UNISYS CORP
Form PRE 14A
March 12, 2009

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SCHEDULE 14A
(RULE 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:

þ Preliminary Proxy Statement
o Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12
o Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Unisys Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

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(3) Filing Party:

(4) Date Filed:

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Unisys Corporation
Unisys Way
Blue Bell, PA 19424-0001

April , 2009

Dear Fellow Stockholder:

It is my pleasure to invite you to the Unisys 2009 Annual Meeting of Stockholders. This year s meeting will be held on Thursday, May 28, 2009, at [ ], which is located at [ ] in [ ], Pennsylvania. The meeting will begin at 9:30 a.m.

These are unprecedented times in the global economy and financial markets. While the economic slowdown and other factors impacted the company s results in 2008, we are taking aggressive actions to enhance our profitability, cash flow, and competitiveness. Our plan involves focusing our resources and investments, clearly differentiating Unisys in our chosen markets, enhancing our services labor delivery model, and reducing overhead expense by simplifying our business structure. We are moving quickly to implement this plan, and we are firmly committed to showing clear, demonstrable progress in our results in 2009.

You may have noticed changes in the way we are providing proxy materials to our stockholders for this year s annual meeting. This is because we have elected to provide access to our proxy materials over the Internet under the notice and access rules of the Securities and Exchange Commission. We believe these rules allow us to provide our stockholders with the information they need, while reducing our printing and mailing costs and helping to conserve natural resources. The Notice of Internet Availability of Proxy Materials that you received in the mail contains instructions on how to access this proxy statement and the 2008 annual report and vote online. The Notice also includes instructions on how you can request a paper copy of the annual meeting materials.

Your vote is important. Whether or not you plan to attend the annual meeting, I urge you to take a moment to vote on the items in this year s proxy statement. Voting takes only a few minutes, and it will ensure that your shares are represented at the meeting.

I look forward to seeing you at the annual meeting, where you will hear about our results for 2008 and our priorities for 2009.

Sincerely,

J. Edward Coleman
Chairman and Chief Executive Officer

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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

May 28, 2009

Unisys Corporation will hold its 2009 Annual Meeting of Stockholders at [ ], on Thursday, May 28, 2009, at 9:30 a.m. to:

1. elect two directors;

2. ratify the selection of the Company s independent registered public accounting firm for 2009;

3. approve an amendment to the Company s Restated Certificate of Incorporation to (a) effect a reverse stock split of the Company s common stock at a reverse split ratio of between 1-for-5 and 1-for-20, which ratio will be selected by the Board of Directors and (b) decrease the number of authorized shares of the Company s common stock on a basis proportional to the reverse split ratio approved by the Board of Directors; and

4. transact any other business properly brought before the meeting.

Only record holders of Unisys common stock at the close of business on March 31, 2009 will be entitled to vote at the annual meeting.

By Order of the Board of Directors,

Nancy Straus Sundheim
Senior Vice President, General Counsel
and Secretary

Blue Bell, Pennsylvania
April , 2009

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to be Held on May 28, 2009:

The Company s proxy statement and annual report are available on our website at www.unisys.com/go/proxy and www.unisys.com/go/annual.

Your vote is important. Whether or not you plan to attend the annual meeting, please promptly submit your proxy or voting instructions by Internet, telephone, or mail. For specific instructions on how to vote your shares, please refer to the instructions found on the Notice of Internet Availability of Proxy Materials you received in the mail or, if you received a paper copy of the proxy materials, the enclosed proxy/voting instruction card.

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UNISYS CORPORATION

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS

May 28, 2009

The Board of Directors of Unisys Corporation solicits your proxy for use at the 2009 Annual Meeting of Stockholders to be held on May 28, 2009 and at any adjournments. At the annual meeting, stockholders will be asked to elect two directors, to ratify the selection of the Company s independent registered public accounting firm, to approve an amendment to the Company s Restated Certificate of Incorporation to effect a reverse stock split of the Company s common stock and to decrease the number of authorized shares of common stock and to transact any other business properly brought before the meeting.

The record date for the annual meeting is March 31, 2009. Only holders of record of Unisys common stock as of the close of business on the record date are entitled to vote at the meeting. On the record date, [ ] shares of common stock were outstanding. The presence, in person or by proxy, of a majority of those shares will constitute a quorum at the meeting.

This proxy statement, the proxy/voting instruction card and the annual report of Unisys, including the financial statements for 2008, are being sent or given to stockholders on or about April , 2009.

Required Vote

Each share of Unisys common stock outstanding on the record date is entitled to one vote on each matter to be voted upon. Directors will be elected by the vote of a majority of the votes cast at the meeting. This means that a nominee will be elected if the number of votes cast For his or her election exceeds 50% of the total number of votes cast with respect to that nominee s election. Votes cast with respect to the election of directors include votes to Withhold authority but do not include abstentions and broker non-votes.

The proposal to ratify the selection of the Company s independent registered public accounting firm will be approved if it receives the affirmative vote of a majority of shares present, in person or by proxy, and entitled to vote on the matter. Abstentions will be included in the vote total for this matter and therefore will have the same effect as a negative vote; broker non-votes will not be included in the vote total and therefore will have no effect on the vote.

The proposal to amend the Company s Restated Certificate of Incorporation to effect the reverse stock split and decrease the number of authorized shares of common stock requires the affirmative vote of a majority of the outstanding shares of common stock entitled to vote. Any shares not voted (whether by abstention, broker non-vote or otherwise) will have the same effect as a vote Against the proposal.

Internet Availability of Proxy Materials

Pursuant to the notice and access rules adopted by the Securities and Exchange Commission (the SEC), the Company has elected to provide stockholders access to its proxy materials over the Internet. Accordingly, the Company sent a Notice of Internet Availability of Proxy Materials (the Notice) to most stockholders (other than those who previously requested electronic or paper delivery of proxy materials). The Notice includes instructions on how to access the

proxy materials over the Internet and how to request a printed copy of these materials. In addition, by

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following the instructions in the Notice, stockholders may request to receive proxy materials in printed form by mail or electronically by email on an ongoing basis.

Choosing to receive your future proxy materials by email will save the Company the cost of printing and mailing documents to you and will reduce the impact of the Company s annual meetings on the environment. If you choose to receive future proxy materials by email, you will receive an email next year with instructions containing a link to those materials and a link to the proxy voting site. Your election to receive proxy materials by email will remain in effect until you terminate it.

Voting Procedures and Revocability of Proxies

Your vote is important. Shares may be voted at the annual meeting only if you are present in person or represented by proxy. You can vote by proxy over the Internet by following the instructions provided in the Notice, or, if you request printed copies of the proxy materials by mail, you can also vote by mail or by telephone by following the instructions provided on the proxy/voting instruction card. If you have previously elected to receive proxy materials over the Internet, you should have already received e-mail instructions on how to vote electronically.

You may revoke your proxy at any time before it is exercised by writing to the Corporate Secretary of Unisys, by timely delivery of a properly executed later-dated proxy (including an Internet or telephone vote) or by voting in person at the meeting.

The method by which you vote will in no way limit your right to vote at the meeting if you later decide to attend in person. If your shares are held in the name of a bank, broker or other holder of record, you must obtain a proxy, executed in your favor, from the holder of record to be able to vote at the meeting.

If you properly complete and return your proxy, and do not revoke it, the proxy holders will vote your shares in accordance with your instructions. If your properly completed proxy gives no instructions, the proxy holders will vote your shares FOR the election of directors, FOR the selection of independent registered public accountants, FOR the proposal to amend the Company s Restated Certificate of Incorporation to effect the reverse stock split and decrease the number of authorized shares of common stock and in their discretion on any other matters that properly come before the annual meeting.

If you are a participant in the Unisys Savings Plan, the proxy/voting instruction card will serve as voting instructions to the plan trustee for shares of Unisys common stock credited to your account as of March 31, 2009. The trustee will vote those shares in accordance with your instructions if it receives your completed proxy by May 26, 2009. If the proxy is not timely received, or if you give no instructions on a matter to be voted upon, the trustee will vote the shares credited to your account in the same proportion as it votes those shares for which it received timely instructions from other participants.

ELECTION OF DIRECTORS

The Board of Directors currently consists of 13 members, divided into three classes. One class of directors is elected each year to hold office for a three-year term. Two of the four directors whose terms expire in 2009, J. Edward Coleman and Leslie F. Kenne, have been nominated for reelection. Craig A. Conway has decided not to stand for reelection, and Edwin A. Huston will retire from the Board of Directors at the annual meeting because he has attained the mandatory retirement age of 70. The remaining nine directors will continue to serve as set forth below, and the Board will then consist of 11 members. Each of the nominees has agreed to serve as a director if elected, and Unisys believes that each nominee will be available to serve. However, the proxy holders have discretionary authority to cast votes for the election of a substitute should any nominee not be available to serve as a director.

The Board of Directors recommends a vote FOR all nominees.

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Information Regarding Nominees and Directors

The names and ages of the nominees and directors, their principal occupations and employment during the past five years, and other information regarding them are as follows.

Nominees for Election to the Board of Directors

J. EDWARD COLEMAN
Mr. Coleman, 57, is Chairman and Chief Executive Officer of Unisys. He has been with Unisys since October 2008. Mr. Coleman has been in the information technology industry for more than 30 years, serving as CEO of Gateway, Inc. from 2006 to 2008; as senior vice president and president of enterprise computing solutions at Arrow Electronics from 2005 to 2006 and as chief executive officer of CompuCom from 1999 to 2004. He also served as chairman of CompuCom from 2001 to 2004. Prior to that, he held various leadership and executive positions at Computer Sciences Corporation and IBM Corporation. He has served as a Director of Unisys since October 2008.

LESLIE F. KENNE
Ms. Kenne, 61, is a retired Lieutenant General of the United States Air Force. Prior to retiring from the Air Force in 2003 as Deputy Chief of Staff, Warfighting Integration, Pentagon, she had a 32-year military career including technical training, command experience and responsibility for large aircraft test, evaluation and acquisition programs. She is currently an independent consultant for various defense companies and/or agencies. She is a Director of Harris Corporation. She has served as a Director of Unisys since 2006 and is a member of the Audit Committee.

