WILLIS LEASE FINANCE CORP
Form DEF 14A
April 26, 2013

Use these links to rapidly review the document
TABLE OF CONTENTS

Table of Contents

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

ý Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material under §240.14a-12

Willis Lease Finance Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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Table of Contents

WILLIS LEASE FINANCE CORPORATION

NOTICE OF 2013 ANNUAL MEETING OF STOCKHOLDERS

To our Stockholders:

You are cordially invited to attend the 2013 Annual Meeting of Stockholders of WILLIS LEASE FINANCE CORPORATION, which will be held at our executive offices, 773 San Marin Drive, Suite 2215, Novato, California, 94998 at 2:00 p.m. local time on Tuesday, May 28, 2013. Directions to attend the Annual Meeting where you may vote in person can be found on our website: *www.willislease.com* (see "Investor").

In addition to any other business that may properly come before the meeting or any adjournment or postponement thereof, the following proposals are to be voted on at the Annual Meeting:

To elect two Class III Directors to serve until the 2016 Annual Meeting of Stockholders: Charles F. Willis, IV and Hans Joerg Hunziker. The Board of Directors recommends that you vote FOR this proposal.

To ratify the appointment of KPMG LLP as the Company's independent registered public accounting firm. The Board of Directors recommends that you vote FOR this proposal.

The Board of Directors has fixed the close of business on April 1, 2013 as the record date for determining those stockholders who will be entitled to notice of and to vote at the meeting. The stock transfer books will not be closed between the record date and the date of the meeting. A quorum comprising the holders of the majority of the outstanding shares of our common stock on the record date must be present or represented for the transaction of business at the 2013 Annual Meeting of Stockholders. Accordingly, it is important that your shares be represented at the meeting. **WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE COMPLETE, DATE AND SIGN THE ENCLOSED PROXY CARD AND RETURN IT IN THE ENCLOSED ENVELOPE AS PROMPTLY AS POSSIBLE**, to ensure that your shares will be voted at the 2013 Annual Meeting of Stockholders. You may revoke your proxy at any time prior to the time it is voted.

The proxy material is being mailed to you on or about April 26, 2013. Please read the proxy material carefully. Your vote is important, and we appreciate your cooperation in considering and acting on the matters presented.

By Order of the Board of Directors,

Charles F. Willis, IV
Chairman of the Board

April 26, 2013

Table of Contents

WILLIS LEASE FINANCE CORPORATION

PROXY STATEMENT

TABLE OF CONTENTS

	Page
SOLICITATION AND VOTING OF PROXIES	1
INFORMATION ABOUT THE BOARD OF DIRECTORS AND THE COMMITTEES OF THE BOARD	2
PROPOSAL 1: ELECTION OF CLASS III DIRECTORS	8
EXECUTIVE OFFICERS OF WILLIS LEASE FINANCE CORPORATION	8
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT	9
SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE	11
COMPENSATION OF EXECUTIVE OFFICERS COMPENSATION DISCUSSION AND ANALYSIS	11
REPORT OF THE COMPENSATION COMMITTEE	18
COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION	19
REPORT OF THE AUDIT COMMITTEE	27
PROPOSAL 2: RATIFY THE APPOINTMENT OF KPMG LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	28
CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS	28
STOCKHOLDER PROPOSALS	30
STOCKHOLDERS SHARING THE SAME LAST NAME AND ADDRESS	31
OTHER MATTERS	31

Table of Contents

You should read the entire proxy statement carefully prior to returning your proxy

PROXY STATEMENT FOR 2013 ANNUAL MEETING OF STOCKHOLDERS OF WILLIS LEASE FINANCE CORPORATION

To Be Held on May 28, 2013

SOLICITATION AND VOTING OF PROXIES

General

This proxy statement is furnished in connection with the solicitation by the Board of Directors (also referred to as the "Board") of WILLIS LEASE FINANCE CORPORATION ("we," "us," "our," "Willis Lease" or the "Company") of proxies to be voted at the 2013 Annual Meeting of Stockholders, which will be held at 2:00 p.m. local time on Tuesday, May 28, 2013 at our executive offices, located at 773 San Marin Drive, Suite 2215, Novato, California 94998, or at any adjournments or postponements thereof, for the purposes set forth in the accompanying Notice of 2013 Annual Meeting of Stockholders.

This proxy statement is being mailed to stockholders on or about April 26, 2013. Our 2012 Annual Report is being mailed to stockholders concurrently with this proxy statement. You should not regard the 2012 Annual Report as proxy soliciting material or as a communication by means of which any solicitation of proxies is to be made.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting to be held on May 28, 2013: The Proxy Statement and the 2012 Annual Report are available at https://materials.proxyvote.com/970646.

Voting

The close of business on April 1, 2013 is the record date for determining whether you in your capacity as a stockholder are entitled to notice of and to vote at the 2013 Annual Meeting of Stockholders. As of that date, we had 8,685,280 shares of common stock, $0.01 par value, issued and outstanding. All of the shares of our common stock outstanding on the record date are entitled to vote at the 2013 Annual Meeting of Stockholders. If you are entitled to vote at the meeting, you will have one vote for each share of common stock you hold with regard to each matter to be voted upon.

The required quorum for the meeting is a majority of the outstanding shares of common stock eligible to be voted on the matters to be considered at the meeting.

Shares of our common stock represented by proxies which are properly executed and returned to us on the accompanying proxy card will be voted at the 2013 Annual Meeting of Stockholders in accordance with the instructions you mark on the proxy card. If you do not mark any instructions on the proxy card, your shares represented by the proxy card will be voted for the election of the Board's nominees as Class III Directors, and in favor of Proposal 2. In the election for directors (Proposal 1), the nominees for Class III Directors receiving the highest number of affirmative votes will be elected.

Table of Contents

The affirmative vote of a majority of the shares voted in person or by proxy at the 2013 Annual Meeting is required for the adoption of Proposal 2.

If a properly signed proxy or ballot indicates that you abstain from voting or that your shares are not to be voted on a particular proposal, your shares will not be counted as having been voted on that proposal, although your shares will be counted as being in attendance at the meeting for purposes of determining the presence of a quorum. Broker non-votes (*i.e.*, shares held by brokers or nominees as to which instructions have not been received from beneficial owners or persons entitled to vote that the broker or nominee does not have discretionary power to vote on a particular matter) are counted towards a quorum, but are not counted for purposes of the proposals in determining whether a matter has been approved by a majority of the shares represented in person or by proxy and entitled to vote.

Our management does not know of any matters to be presented at the 2013 Annual Meeting of Stockholders other than those set forth in this proxy statement and in the Notice accompanying this proxy statement. If other matters should properly come before the meeting, the proxy holders will vote on such matters in accordance with their best judgment.

Revocability of Proxies

If you give a proxy in the form accompanying this proxy statement, you have the right to revoke it at any time before it is voted at the meeting. You may revoke your proxy by:

- filing an instrument of revocation with our Corporate Secretary;
- presenting at or prior to the meeting of a duly executed proxy bearing a later date; or
- attending the meeting and electing to vote in person.

Solicitation

This solicitation is made by our Board of Directors on our behalf. The entire cost of preparing, assembling and mailing the Notice of 2013 Annual Meeting of Stockholders, this proxy statement and the enclosed proxy card, and of soliciting proxies, will be paid by us. Proxies will be solicited principally through the use of the mails, but we may solicit proxies personally or by telephone, electronic mail or special letter by our officers and our regular employees for no additional compensation. We have retained American Stock Transfer & Trust and Broadridge to aid in the solicitation at an estimated cost to us of approximately $12,900 plus out-of-pocket expenses.

INFORMATION ABOUT THE BOARD OF DIRECTORS AND THE COMMITTEES OF THE BOARD

Board of Directors

Our Bylaws authorize us to have six Directors. At the present time, the Board consists of six Directors who are divided into three classes of two directors each: Class I, Class II and Class III. One class is elected each year for a three-year term. Gérard Laviec, W. William Coon, Jr., Hans Joerg Hunziker, and Robert T. Morris are independent directors, as defined in the NASDAQ listing standard.

Our business, property and affairs are managed under the direction of the Board. Directors are kept informed of our business through discussions with our Chairman and Chief Executive Officer and our other officers, by reviewing materials provided to them and by participating in meetings of the Board and its committees. The Board held a total of four meetings during the fiscal year ended December 31, 2012. Each incumbent director attended at least 75% of the aggregate of: (i) the total number of meetings of the Board; and (ii) the total number of meetings held by all Committees of the Board on which he served, other than Mr. Austin Willis, who was unable to attend two of the four meetings during 2012 partly as a result of scheduling conflicts with his military commitment (described

Table of Contents

in more detail under "Principal Occupations, Background and Qualifications of Director Nominees and Continuing Directors.").

Communications with the Board

You may communicate with the Board of Directors by sending a letter to: Board of Directors, Willis Lease Finance Corporation, c/o Office of the Corporate Secretary, 773 San Marin Drive, Suite 2215, Novato, California 94998. Our Office of the Corporate Secretary will receive your correspondence and forward it to the Board of Directors or to any individual director or directors to whom your communication is directed, unless the communication is unduly hostile, threatening, illegal, does not reasonably relate to us or our business, or is similarly inappropriate. The Office of the Corporate Secretary has the authority to discard any inappropriate communications or to take other appropriate actions with respect to any such inappropriate communications.

Attendance at the Annual Meeting of Stockholders

Directors Charles F. Willis IV and Robert T. Morris attended the 2012 Annual Meeting of Stockholders; our other directors did not attend. We have no policy requiring Board members to attend our annual meeting.

Committees of the Board

The Board of Directors has an Audit Committee and a Compensation Committee, both currently comprised solely of independent directors, as defined by the NASDAQ listing standard.

The Board does not have a nominating committee or committee performing the functions of such a committee. The Board has determined that the function of a nominating committee is adequately fulfilled by the independent directors. It has not established such a committee and therefore has no nominating committee charter. The full Board of Directors participates in the consideration of any director nominee.

Although we have not formally set any specific minimum qualifications that director nominees must possess, we look for candidates with the appropriate experience in aviation and leasing, a strong professional background, and a general understanding of marketing, finance and other disciplines related to the success of a company in our industry. And although not part of any formal policy, our goal is a balanced and diverse Board, with members whose skills, background and experience are complimentary and, together, cover the spectrum of areas that impact our business. Our directors are generally nominated by our management or other directors, and each nominee is evaluated based on the above qualifications and in the context of the Board as a whole. While we do not normally engage professional search firms or other third parties in connection with our Board nomination process, we may do so in the future.

Since we do not have a history of stockholder nominations of directors, we do not have a formal policy regarding stockholder nominees to the Board. Under our Bylaws, stockholders wishing to nominate a candidate for director must give notice to our Corporate Secretary no later than the close of business on the 90th day prior to the first anniversary of our preceding year's annual meeting. If the annual meeting is more than 30 days before or 60 days after such anniversary date, the notice must be delivered no later than the 90th day prior to such annual meeting or the 10th day following the day on which we publicly announce the annual meeting date. The notice should set forth: (i) the name, age, business address and residence address of the nominee; (ii) the principal occupation or employment of the nominee; (iii) the class and number of our shares beneficially owned by the nominee; (iv) a description of all arrangements or understandings between the stockholder and the nominee and any other person(s) pursuant to which the nomination is made by the stockholder; and (v) any other information relating to the nominee that is required to be disclosed in proxy statements for the election

of directors pursuant to Regulation 14A under the Securities Exchange Act of 1934. Nominees proposed by stockholders will be evaluated in the same manner as those proposed by management or existing directors.

The Audit Committee oversees our accounting function, internal controls and financial reporting process on behalf of the Board. The NASDAQ's listing rules require that our Audit Committee be composed of at least three independent directors. The Audit Committee meets with our financial management and our independent registered public accounting firm to review our financial statements and filings, the audit and matters arising from them, and financial reporting procedures, including any significant judgments made in preparation of the financial statements. The Audit Committee currently consists of Directors Robert T. Morris (Chair), Gérard Laviec, W. William Coon, Jr. and Hans Joerg Hunziker. All members of the Audit Committee are able to read and understand financial statements. Mr. Morris also qualifies as an audit committee financial expert, as defined by the SEC, and is financially sophisticated as required by the NASDAQ listing standards. The Committee held five meetings during the 2012 fiscal year. The Audit Committee's charter is available on the Company's web site (*www.willislease.com*).

The Compensation Committee reviews and approves our compensation arrangements for executive officers and administers the 2007 Stock Incentive Plan. The Compensation Committee currently consists of Directors Hans Joerg Hunziker (Chair), Gérard Laviec, W. William Coon, Jr., and Robert T. Morris. The Compensation Committee held four meetings during the 2012 fiscal year. For additional details, see "Compensation of Executive Officers Compensation Discussion and Analysis" elsewhere in this proxy statement. The Compensation Committee's charter is available on the Company's web site (*www.willislease.com*).

Board Leadership Structure

Our company is led by Charles F. Willis, IV, the founder of the Company who serves as our Chairman and Chief Executive Officer. This approach is commonly utilized by public companies in the United States and we believe it has been effective for our company as well. Serving in both these roles since the Company was founded has allowed Mr. Willis to be seen by participants in the aviation industry and by our customers, business partners, investors and the other stakeholders as providing strong leadership for our company and in our industry. The Board believes that his combined role is the optimal structure for us and our stockholders because it enables decisive leadership, ensures clear accountability and enhances our ability to consistently communicate our message and strategy to all of our stakeholders. Moreover, Mr. Willis possesses detailed and in-depth knowledge of the issues, opportunities and challenges facing us and our business and, therefore, is best positioned to develop agendas that focus the Board's time and attention on the most critical matters, while minimizing the potential for confusion or duplication of efforts. We recognize that different board leadership structures may be appropriate for companies in different situations and believe that no one structure is suitable for all companies. We believe that our current Board leadership structure is optimal for us because it demonstrates to our employees, suppliers, customers and other stakeholders that Willis Lease is under strong leadership, with a single person setting the tone and having primary responsibility for managing our operations.

