in the future acquire or dispose of, securities of Unisys Corporation, for such broker dealers own accounts or for the accounts of others. Other affiliates of Northwestern Mutual Series Fund, Inc., including investment adviser affiliates, may in the ordinary course of business, effect transactions in the securities of Unisys Corporation.
(27) Representatives of the selling stockholder have advised us that it is an affiliate of JPMorgan Chase Bank N.A., which also exercises dispositive powers with respect to the shares of common stock.
(28) OFI Global High Yield is represented by ADI Alternative Investments. Patrick Hobin, Head of Operations, exercises dispositive powers with respect to the shares of common stock.
(29) Wellington Management Company, LLP (Wellington) is an investment adviser registered under the Investment Advisers Act of 1940, as amended. Wellington, in such capacity, may be deemed to share beneficial ownership over the shares held by its client accounts.
(30) Jon Sablowsky exercises dispositive powers with respect to the shares of common stock.
(31) Juerg Muehlethaler, as Executive Director, and Alessandra Waibel, as an Authorized Officer of the selling stockholder, exercise dispositive powers with respect to the shares of common stock. The selling stockholder has informed us that it is acting as an agent and is not the beneficial owner of the shares of common stock. The principals hold their accounts with the selling stockholder and the selling stockholder or a third party fully manages the accounts.
(32) Juan Jose Guillen A. exercises dispositive powers with respect to the shares of common stock.
(33) Robert I. Milstein exercises dispositive powers with respect to the shares of common stock.
(34) Brian Leshner exercises dispositive powers with respect to the shares of common stock.
(35) Manzoor A. Tariq exercises dispositive powers with respect to the shares of common stock.
(36) Jack C. Ashlock exercises dispositive powers with respect to the shares of common stock.
(37) Marco Santi exercises dispositive powers with respect to the shares of common stock.
(38) Gregory Mazur exercises dispositive powers with respect to the shares of common stock.

The selling stockholders listed in the above table may have sold or transferred, in transactions pursuant to this prospectus or exempt from the registration requirements of the Securities Act, some or all of their shares since the date as of which the information is presented in the above table. Information concerning the selling stockholders may change from time to time and any such changed information will be set forth in supplements to this prospectus or post-effective amendments to the registration statement of which this prospectus is a part, as may be appropriate.

DESCRIPTION OF CAPITAL STOCK

This section describes the general terms of our common stock, our preferred stock and certain provisions of the Delaware General Corporation Law. For more detailed information, you should refer to our restated certificate of incorporation and by-laws, copies of which have been filed with the SEC and incorporated by reference into this prospectus, and the relevant provisions of the Delaware General Corporation Law.

General

Our authorized capital stock consists of:

- 72,000,000 shares of common stock, par value $0.01 per share; and
- 40,000,000 shares of preferred stock, par value $1.00 per share, including 1,500,000 shares that have been designated as junior participating preferred stock.

As of April 26, 2010, there were 42,576,470 shares of common stock and no shares of preferred stock outstanding.

Common Stock

Subject to the rights of any holders of shares of preferred stock and except as otherwise may be required by applicable law, holders of shares of common stock:

- are entitled to receive dividends when and as declared by the board of directors from funds legally available for that purpose;
- have the exclusive right to vote on all matters on which stockholders generally are entitled to vote, including the election of directors, and are entitled to one vote per share; and
- are entitled, upon any liquidation, dissolution or winding up of Unisys, to a *pro rata* distribution of the assets and funds available for distribution to stockholders.

Holders of shares of common stock do not have preemptive rights to subscribe for additional shares of common stock or securities convertible into shares of common stock. Our common stock is currently listed on the NYSE under the symbol UIS . The Bank of New York Mellon Corporation is the transfer agent for our common stock.

We have not declared or paid any cash dividends on our common stock since 1990 and do not anticipate declaring or paying dividends on the common stock in the foreseeable future. Certain of our debt instruments include restrictions on our ability to pay dividends.