Members of the Board Continuing in Office
Term Expiring in 2010

HENRY C. DUQUES
Mr. Duques, 65, is a retired Chairman and Chief Executive Officer of First Data Corporation, an electronic commerce and payment services company, a position he held from 1992 to 2002 and from 2005 to 2007. He has served as a Director of Unisys since 1998, was the non-executive Chairman of the Board from 2006 to October 2008 and has been Lead Director since October 2008.

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CLAYTON M. JONES

Mr. Jones, 59, is a Director and Chairman, President and Chief Executive Officer of Rockwell Collins, Inc., a global aviation electronics and communications company. He has also held the positions of Executive Vice President of that company and Senior Vice President of its former parent company, Rockwell International Corporation. He is a Director of Deere & Company. He has served as a Director of Unisys since 2004 and is a member of the Compensation Committee and the Finance Committee.

THEODORE E. MARTIN

Mr. Martin, 69, is a retired President and Chief Executive Officer of Barnes Group Inc., a manufacturer and distributor of automotive and aircraft components and maintenance products. He has also held the position of Executive Vice President-Operations of that company. He is a Director of Ingersoll-Rand Company Limited and C.R. Bard, Inc. He has served as a Director of Unisys since 1995 and is chairman of the Compensation Committee.

CHARLES B. MCQUADE

Mr. McQuade, 67, retired in 2002 from the position of Chairman and Chief Executive Officer of Securities Industry Automation Corp. (SIAC) (now wholly owned by NYSE Euronext) after more than 20 years of service as Chief Executive Officer. He was a Director of Greenpoint Financial from 1992 until its acquisition by North Fork Bank in 2002, and a Director of Gartner, Inc. from 1999 through 2000. He has served on numerous industry and educational advisory boards. Mr. McQuade has served as a Director of Unisys since May 2008 and is a member of the Compensation Committee and the Finance Committee.

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Members of the Board Continuing in Office
Term Expiring in 2011

J. P. BOLDUC
Mr. Bolduc, 69, has been Chairman and Chief Executive Officer of JPB Enterprises, Inc., an investment banking, private equity and real estate investment holding company, since April 1995. From April 2003 to September 2004, he also served as Chief Executive Officer of J. A. Jones, a multi-national construction and construction-related services company. From 1987 to 1995, he served in the positions of President and Chief Executive Officer, Vice Chairman, Chief Operating Officer and Chief Financial Officer of W. R. Grace & Co., a global specialty chemicals and health care company. He is a Director of EnPro Industries, Inc., Lance, Inc. and Management Consulting Group, PLC. He has served as a Director of Unisys since 1992 and is chairman of the Finance Committee.

JAMES J. DUDERSTADT
Dr. Duderstadt, 66, is President Emeritus and University Professor of Science and Engineering at the University of Michigan. He has served as a Director of Unisys since 1990 and is chairman of the Nominating and Corporate Governance Committee and a member of the Compensation Committee.

MATTHEW J. ESPE
Mr. Espe, 50, is a Director and Chairman and Chief Executive Officer of IKON Office Solutions, Inc., a provider of integrated document management systems and services. Prior to joining IKON in 2002, Mr. Espe had been with General Electric Company since 1980, most recently serving as President and Chief Executive Officer of GE Lighting. He has served as a Director of Unisys since 2004 and is a member of the Audit Committee and the Finance Committee.

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DENISE K. FLETCHER

Ms. Fletcher, 60, is a former Executive Vice President, Finance of Vulcan Inc., an investment and project company, a position she held from 2005 to 2008. From 2004 to 2005, she served as Chief Financial Officer of DaVita, Inc., an independent provider of dialysis services in the United States. From 2000 to 2003, she was Executive Vice President and Chief Financial Officer of MasterCard International, an international payment solutions company. She has served as a Director of Unisys since 2001 and is a member of the Audit Committee and the Nominating and Corporate Governance Committee.

CLAY B. LIFFLANDER

Mr. Lifflander, 46, has been President of Millbrook Capital Management, Inc. since 1995 and of MMI Investments, L.P. since 1996. Previously, he served as President of the New York City Economic Development Corporation under then Mayor Rudolph Giuliani and as Managing Director in the M&A Group at Smith Barney. He served as Chief Executive Officer of Key Components LLC from 1995 to 2004 and currently serves on the Board of the Hudson River Museum. He is a former Director of Dendrite International, Inc., Key Components and the United Nations Development Corporation. He has served as a Director of Unisys since May 2008 and is a member of the Finance Committee and the Nominating and Corporate Governance Committee.

Board Meetings; Attendance at Annual Meetings

The Board of Directors held 14 meetings in 2008. During 2008, all directors other than Mr. Espe attended at least 75% of the meetings of the Board of Directors and standing committees on which they served.

It is the Company s policy that all directors should attend the annual meeting of stockholders. All of the Company s directors at the time of the 2008 annual meeting attended that meeting except Mr. Espe.

Independence of Directors

All of the Company s directors other than Mr. Coleman meet the independence requirements prescribed by the New York Stock Exchange (NYSE) and, in the case of members of the Audit Committee, also meet the audit committee independence requirements prescribed by the SEC. In assessing whether a director has a material relationship with Unisys (either directly or as a partner, stockholder or officer of an organization that has a relationship with Unisys), the Board uses the criteria outlined below in paragraph 2 of Corporate Governance Guidelines . All non-employee directors met these criteria in 2008. In particular, two of the Company s non-employee directors, Mr. Espe and Mr. Jones, served as chief executive officer of a company that does business with Unisys in the ordinary course. In each instance, combined Unisys sales to and purchases from the director s company in 2008 represented less than one percent of that company s annual revenue. In addition, two of the Company s non-employee directors, Mr. Bolduc and Mr. Espe, served as

directors of organizations to which the Company made charitable contributions in 2008. In each instance, the amounts contributed by Unisys to the charitable organization represented less than one percent of the organization s annual charitable receipts.

Committees

The Board of Directors has a standing Audit Committee, Compensation Committee, Finance Committee and Nominating and Corporate Governance Committee. The specific functions and responsibilities of each committee are set forth in its charter, which is available on the Company s Internet web site at www.unisys.com in the Investors section under Corporate Governance and Board of Directors and is also available in print to any stockholder who requests it.

Audit Committee

The Audit Committee assists the Board in its oversight of the integrity of the Company s financial statements and its financial reporting and disclosure practices, the soundness of its systems of internal financial and accounting controls, the independence and qualifications of its independent registered public accounting firm, the performance of its internal auditors and independent registered public accounting firm, the Company s compliance with legal and regulatory requirements and the soundness of its ethical and environmental compliance programs. The Audit Committee held 10 meetings in 2008. Its members are Mr. Espe, Ms. Fletcher, Mr. Huston (chair) and Ms. Kenne. For 2008, the Board determined that each of Mr. Espe, Ms. Fletcher and Mr. Huston was an audit committee financial expert as defined by the SEC. Mr. Huston will be retiring from the Board at the 2009 annual meeting, and the Board has determined that the audit committee financial experts will then be Mr. Espe and Ms. Fletcher.

Compensation Committee

The Compensation Committee oversees the compensation of the Company s executives, the Company s executive management structure, the compensation-related policies and programs involving the Company s executive management and the level of benefits of officers and key employees. In this capacity, the committee regularly reviews and approves the Company s executive compensation strategy and principles to ensure that they are aligned with the Company s business strategy and objectives and with stockholder interests. Under its charter, the Compensation Committee annually reviews and approves goals and objectives relevant to the compensation of the chief executive officer, evaluates the performance of the chief executive officer in light of those goals and makes recommendations to the independent members of the Board concerning the compensation level of the chief executive officer. The committee also annually reviews and approves compensation levels of the other elected officers. In this regard, the committee solicits input from the Company s chief executive officer regarding the compensation of those executives who report directly to him. The Compensation Committee also reviews and recommends to the Board the adoption of director compensation programs. The Company s guidelines regarding the compensation of directors are described more fully in paragraph 11 of Corporate Governance Guidelines below. As is discussed more fully below in Compensation Discussion and Analysis , the Compensation Committee regularly receives reports and recommendations from management and from the committee s outside compensation consultant to assist it in carrying out its responsibilities. Under its charter, the committee also may consult with legal, accounting or other advisors, as appropriate, and may form and delegate authority to subcommittees when appropriate. The Compensation Committee held seven meetings in 2008. Its members are Dr. Duderstadt, Mr. Jones, Mr. Martin (chair) and Mr. McQuade.

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Finance Committee

The Finance Committee oversees the Company s financial affairs, including its capital structure, financial arrangements, capital spending and acquisition and disposition plans. It also oversees the management and investment of funds in the pension, savings and welfare benefit plans sponsored by the Company. The Finance Committee held six meetings in 2008. Its members are Mr. Bolduc (chair), Mr. Espe, Mr. Lifflander, Mr. Jones and Mr. McQuade.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee identifies and reviews candidates and recommends to the Board of Directors nominees for membership on the Board of Directors. It also oversees the Company s corporate governance. The Nominating and Corporate Governance Committee held five meetings in 2008. Its members are Mr. Conway, Dr. Duderstadt (chair), Ms. Fletcher and Mr. Lifflander.

Director Nomination Process

As part of the nomination process, the Nominating and Corporate Governance Committee is responsible for determining the appropriate skills and characteristics required of new Board members in the context of the current make-up of the Board and for identifying qualified candidates for Board membership. In so doing, the Nominating and Corporate Governance Committee considers a number of factors including independence, experience, strength of character, mature judgment, technical skills, diversity, age and the extent to which the individual would fill a present need on the Board.