We have not appointed an independent board chairman or lead independent director, as we believe that the members of our Board and the two standing Board Committees consisting of independent directors provide an appropriate level of oversight. In this regard, the Audit Committee oversees the accounting and financial reporting processes, as well as risk, legal and compliance matters. The Compensation Committee oversees the compensation of our Chairman and Chief Executive Officer, and upon the recommendation of the Chief Executive Officer, the compensation of the other Named Executive Officers. Each of these Committees is led by a chairperson other than the Chairman and Chief Executive Officer and, as discussed in more detail in this proxy, the entire Board of

Table of Contents

Directors is actively involved in overseeing our risk management. The entire Board, or, as appropriate, the independent directors, monitors matters such as the composition of the Board and its committees, board performance and "best practices" in corporate governance. Our independent directors also conduct meetings in executive session. These meetings are typically held in conjunction with every Board meeting and in 2012 each Board meeting included an independent directors' session. This allows directors to speak candidly on any matters of interest without the Chief Executive Officer or other managers present. We believe this framework strikes a sound balance with appropriate oversight and that appointing an independent board chairman would not improve the performance of the Board in a material way.

The Board's Role in Risk Oversight

It is management's responsibility to manage risk and bring to the Board's attention the most material risks to the Company. Our Board, including through the Audit Committee and Compensation Committee, each of which are comprised solely of independent directors, regularly reviews various areas of significant risk to the Company, and advises and directs management on the scope and implementation of policies, strategic initiatives and other actions designed to mitigate various types of risks. Specific examples of risks primarily overseen by the full board include competition risks, industry risks, economic risks, liquidity risks, business operations risks and risks related to acquisitions and dispositions. Our Audit Committee regularly reviews with management and the independent auditors significant financial risk exposures and the processes management has implemented to monitor, control and report such exposures. Specific examples of risks primarily overseen by the Audit Committee include risks related to the preparation of Willis Lease's financial statements, disclosure controls and procedures, internal controls and procedures required by the Sarbanes-Oxley Act, accounting, financial and auditing risks, treasury risks (insurance, credit and debt), risks posed by significant litigation matters, risks associated with proposed affiliate transactions, and compliance with the Company's Code of Ethics and other applicable laws and regulations. The Compensation Committee reviews and evaluates risks related to the attraction and retention of talent, risks associated with management succession planning, and risks related to the design of compensation programs established by the Compensation Committee for our executive officers. The Compensation Committee has determined in its reasonable business judgment that our compensation policies and practices for all employees, including executive officers, do not create risks that are reasonably likely to have a material adverse effect on the Company.

Director Compensation

For details regarding director compensation, see "Compensation of Executive Officers Compensation Discussion and Analysis Director Compensation" elsewhere in this proxy statement.

Table of Contents

Biographical Information

	Director Since	Age*
Class I Directors Whose Terms Expire at the 2014 Annual Meeting:		
Robert T. Morris	2006	64
W. William Coon, Jr.	2003	73
Class II Directors Whose Terms Expire at the 2015 Annual Meeting:		
Austin C. Willis	2008	32
Gérard Laviec	2002	73
Class III Directors Whose Term Expires at the 2013 Annual Meeting:		
Charles F. Willis, IV	1985	64
Hans Joerg Hunziker	2006	63

* Age as of April 1, 2013.

Principal Occupations, Background and Qualifications of Director Nominees and Continuing Directors

Charles F. Willis, IV is the founder of Willis Lease, has served as Chief Executive Officer and a Director since our incorporation in 1985, served as President until July 2011 (when Donald A. Nunemaker was promoted to that position), and has served as Chairman of the Board of Directors since 1996. Mr. Willis has over 40 years of experience in the aviation industry. From 1975 to 1985, Mr. Willis served as president of Willis Lease's predecessor, Charles F. Willis Company, which purchased, financed and sold a variety of large commercial transport aircraft and provided consulting services to the aviation industry. During 1974, Mr. Willis operated a small business not involved in the aviation industry. From 1972 through 1973, Mr. Willis was Assistant Vice President of Sales at Seaboard World Airlines, a freight carrier. From 1965 through 1972, he held various positions at Alaska Airlines, including positions in the flight operations, sales and marketing departments. As our founder and Chief Executive Officer, Mr. Willis brings to the Board significant senior leadership, sales and marketing, industry, technical and global experience, and a deep institutional knowledge of the Company, its operations and customer relations.

Hans Joerg Hunziker previously served as one of our Directors from November 2000 until July 1, 2003. He was elected a Class II Director at the 2006 Annual Meeting. Since 2002, Mr. Hunziker has been the owner and CEO of HLF Aviation GmbH (formerly known as Hunziker Lease & Finance), a company he founded in Switzerland which offers independent business consulting services to the aviation industry. From 1998 to 2002, he was the President and Chief Executive Officer of Flightlease AG Ltd., a public company involved in aircraft leasing as a subsidiary of SAirGroup whose headquarters are in Zurich, Switzerland. From 1998 to 2001, he was also co-CEO of GATX Flightlease Management GmbH, an asset management and commercial aircraft leasing company. From 1996 to 1998, he was the Chief Financial Officer of SAirServices Ltd., a group of companies including aircraft maintenance and overhaul, ground handling services, information technology and real estate, and Managing Director of SAirServices Invest Ltd. From 1991 to 1996, he was Chief Financial Officer of Swissair Associated Companies Ltd., a group of 150 companies, primarily in the hotel, catering (Gate Gourmet) and trading business. Mr. Hunziker holds a master's degree in Economics and Business Administration from the University of Zurich. He also received the equivalent of a doctoral degree from the University of Zurich, after successful completion of his thesis on Strategic Planning in the Airline Industry. In addition to previously serving as a director of Willis Lease, he was Chairman of the Board of Flightlease Holdings (Guernsey) Limited (and a director of several of its subsidiaries in Guernsey and Bermuda), as well as Chairman of the Board of Flightlease (Netherlands) B.V., SRTechnics Group AG, SRTechnics Switzerland AG, Swisscargo AG and SAirServices Invest AG. He was a member of the Board of Directors of Jetbird AG from 2006-2009, and was also previously a

Table of Contents

member of the Board of Directors of each of FlightTechnics LLC, Delaware, Swissport Brazil Ltd., Polygon Insurance Company Ltd. and Gotland Shipping AG. Mr. Hunziker brings to the Board a high level of financial sophistication, broad international exposure and significant experience in commercial aviation and the aviation equipment leasing industry.

Gérard Laviec joined our Board of Directors in February 2002. In 2001, Mr. Laviec retired from his position as President and Chief Executive Officer of CFM International, a partnership between General Electric Company and SNECMA and a major supplier of engines for commercial jets. Mr. Laviec joined the CFM-56 Program in 1976 in its incipient phase. From 1983 to 1995, he served as General Manager in product support engineering, business operations, sales and marketing, and was named President and Chief Executive Officer of CFM International in 1995. Mr. Laviec also served as the Chairman of the Board of Shannon Engine Support, a wholly-owned CFM International subsidiary in Ireland, from 1995 until 2001. Mr. Laviec is a graduate of INSA Lyon, France with a degree in Mechanical Engineering. He served in the French Air Force as a Flight Officer in Search and Rescue teams prior to joining SNECMA. He is a Knight for the French National Order of Merit. Mr. Laviec brings to the Board intimate knowledge about a key aviation industry player and an important supplier of engines to the Company, broad international exposure and insight into challenges associated with managing a global organization, expertise in aviation and engineering generally, and expertise in the engine leasing industry in particular.

W. William Coon, Jr. spent 34 years at GE Aircraft Engines ("GEAE"), a division of General Electric Company (NYSE:GE), where he served in numerous management positions. Prior to retiring from GEAE in 2000, Mr. Coon was General Manager for Small Commercial Aircraft Services. From 1984 to 1998 he served as Director of Product Support, where he was responsible for supplying global services to the company's regional airline customers. In addition to those executive positions, Mr. Coon was a director of each of T Group America and Flight Technics from 2003 through 2007. Mr. Coon holds a Bachelor of Science Degree in Aeronautical Engineering from the University of Michigan and a Master of Business Administration from Xavier University. Mr. Coon brings to the Board a valuable technical literacy, knowledge of an important manufacturer and supplier of engines to the Company, and familiarity with the needs of the Company's commercial airline customer base.

Robert T. Morris is currently President of Robert Morris & Company, a company he founded in 1992. He joined Union Bank of California Leasing in 2004 to establish an innovative equipment leasing group, and served as its President through March 2007. Prior to joining Union Bank of California Leasing, he was a consultant to more than 25 commercial banks for their equipment leasing operations over a 12 year period. He has also worked for Bank of San Francisco, Bank of Montreal and GATX Leasing Corporation. Mr. Morris holds a master's degree from the American Graduate School of International Management and a Bachelor of Arts Degree from the University of Denver with majors in Economics, Political Science and History. Mr. Morris brings to the Board considerable expertise in the aviation equipment leasing industry with a focus on finance and risk evaluation.

Austin C. Willis was elected to the Board in December 2008. Mr. Willis is the founder of J.T. Power LLC, a privately held company engaged in the business of selling commercial jet turbine engine parts and leasing commercial aircraft. He served as J.T. Power's president from its founding in 2004 until 2012 when day-to-day management as president of J.T. Power was transitioned to another individual with Mr. Willis continuing as Chief Executive Officer. This transition was implemented to facilitate Mr. Willis' enlistment in the U.S. armed forces in 2012. He has completed his basic training and is undergoing the selection process to determine his duties in the immediate future. The Board is fully supportive of Mr. Willis' decision to enter into military service and his efforts to continue fulfilling his duties as a member of the Board while undergoing his military training. In addition to his duties with J.T. Power and the U.S. armed forces, since 2006 Mr. Willis has also owned and served as Chief Executive Officer of Aviation Management LLC, an aviation consulting firm. Mr. Willis holds a bachelor's degree from the London School of Economics and Political Science where he studied finance

Table of Contents

and industrial relations. He is the son of Charles F. Willis, IV. Mr. Willis brings to the Board familiarity with the aviation industry generally with a focus on the after-market disposition of the aircraft engines and parts which comprise the Company's engine portfolio.

PROPOSAL 1
ELECTION OF TWO CLASS III DIRECTORS

Our Board is divided into three classes, each class having a three-year term that expires in successive years. At the 2013 Annual Meeting of Stockholders, two Directors will be elected in Class III, to serve a three-year term expiring at the 2016 Annual Meeting of Stockholders or until succeeded by another qualified director who has been duly elected.

The nominees for Director in Class III are Charles F. Willis, IV and Hans Joerg Hunziker.

The proxy holders intend to vote all proxies received by them for the foregoing nominees, unless instructions to the contrary are marked on the proxy. In the event that any nominee is unable or declines to serve as a Director at the time of the 2013 Annual Meeting of Stockholders, the proxies will be voted for any nominee who shall be designated by the present Board to fill the vacancy. As of the date of this proxy statement, the Board is not aware of any nominee who is unable or will decline to serve as a director.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR"THE ELECTION OF THE NOMINEES AS CLASS III DIRECTORS.

EXECUTIVE OFFICERS OF WILLIS LEASE FINANCE CORPORATION

Our executive officers are as follows:

Name	Age*	Positions and Offices
Charles F. Willis, IV**	64	Chief Executive Officer
Donald A. Nunemaker	65	President
Bradley S. Forsyth	47	Senior Vice President and Chief Financial Officer
Thomas C. Nord	72	Senior Vice President, General Counsel and Secretary
Paul D. "Dave" Johnson	49	Senior Vice President, Marketing and Sales

* Age as of April 1, 2013.

** See business experience background under "Principal Occupations, Background and Qualifications of Director Nominees and Continuing Directors."

Donald A. Nunemaker has been with us since July 1997 and currently serves as our President. Prior to his appointment as President, he served as General Manager Leasing until July 2011, as Chief Operating Officer until September of 2006, and prior to that as Chief Administrative Officer until March 2001. Mr. Nunemaker also served on our Board of Directors from June to November 2000. Mr. Nunemaker is responsible for managing our day-to-day operation and has been extensively involved in the equipment leasing industry since 1973. From 1995 to 1996, Mr. Nunemaker was President and CEO of LeasePartners, Inc., a leasing company based in Burlingame, California, which was acquired in 1996 by Newcourt Credit Group. From 1990 to 1994, Mr. Nunemaker was Executive Vice President of Concord Asset Management, Inc., an aircraft and computer leasing subsidiary of Concord Leasing, Inc., which was owned by the HSBC Group. Before joining Concord in 1990, Mr. Nunemaker was President and CEO of Banc One Leasing Corporation of New Jersey. Prior to that he spent thirteen years with Chase Manhattan Leasing Company in a variety of senior line and staff positions. Mr. Nunemaker has a Master of Business Administration Degree from Indiana University.