All outstanding shares of our common stock are fully paid and nonassessable. Any additional shares of common stock that we issue will be fully paid and nonassessable.

Preferred Stock

Our restated certificate of incorporation authorizes our board of directors to provide for the issuance of shares of our preferred stock in multiple series without the approval of stockholders. With respect to each series of preferred stock we may offer, our board of directors has the authority, subject to applicable law, to fix the following terms:

- the designation of the series;

the number of shares within the series;

the ranking of that series;

whether dividends are cumulative and, if cumulative, the dates from which dividends are cumulative;

the dividend rate, any conditions upon which dividends are payable, and the dates of payment of dividends;

- whether the shares are redeemable, the redemption price and the terms of redemption;
- the amount payable for each share if Unisys is dissolved or liquidated;
- whether the shares are convertible or exchangeable, the price or rate of conversion or exchange, and the applicable terms and conditions;
- any restrictions on issuance of shares in the same series or any other series;
- the voting rights for the shares of that series; and
- any other rights, preferences or limitations of that series.

Junior Participating Preferred Stock

Our restated certificate of incorporation authorizes our board of directors to provide for the issuance of shares of our junior participating preferred stock. The shares of junior participating preferred stock will be nonredeemable. Each share of junior participating preferred stock will have a preferential quarterly dividend equal to the greater of (1) $15 per share or (2) 300 times the aggregate dividend declared per share of common stock. In the event of liquidation, the holders of the shares of junior participating preferred stock will receive a preferred liquidation payment of $100 per share, and will be entitled to receive an aggregate liquidation payment per share equal to 300 times the payment made per share of common stock. Each share of the junior participating preferred stock will have 300 votes, voting together with the shares of common stock. In the event of any merger, consolidation or other transaction in which shares of common stock are exchanged, each share of the junior participating preferred stock will be entitled to receive 300 times the amount received per share of common stock. The junior participating preferred stock has customary antidilution provisions to protect the dividend, liquidation and voting rights described above.

Anti-Takeover Provisions

Delaware Law

Unisys is a Delaware corporation and subject to Section 203 of the Delaware General Corporation Law. Generally, Section 203 prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years after the time of the transaction in which the person became an interested stockholder. The provision does not apply if:

- prior to such time, either the business combination or such transaction is approved by the board of directors of the corporation;
- upon consummation of the transaction that results in the stockholder becoming an interested stockholder, the interested stockholder owns at least 85% of the outstanding voting stock; or
- on or after such time, the business combination is approved by the board and by the affirmative vote of at least 66 2/3% of the outstanding voting stock that is not owned by the interested stockholder.

A business combination includes mergers, asset sales and other transactions resulting in a financial benefit to the interested stockholder. An interested stockholder is a person who, together with affiliates and associates, owns (or within three years, did own) 15% or more of the corporation s outstanding voting stock. The statute could have the effect of delaying, deferring or preventing a change in our control or reducing the price that some investors might be willing to pay in the future for our common stock.

Corporate Documents

Our restated certificate of incorporation and by-laws also contain anti-takeover provisions that are intended to enhance the likelihood of continuity and stability in the composition of the board of directors and that may have the effect of delaying, deferring or preventing a future takeover or change in control unless the board approves it. These provisions may also make it more difficult to remove the current board of directors.

Classified Board The restated certificate of incorporation and by-laws provide that the board of directors shall have no fewer than 10 and no more than 20 members, with the exact number to be fixed by the board of directors. The board of directors is divided into three classes of directors, as nearly equal in number as possible. One class of directors is elected each year for a term of three years.

Removal of Directors; Vacancies Directors may be removed from office only for cause and only by the affirmative vote of at least 80% of the outstanding voting stock. Vacancies in the board of directors and newly created directorships are filled for the unexpired term only by the vote of a majority of the remaining directors in office.

Special Meetings of Stockholders Under the restated certificate of incorporation and by-laws, stockholders may not call a special meeting of stockholders. Only the board of directors, by resolution adopted by a majority of the entire board, may call a special meeting of stockholders.