The Nominating and Corporate Governance Committee also reviews recommendations for Board membership received from stockholders and other qualified sources. Recommendations on director candidates must be in writing and addressed to the Chairman of the Nominating and Corporate Governance Committee, c/o Corporate Secretary, Unisys Corporation, Unisys Way, Blue Bell, Pennsylvania 19424.

See Related Party Transactions below for a description of the agreement, dated May 20, 2008, between the Company, MMI Investments, L.P., MCM Capital Management, LLC, Clay B. Lifflander and Charles B. McQuade pursuant to which Mr. Lifflander and Mr. McQuade were appointed to the Board of Directors.

Communications with Directors

Stockholders and other interested parties may send communications to the Board of Directors or to the non-management directors as a group by writing to them c/o Corporate Secretary, Unisys Corporation, Unisys Way, Blue Bell, Pennsylvania 19424. All communications directed to Board members will be delivered to them.

Code of Ethics and Business Conduct

Unisys has a code of ethics, the Unisys Code of Ethics and Business Conduct, that applies to all employees, officers (including the chief executive officer, chief financial officer and principal accounting officer or controller) and directors. The code is posted on the Company s Internet web site at www.unisys.com in the Investors section under Corporate Governance and Board of Directors and is also available in print to any stockholder who requests it. The Company intends to post amendments to or waivers from the code (to the extent applicable to the

Company s chief executive officer, chief financial officer or principal accounting officer or controller) at this location on its web site.

Corporate Governance Guidelines

The Board of Directors has adopted Guidelines on Significant Corporate Governance Issues. The full text of these guidelines is available on the Company s Internet web site at www.unisys.com in the Investors section under Corporate Governance and Board of Directors and is also available in print to any stockholder who requests it. Among other matters, the guidelines cover the following:

1. A majority of the Board of Directors shall qualify as independent under the listing standards of the New York Stock Exchange.

2. The Nominating and Corporate Governance Committee reviews annually with the Board the independence of outside directors. Following this review, only those directors who meet the independence qualifications prescribed by the New York Stock Exchange and who the Board affirmatively determines have no material relationship with the Company will be considered independent. The Board has determined that the following commercial or charitable relationships will not be considered to be material relationships that would impair independence: (a) if a director is an executive officer or partner of, or owns more than a ten percent equity interest in, a company that does business with Unisys, and sales to or purchases from Unisys are less than one percent of the annual revenues of that company and (b) if a director is an officer, director or trustee of a charitable organization, and Unisys contributions to that organization are less than one percent of its annual charitable receipts.

3. The Nominating and Corporate Governance Committee is responsible for determining the appropriate skills and characteristics required of Board members in the context of its current make-up, and will consider factors such as independence, experience, strength of character, mature judgment, technical skills, diversity and age in its assessment of the needs of the Board.

4. If the Chairman of the Board is not an employee of the Company, the Chairman should qualify as independent under the listing standards of the New York Stock Exchange. Members of the Audit, Compensation, and Nominating and Corporate Governance Committees must also so qualify.

5. It is the sense of the Board that the Company s by-law provision that no person shall be elected a director after attaining age 70 is appropriate, and accordingly, no director should serve beyond the annual stockholders meeting following the attainment of age 70.

6. Directors should volunteer to resign from the Board upon a change in primary job responsibility. The Nominating and Corporate Governance Committee will review the appropriateness of continued Board membership under the circumstances and will recommend, and the Board will determine, whether or not to accept the director s resignation. In addition, if the Company s chief executive officer resigns from that position, he is expected to offer his resignation from the Board at the same time.

7. Non-management directors are encouraged to limit the number of public company boards on which they serve to no more than four in addition to the Company s and should advise the Chairman of the Board and the general counsel of the Company before accepting an invitation to serve on another board.

8. The non-management directors will meet in executive session at all regularly scheduled Board meetings. They may also meet in executive session at any time upon

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request. If the Chairman of the Board is an employee of the Company, the Board will elect from the independent directors a lead director who will preside at executive sessions. If the Chairman is not an employee, the Chairman will preside at executive sessions.

9. Board members have complete access to Unisys management. Members of senior management who are not Board members regularly attend Board meetings, and the Board encourages senior management, from time to time, to bring into Board meetings other managers who can provide additional insights into the matters under discussion.

10. The Board and its committees have the right at any time to retain independent outside financial, legal or other advisors.

11. It is appropriate for the Company s staff to report once a year to the Compensation Committee on the status of Board compensation in relation to other large U.S. companies. Changes in Board compensation, if any, should come at the suggestion of the Compensation Committee, but with full discussion and concurrence by the Board. Particular attention will be paid to structuring Board compensation in a manner aligned with stockholder interests. In this regard, a meaningful portion of a director s compensation should be provided and held in stock options and/or stock units. Directors should not, except in rare circumstances approved by the Board, draw any consulting, legal or other fees from the Company. In no event shall any member of the Audit Committee receive any compensation from the Company other than directors fees.

12. The Company will provide an orientation program for new directors. The Company will also provide directors with presentations from time to time on topics designed by the Company or third-party experts to assist directors in carrying out their responsibilities. Directors may also attend appropriate continuing education programs at the Company s expense.

13. The Board will conduct an annual self-evaluation to determine whether it and its committees are functioning effectively.

14. The non-management directors will evaluate the performance of the chief executive officer annually and will meet in executive session, led by the chairperson of the Compensation Committee, to review this performance. The evaluation is based on objective criteria, including performance of the business, accomplishment of long-term strategic objectives and development of management. Based on this evaluation, the Compensation Committee will recommend, and the members of the Board who meet the independence criteria of the New York Stock Exchange will determine and approve, the compensation of the chief executive officer.

15. To assist the Board in its planning for the succession to the position of chief executive officer, the chief executive officer is expected to provide an annual report on succession planning to the Compensation Committee.

16. The Company s stockholder rights plan expired on March 17, 2006, and it has no present intention to adopt a new one. Subject to its continuing fiduciary duties, which may dictate otherwise depending on the circumstances, the Board shall submit the adoption of any future stockholder rights plan to a vote of the stockholders. Any stockholder rights plan adopted or extended without stockholder approval shall be approved by a majority of the independent members of the Board and shall be in response to specific, articulable circumstances that are deemed to warrant such action without the delay that might result from seeking prior stockholder approval. If the Board adopts or extends a rights plan without

prior stockholder approval, the Board shall, within one year, either submit the plan to a vote of the stockholders or redeem the plan or cause it to expire.

Related Party Transactions

The Company is required to disclose any transactions since the beginning of 2008 (or any currently proposed transaction) in which the Company was a participant, the amount involved exceeds $120,000 and a director or executive officer, any immediate family member of a director or executive officer or any person or group beneficially owning more than 5% of the Company s common stock had a direct or indirect material interest.

On May 20, 2008, the Company entered into an agreement with MMI Investments, L.P. (MMI), MCM Capital Management, LLC, Clay B. Lifflander and Charles B. McQuade (collectively, the MMI Group) pursuant to which Mr. Lifflander and Mr. McQuade were appointed to the Board of Directors, to serve in the respective class of directors set forth above. Pursuant to the agreement, Mr. McQuade was appointed to the Compensation Committee and the Finance Committee, and Mr. Lifflander was appointed to the Nominating and Corporate Governance Committee and the Finance Committee, in each case, immediately following the 2008 annual meeting of stockholders. Under the terms of the agreement, the Company agreed to reimburse the MMI Group s reasonable, documented out-of-pocket fees and expenses incurred in connection with the negotiation and execution of the agreement and other matters related to the 2008 annual meeting in an amount up to $125,000. The Company was informed that this amount included a $50,000 payment made by MMI to Mr. McQuade for agreeing to serve on the Board as MMI s nominee. See Security Ownership by Certain Beneficial Owners and Management below for the beneficial ownership of Unisys common stock reported by MMI Investments, L.P., MCM Capital Management, LLC and Mr. Lifflander.

During 2008, the law firm Pepper Hamilton LLP, which has represented Unisys on a variety of matters for more than 20 years, provided legal services to Unisys for fees of approximately $800,000. The husband of Nancy Straus Sundheim is a partner in that firm. Ms. Sundheim has been Senior Vice President, General Counsel and Secretary of Unisys since 2001. Since that date, at the request of Mr. Sundheim, Pepper Hamilton has excluded from Mr. Sundheim s annual compensation any income attributable to Unisys matters. Also, since 2001, it has been the Company s practice that any decision to retain Pepper Hamilton is made by the chief executive officer, in consultation with the Unisys attorney responsible for the matter. Ms. Sundheim has no input in the decision to retain the firm.

Currently the Company has not adopted a policy specifically directed at the review, approval or ratification of related party transactions required to be disclosed. However, under the Unisys Code of Ethics and Business Conduct, all employees, officers and directors are required to avoid conflicts of interest. Employees (including officers) must review with, and obtain the approval of, their immediate supervisor and the Company s Corporate Ethics Office, any situation (without regard to dollar amount) that may involve a conflict of interest. Directors should raise possible conflicts of interest with the chief executive officer or the general counsel. The code of ethics defines a conflict of interest as any relationship, arrangement, investment or situation in which loyalties are divided between Unisys interests and personal interests and specifically notes involvement (either personally or through a family member) in a business that is a competitor, supplier or customer of the Company as a particularly sensitive area that requires careful review.

Audit Committee Report

In performing its oversight responsibilities as defined in its charter, the Audit Committee has reviewed and discussed the audited financial statements and reporting process, including the system of internal controls, with management and with KPMG LLP, the Company s independent registered public accounting firm for the year ended December 31, 2008. The committee has also discussed with KPMG LLP the matters required to be discussed by the statement on Auditing Standards No. 61, as amended, (AICPA, Professional Standards, Vol. 1, AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T. In addition, the committee has received from KPMG LLP the written disclosures and the letter required by applicable requirements of the Public Company Accounting Oversight Board regarding KPMG LLP s communications with the committee concerning independence and has discussed with KPMG LLP their independence. The committee has also considered the compatibility of audit-related services, tax services and other non-audit services with the firm s independence.