Bradley S. Forsyth joined us in January 2007, bringing more than 14 years of experience in the finance and aviation industries. Mr. Forsyth is responsible for the capital markets, finance, treasury, accounting, risk management and systems functions of the Company. Prior to joining Willis Lease from 1994 to 2006, he served as Vice President of Finance for Standard Aero, an international aviation maintenance, repair and overhaul services provider, providing financial management support to nine business units with $800 million in annual sales. Prior to that, he was with PriceWaterhouse (now PricewaterhouseCoopers) practicing in their audit and tax departments. He is a Chartered Accountant and graduated from the University of Manitoba with a Bachelor of Commerce Degree.

Thomas C. Nord has served as our Senior Vice President and General Counsel, managing our legal affairs since July 2003 through March 31, 2013, when those duties were formally transferred to his successor, Dean M. Poulakidas. Since April 1, 2013, Mr. Nord has continued to work for the Company on a retainer basis to facilitate the transition from him to Mr. Poulakidas. From May 1977 to March 2003, he was an attorney with GATX. While at GATX, among other positions, he served from January 1981 until March 2003 as the Managing Director, General Counsel and Secretary for various GATX subsidiaries specializing in finance and leasing. From February 1974 until May 1977, Mr. Nord was Counsel to Irving Trust Company in New York, New York. From June 1969 to February 1974 Mr. Nord was associated with the New York City law firm of Seward & Kissel. Mr. Nord holds a Juris Doctor Degree from the University of North Carolina.

Paul D. "Dave" Johnson joined us in May 2011, bringing a wealth of aviation expertise and a unique combination of experience over the past 26 years as an aircraft leasing marketing executive and lawyer and as a commercial airline and military pilot. From 1998 to 2011, Mr. Johnson was with International Lease Finance Corporation, a major aircraft leasing company, where he served in a variety of legal, sales and marketing positions including Vice President of Marketing and Corporate Counsel. Prior to joining ILFC, he was a commercial airline pilot with American Airlines for 11 years and earlier served as a B-52 combat crew commander in the United States Air Force for six years, rising to the rank of captain. He is also a Director of the Heritage Flight Museum, a 501(C)(3) organization dedicated to the preservation and operation of historic military aircraft. Mr. Johnson holds a Bachelor of Science in Aeronautical Engineering Degree from the United States Air Force Academy, a Master of Business Administration Degree from Louisiana Tech University, and a Juris Doctor Degree from the University of California Los Angeles.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of our common stock as of April 1, 2013 by: (i) each person who is known to us to own beneficially more than five percent of the outstanding shares of our common stock; (ii) each Director; (iii) each officer listed in the

Table of Contents

Summary Compensation Table; and (iv) all Directors and Executive Officers as a group. Unless specified below, the mailing address for each individual, officer or director is c/o Willis Lease Finance Corporation, 773 San Marin Drive, Suite 2215, Novato, CA 94998. As of April 1, 2013 we had 8,685,280 shares of common stock, $0.01 par value, issued and outstanding.

	Common stock(1)	
Name and Address of Beneficial Owner	**Number of Shares**	**Percentage of Class**
Charles F. Willis, IV	2,791,496(2)	31.92%
Donald A. Nunemaker	152,953(3)	1.76%
Austin C. Willis	102,008	1.17%
Bradley S. Forsyth	96,530	1.11%
Thomas C. Nord	44,473(4)	*
Gérard Laviec	42,173(5)	*
Paul D. "Dave" Johnson	15,316	*
Hans Joerg Hunziker	6,881	*
Robert T. Morris	5,705	*
W. William Coon, Jr	5,628	*
All Directors and Executive Officers as a group (10 persons)	3,263,163	37.35%
Dimensional Fund Advisors Inc.	756,576(6)	8.71%
Rutabaga Capital Management LLC	688,812(7)	7.93%
Sy Jacobs	630,034(8)	7.25%

* Less than one percent of our outstanding common stock.

(1) Except as indicated in the footnotes to this table, the stockholders named in the table are known to us to have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them, subject to community property laws where applicable. The number of shares beneficially owned includes common stock of which such individual has the right to acquire beneficial ownership either currently or within 60 days after April 1, 2013, including, but not limited to, upon the exercise of an option.

(2) Includes 2,138,651 shares held by CFW Partners, L.P., a California limited partnership, of which Charles F. Willis, IV, holds a one percent (1%) interest as sole general partner and an eighty percent (80%) interest as a limited partner. A trust for the benefit of Austin C. Willis holds the remaining nineteen percent (19%) interest as a limited partner. Also includes (i) 5,514 shares held in a joint tenancy account with a family member of Mr. Willis who does not live in the same household; (ii) 5,514 shares held under an account in the name of Charles F. Willis, V for which Mr. Willis is the custodian; and, (iii) 641,817 shares held by Mr. Willis in his individual capacity, which include (x) 190,000 shares pledged and (y) 59,000 options to purchase shares at an exercise price of $9.20.

(3) Includes 28,000 options to purchase shares at an exercise price of $9.20 per share.

(4) Includes 769 options to purchase shares at an exercise price of $9.20 per share.

(5) Includes 15,942 options to purchase shares at a weighted average exercise price of $7.66 per share.

(6) Based on Schedule 13G filed by Dimensional Fund Advisors LP with the Securities and Exchange Commission on February 8, 2013. Dimensional Fund Advisors LP mailing address is Palisades West, Building One, 6300 Bee Cave Rd., Austin, TX 78746.

(7) Based on Schedule 13G filed by Rutabaga Capital Management with the Securities and Exchange Commission on February 13, 2013. Rutabaga Capital Management mailing address is 64 Broad Street, 3rd Floor, Boston, MA 02109.

Table of Contents

(8)
Based on (i) Schedule 13G filed by Sy Jacobs with the Securities and Exchange Commission on February 14, 2013. Includes 594,934 shares held by Jacobs Asset Management, LLC. and 35,100 shares held by Sy Jacobs. The mailing address is 11 East 26 Street, New York, NY 10010.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our Directors and executive officers, and persons who own more than ten percent of a registered class of our equity securities, to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of common stock and our other equity securities. Directors, executive officers and holders of more than ten percent of our common stock are required by Securities and Exchange Commission regulation to furnish us with copies of all Section 16(a) reports they file.

Based solely upon review of the copies of such reports furnished to us and written representations from our officers and Directors, we believe that during the fiscal year ended December 31, 2012, our Directors, executive officers and holders of more than ten percent of our common stock complied with all applicable Section 16(a) filing requirements.

COMPENSATION OF EXECUTIVE OFFICERS
COMPENSATION DISCUSSION & ANALYSIS

This Compensation discussion and analysis describes the material elements of our compensation program for Named Executive Officers. The Compensation Committee of the Board of Directors (the "Compensation Committee") oversees the design and administration of our executive compensation programs. The Compensation Committee is comprised of four independent directors: Hans Joerg Hunziker (Chair), Gérard Laviec, W. William Coon, Jr., and Robert T. Morris. The Compensation Committee meets formally twice per year, and more often if needed. Each meeting includes an executive session with no member of management present. The Compensation Committee's charter is available on the Company's web site *(www.willislease.com)*.

The Compensation Committee retains compensation consultants from time to time to evaluate executive compensation levels and advise on specific programs; the consultants report directly to the Compensation Committee. For the past six years, the Compensation Committee has retained Smith Compensation Consulting to advise on various compensation issues. Smith Compensation Consulting has provided the Compensation Committee information regarding its independence as an advisor, including the fact that it has no other contract or business relationship with Willis Lease, and the Compensation Committee took that information into account in concluding that there was no conflict of interest within the meaning of Section 10C-1 of the Securities Exchange Act of 1934 affecting Smith Compensation Consulting's independence.

The Compensation Committee also carefully considers feedback from the Company's stockholders regarding the Company's executive compensation program, including the results of the stockholders' advisory vote on executive compensation at the 2011 annual meeting which was approved by more than 99% of the votes cast. In accordance with the preference which received the most votes cast among the alternatives regarding the frequency of future advisory votes on executive compensation, the Board decided that future advisory votes on executive compensation would be submitted to stockholders every three years. Accordingly, the next advisory vote on executive compensation would occur at the 2014 annual meeting of stockholders. Stockholders are invited to express their views to the Board regarding executive compensation as well as other matters as described in this Proxy Statement under the heading "Communications with the Board".

Table of Contents

Compensation Philosophy and Objectives

The objectives of our compensation programs are to attract and retain high performing executives, to provide a substantial link between the company's performance and executive pay, and to provide stockholders with a superior rate of return. It is the Compensation Committee's philosophy to link the named executive officers' compensation to corporate performance. The individual elements of compensation are targeted at different areas. Base salaries should be sufficiently competitive to attract and retain highly capable executives; annual incentive bonuses are intended to reward meeting budgeted earnings goals each year; long-term incentives, now primarily in the form of grants of restricted stock, are intended to align executive and stockholder interest, reward long term growth of revenues and earnings, and provide an incentive for key executives to stay with the organization over the long term.

The base salary, annual incentive compensation and long-term incentive compensation of the named executive officers are determined in part by the Compensation Committee reviewing data on prevailing compensation practices of comparable companies with whom we compete for executive talent and evaluating such information in connection with our corporate goals and compensation practices. The Compensation Committee considers various sources of data when determining executive compensation levels, including compensation data from a sampling of public companies and public compensation surveys.

However, it is difficult to determine a precise peer group because the vast majority of the Company's direct competitors are business units within much larger corporations such as General Electric, United Technologies and Bank of Tokyo Mitsubishi such that the heads of the leasing divisions do not appear in proxy statements as Named Executive Officers therefore, the Compensation Committee makes its decisions based primarily on its understanding of compensation practices in the aviation services and leasing markets, generally, and for companies of comparable size. Accordingly, with the help of Smith Compensation Consulting, the Company has developed information on executive pay practices in (i) public financial services and leasing companies and (ii) other public companies that are representative of the market in which the Company competes for talent. For fiscal year 2011, the sample of companies consisted of the following companies:

Affymetrix Inc.	GATX Corporation	Point Blank Solutions, Inc.
Aircastle Limited	GP Strategies Corp.	PRGX Global, Inc.
Asset Acceptance Capital Corp.	Harris Interactive, Inc.	QC Holdings, Inc.
Bankrate, Inc.	Infinera Corporation	Security National Financial Corp
Blue Coat Systems, Inc.	Informatica Corporation	Synaptics, Inc.
Costar Group, Inc.	IXYS Corporation	TAL International Group, Inc.
DG FastChannel, Inc.	Marlin Business Services Corp.	Todd Shipyards Corp.
Dionex Corp.	McGrath RentCorp	VirtUSA Corp.
Electro Rent Corporation	Micrel, Incorporated	Zoran Corporation
Fisher Communications, Inc.	Mobile Mini, Inc.	
FormFactor, Inc.	Pinnacle Financial Partners, Inc.	

In selecting the public companies for inclusion in the sample, the following factors were considered: industry, geographic location, net revenues, market capitalization, and whether the company may compete against us for executive talent. For fiscal year 2012, these companies ranged in annual revenue from approximately $58 million to $1.2 billion (median of $317 million) and market capitalization from approximately $53 million to $3.5 billion (median of $550 million) with four companies having been acquired or merged into other organizations during 2012. For 2012, the Company generally increased executive salaries based on the factor used for salary increases in the annual budget. In Mr. Nunemaker's case, his increase reflected his greater responsibilities as President.

Table of Contents

Our general guideline is to provide a total compensation opportunity that is reasonable in the prevailing market. The Compensation Committee does not seek to specifically benchmark compensation based upon the sample companies reviewed nor does the Compensation Committee employ any other formulaic process in making compensation decisions. Rather the Compensation Committee uses its subjective judgment based upon a review of all information, including an annual review for each officer of his or her level of responsibility, contributions to our financial results and our overall performance. The Compensation Committee makes a generalized assessment of these factors and this information is not weighted in any specific manner. Actual compensation packages may vary based on the Compensation Committee's and Mr. Willis' subjective evaluation of each executive's performance and potential and the Company's overall financial position and performance.

Governance of Compensation Programs

Our Chief Executive Officer, in conjunction with human resources, develops recommended annual salaries, incentive targets and long-term incentive compensation for the Named Executive Officers. After reviewing the survey and peer group information described above under "Compensation Philosophy and Objectives" and the market information provided by the Compensation Committee's outside consultant, the Compensation Committee determines in its subjective judgment the annual salaries, incentive targets and long-term incentive compensation for the Named Executive Officers.

Elements of Compensation

Each element of compensation has a different purpose, although in combination they are intended to make sure that Willis Lease has a competitive compensation package that attracts top talent and provides incentives that encourage a high level of short- and long-term performance for the benefit of stockholders. The Compensation Committee looks at these elements both individually (to ensure that each element is achieving its objective) and collectively (to ensure that the total compensation package is competitive). Components of the total executive compensation package, the details of which are discussed below, generally include (i) base salary, (ii) annual incentive compensation in the form of cash bonuses, (iii) long-term incentive compensation in the form of restricted stock, (iv) participation in the Company's employee stock purchase plan and other employee benefit plans and programs, and (v) in some cases, severance payments to be made upon an employment termination or change of control of the Company.