Action by Written Consent The Delaware General Corporation Law provides that, unless specifically prohibited by the restated certificate of incorporation, any action required or permitted to be taken by stockholders of a corporation may be taken without a meeting if a written consent setting forth the action to be taken is signed by the holders of outstanding shares of capital stock having the requisite number of votes that would be necessary to authorize or take the action at a meeting of stockholders. Our restated certificate of incorporation requires that stockholder action be taken at a meeting of stockholders and prohibits stockholder action by written consent.

Business Combinations The restated certificate of incorporation provides that mergers, consolidations, sales or other transfers of assets of, issuances or reclassifications of securities of, or adoptions of plans of liquidation by Unisys (individually, a corporate transaction) must be approved by 80% or more of the voting stock when the action involves a person (a 20% stockholder) who beneficially owns more than 20% of the then outstanding shares of voting stock, unless minimum price, form of consideration and procedural requirements (the fair price provisions) are satisfied or unless a majority of the directors not affiliated with the 20% stockholder approve the corporate transaction.

The affirmative vote of 80% or more of the then outstanding shares of voting stock is required to amend, alter or repeal the provisions of the restated certificate of incorporation and by-laws discussed above.

The purpose of the provisions of the restated certificate of incorporation and by-laws relating to (1) a classified board of directors; (2) the removal of directors and the filling of vacancies; (3) the prohibition of stockholder action by written consent and (4) supermajority voting requirements for the repeal of these provisions is to help assure the continuity and stability of our business strategies and policies and to discourage many types of transactions that involve an actual or threatened change of control of Unisys. They are designed to make it more difficult and time-consuming to change majority control of the board of directors and thus to reduce the vulnerability of Unisys to an unsolicited takeover proposal that does not contemplate the acquisition of at least 80% of the voting stock or to an unsolicited proposal for the restructuring or sale of all or part of the company.

These charter and by-law provisions may make more difficult or discourage a proxy contest, or the assumption of control, by a holder of a substantial block of shares of common stock, or the removal of the incumbent board of directors, and could thus increase the likelihood that incumbent directors will retain their positions. In addition, since the fair price provisions discussed above provide that corporate transactions involving Unisys and a 20% stockholder may not be consummated without the approval of a majority of unaffiliated directors (unless the transaction meets specified criteria or is approved by supermajority vote), these provisions could give incumbent management the power to prevent certain takeovers. The fair price provisions may also discourage attempts to effect a two-step acquisition in which a third party purchases a controlling interest in cash and acquires the balance of the voting stock for less desirable consideration. Under the classified board and related provisions, the third party would not immediately obtain the ability to control the board of directors through its first-step acquisition and, under the fair price provisions, having made the first-step acquisition, the third party could not acquire the balance of the voting stock for a lower price without a supermajority vote or the approval of a majority of the unaffiliated directors.

These provisions of the restated certificate of incorporation and by-laws help ensure that the board of directors, if confronted with an unsolicited proposal from a third party that has acquired a block of shares of common stock, will have sufficient time to review the proposal and to consider appropriate alternatives for Unisys stockholders.

These provisions are also intended to encourage persons seeking to acquire control of Unisys to initiate such an acquisition through arm s-length negotiations with the board of directors, who would then be in a position to negotiate a transaction that would treat all stockholders in substantially the same manner. The provisions may have the effect of discouraging a third party from making an unsolicited tender offer or otherwise attempting to obtain control of Unisys, even though such an attempt might be beneficial to the company and its stockholders. In addition, since the provisions are designed to discourage accumulations of large blocks of shares of common stock by purchasers whose objective is to have those shares repurchased by the company at a premium, the provisions could tend to reduce the temporary fluctuations in the market price of common stock caused by these accumulations. Accordingly, Unisys stockholders could be deprived of the opportunity to sell their shares at a potentially higher market price.

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