Based on these reviews and discussions, the committee recommended to the Board of Directors that the audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2008 for filing with the SEC.

Audit Committee

Matthew J. Espe
Denise K. Fletcher
Edwin A. Huston
Leslie F. Kenne

Independent Registered Public Accounting Firm Fees and Services

KPMG LLP was the Company s independent registered public accounting firm for the year ended December 31, 2008, and Ernst & Young LLP was the Company s independent registered public accounting firm for the year ended December 31, 2007. Fees for KPMG LLP and Ernst & Young LLP for professional services rendered in respect of 2008 and 2007 (in millions of dollars), respectively, are as follows:

	2008	2007
Audit Fees	$ 9.0	$ 8.8
Audit-Related Fees	0.8	2.1
Tax Fees	1.1	0.1
All Other Fees		

Audit fees consist of fees for the audit and review of the Company s financial statements, statutory audits, comfort letters, consents, assistance with and review of documents filed with the SEC and Section 404 attestation procedures. Audit-related fees consist of fees for employee benefit plan audits, accounting advice regarding specific transactions and various attestation engagements. Tax fees principally represent fees for tax compliance services.

The Audit Committee annually reviews and pre-approves the services that may be provided by the independent registered public accounting firm. The committee has also adopted an Audit and Non-Audit Services Pre-Approval Policy that contains a list of pre-approved services, which the committee may revise from time to time. In addition,

the Audit Committee has delegated pre-approval authority, up to a fee limitation of $150,000 per service, to the chairman of the committee.

The chairman of the committee reports any such pre-approval decision to the Audit Committee at its next scheduled meeting.

Relationship with Independent Registered Public Accounting Firms

As stated above, Ernst & Young LLP was the Company s independent registered public accounting firm for the year ended December 31, 2007. On March 14, 2008, the Audit Committee dismissed Ernst & Young LLP, and on March 19, 2008, the Audit Committee engaged KPMG LLP as the independent registered public accounting firm to audit the Company s financial statements for the year ended December 31, 2008.

The audit report of Ernst & Young LLP on the consolidated financial statements of the Company for the year ended December 31, 2007 did not contain an adverse opinion or disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope or accounting principles. During the year ended December 31, 2007 and from January 1, 2008 through March 14, 2008, there were no disagreements with Ernst & Young LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to Ernst & Young LLP s satisfaction, would have caused Ernst & Young LLP to make reference to the subject matter of such disagreements in connection with its report on the financial statements for such period.

During the year ended December 31, 2007 and from January 1, 2008 through March 14, 2008, there were no reportable events (as defined in Regulation S-K Item 304 (a)(1)(v)), except that as of December 31, 2007, the Company s internal control over financial reporting was not effective due to the existence of a material weakness as more fully described in Item 9A of the Company s Annual Report on Form 10-K for the year ended December 31, 2007. The Company concluded that a material weakness in internal control over financial reporting existed related to its control environment because the Company did not have a sufficient number of personnel with an appropriate level of U.S. GAAP knowledge and experience commensurate with its financial reporting requirements. The Company authorized Ernst & Young LLP to respond fully to inquiries of KPMG LLP concerning the material weakness. The Company remediated the material weakness during the fourth quarter of 2008.

During the year ended December 31, 2007 and in the subsequent interim period prior to the Company s engagement of KPMG LLP, neither the Company nor anyone on its behalf consulted KPMG LLP regarding the application of accounting principles to a specified transaction (completed or proposed), the type of audit opinion that might be rendered on the Company s financial statements, any matter being the subject of disagreement or reportable event or any other matter as defined in Regulation S-K, Item 304 (a)(1)(iv) or (a)(1)(v).

RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has engaged the firm of KPMG LLP as the independent registered public accounting firm to audit the Company s financial statements for the year ending December 31, 2009. As stated above, KPMG LLP was the Company s independent registered public accounting firm for the year ended December 31, 2008. The Company expects that representatives of KPMG LLP will be present at the annual meeting and will have the opportunity to make a statement if they desire to do so and to respond to appropriate questions asked by stockholders. The Board of

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Directors considers KPMG LLP to be well qualified to serve as the independent registered public accounting firm for Unisys and recommends a vote for the proposal to ratify their selection.

The Board of Directors recommends a vote FOR the proposal to ratify the selection of KPMG LLP as the Company s independent registered public accounting firm for 2009.

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AMENDMENT TO RESTATED CERTIFICATE OF INCORPORATION TO EFFECT A REVERSE STOCK SPLIT

The Company s Board of Directors has unanimously adopted and is submitting for stockholder approval an amendment to the Company s Restated Certificate of Incorporation to (1) effect a reverse stock split at a reverse split ratio of between 1-for-5 and 1-for-20, which ratio will be selected by the Board of Directors following stockholder approval and prior to the time of filing of a Certificate of Amendment with the Delaware Secretary of State, and (2) decrease the total number of authorized shares of the Company s common stock on a basis proportional to the reverse split ratio approved by the Board of Directors. Pursuant to the law of Delaware, the Company s state of incorporation, the Board of Directors must adopt any amendment to the Company s Restated Certificate of Incorporation and submit the amendment to stockholders for their approval. The form of the proposed amendment to the Company s Restated Certificate of Incorporation to effect the reverse stock split is attached to this Proxy Statement as Annex A.

The Board, in its discretion, may elect, at any time prior to next year s annual meeting of stockholders, to effect any reverse split ratio within the range set forth above upon receipt of stockholder approval, or none of them if the Board determines in its discretion not to proceed with the reverse stock split. The Company believes that the availability of a range of reverse split ratios will provide it with the flexibility to implement the reverse stock split in a manner designed to maximize the anticipated benefits for the Company and its stockholders. In determining which reverse stock split ratio to implement, if any, following the receipt of stockholder approval, the Board of Directors may consider, among other things, factors such as:

- the historical trading price and trading volume of the common stock;
- the then prevailing trading price and trading volume of the common stock and the anticipated impact of the reverse stock split on the trading market for the common stock;
- the Company s ability to continue its listing on the NYSE;
- which reverse split ratio would result in the greatest overall reduction in the Company s administrative costs; and
- prevailing general market and economic conditions.

Reasons for the Reverse Stock Split

The Board of Directors believes that stockholders should authorize the reverse split for the following reasons:

- *Compliance with NYSE Listing Standards.* The Company s common stock is listed on the NYSE under the symbol UIS . The Company was notified in writing by the NYSE on December 4, 2008 that it was below the criteria of the NYSE for continued listing because the average per share closing price of the common stock over a consecutive 30-trading-day period was less than $1.00. On December 12, 2008, the Company provided written notice to the NYSE of its intent to take actions to cure the deficiency, including a plan to pursue a reverse stock split. The Board of Directors believes that the increase in the stock price that it expects to result from the reverse stock split will reduce the risk that the Company s common stock will be delisted by the NYSE.

Increase in Eligible Investors. A reverse stock split would allow a broader range of institutions and other investors in the Company s common stock, such as funds that are

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prohibited from buying stocks whose price is below a certain threshold, potentially increasing trading volume and liquidity.

Increased Broker Interest. A reverse stock split would help increase broker interest in the Company s common stock as their policies can discourage them from recommending companies with lower stock prices. Because of the trading volatility often associated with lower-priced stocks, many brokerage houses and institutional investors have adopted internal policies and practices that either prohibit or discourage them from investing in such stocks or recommending them to their customers. Some of those policies and practices may also function to make the processing of trades in lower-priced stocks economically unattractive to brokers. Additionally, because brokers commissions on transactions in lower-priced stocks generally represent a higher percentage of the stock price than commissions on higher-priced stocks, the current average price per share of the Company s common stock can result in individual stockholders paying transaction costs representing a higher percentage of their total share value than would be the case if the stock price were substantially higher.

Decreased Stock Price Volatility. The Board of Directors believes that the increase in the stock price that it expects to result from the reverse stock split could decrease price volatility, as small changes in the price of the Company s common stock currently result in relatively large percentage changes in the stock price.

Decrease the Company s Costs. The Board of Directors believes that the reverse stock split would also reduce certain of the Company s costs, such as NYSE listing fees.

Possible Disadvantages of the Reverse Stock Split

The Board of Directors believes that the potential advantages of a reverse stock split significantly outweigh any disadvantages that may result. The following are possible disadvantages of a reverse stock split:

The reverse stock split may not increase the price of the Company s common stock. Although the Board of Directors expects that a reverse stock split will result in an increase in the price of the Company s common stock, the effect of a reverse stock split cannot be predicted with certainty. Other factors, such as the Company s financial results, market conditions and the market perception of the Company s business may adversely affect the stock price. As a result, there can be no assurance that the reverse stock split, if completed, will result in the intended benefits described above, that the stock price will increase following the reverse stock split or that the stock price will not decrease in the future.

The reverse stock split may decrease the trading market for the Company s common stock. Because the reverse stock split will reduce the number of shares of common stock available in the public market, the trading market for the Company s common stock may be harmed, particularly if the stock price does not increase as a result of the reverse stock split.

The reverse stock split may leave certain stockholders with odd lots . The reverse stock split may result in some stockholders owning odd lots of fewer than 100 shares of the common stock. Odd lot shares may be more difficult to sell, and brokerage commissions and other costs of transactions in odd lots are generally somewhat higher than the costs of transactions in round lots of even multiples of 100 shares.

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Effects of the Reverse Stock Split

General

If the reverse stock split is approved and implemented, the principal effects will be to decrease the number of outstanding shares of the Company s common stock based on the reverse stock split ratio selected by the Board of Directors and to proportionately decrease the number of authorized shares of the common stock. As of December 31, 2008, approximately 370 million shares of common stock were issued and outstanding. Based on this number of shares issued and outstanding and, for illustrative purposes only, assuming a reverse split ratio of 1-for-10, the Company would have approximately 37 million shares outstanding immediately following the completion of the reverse stock split (without giving effect to the treatment of fractional shares discussed below).