2012 was a challenging year for the Company in that the short-term costs associated with the complex refinancing of the indebtedness under the Company's Willis Engine Securitization Trust ("WEST") through a new vehicle, Willis Engine Securitization Trust II ("WEST II), had an immediate negative impact on Company's performance when examined through traditional measures of financial performance. Specifically, after absorbing $18.3 million in charges related to this refinancing and the redemption of its Preferred Stock (which included a write-off of $8.1 million related to issuance costs paid in prior periods), the Company lost $3.8 million, or $0.43 per diluted share, in 2012, compared to earnings of $11.4 million, or $1.28 per diluted share, in 2011. Nevertheless, the Compensation Committee (and the Board as a whole) felt that the incurrence of these short-term costs was an important strategic move for the Company in the long-term for various reasons. Among other things, the WEST II refinancing allowed the Company to lock in historically low interest rates for the long-term, matching long term debt to the Company's long-term assets. The WEST II transaction also released approximately $150 million of capital that the Company could deploy to pay off other higher fixed interest obligations, including repurchasing the Company's Series A Preferred Stock, saving the Company over $3 million in dividends annually. This additional capital also allowed the Company to invest in other strategic growth opportunities, such as the Company's joint venture with Mitsui & Co., Ltd., Willis Mitsui & Co Engine Support Limited, a joint venture which the Company has been able to help grow to more than $190 million of assets by March 2013. Because of this unusual

Table of Contents

situation in which the Company's decision to undertake actions with a long-term benefit but with a comparatively high short-term cost, the Compensation Committee's subjective determinations for 2012 compensation took special note of Named Executive Officers' contribution to the WEST II refinancing and other strategic initiatives.

Base Salary: Each officer's base salary is set on the basis of the Compensation Committee's assessment of salary levels in effect for comparable positions in the labor market, the officer's personal performance, and considerations of any special internal responsibilities. Specifically, since the Company is different in some respects from the other industrial and financial companies in the survey samples, and since to some degree responsibilities of the Company's executive officers differ from those in typical companies (for example our Chief Legal Counsel is also responsible for Human Resources), the Compensation Committee gives some consideration to internal responsibilities when determining salaries, annual incentive bonus targets, and long term incentive grants. The weight given these various factors may vary from individual to individual.

Base salaries are reviewed annually each year after updated peer company salary information becomes available, and adjustments are made in accordance with the factors described above. Base salary increases depend in part on market competitiveness, time in position, individual performance and growth during the year, and expected future performance. For 2012, each of Mr. Willis, Mr. Nunemaker and Mr. Forsyth received increases to their annual salary to reflect both>

345.8

389.6

Research and development

11.4

16.6

40.5

63.2

693.1

730.6

2,086.9

2,296.1

Operating income (loss)

(9.8
)

8.6

12.1

(70.9
)
Interest expense

7.7

3.0

19.9

8.3

Other income (expense), net

2.3

1.7

3.7

8.0

Income (loss) before income taxes

(15.2
)

7.3

(4.1
)

(71.2
)
Provision for income taxes

9.9

14.9

34.2

33.3

Consolidated net loss

(25.1
)

(7.6
)

(38.3
)

(104.5
)
Net income attributable to noncontrolling interests

3.1

2.0

8.2

6.5

Net loss attributable to Unisys Corporation

$
(28.2
)

$
(9.6
)

$
(46.5
)

$
(111.0
)
Loss per share attributable to Unisys Corporation

Basic

$
(0.56
)

$
(0.19
)

$
(0.93
)

$
(2.22
)

Diluted

$
(0.56
)

$
(0.19
)

$
(0.93
)

$
(2.22
)
See notes to consolidated financial statements.

3

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Consolidated net loss	$(25.1)	$(7.6)	$(38.3)	$(104.5)
Other comprehensive income				
Foreign currency translation	(15.7)	(72.0)	(54.1)	(86.5)
Postretirement adjustments, net of tax of $4.0 and $18.6 in 2016 and $9.8 and $15.7 in 2015	54.0	82.5	200.9	181.3
Total other comprehensive income	38.3	10.5	146.8	94.8
Comprehensive income (loss)	13.2	2.9	108.5	(9.7)
Less comprehensive income attributable to noncontrolling interests	(2.4)	(3.3)	(6.7)	(11.3)
Comprehensive income (loss) attributable to Unisys Corporation	$10.8	$(0.4)	$101.8	$(21.0)

See notes to consolidated financial statements.

4

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

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities		
Consolidated net loss	$(38.3)	$(104.5)
Add (deduct) items to reconcile consolidated net loss to net cash provided by (used for) operating activities:		
Foreign currency transaction losses	0.4	8.0
Non-cash interest expense	4.9	—
Employee stock compensation	7.7	7.9
Depreciation and amortization of properties	28.6	34.1
Depreciation and amortization of outsourcing assets	39.7	41.2
Amortization of marketable software	48.0	50.3
Other non-cash operating activities	1.4	1.8
Loss on disposal of capital assets	2.0	6.1
Pension contributions	(104.0)	(115.6)
Pension expense	63.0	81.5
Increase in deferred income taxes, net	(2.7)	(2.8)
Decrease in receivables, net	59.9	11.7
Decrease (increase) in inventories	5.5	(7.7)
Decrease in accounts payable and other accrued liabilities	(45.3)	(121.4)
Increase (decrease) in other liabilities	10.5	(8.3)
Decrease in other assets	20.0	9.2
Net cash provided by (used for) operating activities	101.3	(108.5)
Cash flows from investing activities		
Proceeds from investments	3,307.3	2,904.0
Purchases of investments	(3,331.6)	(2,884.2)
Investment in marketable software	(47.1)	(46.8)
Capital additions of properties	(18.3)	(40.2)
Capital additions of outsourcing assets	(41.4)	(80.4)
Other	(1.3)	6.1
Net cash used for investing activities	(132.4)	(141.5)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	213.5	31.8
Payments for capped call transactions	(27.3)	—
Issuance costs relating to long-term debt	(7.3)	—
Payments of long-term debt	(2.1)	(1.3)
Proceeds from exercise of stock options	—	3.7
Net (payments) proceeds from short-term borrowings	(65.8)	55.0
Financing fees	—	(0.2)
Net cash provided by financing activities	111.0	89.0
Effect of exchange rate changes on cash and cash equivalents	(2.4)	(40.2)
Increase (decrease) in cash and cash equivalents	77.5	(201.2)

Cash and cash equivalents, beginning of period	365.2	494.3
Cash and cash equivalents, end of period	$442.7	$293.1

See notes to consolidated financial statements.

5

Unisys Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
(Dollars in millions, except share and per share amounts)
In the opinion of management, the financial information furnished herein reflects all adjustments necessary for a fair presentation of the financial position, results of operations, comprehensive income and cash flows for the interim periods specified. These adjustments consist only of normal recurring accruals except as disclosed herein. Because of seasonal and other factors, results for interim periods are not necessarily indicative of the results to be expected for the full year.
The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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, inventories, outsourcing assets, marketable software, goodwill and other long-lived assets, legal contingencies, indemnifications, and 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 the consolidated financial statements in the company's Annual Report on Form 10-K for the year ended December 31, 2015 filed with the Securities and Exchange Commission. Such Annual Report also contains a discussion of the company's critical accounting policies. The company believes that these critical accounting policies affect its more significant estimates and judgments used in the preparation of the company's consolidated financial statements. There have been no changes in the company's critical accounting policies from those disclosed in the company's Annual Report on Form 10-K for the year ended December 31, 2015.
a. Earnings Per Share.
The following table shows how the Net income (loss) per share attributable to Unisys Corporation was computed for the three and nine months ended September 30, 2016 and 2015 (shares in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Basic Earnings (Loss) Per Share				
Net income (loss) attributable to Unisys Corporation	$(28.2)	$(9.6)	$(46.5)	$(111.0)
Weighted average shares	50,082	49,934	50,052	49,894
Total	$(0.56)	$(0.19)	$(0.93)	$(2.22)
Diluted Earnings (Loss) Per Share				
Net income (loss) attributable to Unisys Corporation	$(28.2)	$(9.6)	$(46.5)	$(111.0)
Add interest expense on convertible notes, net of tax of zero	—	—	—	—
Net income (loss) attributable to Unisys Corporation for diluted earnings per share	$(28.2)	$(9.6)	$(46.5)	$(111.0)
Weighted average shares	50,082	49,934	50,052	49,894
Plus incremental shares from assumed conversions:				
Employee stock plans	—	—	—	—
Convertible notes	—	—	—	—
Adjusted weighted average shares	50,082	49,934	50,052	49,894

Total	$(0.56)	$(0.19)	$(0.93)	$(2.22)

6

In the nine months ended September 30, 2016 and 2015, the following weighted-average number of stock options and restricted stock units were antidilutive and therefore excluded from the computation of diluted earnings per share (in thousands): 3,637 and 3,319, respectively. In the nine months ended September 30, 2016, the following weighted-average number of common shares issuable upon conversion of the 5.50% Convertible Senior Notes due 2021 were antidilutive and therefore excluded from the computation of diluted earnings per share (in thousands): 15,685.

b. Cost Reduction Actions.

In April 2015, in connection with organizational initiatives to create a more competitive cost structure and rebalance the company’s global skill set, the company initiated a plan to incur restructuring charges currently estimated at approximately $300 million through 2017.
During the twelve months ended December 31, 2015, the company recognized charges of $118.5 million in connection with this plan, principally related to a reduction in employees. The charges related to work-force reductions were $78.8 million and were comprised of: (a) a charge of $27.9 million for 700 employees in the U.S. and (b) a charge of $50.9 million for 782 employees outside the U.S. In addition, the company recorded charges of $39.7 million, related to asset impairments ($20.2 million) and other expenses related to the cost reduction effort ($19.5 million). The charges were recorded in the following statement of income classifications: cost of revenue – services, $52.3 million; cost of revenue – technology, $0.3 million; selling, general and administrative expenses, $53.5 million; and research and development expenses, $12.4 million.
During the three months ended September 30, 2016, the company recognized charges of $31.9 million in connection with this plan, principally related to a reduction in employees. The charges related to work-force reductions were $26.5 million, principally related to severance costs, and were comprised of: (a) a charge of $0.5 million for 49 employees in the U.S. and (b) a charge of $26.0 million for 329 employees outside the U.S. In addition, the company recorded charges of $5.4 million, for other expenses related to the cost reduction effort. The net charges were recorded in the following statement of income classifications: cost of revenue – services, $18.0 million; selling, general and administrative expenses, $14.2 million; and research and development expenses, $(0.3) million.
During the nine months ended September 30, 2016, the company recognized charges of $69.0 million in connection with this plan, principally related to a reduction in employees. The charges related to work-force reductions were $54.9 million, principally related to severance costs, and were comprised of: (a) a charge of $5.8 million for 293 employees in the U.S. and (b) a charge of $49.1 million for 928 employees outside the U.S. In addition, the company recorded charges of $14.1 million, for other expenses related to the cost reduction effort. The charges were recorded in the following statement of income classifications: cost of revenue – services, $34.6 million; selling, general and administrative expenses, $33.0 million; and research and development expenses, $1.4 million.
During the three months ended September 30, 2015, the company recognized charges of $17.4 million in connection with this plan. The charges related to work-force reductions were $9.8 million, principally related to severance costs, and were comprised of: (a) a charge of $2.7 million for 176 employees in the U.S. and (b) a charge of $7.1 million for 114 employees outside the U.S. In addition, the company recorded charges of $7.6 million for other expenses related to the cost reduction effort. The charges were recorded in the following statement of income classifications: cost of revenue - services, $7.9 million; cost of revenue - technology, $0.1 million; selling, general and administrative expenses, $8.6 million; and research and development expenses, $0.8 million.
During the nine months ended September 30, 2015, the company recognized charges of $70.0 million in connection with this plan, principally related to a reduction in employees. The charges related to work-force reductions were $52.3 million, principally related to severance costs, and were comprised of: (a) a charge of $28.1 million for 706 employees in the U.S. and (b) a charge of $24.2 million for 527 employees outside the U.S. In addition, the company recorded charges of $17.7 million related to asset impairments and other expenses related to the cost reduction effort. The charges were recorded in the following statement of income classifications: cost of revenue – services, $21.2 million; cost of revenue - technology, $0.2 million; selling, general and administrative expenses, $36.1 million; and

research and development expenses, $12.5 million.

7

A breakdown of the individual components of the work-force reduction costs follows:

	Total	U.S.	Int'l.
Charges for work-force reductions	$78.8	$27.9	$50.9
Payments	(45.3)	(23.7)	(21.6)
Translation adjustments	(0.5)	—	(0.5)
Balance at December 31, 2015	33.0	4.2	28.8
Additional provisions	60.3	6.8	53.5
Payments	(49.9)	(8.2)	(41.7)
Changes in estimates and revisions	(5.4)	(1.0)	(4.4)
Translation adjustments	1.2	—	1.2
Balance at September 30, 2016	$39.2	$1.8	$37.4
Expected future payments on balance at September 30, 2016:			
2016 remaining three months	$11.0	$1.5	$9.5
Beyond 2016	$28.2	$0.3	$27.9

c. Pension and Postretirement Benefits.

Net periodic pension expense for the three and nine months ended September 30, 2016 and 2015 is presented below:

	Three Months Ended September 30, 2016			Three Months Ended September 30, 2015		
	Total	U.S. Plans	Int'l. Plans	Total	U.S. Plans	Int'l. Plans
Service cost	$1.8	$—	$1.8	$2.2	$—	$2.2
Interest cost	79.3	57.7	21.6	80.0	56.1	23.9
Expected return on plan assets	(97.2)	(63.2)	(34.0)	(103.1)	(63.7)	(39.4)
Amortization of prior service (benefit) cost	(1.4)	(0.6)	(0.8)	(1.1)	(0.6)	(0.5)
Recognized net actuarial loss	38.7	29.0	9.7	49.2	33.1	16.1
Net periodic pension expense	$21.2	$22.9	$(1.7)	$27.2	$24.9	$2.3

	Nine Months Ended September 30, 2016			Nine Months Ended September 30, 2015		
	Total	U.S. Plans	Int'l. Plans	Total	U.S. Plans	Int'l. Plans
Service cost	$5.7	$—	$5.7	$6.5	$—	$6.5
Interest cost	241.2	173.4	67.8	238.9	168.1	70.8
Expected return on plan assets	(296.6)	(189.8)	(106.8)	(308.0)	(191.1)	(116.9)
Amortization of prior service (benefit) cost	(4.2)	(1.9)	(2.3)	(3.3)	(1.8)	(1.5)
Recognized net actuarial loss	116.9	87.0	29.9	147.4	99.5	47.9
Net periodic pension expense	$63.0	$68.7	$(5.7)	$81.5	$74.7	$6.8

In 2016, the company expects that it will make cash contributions of approximately $134.0 million to its worldwide defined benefit pension plans, which are comprised of $52.3 million for the company's U.S. qualified defined benefit pension plan and $81.7 million primarily for the company's non-U.S. defined benefit pension plans. In 2015, the company made cash contributions of $148.3 million to its worldwide defined benefit pension plans. For the nine months ended September 30, 2016 and 2015, $104.0 million and $115.6 million, respectively, of cash contributions have been made.

Net periodic postretirement benefit expense for the three and nine months ended September 30, 2016 and 2015 is presented below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Service cost	$0.1	$0.1	$0.3	$0.4
Interest cost	1.6	1.7	4.8	5.1
Expected return on assets	(0.1)	(0.1)	(0.3)	(0.3)
Recognized net actuarial loss	0.3	0.7	0.9	2.1
Amortization of prior service cost	—	0.3	—	0.9
Net periodic postretirement benefit expense	$1.9	$2.7	$5.7	$8.2

The company expects to make cash contributions of approximately $15.0 million to its postretirement benefit plan in 2016 compared with $15.9 million in 2015. For the nine months ended September 30, 2016 and 2015, $9.1 million and $10.8 million, respectively, of cash contributions have been made.

d. 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 3 months or less, which have not been designated as hedging instruments. At September 30, 2016 and 2015, the notional amount of these contracts was $432.5 million and $409.3 million, respectively. At September 30, 2016 and 2015, the fair value of such contracts was a net gain of $0.1 million and a net loss of $0.8 million, respectively, of which $0.9 million and $0.6 million, respectively, has been recognized in “Prepaid expenses and other current assets” and $0.8 million and $1.4 million, respectively, has been recognized in “Other accrued liabilities” in the company’s consolidated balance sheet. For the nine months ended September 30, 2016 and 2015, changes in the fair value of these instruments was a loss of $19.8 million and a gain of $13.7 million, respectively, which has been recognized in earnings in “Other income (expense), net” in the company’s consolidated statement of income. 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.

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 accrued liabilities. The carrying amounts of these financial assets and liabilities approximate fair value due to their short maturities. The fair value of long-term debt is based on market prices (Level 2 inputs). At September 30, 2016 and December 31, 2015, the fair value of the company's Senior Notes due 2017 was $216.8 million and $213.2 million, respectively. At September 30, 2016, the fair value of the company's Convertible Senior Notes due 2021, which were issued in March and April of 2016, was $259.2 million.

e. Stock Options.

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 September 30, 2016, 3.7 million shares of unissued common stock of the company were available for granting under these plans.

The fair value of stock option awards was estimated using the Black-Scholes option pricing model with the following assumptions and weighted-average fair values:

	Nine Months Ended September 30,	
	2016	2015
Weighted-average fair value of grant	$4.53	$9.00
Risk-free interest rate	1.29 %	1.28 %
Expected volatility	51.30 %	45.46 %
Expected life of options in years	4.90	4.92

Expected dividend yield	—	—

8

Restricted stock unit awards may contain time-based units, performance-based units or a combination of both. Each performance-based unit will vest into zero to 2.0 shares depending on the degree to which the performance goals are met. Compensation expense resulting from these 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.

The company records all share-based expense in selling, general and administrative expense.

During the nine months ended September 30, 2016 and 2015, the company recorded $7.7 million and $7.9 million of share-based compensation expense, respectively, which is comprised of $6.1 million and $3.8 million of restricted stock unit expense and $1.6 million and $4.1 million of stock option expense, respectively.

A summary of stock option activity for the nine months ended September 30, 2016 follows (shares in thousands):

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at December 31, 2015	2,723	$ 27.88		
Granted	11	10.85		
Exercised	—	—		
Forfeited and expired	(605)	36.26		
Outstanding at September 30, 2016	2,129	25.41	2.53	$ —
Expected to vest at September 30, 2016	624	25.97	3.95	—
Exercisable at September 30, 2016	1,486	25.21	1.91	—

The aggregate intrinsic value represents the total pretax value of the difference between the company's closing stock price on the last trading day of the period and the exercise price of the options, multiplied by the number of in-the-money stock options that would have been received by the option holders had all option holders exercised their options on September 30, 2016. The intrinsic value of the company's stock options changes based on the closing price of the company's stock. The total intrinsic value of options exercised for the nine months ended September 30, 2016 and 2015 was zero and $0.6 million, respectively. As of September 30, 2016, $1.9 million of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 1.3 years.

A summary of restricted stock unit activity for the nine months ended September 30, 2016 follows (shares in thousands):

	Restricted Stock Units	Weighted-Average Grant-Date Fair Value
Outstanding at December 31, 2015	469	$ 23.57
Granted	1,285	9.84
Vested	(184)	18.84
Forfeited and expired	(62)	17.63
Outstanding at September 30, 2016	1,508	$ 12.74

The fair value of restricted stock units is determined based on the trading price of the company's common shares on the date of grant. The aggregate weighted-average grant-date fair value of restricted stock units granted during the nine months ended September 30, 2016 and 2015 was $12.6 million and $10.1 million, respectively. As of September 30, 2016, there was $10.4 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 2.2 years. The aggregate weighted-average grant-date fair value of restricted stock units vested during the nine

months ended September 30, 2016 and 2015 was $3.5 million and $1.9 million, respectively.

Common stock issued upon exercise of stock options or upon lapse of restrictions on restricted stock units are newly issued shares. Cash received from the exercise of stock options for the nine months ended September 30, 2016 and 2015 was zero and $3.7 million, respectively. 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. Tax benefits resulting from tax deductions in excess of the compensation costs recognized are classified as financing cash flows.

f. Segment Information.

The company has two business segments: Services and Technology. Revenue classifications within the Services segment are as follows:

- Cloud & infrastructure services. This represents revenue from work the company performs in the data center and cloud area, technology consulting and technology-based systems integration projects, as well as global service desks and global field services.
- Application services. This represents revenue from application managed services and application development, maintenance and support work.
- Business processing outsourcing services. This represents revenue from the management of clients' specific business processes.

The accounting policies of each business segment are the same as those followed by the company as a whole. Intersegment sales and transfers are priced as if the sales or transfers were to third parties. Accordingly, the Technology segment recognizes intersegment revenue and manufacturing profit on hardware and software shipments to customers under Services contracts. The Services segment, in turn, recognizes customer revenue and marketing profits on such shipments of company hardware and software to customers. The Services segment also includes the sale of hardware and software products sourced from third parties that are sold to customers through the company's Services channels. In the company's consolidated statements of income, the manufacturing costs of products sourced from the Technology segment and sold to Services customers are reported in cost of revenue for Services.

Also included in the Technology segment's sales and operating profit are sales of hardware and software sold to the Services segment for internal use in Services engagements. The amount of such profit included in operating income of the Technology segment for the three months ended September 30, 2016 and 2015 was $0.1 million and $1.6 million, respectively. The amount for the nine months ended September 30, 2016 and 2015 was $0.6 million and $9.1 million, respectively. The profit on these transactions is eliminated in Corporate.

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

A summary of the company's operations by business segment for the three and nine month periods ended September 30, 2016 and 2015 is presented below:

	Total	Corporate	Services	Technology
Three Months Ended September 30, 2016				
Customer revenue	$683.3		$ 600.9	$ 82.4
Intersegment		$ (5.8)	—	5.8
Total revenue	$683.3	$ (5.8)	$ 600.9	$ 88.2
Operating income (loss)	$(9.8)	$ (53.9)	$ 15.5	$ 28.6
Three Months Ended September 30, 2015				
Customer revenue	$739.2		$ 656.0	$ 83.2
Intersegment		$ (11.9)	—	11.9
Total revenue	$739.2	$ (11.9)	$ 656.0	$ 95.1
Operating income (loss)	$8.6	$ (42.9)	$ 31.8	$ 19.7

10

	Total	Corporate	Services	Technology
Nine Months Ended September 30, 2016				
Customer revenue	$2,099.0		$1,809.8	$ 289.2
Intersegment		$(17.3)	—	17.3
Total revenue	$2,099.0	$(17.3)	$1,809.8	$ 306.5
Operating income (loss)	$12.1	$(130.3)	$32.2	$ 110.2
Nine Months Ended September 30, 2015				
Customer revenue	$2,225.2		$1,956.5	$ 268.7
Intersegment		$(40.6)	0.1	40.5
Total revenue	$2,225.2	$(40.6)	$1,956.6	$ 309.2
Operating income (loss)	$(70.9)	$(152.3)	$37.6	$ 43.8

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Total segment operating income	$44.1	$51.5	$142.4	$81.4
Interest expense	(7.7)	(3.0)	(19.9)	(8.3)
Other income (expense), net	2.3	1.7	3.7	8.0
Cost reduction charges	(31.9)	(17.4)	(69.0)	(70.0)
Corporate and eliminations	(22.0)	(25.5)	(61.3)	(82.3)
Total income (loss) before income taxes	$(15.2)	$7.3	$(4.1)	$(71.2)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Services				
Cloud & infrastructure services	$341.9	$380.0	$1,017.8	$1,146.1
Application services	210.4	220.7	641.4	640.6
Business processing outsourcing services	48.6	55.3	150.6	169.8
	600.9	656.0	1,809.8	1,956.5
Technology	82.4	83.2	289.2	268.7
Total	$683.3	$739.2	$2,099.0	$2,225.2

Geographic information about the company's revenue, which is principally based on location of the selling organization, is presented below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
United States	$327.1	$359.9	$1,006.4	$1,085.8
United Kingdom	72.3	92.6	263.6	264.1

Other foreign	283.9	286.7	829.0	875.3
Total	$683.3	$739.2	$2,099.0	$2,225.2

11

g. Accumulated Other Comprehensive Income.

Accumulated other comprehensive loss as of December 31, 2015 and September 30, 2016 is as follows:

	Total	Translation Adjustments	Postretirement Plans
Balance at December 31, 2015	$(3,945.3)	$ (833.8)	$ (3,111.5)
Other comprehensive income before reclassifications	39.9	(43.1)	83.0
Amounts reclassified from accumulated other comprehensive income	108.4	—	108.4
Current period other comprehensive income	148.3	(43.1)	191.4
Balance at September 30, 2016	$(3,797.0)	$ (876.9)	$ (2,920.1)

Amounts related to postretirement plans not reclassified in their entirety out of accumulated other comprehensive income for the three and nine months ended September 30, 2016 and 2015 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Amortization of prior service cost*	$(1.4)	$(0.8)	$(4.2)	$(2.3)
Amortization of actuarial losses*	38.6	47.8	116.6	143.1
Total before tax	37.2	47.0	112.4	140.8
Income tax benefit	(1.1)	(3.9)	(4.0)	(6.9)
Net of tax	$36.1	$43.1	$108.4	$133.9

*These items are included in net periodic postretirement cost (see note (c)).

Noncontrolling interests as of December 31, 2015 and September 30, 2016 are as follows:

	Noncontrolling Interests
Balance at December 31, 2015	$ 11.1
Net income	8.2
Translation adjustments	(11.0)
Postretirement plans	9.5
Balance at September 30, 2016	$ 17.8

h. Supplemental Cash Flow Information.

Cash paid, net of refunds, during the nine months ended September 30, 2016 and 2015 for income taxes was $33.4 million and $52.5 million, respectively.

Cash paid during the nine months ended September 30, 2016 and 2015 for interest was $19.3 million and $13.7 million, respectively.