The reverse stock split will not affect the registration of the common stock under the Securities Exchange Act of 1934, as amended (the Exchange Act) or the listing of the common stock on the NYSE. Following the reverse stock split, the common stock will continue to be listed on the NYSE under the symbol UIS , although it will be considered a new listing with a new CUSIP number.

Proportionate voting rights and other rights of the holders of the common stock will not be affected by the reverse stock split, other than as a result of the treatment of fractional shares as described below. Except for stockholders who are cashed out as a result of holding fractional shares and the adjustments that may result from the treatment of fractional shares discussed below, the number of stockholders of record will not be affected by the reverse stock split and each stockholder will hold the same percentage of common stock immediately following the reverse stock split as such stockholder held immediately prior to the reverse stock split.

Effectiveness of Reverse Stock Split

The reverse stock split, if approved by stockholders, would become effective upon the filing and effectiveness (the Effective Time) of a Certificate of Amendment to the Company s Restated Certificate of Incorporation with the Secretary of State of the State of Delaware. It is expected that this filing will take place promptly following the annual meeting, assuming the stockholders approve the amendment. However, the exact timing of the filing of the amendment will be determined by the Board of Directors based on its evaluation as to when such action will be the most advantageous to the Company and its stockholders. If the Board fails to implement the reverse stock split by next year s annual meeting, stockholder approval would be required again prior to implementing any reverse stock split. In addition, the Board reserves the right, notwithstanding stockholder approval and without further action by the stockholders, to elect not to proceed with the reverse stock split if, at any time prior to filing the Certificate of Amendment, the Board, in its sole discretion, determines that it is no longer in the Company s best interests and the best interests of its stockholders to proceed with the reverse stock split.

Effect on the Company s Stock Plans

As shown on the table on page 22, as of December 31, 2008, approximately 42 million shares were issuable upon the exercise of outstanding stock options and upon the vesting of outstanding restricted stock units, and approximately 24.5 million additional shares were reserved and available for issuance pursuant to future awards under the Company s stock incentive plans. Under these plans, the number of shares reserved and available for issuance and the number, exercise price, grant price or purchase price of shares subject to outstanding awards will be proportionately adjusted based on the reverse split ratio selected by the Board of Directors if the reverse stock split

is effected. As a result, using the above data as of December 31, 2008 and assuming for illustrative purposes only that a 1-for-10 reverse stock split is effected, the number of shares issuable upon exercise or vesting of outstanding awards would be adjusted from 42 million to 4.2 million, and the 24.5 million shares that were available for future issuance under the stock plans would be adjusted to 2.45 million shares (subject to increase as and when awards made under the stock plans expire or are forfeited and are returned in accordance with the terms of the plans). For individual holders, the number of shares subject to outstanding awards would be reduced by a factor of 10 and, in the case of outstanding stock options, the exercise price per share would be increased by a multiple of 10, such that upon an exercise, the aggregate exercise price payable by the optionee to the Company would remain the same. For example, an outstanding stock option for 5,000 shares of common stock, exercisable at $1.00 per share, would be adjusted as a result of a 1-for-10 split ratio into an option exercisable for 500 shares of common stock at an exercise price of $10.00 per share.

Effect on Authorized but Unissued Shares of Common Stock

Currently, the Company is authorized to issue up to a total of 760,000,000 shares, comprising 720,000,000 shares of common stock and 40,000,000 shares of preferred stock. Concurrently with the reverse stock split, the Company intends to decrease its authorized shares of common stock by the same ratio as the reverse stock split (rounded to the nearest whole number). For example, assuming for illustrative purposes only a 1-for-10 reverse stock split, the number of authorized shares of common stock would be decreased to 72 million. The number of authorized shares of preferred stock will not change.

Fractional Shares

The Company does not currently intend to issue fractional shares in connection with the reverse stock split. Stockholders who would otherwise hold fractional shares because the number of shares of common stock they hold before the reverse stock split is not evenly divisible by the split ratio ultimately selected by the Board of Directors will receive cash (without interest) in lieu of such fractional shares in an amount equal to the proceeds attributable to the sale of such fractional shares following the aggregation and sale by the Company s transfer agent of all fractional shares otherwise issuable. Stockholders who own their shares in certificate form will receive such cash payment in lieu of fractional shares following the surrender of their pre-split certificates for post-split shares. The ownership of a fractional share interest will not give the holder any voting, dividend or other rights, except to receive the above-described cash payment. Unisys will be responsible for any brokerage fees or commissions related to the transfer agent s selling in the open market shares that would otherwise be fractional shares.

Stockholders should be aware that, under the escheat laws of various jurisdictions, sums due for fractional interests that are not timely claimed after the Effective Time may be required to be paid to the designated agent for each such jurisdiction, unless correspondence has been received by the Company or the transfer agent concerning ownership of such funds within the time permitted in such jurisdiction. Thereafter, if applicable, stockholders otherwise entitled to receive such funds, but who do not receive them, will have to seek to obtain such funds directly from the state to which they were paid.

Effect on Par Value

The proposed amendments to the Company s Restated Certificate of Incorporation will not affect the par value of the common stock, which will remain at $.01 per share.

Reduction In Stated Capital

As a result of the reverse stock split, upon the Effective Time, the stated capital on the Company s balance sheet attributable to the common stock, which consists of the par value per share of the common stock multiplied by the aggregate number of shares of the common stock issued and outstanding, will be reduced in proportion to the size of the reverse stock split. Correspondingly, the Company s additional paid-in capital account, which consists of the difference between the Company s stated capital and the aggregate amount paid to the Company upon issuance of all currently outstanding shares of the common stock, will be credited with the amount by which the stated capital is reduced. The Company s stockholders equity, in the aggregate, will remain unchanged.

No Going Private Transaction

Notwithstanding the decrease in the number of outstanding shares following the proposed reverse stock split, the Board of Directors does not intend for this transaction to be the first step in a going private transaction within the meaning of Rule 13e-3 of the Exchange Act.

Effect on Registered and Beneficial Holders

If the reverse stock split is effected, the Company intends to treat beneficial holders (*i.e.*, stockholders who hold their shares in street name through a bank, broker or other nominee) in the same manner as registered stockholders whose shares are registered in their names. Banks, brokers or other nominees will be instructed to effect the reverse stock split for their beneficial holders holding shares in street name . However, these banks, brokers or other nominees may have their own procedures for processing the reverse stock split. Stockholders who hold shares with a bank, broker or other nominee and have questions in this regard are encouraged to contact their bank, broker or other nominee.

Effect on Registered Book-Entry Holders

The Company s registered stockholders may hold some or all of their shares electronically in book-entry form under the direct registration system for securities. These stockholders will not have stock certificates evidencing their ownership of the Company s common stock. They are, however, provided with a statement reflecting the number of shares registered in their accounts.

> If you hold shares in a book-entry form, you do not need to take any action to receive your post-split shares or your cash payment in lieu of any fractional share interest, if applicable. If you are entitled to post-split shares, a transaction statement will automatically be sent to your address of record indicating the number of shares you hold.
>
> If you are entitled to a payment in lieu of any fractional share interest, a check will be mailed to you at your registered address as soon as practicable after the Company s transfer agent completes the aggregation and sale described above in Fractional Shares . By signing and cashing this check, you will warrant that you owned the shares for which you received a cash payment.

Effect on holders of Registered Certificated Shares

Some registered stockholders hold their shares of Unisys common stock in certificate form or a combination of certificate and book-entry form. If any of your shares are held in certificate form, you will receive a transmittal letter from the Company s transfer agent as soon as practicable after the effective date of the reverse stock split. The

transmittal letter will contain instructions on how to

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surrender your certificate(s) representing your pre-split shares to the transfer agent. Upon receipt of your properly completed and executed letter of transmittal and your stock certificate(s), you will be issued the appropriate number of shares electronically in book-entry form under the direct registration system. This means that, instead of receiving a new stock certificate, you will receive a direct registration statement that indicates the number of post-split shares you own in book-entry form. At any time after receipt of your direct registration statement, you may request a stock certificate representing your post-split ownership interest. If you are entitled to a payment in lieu of any fractional share interest, payment will be made as described above under Fractional Shares .

No new shares in book-entry form will be issued and no payment in lieu of any fractional share interest will be made to you until you surrender your outstanding certificate(s), together with the properly completed and executed letter of transmittal, to the transfer agent.

YOU SHOULD NOT SEND YOUR CERTIFICATES NOW. YOU SHOULD SEND THEM ONLY AFTER YOU RECEIVE THE LETTER OF TRANSMITTAL FROM THE TRANSFER AGENT.

No Appraisal Rights

Under the Delaware General Corporation Law, the Company s stockholders are not entitled to dissenter s rights or appraisal rights with respect to the reverse stock split described in this proposal.

Certain Federal Income Tax Consequences of the Reverse Stock Split

The following is a general summary of certain U.S. federal income tax consequences of the reverse stock split that may be relevant to stockholders. This summary is based upon the provisions of the Internal Revenue Code of 1986, as amended (the Internal Revenue Code), Treasury regulations promulgated thereunder, published administrative rulings and judicial decisions as of the date hereof, all of which may change, possibly with retroactive effect, resulting in U.S. federal income tax consequences that may differ from those discussed below. This summary does not purport to be complete and does not address all aspects of federal income taxation that may be relevant to stockholders in light of their particular circumstances or to stockholders that may be subject to special tax rules, including, without limitation: (i) stockholders subject to the alternative minimum tax; (ii) banks, insurance companies, or other financial institutions; (iii) tax-exempt organizations; (iv) dealers in securities or commodities; (v) regulated investment companies or real estate investment trusts; (vi) partnerships (or other flow-through entities for U.S. federal income tax purposes and their partners or members); (vii) traders in securities that elect to use a mark-to-market method of accounting for their securities holdings; (viii) foreign stockholders or U.S. stockholders whose functional currency is not the U.S. dollar; (ix) persons holding the common stock as a position in a hedging transaction, straddle, conversion transaction or other risk reduction transaction; (x) persons who acquire shares of the common stock in connection with employment or other performance of services; (xi) dealers and other stockholders that do not own their shares of common stock as capital assets; or (xii) U.S. expatriates. In addition, this summary does not address the tax consequences arising under the laws of any foreign, state or local jurisdiction and U.S. federal tax consequences other than federal income taxation. If a partnership (including any entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds shares of the common stock, the tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership.