12

i. Commitments and Contingencies.
There are various lawsuits, claims, investigations and proceedings that have been brought or asserted against the company, which arise in the ordinary course of business, including actions with respect to commercial and government contracts, labor and employment, employee benefits, environmental matters, intellectual property, and non-income tax and employment compensation in Brazil. The company records a provision for these matters when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Any provisions are reviewed at least quarterly and are adjusted to reflect the impact and status of settlements, rulings, advice of counsel and other information and events pertinent to a particular matter.
The company believes that it has valid defenses with respect to legal matters pending against it. Based on its experience, the company also believes that the damage amounts claimed in the lawsuits disclosed below are not a meaningful indicator of the company’s potential liability. Litigation is inherently unpredictable, however, and it is possible that the company’s results of operations or cash flow could be materially affected in any particular period by the resolution of one or more of the legal matters pending against it.
In April 2007, the Ministry of Justice of Belgium sued Unisys Belgium SA-NV, a Unisys subsidiary (Unisys Belgium), in the Court of First Instance of Brussels. The Belgian government had engaged the company to design and develop software for a computerized system to be used to manage the Belgian court system. The Belgian State terminated the contract and in its lawsuit has alleged that the termination was justified because Unisys Belgium failed to deliver satisfactory software in a timely manner. It claims damages of approximately €28 million. Unisys Belgium filed its defense and counterclaim in April 2008, in the amount of approximately €18.5 million. The company believes it has valid defenses to the claims and contends that the Belgian State’s termination of the contract was unjustified.
The company’s Brazilian operations, along with those of many other companies doing business in Brazil, are involved in various litigation matters, including numerous governmental assessments related to indirect and other taxes, as well as disputes associated with former employees and contract labor. The tax-related matters pertain to value added taxes, customs, duties, sales and other non-income related tax exposures. The labor-related matters include claims related to compensation matters. The company believes that appropriate accruals have been established for such matters based on information currently available. At September 30, 2016, excluding those matters that have been assessed by management as being remote as to the likelihood of ultimately resulting in a loss, the amount related to unreserved tax-related matters, inclusive of any related interest, is estimated to be up to approximately $124 million.
The company has been involved in a matter arising from the sale of its Health Information Management (HIM) business to Molina Information Systems, LLC (Molina) under a 2010 Asset Purchase Agreement (APA). The HIM business provided system solutions and services to state governments, including the state of Idaho, for administering Medicaid programs. In August 2012, Molina sued the company in Federal District Court in Delaware alleging breaches of contract, negligent misrepresentation and intentional misrepresentation with respect to the APA and the Medicaid contract with Idaho. Molina sought compensatory damages, punitive damages, lost profits, indemnification, and declaratory relief. Molina alleged losses of approximately $35 million in the complaint. In June 2013, the District Court granted the company’s motion to dismiss the complaint and allowed Molina to replead certain claims and file an amended complaint. In August 2013, Molina filed an amended complaint. The company filed a motion to dismiss the amended complaint. On September 2, 2014, the District Court granted the company’s motion to dismiss the negligent misrepresentation claim, but denied the company’s motion with respect to Molina’s intentional misrepresentation and breach of contract claims. The parties have reached an agreement in principle to settle this matter.
On June 26, 2014, the State of Louisiana filed a Petition for Damages against, among other defendants, the company and Molina Information Systems, LLC, in the Parish of East Baton Rouge, 19th Judicial District. The State alleged that between 1989 and 2012 the defendants, each acting successively as the State’s Medicaid fiscal intermediary, utilized an incorrect reimbursement formula for the payment of pharmaceutical claims causing the State to pay excessive amounts for prescription drugs. The State contends 3.6 million claims were improperly paid resulting in overpayments of approximately $32 million for the period September 2008 to December 2010 and is seeking data to identify the claims at issue for the remaining time period. The company believes that it has valid defenses to Louisiana's claims and is asserting them in the pending litigation.

With respect to the specific legal proceedings and claims described above, except as otherwise noted, either (i) the amount or range of possible losses in excess of amounts accrued, if any, is not reasonably estimable or (ii) the company believes that the amount or range of possible losses in excess of amounts accrued that are estimable would not be material.

Litigation is inherently unpredictable and unfavorable resolutions could occur. Accordingly, it is possible that an adverse outcome from such matters could exceed the amounts accrued in an amount that could be material to the company's financial condition, results of operations and cash flows in any particular reporting period. Notwithstanding that the ultimate results of the lawsuits, claims, investigations and proceedings that have been brought or asserted against the company are not currently determinable, the company believes that at September 30, 2016, it has adequate provisions for any such matters.

j. 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. Included in the nine months ended September 30, 2016 is an increase in the company's income tax provision of $3.4 million caused by a decrease in net deferred tax assets due to a UK rate change. The UK government reduced its corporate tax rate to 17% effective April 1, 2020. These changes were considered to be enacted for U.S. GAAP purposes in September of 2016, when all legislative procedures were completed and the Finance Act of 2016 received Royal Assent. The UK government had previously announced a reduction to 19% from April 1, 2017.

Accounting rules governing income taxes 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. As of September 30, 2016, management determined that there was sufficient positive evidence to conclude that it is more likely than not that deferred income taxes of an international subsidiary of $16.4 million are realizable and therefore reduced its valuation allowance accordingly.

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. continuing operations will have no provision or benefit associated with it due to full valuation allowance, except with respect to refundable tax credits and 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.

k. Accounting Standards.

Effective January 1, 2016, the company adopted new guidance issued by the Financial Accounting Standards Board ("FASB") on the presentation of debt issuance costs. The new guidance requires that debt issuance costs shall be reported in the balance sheet as a direct deduction from the face amount of that debt. Previously the company reported these costs in "Other long-term assets" in the company's balance sheet. At December 31, 2015, the amount reclassified was $1.8 million. The new guidance has been applied on a retrospective basis whereby prior-period financial statements have been adjusted to reflect the application of the new guidance, as required by the FASB.

Effective January 1, 2016, the company adopted new guidance issued by the FASB that simplifies the measurement of inventory. The new guidance states that an entity should measure inventory at the lower of cost and net realizable value. Net realizable value is the estimate of estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. When evidence exists that the net realizable value of inventory is lower than its cost, the difference shall be recognized as a loss in the period in which it occurs. That loss may be required, for example, due to damage, physical deterioration, obsolescence, changes in price levels, or other causes. Adoption of this new guidance had no impact on the company's consolidated results of operations and financial position.

Effective January 1, 2016, the company adopted new guidance issued by the FASB that simplifies the balance sheet classification of deferred income taxes. The new guidance requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The new guidance also requires companies to offset all

deferred tax assets and liabilities (and valuation allowances) for each tax-paying jurisdiction within each tax-paying component. The net deferred tax must be presented as a single noncurrent amount. Previous guidance required an entity to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position. The new guidance has been applied on a retrospective basis whereby prior-period financial statements have been adjusted to reflect the application

of the new guidance. At December 31, 2015, the reclassification resulted in a reduction of current deferred income tax assets of $24.1 million, a decrease in other current assets of $0.1 million, an increase in noncurrent deferred income tax assets of $12.9 million, a decrease in other long-term assets of $0.1 million, a decrease in current other accrued liabilities of $9.4 million and a decrease in other long-term liabilities of $2.0 million.

In October 2016, the FASB issued new guidance which reduces the complexity in the accounting standards by allowing the recognition of current and deferred income taxes for an intra-entity asset transfer, other than inventory, when the transfer occurs. Historically, recognition of the income tax consequence was not recognized until the asset was sold to an outside party. This amendment should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. This update is effective for annual periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. Early adoption is permitted for all entities as of the beginning of an annual reporting period for which financial statements (interim or annual) have not been issued or made available for issuance. The company is currently assessing when it will choose to adopt and does not expect the adoption to have a material impact on its consolidated results of operations and financial position.

In August 2016, the FASB issued new guidance which clarifies the treatment of several cash flow categories. In addition, the guidance also clarifies that when cash receipts and cash payments have aspects of more than one class of cash flows and cannot be separated, classification will depend on the predominant source or use. This update is effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted, including adoption in an interim period. The company will adopt the new guidance on January 1, 2017. The company does not expect the adoption to have a material impact on its consolidated statements of cash flows.

In March 2016, the FASB issued new guidance that will change certain aspects of accounting for share-based payments to employees. The new guidance will require all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. It also will allow an employer to repurchase more of an employee's shares than it can today for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. The guidance is effective for annual reporting periods beginning after December 15, 2016. The company will adopt the new guidance on January 1, 2017. The company does not expect the adoption to have a material impact on its consolidated results of operations and financial position.
In February 2016, the FASB issued a new lease accounting standard entitled "Leases." The new standard is intended to improve financial reporting about leasing transactions. The new rule will require 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 requires disclosures to help investors and other financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. The standard is effective for annual reporting periods beginning after December 15, 2018, which for the company is January 1, 2019. Earlier adoption is permitted. The company is currently assessing when it will choose to adopt, and is currently evaluating the impact of the adoption on its consolidated results of operations and financial position.
In 2014, the FASB issued a new revenue recognition standard entitled "Revenue from Contracts with Customers." The objective of the standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows from a contract with a customer. The standard, and its various amendments, is effective for annual reporting periods beginning after December 15, 2017, which for the company is January 1, 2018. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, which for the company is January 1, 2017. The standard allows for either "full retrospective" adoption, meaning the standard is applied to all periods presented, or "modified retrospective" adoption, meaning the standard is applied only to the most current period presented in the financial statements. The company is currently assessing when and which method it will choose for adoption, and is evaluating

the impact of the adoption on its consolidated results of operations and financial position.

15

l. Debt.

On March 15, 2016, the company issued $190 million aggregate principal amount of Convertible Senior Notes due 2021 (the notes). On April 13, 2016, the company issued an additional $23.5 million of the notes pursuant to an over-allotment option exercised by the initial purchasers to buy additional notes, for a total of $213.5 million of notes issued. The notes, which are senior unsecured obligations, bear interest at a coupon rate of 5.50% (or 9.5% effective interest rate) per year until maturity, payable semiannually in arrears on March 1 and September 1 of each year, beginning on September 1, 2016. The notes are not redeemable prior to maturity and are convertible into shares of the company's common stock. The conversion rate for the notes is 102.4249 shares of the company's common stock per $1,000 principal amount of the notes (or a total amount of 21,867,716 shares), which is equivalent to an initial conversion price of approximately $9.76 per share of the company's common stock. Upon any conversion, the company will settle its conversion obligation in cash, shares of its common stock, or a combination of cash and shares of its common stock, at its election.

In connection with the issuances of the notes, the company also paid $27.3 million to enter into privately negotiated capped call transactions with the initial purchasers and/or affiliates of the initial purchasers. The capped call transactions will cover, subject to customary anti-dilution adjustments, the number of shares of the company's common stock that will initially underlie the notes. The capped call transactions are expected to reduce potential dilution to the company's common stock and/or offset potential cash payments the company is required to make in excess of the principal amount upon any conversion of the notes.

In accordance with Accounting Standards Codification 470-20, a convertible debt instrument that may be settled entirely or partially in cash is required to be separated into a liability and equity component, such that interest expense reflects the issuer's non-convertible debt interest rate. Upon issuance, (i) a debt discount of $33.6 million was recognized as a decrease in debt and an increase in additional-paid in capital and (ii) the cost of the capped call transactions of $27.3 million was recognized as a decrease in cash and a decrease in additional paid-in capital. The debt component will accrete up to the principal amount and will be recognized as non-cash interest expense over the expected term of the notes. For the three and nine months ended September 30, 2016, $4.6 million and $9.9 million, respectively, was recorded as interest expense on such convertible debt, which includes the contractual interest coupon, amortization of the debt discount, and amortization of the debt issuance costs.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion and analysis of the company's financial condition and results of operations should be read in conjunction with the consolidated financial statements and the related notes included elsewhere in this quarterly report. In this discussion and analysis of the company's financial condition and results of operations, the company has included information that may constitute "forward-looking" statements, as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements provide current expectations of future events and include any statement that does not directly relate to any historical or current fact. Words such as "anticipates," "believes," "expects," "intends," "plans," "projects" and similar expressions may identify such forward-looking statements. All forward-looking statements rely on assumptions and are subject to risks, uncertainties and other factors that could cause the company's actual results to differ materially from expectations. Factors that could affect future results include, but are not limited to, those discussed under "Factors that may affect future results" and "Cautionary Statement Pursuant to the U.S. Private Securities Litigation Reform Act of 1995" in Part I, Item 1A of the company's 2015 Form 10-K. Any forward-looking statement speaks only as of the date on which that statement is made. The company assumes no obligation to update any forward-looking statement to reflect events or circumstances that occur after the date on which the statement is made.

Overview

In April 2015, in connection with organizational initiatives to create a more competitive cost structure and rebalance the company's global skill set, the company initiated a plan to incur restructuring charges currently estimated at approximately $300 million through 2017. During 2015, the company recognized charges of $118.5 million in connection with this plan, principally related to a reduction in employees. During 2016, the company continued to implement this plan and has incurred an additional $69.0 million of cost reduction charges.

For the nine months ended September 30, 2016, the company reported a net loss attributable to Unisys Corporation of $46.5 million, or a loss of $0.93 per diluted share, compared with a net loss of $111.0 million or a loss of $2.22 per diluted share for the nine months ended September 30, 2015. The company's results of operations in the current period were positively impacted by savings from the cost reduction actions partially offset by an increase in interest expense.

Results of operations

Company results

Three months ended September 30, 2016 compared with the three months ended September 30, 2015

During the three months ended September 30, 2016, the company recognized charges of $31.9 million in connection with its cost-reduction plan, principally related to a reduction in employees. The charges related to work-force reductions were $26.5 million, principally related to severance costs, and were comprised of: (a) a charge of $0.5 million for 49 employees in the U.S. and (b) a charge of $26.0 million for 329 employees outside the U.S. In addition, the company recorded charges of $5.4 million for other expenses related to the cost reduction effort. The net charges were recorded in the following statement of income classifications: cost of revenue - services, $18.0 million; selling, general and administrative expenses, $14.2 million; and research and development expenses, $(0.3) million.

During the three months ended September 30, 2015, the company recognized charges of $17.4 million in connection with this plan. The charges related to workforce reductions were $9.8 million, principally related to severance costs, and were comprised of: (a) charges of $2.7 million for 176 employees in the U.S. and (b) charges of $7.1 million for 114 employees outside the U.S. In addition, the company recorded charges of $7.6 million for other expenses related to the cost reduction effort. The charges were recorded in the following statement of income classifications: cost of revenue - services, $7.9 million; cost of revenue - technology, $0.1 million; selling, general and administrative expenses, $8.6 million; and research and development expenses, $0.8 million.

Revenue for the quarter ended September 30, 2016 was $683.3 million compared with $739.2 million for the third quarter of 2015, a decrease of 8% from the prior year. Foreign currency fluctuations had a 2 percentage-point negative impact on revenue in the current period compared with the year-ago period.