The Company has not sought, and will not seek, an opinion of counsel or a ruling from the Internal Revenue Service (IRS) regarding the United States federal income tax consequences of

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the reverse stock split and there can be no assurance the IRS will not challenge the statements and conclusions set forth below or that a court would not sustain any such challenge. EACH STOCKHOLDER SHOULD CONSULT SUCH HOLDER S TAX ADVISOR WITH RESPECT TO THE PARTICULAR TAX CONSEQUENCES OF THE REVERSE STOCK SPLIT TO SUCH STOCKHOLDER.

The reverse stock split should constitute a recapitalization for U.S. federal income tax purposes. As a result, a stockholder generally should not recognize gain or loss upon the reverse stock split, except with respect to cash received in lieu of a fractional share of the common stock, as discussed below. A stockholder s aggregate tax basis in the shares of the common stock received pursuant to the reverse stock split should equal the aggregate tax basis of the shares of the common stock surrendered (excluding any portion of such basis that is allocated to any fractional share of the common stock), and such stockholder s holding period (*i.e.*, acquired date) in the shares of the common stock received should include the holding period in the shares of the common stock surrendered. Treasury regulations promulgated under the Internal Revenue Code provide detailed rules for allocating the tax basis and holding period of the shares of the common stock surrendered to the shares of the common stock received pursuant to the reverse stock split. Stockholders who acquired their shares of common stock on different dates and at different prices should consult their tax advisors regarding the allocation of the tax basis and holding period of such shares.

A stockholder who receives cash in lieu of a fractional share of the common stock pursuant to the reverse stock split generally should recognize capital gain or loss in an amount equal to the difference between the amount of cash received and the holder s tax basis in the shares of the common stock surrendered that is allocated to such fractional share of the common stock. Such capital gain or loss should be long term capital gain or loss if the holder s holding period for the common stock surrendered exceeded one year at the Effective Time.

Information Reporting and Backup Withholding. Information returns generally will be required to be filed with the IRS with respect to the receipt of cash in lieu of a fractional share of the common stock pursuant to the reverse stock split. In addition, stockholders may be subject to a backup withholding tax (at the current applicable rate of 28%) on the payment of such cash if they do not provide their taxpayer identification numbers in the manner required or otherwise fail to comply with applicable backup withholding tax rules. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be refunded or allowed as a credit against the stockholder s federal income tax liability, if any, provided the required information is timely furnished to the IRS.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THIS PROPOSAL TO AMEND THE COMPANY S RESTATED CERTIFICATE OF INCORPORATION TO (1) EFFECT A REVERSE STOCK SPLIT AT A REVERSE SPLIT RATIO OF BETWEEN 1-FOR-5 AND 1-FOR-20, WHICH RATIO WILL BE SELECTED BY THE BOARD OF DIRECTORS PRIOR TO THE TIME OF FILING OF A CERTIFICATE OF AMENDMENT WITH THE DELAWARE SECRETARY OF STATE, AND (2) DECREASE THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK.

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information as of December 31, 2008 with respect to compensation plans under which Unisys common stock is authorized for issuance.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	29.073 million(1)	$ 17.33	
	7.762 million(2)	$ 0	24.505 million(3)
Equity compensation plans not approved by security holders(4)	5.067 million(5)	$ 10.70	
	0.133 million(6)	$ 0	0
Total	42.035 million	$ 16.35	24.505 million

(1) Represents stock options.

(2) Represents restricted share units and stock units. Assumes that performance-based restricted stock units will vest at target.

(3) 6.317 million shares are issuable under the Unisys Corporation 2003 Long-Term Incentive and Equity Compensation Plan (the 2003 Plan) and 18.188 million shares are issuable under the Unisys Corporation 2007 Long-Term Incentive and Equity Compensation Plan (the 2007 Plan). Assumes that outstanding performance-based restricted stock units will vest at target.

(4) Comprises the Unisys Corporation Director Stock Unit Plan (the Stock Unit Plan) and the 2002 Stock Option Plan (the 2002 Plan). Under the Stock Unit Plan, directors received a portion of their annual retainers and attendance fees in common stock equivalent units. The Stock Unit Plan was terminated in 2004, and stock units are now granted to directors under either the 2003 Plan or the 2007 Plan, both of which were approved by stockholders. Under the 2002 Plan, stock options could be granted to key employees other than elected officers to purchase the Company s common stock at no less than 100% of fair market value at the date of grant. Options generally had a maximum duration of ten years and were exercisable in four equal annual installments beginning one year after the date of grant. The 2002 Plan was replaced by the 2003 Plan in 2003. No further awards will be made under either the Stock Unit Plan or the 2002 Plan, and no shares (other than shares subject to outstanding options and other awards previously made) are available for future issuance under either plan.

(5) Represents options granted under the 2002 Plan.

(6) Represents stock units granted under the Stock Unit Plan.

SECURITY OWNERSHIP BY CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Shown below is information with respect to persons or groups that beneficially own more than 5% of Unisys common stock. This information is derived from Schedules 13D and 13G filed by such persons or groups.

Name and Address of Beneficial Owner	Number of Shares of Common Stock	Percent of Class
Brandes Investment Partners, L.P. Brandes Investment Partners, Inc. Brandes Worldwide Holdings, L.P. Charles H. Brandes Glenn R. Carlson Jeffrey A. Busby 11988 El Camino Real, Suite 500 San Diego, CA 92130	28,814,519(1)	7.95
Joseph L. Harrosh P.O. Box 6009 Fremont, CA 94538	22,456,789(2)	6.199
MMI Investments, L.P. MCM Capital Management, LLC Clay B. Lifflander 1370 Avenue of the Americas New York, NY 10019	26,322,000(2,3)	7.3
Steel Partners II, L.P. Steel Partners LLC WebFinancial L.P. Warren G. Lichtenstein 500 Madison Avenue New York, NY 10022 Steel Partners II Master Fund L.P. c/o Morgan Stanley Fund Services (Cayman) Ltd. Cricket Square, 2d Floor, Boundary Hall Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands	33,029,847(2)	9.1

(1) Shared dispositive power has been reported for 28,814,519 shares. Shared voting power has been reported for 22,637,034 shares.

(2) Sole dispositive and sole voting power have been reported for all shares.

(3)

According to an amendment to Schedule 13D filed with the SEC on November 10, 2008, neither MCM Capital Management, LLC (MCM) nor Mr. Lifflander directly owns any shares of Unisys common stock. However, by virtue of being the general partner of MMI Investments, L.P. (MMI), MCM may be deemed to be the beneficial owner of the shares owned by MMI and to have sole power over the voting and disposition of such shares as a result of its having the sole power to make voting and disposition decisions on behalf of MMI with respect to the shares held by MMI. Furthermore, as a member of a group for purposes of Rule 13d-5(b)(1) of the Securities Exchange Act of 1934, as amended, Mr. Lifflander may be deemed to beneficially own the shares owned by MMI. Mr. Lifflander has disclaimed beneficial ownership of such shares.

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Shown below are the number of shares of Unisys common stock (or stock units) beneficially owned as of February 28, 2009 by all directors and nominees, each of the executive officers named on page 33, and all directors and current officers of Unisys as a group.

Beneficial Owner	Number of Shares of Common Stock (1)(2)(3)	Additional Shares of Common Stock Deemed Beneficially Owned(1)(4)	Percent of Class(2)
J.P. Bolduc	63,164	68,000	*
J. Edward Coleman	141,000		*
Craig A. Conway	36,205		*
Anthony P. Doye	132,006		*
James J. Duderstadt	60,527	68,000	*
Henry C. Duques	114,692	68,000	*
Matthew J. Espe	39,458	24,000	*
Denise K. Fletcher	47,078	48,000	*
Janet B. Haugen	59,137	725,000	*
Edwin A. Huston	64,213	68,000	*
Clayton M. Jones	40,433	24,000	*
Leslie F. Kenne	33,135		*
Clay B. Lifflander	24,572,000		6.6
Richard C. Marcello	28,726	16,667	*
Theodore E. Martin	140,863	68,000	*
Joseph W. McGrath	142,203	1,755,000	*
Charles B. McQuade	110,819		*
Nancy S. Sundheim	40,883	499,000	*
All directors and current officers as a group	25,829,876	2,590,667	7.0

* Less than 1%

(1) Includes shares reported by directors and officers as held directly or in the names of spouses, children or trusts as to which beneficial ownership may have been disclaimed.

(2) According to a Form 4 filed with the SEC on November 21, 2008, all 24,572,000 shares shown for Mr. Lifflander are owned directly by MMI Investments, L.P., the general partner of which, MCM Capital Management, LLC (MCM), owns, indirectly as such general partner, its proportionate interest of these shares. Mr. Lifflander is a Voting Member and President of MCM. Mr. Lifflander and MCM have disclaimed beneficial ownership of such shares except to the extent of their respective pecuniary interests therein. Mr. Lifflander has informed the Company that the shares owned by MMI Investments, L.P. are held in marginable accounts. If the shares with respect to which Mr. Lifflander has disclaimed beneficial ownership were excluded, the amounts shown in the table for all directors and current officers as a group would be as follows: Number of Shares of Common Stock 1,257,876; Additional Shares of Common Stock Deemed Beneficially Owned 2,590,667 Percent of Class less than 1%.

(3) Includes:

(a) Shares held under the Unisys Savings Plan, a qualified plan under Sections 401(a) and 401(k) of the Internal Revenue Code, as follows: Ms. Haugen, 15,385; Mr. McGrath, 4,590; Ms. Sundheim, 7,169; current officers as a group, 41,904. With respect to such shares, plan participants have authority to direct voting.

(b) Stock units, as described on page 46, for directors as follows: Mr. Bolduc, 27,029; Dr. Duderstadt, 26,342; Mr. Duques, 76,557; Mr. Espe, 6,323; Ms. Fletcher, 13,943; Mr. Huston, 30,078; Mr. Jones, 7,298; Mr. Martin, 87,728 and Mr. McQuade, 10,819. They may not be voted.

(4) Shares shown are shares subject to options exercisable within 60 days following March 31, 2009.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Compensation Philosophy

The Company s executive compensation program is based upon the following objectives:

- attract, retain and motivate executives responsible for the Company s long-term success;
- reward executives for achieving both financial and strategic Company goals;
- align executive and stockholder interests through long-term, equity-based plans; and
- provide a compensation package that recognizes individual contributions as well as overall business results.

Given these objectives, the Company s executive compensation program is designed to provide a mix of fixed compensation and at-risk compensation that is heavily weighted towards variable compensation tied to the achievement of specific business objectives and corporate financial goals (both short-term and long-term), as well as to the attainment of the executive s individual performance objectives. To that end, the principal components of executive officer compensation are:

- base salary;
- annual cash incentives tied to annual corporate and individual performance; and
- long-term incentives in the form of restricted stock units, stock options and/or other stock-based awards.

In addition, executive officers receive other benefits that the Company believes are reasonable and consistent with its overall compensation program. These include supplemental retirement programs and executive perquisites.

Each of the three principal elements of the Company s executive compensation program is essential to meeting the program s overall objectives, and most of the compensation components simultaneously fulfill one or more of these objectives. Base salaries, which are the only fixed component of compensation, are used primarily to attract and retain executives responsible for the Company s long-term success. Annual cash incentive compensation is at-risk compensation designed both to reward executives for the achievement of short-term corporate and individual goals and to attract and retain executives. Long-term incentive compensation is intended to align executive and stockholder interests, to motivate and reward executives for long-term business success and to attract and retain executives responsible for this long-term success.

The Company has not adopted a formula to allocate total compensation among its various components. As a general matter, total target compensation, as well as each element of total target compensation, is intended to be consistent with the median for the companies against which Unisys benchmarks the compensation it pays to its executive officers. However, the Company incorporates flexibility into its compensation programs and into the assessment process to respond to and adjust for the changing business environment and to emphasize, as needed, one or more of its compensation objectives.

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Benchmarking

The Company s executive compensation program takes into account the compensation practices of companies with which Unisys competes or could compete for executive talent. In its general review of the Company s executive compensation program in 2008, the Compensation Committee compared the Company s overall compensation practices (types of compensation paid, mix of variable and fixed compensation, mix of cash and equity-based compensation and the like) with the compensation practices of the 36 High Technology companies in the Towers Perrin TriComp survey that are principally in the businesses of systems integration and consulting, information technology outsourcing, infrastructure services and hardware technology.

The committee then, in setting compensation levels for the Company s executive officers, reviewed the officers total annual compensation, as well as each component of their total compensation, against the median compensation levels for persons holding comparable positions at a subset of the High Technology companies in the Towers Perrin TriComp survey. The companies included in this subset, which have revenue levels more similar to the Company s, were:

Advanced Micro Devices	Lexmark International	Seagate Technology
Agilent Technologies	NCR	Sun Microsystems
Applied Materials	National Semiconductor	Symantec
EMC	Nortel Networks	Texas Instruments
KLA-Tencor	Qualcomm	Yahoo
Lenovo		

As a general proposition, total target compensation, as well as each element of total target compensation, for the Company s executive officers is intended to be consistent with the median for this smaller group of benchmark companies. However, because the Compensation Committee also takes into consideration both individual and corporate performance, as well as a subjective assessment of the relative complexity and strategic importance of any particular position held, any given executive can be compensated at, above or below the median benchmark levels. For 2008, base salaries and annual incentive targets were generally in line with the benchmark companies. For the reasons set forth below, long-term incentive targets were below the benchmark levels, and, as a result, total target compensation was below competitive levels.

Role of Compensation Consultants and Management

To assist in carrying out its responsibilities, the Compensation Committee regularly consults with the committee s outside compensation consultant. Under its charter, the Compensation Committee has sole authority to retain and terminate outside compensation consultants, including sole authority to approve the consultant s fees and other retention terms. In December 2007, the Compensation Committee engaged Watson Wyatt to act as its outside compensation consultant. As the committee s outside compensation consultant, Watson Wyatt performed such duties as were requested by the committee. Those duties consisted primarily of providing market data and advice to the committee that were used to determine executive and director compensation, particularly analyses of the Company s executive and director compensation in comparison to the benchmark companies. Watson Wyatt spoke with the chairman of the Compensation Committee, as well as with management, in preparing for committee meetings, regularly attended committee meetings and frequently met in executive session with the Compensation Committee without the presence of management.

The Compensation Committee also receives reports and recommendations from management. In particular, the committee solicits input from the chief executive officer regarding the compensation of those executives reporting directly to him. In connection with these recommendations, the chief executive officer consults with the Company s head of human resources and senior executive compensation staff and meets periodically with the Compensation Committee s outside compensation consultant to review the benchmark data. In addition, the chief executive officer provides recommendations, based on the Company s operating and strategic plans, to the Compensation Committee related to the corporate performance measures used in the Company s annual and long-term incentive plans, as well as the recommended threshold, target and maximum performance levels. In connection with these recommendations, the chief executive officer consults with the Company s chief financial officer. Although the chief executive officer regularly attends Compensation Committee meetings, his compensation package is considered by the committee in an executive session without him present, using data, analysis and advice provided by the outside compensation consultant. The Compensation Committee also meets from time to time in executive session with the outside compensation consultant, but without the presence of the chief executive officer or any other members of management, to consider, among other things, the compensation recommendations proposed by the chief executive officer.

Chairman and Chief Executive Officer

Effective October 7, 2008, the Board of Directors elected J. Edward Coleman as the Company s Chairman of the Board and Chief Executive Officer. In connection with his election, the Company and Mr. Coleman entered into an employment agreement dated October 6, 2008 (and amended on December 22, 2008 to comply with Section 409A of the Internal Revenue Code) covering the terms and conditions of Mr. Coleman s employment. The agreement provides for a minimum base salary of $972,000 per year, subject to periodic review by the Board of Directors after receiving a recommendation from the Compensation Committee. He is eligible to receive an annual bonus award at a target bonus level of not less than 125% of base salary. Except with respect to the first six months of his employment, the actual bonus payable, if any, will be determined by the Board in its sole discretion after receiving a recommendation from the Compensation Committee and will be based on Mr. Coleman s attainment of performance criteria to be determined annually by the Board and the Compensation Committee. For the first six months of his employment, Mr. Coleman is guaranteed a bonus of $607,500 if he remains employed by the Company on the applicable bonus payment date. Pursuant to the agreement, on October 8, 2008 Mr. Coleman received a stock option grant for 1,200,000 shares of Unisys common stock and a grant of 300,000 time-based restricted stock units. The stock options are scheduled to vest one-third per year beginning on the first anniversary of the date of grant and expire five years from the date of grant. The restricted stock units are scheduled to vest one-third per year beginning on the first anniversary of the date of grant. Pursuant to the agreement, Mr. Coleman also received, on February 12, 2009, a grant of 900,000 performance-based restricted stock units. These restricted stock units will vest one-third per year beginning on the first anniversary of the date of grant if and to the extent that the performance criteria that are established for making funding available for the Company s Executive Variable Compensation Plan (the EVC Plan) for each of 2009, 2010 and 2011, respectively, are met. For 2009, the EVC Plan performance criteria are based 50% on pre-tax profit and 50% on cash flow. The EVC Plan is discussed below under Variable Annual Incentive Compensation . Mr. Coleman is eligible to participate in the benefit programs generally made available to executive officers and is eligible to receive stock option and other long-term incentive awards under the company s long-term incentive plans. For so long as Mr. Coleman s primary residence is not in the Philadelphia

metropolitan area, he will be provided with the use of a company-paid apartment in the Philadelphia metropolitan area for business purposes, the annual expense of which will be approved annually by the Compensation Committee.

In setting the compensation provided for in Mr. Coleman s agreement, the Board, in consultation with Watson Wyatt, considered both competitive market practices and the challenges facing the Company. Accordingly, salary and target bonus were set near the median for the benchmark companies. The stock options, time-based restricted stock units and performance-based restricted stock units were intended to align Mr. Coleman s interests with those of stockholders and to provide incentives for him to lead the Company to achieve its performance objectives.

Principal Components of Executive Officer Compensation

As set forth above, the principal elements of the Company s executive compensation program consist of base salary, annual variable cash incentives and long-term incentive compensation.

Base Salary

Base salaries for elected officers are initially determined by evaluating the responsibilities of the position held and the experience of the individual and comparing such salaries to the benchmark compensation data. Thereafter, increases in salary can be based on the Compensation Committee s evaluation of any number of factors, including the individual s level of responsibility, individual performance, pay levels of both the executive in question and other similarly situated executives and the benchmark compensation data. In February 2008, when it conducted its review of executive compensation, the Compensation Committee considered primarily the relationship of executive compensation at the Company to the benchmark compensation data. The committee noted that there had been no salary increases for the Company s elected officers for two years (except for increases related to the discontinuation of certain executive perquisites) and that inflation had increased by more than 6% during that period. The committee approved a 3.8% salary increase for elected officers, other than Mr. McGrath. The amount of the increase and the resultant new base salaries for Named Officers listed in the Summary Compensation Table on page 33 were as follows:

Name	Previous Base Salary	Amount of Increase	New Base Salary
Joseph W. McGrath	$ 972,313	$ 0	$ 972,313
Janet B. Haugen	$ 537,985	$ 20,443	$ 558,428
Anthony P. Doye	$ 500,004	$ 19,000	$ 519,004
Richard C. Marcello	$ 457,200	$ 17,374	$ 474,574
Nancy S. Sundheim	$ 488,208	$ 18,552	$ 506,760

Following these increases, base salaries for the elected officers remain in line with the median for the benchmark companies.