Services revenue decreased 8% and Technology revenue decreased 1% in the current quarter compared with the year-ago period. U.S. revenue decreased 9% in the third quarter compared with the year-ago period. International revenue decreased 6% in the current quarter primarily due to decreases in the Europe and Latin America regions. Foreign currency had a 3 percentage-point negative impact on international revenue in the three months ended September 30, 2016 compared with the three months ended September 30, 2015.

Total gross profit margin was 17.8% in the three months ended September 30, 2016 compared with 19.0% in the three months ended September 30, 2015. The decline was principally due to an increase of $10.0 million in cost reduction charges in the current period. $18.0 million was recorded in the three months ended September 30, 2016 compared with $8.0 million in the three months ended September 30, 2015.
Selling, general and administrative expense in the three months ended September 30, 2016 was $120.0 million (17.6% of revenue) compared with $115.4 million (15.6% of revenue) in the year-ago period. Cost reduction charges of $14.2 million were recorded in the three months ended September 30, 2016 compared with $8.6 million in the three months ended September 30, 2015.
Research and development (R&D) expenses in the third quarter of 2016 were $11.4 million compared with $16.6 million in the third quarter of 2015. The decrease principally reflects savings due to cost reduction actions.
For the third quarter of 2016, the company reported an operating loss of $9.8 million compared with operating income of $8.6 million in the third quarter of 2015. The current year loss principally reflects higher cost reduction charges compared with the third quarter of 2015 partially offset by savings due to cost reduction actions.

For the three months ended September 30, 2016, pension expense was $21.2 million compared with pension expense of $27.2 million for the three months ended September 30, 2015. For the full year 2016, the company expects to recognize pension expense of approximately $84.5 million compared with $108.7 million for the full year of 2015. The company records pension income or expense, as well as other employee-related costs such as payroll taxes and medical insurance costs, in operating income in the following income statement categories: cost of revenue; selling, general and administrative expenses; and research and development expenses. The amount allocated to each category is principally based on where the salaries of plan participants who are active employees are charged.
Interest expense for the three months ended September 30, 2016 was $7.7 million compared with $3.0 million for the three months ended September 30, 2015. The increase was principally caused by the issuance of convertible notes (see note (l) of the Notes to Consolidated Financial Statements).
Other income (expense), net was income of $2.3 million in the third quarter of 2016 compared with income of $1.7 million in in the third quarter of 2015.
Loss before income taxes for the three months ended September 30, 2016 was $15.2 million compared with income of $7.3 million for the three months ended September 30, 2015. The current year loss principally reflects increases in cost reduction charges and interest expense partially offset by lower pension expense and savings due to cost reduction actions.

The provision for income taxes was $9.9 million in the current quarter compared with $14.9 million in the year-ago period. The three months ended September 30, 2016 includes an increase in the company's income tax provision of $3.4 million caused by a decrease in net deferred tax assets due to a UK rate change. As discussed in note (j) of the Notes to Consolidated Financial Statements, the company evaluates quarterly the realizability of its deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary. At September 30, 2016, the provision for income taxes includes a benefit of $16.4 million related to changes in judgment on the realizability of certain of its deferred tax assets. The company records 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 has no provision or benefit associated with it due to a full valuation allowance. As a result, the company's provision or benefit for taxes may vary significantly quarter to quarter depending on the geographic distribution of income.
Net loss attributable to Unisys Corporation for the three months ended September 30, 2016 was $28.2 million, or loss of $0.56 per diluted share, compared with net loss of $9.6 million, or loss of $0.19 per diluted share, for the three months ended September 30, 2015.

Nine months ended September 30, 2016 compared with the nine months ended September 30, 2015
During the nine months ended September 30, 2016, the company recognized charges of $69.0 million in connection with its cost-reduction plan, principally related to a reduction in employees. The charges related to work-force reductions were $54.9 million, principally related to severance costs, and were comprised of: (a) a charge of $5.8 million for 293 employees in the U.S. and (b) a charge of $49.1 million for 928 employees outside the U.S. In addition, the company recorded charges of $14.1 million for other expenses related to the cost reduction effort. The charges were recorded in the following statement of income classifications: cost of revenue - services, $34.6 million; selling, general and administrative expenses, $33.0 million; and research and development expenses, $1.4 million.
During the nine months ended September 30, 2015, the company recognized charges of $70.0 million in connection with this plan, principally related to a reduction in employees. The charges related to workforce reductions were $52.3 million, principally related to severance costs, and were comprised of: (a) charges of $28.1 million for 706 employees in the U.S. and (b) charges of $24.2 million for 527 employees outside the U.S. In addition, the company recorded charges of $17.7 million related to asset impairments ($4.0 million) and other expenses related to the cost reduction effort ($13.7 million). The charges were recorded in the following statement of income classifications: cost of revenue - services, $21.2 million; cost of revenue - technology, $0.2 million; selling, general and administrative expenses, $36.1 million; and research and development expenses, $12.5 million.
Revenue for the nine months ended September 30, 2016 was $2,099.0 million compared with $2,225.2 million for the nine months ended September 30, 2015, a decline of 6%. Foreign currency fluctuations had a 3-percentage-point negative impact on revenue in the current period compared with the year-ago period.
Services revenue decreased 7% and Technology revenue increased 8% for the nine months ended September 30, 2016 compared with the year-ago period. U.S. revenue decreased 7% in the current period compared with the year-ago period. International revenue decreased 4% in the current period due to declines in the Europe and Latin America regions partially offset by an increase in the Asia Pacific region. Foreign currency had a 5-percentage-point negative impact on international revenue in the nine months ended September 30, 2016 compared with the nine months ended September 30, 2015.
Total gross profit margin was 19.0% in the nine months ended September 30, 2016 compared with 17.2% in the nine months ended September 30, 2015. The increase was principally due to higher sales of the company's proprietary enterprise software and services in the current period and lower pension expense of $12.5 million partially offset by a $13.2 million increase in cost reduction charges in the current period compared with the prior-year period. $34.6 million was recorded for the period ended September 30, 2016 compared with $21.4 million in the period ended September 30, 2015.
Selling, general and administrative expense in the nine months ended September 30, 2016 was $345.8 million (16.5% of revenue) compared with $389.6 million (17.5% of revenue) in the year-ago period. The decline principally reflects savings due to cost reduction actions.
Research and development (R&D) expenses for the nine months ended September 30, 2016 were $40.5 million compared with $63.2 million in the prior-year period. Cost reduction charges of $1.4 million were recorded in the nine months ended September 30, 2016 compared with $12.5 million in the nine months ended September 30, 2015. Exclusive of these charges and lower pension expense of $2.5 million, the decline principally reflects savings due to cost reduction actions.
For the nine months ended September 30, 2016, the company reported operating income of $12.1 million compared with an operating loss of $70.9 million in the prior-year period. Current year income principally reflects higher sales of the company's proprietary enterprise software and services, benefits derived from the cost reduction actions and lower pension expense.
For the nine months ended September 30, 2016, pension expense was $63.0 million compared with pension expense of $81.5 million for the nine months ended September 30, 2015.
Interest expense for the nine months ended September 30, 2016 was $19.9 million compared with $8.3 million for the nine months ended September 30, 2015. The increase was principally caused by the issuance of convertible notes (see Note (l) of the Notes to Consolidated Financial Statements).

Other income was $3.7 million in the nine months ended September 30, 2016 compared with $8.0 million in 2015. Included in the current and prior-year period were foreign exchange gains of $2.4 million and $8.4 million, respectively.

Loss before income taxes for the nine months ended September 30, 2016 was $4.1 million compared with a loss of $71.2 million for the nine months ended September 30, 2015. The current year loss before income taxes decreased primarily due to higher sales of the company's proprietary enterprise software and services, savings due to cost reduction actions and lower pension expense partially offset by higher interest expense.

The provision for income taxes was $34.2 million in the current period compared with $33.3 million in the year-ago period. The nine months ended September 30, 2016 includes an increase in the company's income tax provision of $3.4 million caused by a decrease in net deferred tax assets due to a UK rate change. As discussed in note (j) of the Notes to Consolidated Financial Statements, the company evaluates quarterly the realizability of its deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary. For the nine months ended September 30, 2016, the provision for income taxes includes a benefit of $16.4 million related to changes in judgment on the realizability of certain of its deferred tax assets. The company records 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 has no provision or benefit associated with it due to a full valuation allowance. As a result, the company's provision or benefit for taxes may vary significantly quarter to quarter depending on the geographic distribution of income.

Net loss attributable to Unisys Corporation for the nine months ended September 30, 2016 was $46.5 million, or loss of $0.93 per diluted share, compared with net loss of $111.0 million, or loss of $2.22 per diluted share, for the nine months ended September 30, 2015.

Segment results

The company has two business segments: Services and Technology. Revenue classifications within the Services segment are as follows:

- Cloud & infrastructure services. This represents revenue from work the company performs in the data center and cloud area, technology consulting and technology-based systems integration projects, as well as global service desks and global field services.
- Application services. This represents revenue from application managed services and application development, maintenance and support work.
- Business processing outsourcing services. This represents revenue from the management of clients' specific business processes.

The accounting policies of each business segment are the same as those followed by the company as a whole. Intersegment sales and transfers are priced as if the sales or transfers were to third parties. Accordingly, the Technology segment recognizes intersegment revenue and manufacturing profit on hardware and software shipments to customers under Services contracts. The Services segment, in turn, recognizes customer revenue and marketing profits on such shipments of company hardware and software to customers. The Services segment also includes the sale of hardware and software products sourced from third parties that are sold to customers through the company's Services channels. In the company's consolidated statements of income, the manufacturing costs of products sourced from the Technology segment and sold to Services customers are reported in cost of revenue for Services.

Also included in the Technology segment's sales and operating profit are sales of hardware and software sold to the Services segment for internal use in Services engagements. The amount of such profit included in operating income of the Technology segment for the three months ended September 30, 2016 and 2015 was $0.1 million and $1.6 million, respectively. The amount for the nine months ended September 30, 2016 and 2015 was $0.6 million and $9.1 million, respectively. The profit on these transactions is eliminated in Corporate.

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

20

Three months ended September 30, 2016 compared with the three months ended September 30, 2015

Information by business segment is presented below:

	Total	Eliminations	Services	Technology
Three Months Ended September 30, 2016				
Customer revenue	$683.3		$600.9	$ 82.4
Intersegment		$ (5.8)	—	5.8
Total revenue	$683.3	$ (5.8)	$600.9	$ 88.2
Gross profit percent	17.8 %		16.7 %	59.8 %
Operating profit (loss) percent	(1.4)%		2.6 %	32.3 %
Three Months Ended September 30, 2015				
Customer revenue	$739.2		$656.0	$ 83.2
Intersegment		$ (11.9)	—	11.9
Total revenue	$739.2	$ (11.9)	$656.0	$ 95.1
Gross profit percent	19.0 %		17.3 %	55.0 %
Operating profit percent	1.2 %		4.8 %	20.7 %

Gross profit and operating profit (loss) percent are as a percent of total revenue.
Customer revenue by classes of similar products or services, by segment, is presented below:

	Three Months Ended September 30,		Percent Change
	2016	2015	
Services			
Cloud & infrastructure services	$341.9	$380.0	(10.0)%
Application services	210.4	220.7	(4.7)%
Business processing outsourcing services	48.6	55.3	(12.1)%
	600.9	656.0	(8.4)%
Technology	82.4	83.2	(1.0)%
Total	$683.3	$739.2	(7.6)%

In the Services segment, customer revenue was $600.9 million for the three months ended September 30, 2016, down 8.4% from the three months ended September 30, 2015. Foreign currency translation had a 2 percentage-point negative impact on Services revenue in the current quarter compared with the year-ago period.
Revenue from cloud & infrastructure services was $341.9 million in the September 2016 quarter, down 10.0% compared with the September 2015 quarter. Foreign currency fluctuations had a 1 percentage-point negative impact on cloud & infrastructure services revenue in the current period compared with the year-ago period.
Application services revenue decreased 4.7% for the three month period ended September 30, 2016 compared with the three month period ended September 30, 2015. Foreign currency fluctuations had a 2 percentage-point negative impact on application services revenue in the current period compared with the year-ago period.
Business processing outsourcing services revenue decreased 12.1% in the current quarter compared with the prior-year quarter. Foreign currency fluctuations had a 10 percentage-point negative impact on business processing outsourcing services revenue in the current period compared with the year-ago period.

Services gross profit was 16.7% in the third quarter of 2016 compared with 17.3% in the year-ago period. Services operating income percent was 2.6% in the three months ended September 30, 2016 compared with 4.8% in the three months ended September 30, 2015.

21

In the Technology segment, customer revenue decreased 1.0% to $82.4 million in the current quarter compared with $83.2 million in the year-ago period. Foreign currency translation had a 1 percentage-point negative impact on Technology revenue in the current quarter compared with the year-ago period.
Technology gross profit was 59.8% in the current quarter compared with 55.0% in the year-ago quarter. Technology operating income percent was 32.3% in the three months ended September 30, 2016 compared with 20.7% in the three months ended September 30, 2015. The increase in operating profit percentage principally reflects savings due to cost reduction actions.

Nine months ended September 30, 2016 compared with the nine months ended September 30, 2015

Information by business segment is presented below:

	Total	Eliminations	Services	Technology
Nine Months Ended September 30, 2016				
Customer revenue	$2,099.0		$1,809.8	$ 289.2
Intersegment		$ (17.3)	—	17.3
Total revenue	$2,099.0	$ (17.3)	$1,809.8	$ 306.5
Gross profit percent	19.0 %		15.9 %	60.2 %
Operating profit percent	0.6 %		1.8 %	36.0 %
Nine Months Ended September 30, 2015				
Customer revenue	$2,225.2		$1,956.5	$ 268.7
Intersegment		$ (40.6)	0.1	40.5
Total revenue	$2,225.2	$ (40.6)	$1,956.6	$ 309.2
Gross profit percent	17.2 %		15.7 %	49.0 %
Operating profit (loss) percent	(3.2)%		1.9 %	14.2 %

Gross profit and operating profit (loss) percent are as a percent of total revenue.
Customer revenue by classes of similar products or services, by segment, is presented below:

	Nine Months Ended September 30,		Percent Change
	2016	2015	
Services			
Cloud & infrastructure services	$1,017.8	$1,146.1	(11.2)%
Application services	641.4	640.6	0.1 %
Business processing outsourcing services	150.6	169.8	(11.3)%
	1,809.8	1,956.5	(7.5)%
Technology	289.2	268.7	7.6 %
Total	$2,099.0	$2,225.2	(5.7)%

In the Services segment, customer revenue was $1,809.8 million for the nine months ended September 30, 2016, down 7.5% from the nine months ended September 30, 2015. Foreign currency translation had a 3 percentage-point negative impact on Services revenue in the current period compared with the year-ago period.
Revenue from cloud & infrastructure services was $1,017.8 million for the nine months ended September 30, 2016, down 11.2% compared with the year-ago period. Foreign currency fluctuations had a 2 percentage-point negative impact on cloud & infrastructure services revenue in the current period compared with the year-ago period.

Application services revenue increased 0.1% for the nine month period ended September 30, 2016 compared with the nine month period ended September 30, 2015. Foreign currency fluctuations had a 3 percentage-point negative impact on application services revenue in the current period compared with the year-ago period.
Business processing outsourcing services revenue decreased 11.3% in the current period compared with the prior-year period. Foreign currency fluctuations had a 7 percentage-point negative impact on business processing outsourcing services revenue in the current period compared with the year-ago period.

Services gross profit was 15.9% for the nine months ended September 30, 2016 compared with 15.7% in the year-ago period. Services operating income percent was 1.8% in the nine months ended September 30, 2016 compared with 1.9% in the nine months ended September 30, 2015.
In the Technology segment, customer revenue increased 7.6% to $289.2 million in the current period compared with $268.7 million in the year-ago period. Foreign currency translation had a 2 percentage-point negative impact on Technology revenue in the current period compared with the year-ago period. The increase in Technology customer revenue is due higher sales of the company's proprietary enterprise software and servers in the current period.
Technology gross profit was 60.2% in the current period compared with 49.0% in the year-ago period. Technology operating income percent was 36.0% in the nine months ended September 30, 2016 compared with 14.2% in the nine months ended September 30, 2015. The increase in gross profit and operating profit percentage principally reflects increased sales of the company's proprietary enterprise software and servers in the current period.
New accounting pronouncements
See note (k) of the Notes to Consolidated Financial Statements for a full description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on the company’s consolidated financial statements.
Financial condition
The company’s principal sources of liquidity are cash on hand, cash from operations and its revolving credit facility, discussed below. The company and certain international subsidiaries have access to uncommitted lines of credit from various banks. The company believes that it will have adequate sources of liquidity to meet its expected near-term cash requirements.
Cash and cash equivalents at September 30, 2016 were $442.7 million compared with $365.2 million at December 31, 2015. The increase is primarily due to net proceeds of $178.9 million received from the issuance of $213.5 million of 5.50% Convertible Senior Notes due 2021 (the notes), offset by $27.3 million in capped call fees and $7.3 million in other fees and issuance costs. See Note (l) of the Notes to Consolidated Financial Statements.
As of September 30, 2016, $278.7 million of cash and cash equivalents were held by the company’s foreign subsidiaries and branches operating outside of the U.S. In the future, if these funds are needed for the company’s operations in the U.S., the company may be required to accrue and pay taxes to repatriate these funds.
During the nine months ended September 30, 2016, cash provided by operations was $101.3 million compared with cash usage of $108.5 million for the nine months ended September 30, 2015. Cash provided by operations during the current period was positively impacted by a lower net loss and a decrease in cash contributions to the company's defined benefit pension plans. During the current period, the company contributed cash of $104.0 million to such plans compared with $115.6 million during the year-ago period. This was partially offset by a $24.7 million increase in cash used for cost reduction actions.
Cash used for investing activities during the nine months ended September 30, 2016 was $132.4 million compared with cash usage of $141.5 million during the nine months ended September 30, 2015. Net purchases of investments were $24.3 million for the nine months ended September 30, 2016 compared with net proceeds of $19.8 million in the prior-year period. Proceeds from investments and purchases of investments represent derivative financial instruments used to reduce the company’s currency exposure to market risks from changes in foreign currency exchange rates. In addition, in the current period, the investment in marketable software was $47.1 million compared with $46.8 million in the year-ago period, capital additions of properties were $18.3 million in 2016 compared with $40.2 million in 2015 and capital additions of outsourcing assets were $41.4 million in 2016 compared with $80.4 million in 2015. The

decrease in capital additions of properties and outsourcing assets were reflective of significant investments in outsourcing assets that were made during the nine months ended September 30, 2015.

23

Cash provided by financing activities during the nine months ended September 30, 2016 was $111.0 million compared with cash provided of $89.0 million during the nine months ended September 30, 2015. During the current period, the company issued $213.5 million of notes and received net proceeds of $178.9 million. See Note (l) of the Notes to Consolidated Financial Statements. The company also paid down $65.8 million of its revolving credit facility. Included in the prior year period was proceeds from the issuance of long-term debt of $31.8 million and net proceeds of short-term borrowings of $55.0 million under the company's revolving credit agreement.

At September 30, 2016, total debt was $421.6 million compared with $310.5 million at December 31, 2015. The increase was principally caused by the issuance of the notes referred to above partially offset by repayment of borrowings under its revolving credit facility.

The company has a secured revolving credit facility that provides for loans and letters of credit up to an aggregate amount of $150.0 million (with a limit on letters of credit of $100.0 million). At September 30, 2016, the company had no borrowings and $10.9 million of letters of credit outstanding under this facility. The facility is scheduled to mature in June 2018, or on May 15, 2017 unless, as of that date, either (1) the aggregate principal amount of the company’s 6.25% senior notes due August 15, 2017 (the notes due 2017) (of which $210 million are currently outstanding) is less than $100 million, the ratio of the company’s senior secured indebtedness outstanding as of that date to the company’s EBITDA (as defined in the credit agreement) for the most recently completed four consecutive fiscal quarters is less than or equal to 1.0 to 1.0 (as of September 30, 2016, this ratio was 0.0 to 1.0), and no event of default is continuing, or (2) the agent and lenders representing at least 66 2/3% of the aggregate commitments under the facility have declared in writing that an “Extension Event” has occurred and the sum of Excess Availability (as defined in the Credit Agreement) under the facility and Unrestricted Cash on Hand (as defined in the Credit Agreement) is not less than $130 million, or (3) the notes due 2017 have not been repaid or refinanced by indebtedness with a maturity date of September 21, 2018 or later. Borrowing limits under the facility are based upon the amount of eligible U.S. accounts receivable. At September 30, 2016, availability under the facility was $98.5 million net of letters of credit issued. Borrowings under the facility bear interest based on short-term rates. The credit agreement contains customary representations and warranties, including that there has been no material adverse change in the company’s business, properties, operations or financial condition. The company is required to maintain a minimum fixed charge coverage ratio if the availability under the credit facility falls below the greater of 12.5% of the lenders’ commitments under the facility and $18.75 million. The credit agreement allows the company to pay dividends on its capital stock in an amount up to $22.5 million per year unless the company is in default and to, among other things, repurchase its equity, prepay other debt, incur other debt or liens, dispose of assets and make acquisitions, loans and investments, provided the company complies with certain requirements and limitations set forth in the agreement. Events of default include non-payment, failure to comply with covenants, materially incorrect representations and warranties, change of control and default under other debt aggregating at least $50.0 million. The credit facility is guaranteed by Unisys Holding Corporation, Unisys NPL, Inc., Unisys AP Investment Company I and any future material domestic subsidiaries. The facility is secured by the assets of Unisys Corporation and the subsidiary guarantors, other than certain excluded assets. The company may elect to prepay or terminate the credit facility without penalty.

At September 30, 2016, the company has met all covenants and conditions under its various lending and funding agreements. The company expects to continue to meet these covenants and conditions.

In 2016, the company expects to make cash contributions of approximately $134.0 million to its worldwide defined benefit pension plans, which is comprised of $81.7 million primarily for non-U.S. defined benefit pension plans and $52.3 million for the company’s U.S. qualified defined benefit pension plan.

The company maintains a shelf registration statement with the Securities and Exchange Commission that covers the offer and sale of up to $700.0 million of debt or equity securities. Subject to the company’s ongoing compliance with securities laws, the company may offer and sell debt and equity securities from time to time under the shelf registration statement. In addition, from time to time the company may explore a variety of institutional debt and

equity sources to fund its liquidity and capital needs.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There has been no material change in the company's assessment of its sensitivity to market risk since its disclosure in its Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

Item 4. Controls and Procedures

The company's management, with the participation of the company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on this evaluation, the company's Chief Executive Officer and Chief Financial Officer concluded that, as of the end of such period, the company's disclosure controls and procedures are effective. Such evaluation did not identify any change in the company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter to which this report relates that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

Part II - OTHER INFORMATION

Item 1. Legal Proceedings

Information with respect to litigation is set forth in Note (i) of the Notes to Consolidated Financial Statements, and such information is incorporated herein by reference.

Item 1A. Risk Factors

There have been no significant changes to the “Factors that may affect future results” in Management’s Discussion and Analysis of Financial Condition and Results of Operations which is included in the company’s Annual Report on Form 10-K for the year ended December 31, 2015.

CAUTIONARY STATEMENT PURSUANT TO THE U.S. PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Risks and uncertainties that could cause the company’s future results to differ materially from those expressed in “forward-looking” statements include:

- the company’s ability to effectively anticipate and respond to volatility and rapid technological innovation in its industry;
- the company’s ability to improve margins in its services business;
- the company’s ability to sell new products while maintaining its installed base in its technology business;
- the company’s ability to access financing markets to refinance its outstanding debt;
- the company’s ability to realize anticipated cost savings and to successfully implement its cost reduction initiatives to drive efficiencies across all of its operations;
- the company’s significant pension obligations and requirements to make significant cash contributions to its defined benefit pension plans;
- the company’s ability to attract, motivate and retain experienced and knowledgeable personnel in key positions;
- the risks of doing business internationally when a significant portion of the company’s revenue is derived from international operations;
- the potential adverse effects of aggressive competition in the information services and technology marketplace;
- the company’s ability to retain significant clients;
- the company’s contracts may not be as profitable as expected or provide the expected level of revenues;
- cybersecurity breaches could result in significant costs and could harm the company’s business and reputation;
- a significant disruption in the company’s IT systems could adversely affect the company’s business and reputation;
- the company may face damage to its reputation or legal liability if its clients are not satisfied with the company’s services or products;
- the performance and capabilities of third parties with whom the company has commercial relationships;
- the adverse effects of global economic conditions, acts of war, terrorism or natural disasters;
- contracts with U.S. governmental agencies may subject the company to audits, criminal penalties, sanctions and other expenses and fines;
- the potential for intellectual property infringement claims to be asserted against the company or its clients;
- the possibility that pending litigation could affect the company’s results of operations or cash flow; and
- the business and financial risk in implementing future dispositions or acquisitions.

Other factors discussed in this report, although not listed here, also could materially affect the company’s future results.

Item 6. Exhibits

(a) Exhibits

See Exhibit Index

26

SIGNATURES

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

UNISYS CORPORATION

Date: October 28, 2016 By: /s/ Janet Brutschea Haugen
Janet Brutschea Haugen
Senior Vice President and
Chief Financial Officer
(Principal Financial Officer)

By: /s/ Michael M. Thomson
Michael M. Thomson
Vice President and
Corporate Controller
(Principal Accounting Officer)

27

EXHIBIT INDEX

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of Unisys Corporation (incorporated by reference to Exhibit 3.1 to the registrant’s Current Report on Form 8-K filed on April 30, 2010)
3.2	Certificate of Amendment to Restated Certificate of Incorporation of Unisys Corporation (incorporated by reference to Exhibit 3.1 to the registrant’s Current Report on Form 8-K filed on April 28, 2011)
3.3	Bylaws of Unisys Corporation, as amended through April 30, 2015 (incorporated by reference to Exhibit 3.3 to the Company’s Quarterly Report on Form 10-Q filed on April 30, 2015)
12	Statement of Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
31.1	Certification of Peter A. Altabef required by Rule 13a-14(a) or Rule 15d-14(a)
31.2	Certification of Janet Brutschea Haugen required by Rule 13a-14(a) or Rule 15d-14(a)
32.1	Certification of Peter A. Altabef required by Rule 13a-14(b) or Rule 15d-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
32.2	Certification of Janet Brutschea Haugen required by Rule 13a-14(b) or Rule 15d-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
101.INSXBRL	Instance Document
101.SCHXBRL	Taxonomy Extension Schema Document
101.CALXBRL	Taxonomy Extension Calculation Linkbase Document
101.LABXBRL	Taxonomy Extension Labels Linkbase Document
101.PREXBRL	Taxonomy Extension Presentation Linkbase Document
101.DEFXBRL	Taxonomy Extension Definition Linkbase Document