Variable Annual Incentive Compensation

During 2008, all of the Company s elected officers were eligible to receive annual cash incentive compensation through the EVC Plan. Compensation under the EVC Plan is at-risk compensation intended to motivate and reward executives for the attainment of corporate and/or individual performance goals for the year. Under the plan, the Compensation Committee has the discretion to determine the conditions (including performance objectives) applicable to annual award payments and the amounts of such awards. The amount of incentive compensation awards

payable under the plan depends upon (1) a participant s target annual incentive, (2) the amount of

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funding the Company makes available for the plan and (3) individual performance. Individual targets for elected officers are approved by the committee and are intended to be competitive in the market for which the Company competes for talent. They are therefore set at or around the median for comparable positions at the benchmark companies. For 2008, target award amounts, which are typically stated as a percentage of base salary, were as follows for the following Named Officers: Joseph W. McGrath 125%; Janet B. Haugen 90%; Anthony P. Doye 95%; Richard C. Marcello 95%; Nancy S. Sundheim 75%.

The extent to which the Company makes funding available for the EVC Plan depends upon the degree to which the Company achieves performance targets approved by the Compensation Committee at the beginning of each year. For 2008, the committee determined that awards under the plan would be funded if the Company met certain revenue growth and pre-tax profit (exclusive of gain or loss from divestitures, restructuring charges and retirement-related expense) performance targets. Each target was weighted 50%. Both the revenue growth and the pre-tax profit targets were based on the Company s Board-approved operating plan, which outlooks the Company s anticipated results for the year. Target levels (those that would result in funding at 100% if achieved) were the same as the forecasted amounts in the operating plan. The committee also set threshold and maximum performance levels for each criterion, which would result in funding at 50% and 150% of target, respectively, if achieved. No funding would be provided by the Company in respect of a criterion if performance was below the threshold level. In addition, the committee determined that if pre-tax profit at the target level was not achieved, all funding for the year would be reduced by 50%. Both the pre-tax profit and the revenue growth goals were subject to adjustment by the chief executive officer and the Compensation Committee for one-time and extraordinary items. Assuming available funding, the amount of awards granted to individual executives would then depend upon individual performance and could range from 0% to 150% of the individual s proportionate share of the amount funded.

For 2008, both revenue growth and pre-tax profit were below threshold levels. Therefore, no funds were made available in respect of corporate performance. As a result, only those Named Officers who had received a bonus guarantee as part of their new hire compensation package received a payout under the EVC Plan for 2008.

As set forth above, pursuant to his employment agreement, Mr. Coleman was guaranteed a bonus of $607,500 for the first six months of his employment. Accordingly, he was paid a bonus of $303,750 in respect of the period from October 7 through December 31, 2008. In connection with their employment by the Company in 2007, Mr. Doye and Mr. Marcello were each guaranteed a bonus for 2008 in the amount of $425,000 and $163,832, respectively.

Long-Term Incentive Awards

Long-term incentives in the form of equity-based compensation are intended to ensure that the Company s executives have a continuing stake in the long-term success of the Company and to align their interests with those of stockholders. They are also used as a vehicle to attract, retain and motivate executives responsible for the Company s long-term success. The Company makes an annual long-term incentive grant to its executives during the first quarter of the year and also may make grants to newly hired employees in connection with their employment. In 2008, long-term incentives generally took the form of restricted stock unit (RSU) awards that vest into shares of Unisys stock after certain restrictions lapse or performance goals are met. In 2008, the Company granted stock options only to certain newly hired employees as part of their new hire compensation package. RSUs and stock options granted to Mr. Coleman in 2008 were granted in connection with his entering into the employment agreement discussed above. The other Named Officers received

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RSUs as part of the 2008 annual grant. The total number of RSUs granted to each Named Officer in 2008 is set forth in the Grants of Plan-Based Awards Table, under the heading Estimated Future Payouts Under Equity-Incentive Plan Awards .

In 2008, the annual RSU grant to executives was below the median at the benchmark companies. Even though the Company intends for each element of executive compensation to be generally consistent with the median, in 2008, the Company did not want to incur the additional compensation expense that would have been required to be recorded if RSU grants had been made at that level. As a result, the value of the 2008 annual equity-based grant for elected officers was at approximately 73% of the market median for the benchmark companies.

For the 2008 annual grant, in keeping with the Company s emphasis on tying compensation to the achievement of corporate financial goals, 87.5% of the RSUs awarded were performance-based (50% based on 2008 performance and 37.5% based on a 2008-2010 performance period) and 12.5% were time-based.

The time-based RSUs vest into shares of Unisys common stock in three equal annual installments beginning with the first anniversary of the date of the grant and require that the executive remain with the Company over this time period to receive the shares unless the executive has met certain age and service requirements. The performance-based RSUs granted in 2008 will be earned and vest into shares of Unisys common stock based on the achievement of performance targets approved by the Compensation Committee for the 2008 and 2008-2010 performance periods. The performance-based RSUs also require that the executive be employed by the Company on the date of vesting to receive the shares. The performance targets consist of revenue growth rate and pre-tax profit (exclusive of retirement expense, gain or loss from divestitures and restructuring charges) goals for the relevant performance period, and each is weighted 50%. The targets for the 2008 performance period were based on the Company s operating plan, which outlooked the Company s anticipated results for 2008, and the targets for the 2008-2010 performance period were based on the operating plan as well as the Company s strategic plan, which outlooked anticipated results for periods subsequent to 2008. The committee established threshold, target and maximum performance levels for each of these two performance measures. The RSUs will be converted into shares at rates ranging from 0.5 shares per unit if the threshold level is met to 1.0 share per unit if the target level is met, to 1.5 shares per unit if the maximum level is met. No shares will be issued in respect of a performance measure if the threshold level for that measure is not achieved. Target revenue growth and pre-tax profit levels are the same as those that were forecasted in the operating and strategic plans. For the 2008 performance period, threshold and maximum revenue growth were approximately 98% and 102% of target revenue growth, respectively; threshold and maximum profitability amounts were approximately 66% and 120% of target profitability, respectively. For the 2008-2010 three-year performance period, threshold and maximum revenue growth are approximately 98% and 102% of target revenue growth, respectively; threshold and maximum profitability amounts are approximately 73% and 120% of target profitability, respectively. To the extent the targets for the 2008 performance period were met, RSUs for the 2008 performance period were scheduled to vest one-third per year beginning on February 7, 2009. To the extent targets for the 2008-2010 performance period are met, RSUs for that performance period are scheduled to vest on February 7, 2011.

For 2008, both the Company s pre-tax profit and its revenue growth performance were below forecasted levels for the year. As a result, with respect to performance-based RSUs granted in 2008 for the 2008 performance period, the Company did not meet the threshold levels for either criterion. Therefore, none of the performance-based RSUs granted in respect of the 2008 performance period will vest into shares of Unisys common stock. Given its performance for 2008, the Company

will need to over perform against the strategic plan in the remaining two years of the 2008-2010 performance period in order to achieve the cumulative revenue growth and/or profit targets set for the RSU grants made in respect of that performance period.

Stock Ownership Guidelines

Since 1998, the Company has had stock ownership guidelines in place for elected officers in order to more closely link their interests with those of stockholders. Under the guidelines, as revised in 2005, elected officers are expected to own a specified number of shares of Unisys common stock as follows: chief executive officer 200,000 shares; executive vice presidents 75,000 shares; senior vice presidents 45,000 shares; vice presidents 25,000 shares. Stock options, including vested stock options, and restricted stock units do not count toward fulfillment of the ownership guidelines. Officers are expected to meet the ownership guidelines by 2010, or within five years of election for officers elected after 2005. The Compensation Committee reviews compliance with the guidelines on an annual basis. The number of shares owned by each of the Named Officers is set forth in the stock ownership table on page 24.

Stock Option/RSU Granting Practices

As set forth above, in 2008 long-term incentives generally took the form of RSUs, rather than stock options, and stock options were granted only to certain newly hired employees as part of their compensation package. Prior to 2006, the Company had primarily granted long-term incentives in the form of stock options. The most prevalent form of stock option grant was the annual grant made to executives. The annual grants were approved at a specified, regularly scheduled meeting of the Compensation Committee early each year. Since 2000, annual stock option grants had been approved at the February meeting; prior to 2000, annual grants were approved at the April meeting. For grants in the United States, the grant date was always the date of the meeting, and the exercise price was at least 100% of the fair market value of Unisys common stock on the date of grant. The dates of regularly scheduled board and committee meetings are generally determined many months in advance as part of the normal board calendaring process.

Stock options granted as part of the hiring process have a grant date no earlier than the date of approval, have an exercise price at least equal to fair market value on the date of grant and, except as noted below, are approved by the Compensation Committee or the Board of Directors. New hire stock option grants are typically reviewed and approved by the Compensation Committee at its regularly scheduled meetings. For these grants, the date of grant is the date of the meeting, if the individual receiving the grant has already commenced employment at Unisys. If the individual has not yet commenced employment, the date of grant is the business day following the individual s first day of employment. The Compensation Committee has also delegated to the Company s chief executive officer the authority to grant a limited number of stock options during the year to eligible individuals (other than the chief executive officer, his direct reports and their direct reports). The committee s delegation of authority specifies that for these stock options the grant date will be either (1) the first business day of the month following the date of the chief executive officer s approval, if the individual has commenced employment at Unisys, or (2) if the individual has not yet commenced employment, the first business day of the month following the individual s date of hire. The chief executive officer has no discretion with respect to choosing the grant date, and in all cases, the date of grant occurs after the date the grantee commences employment with Unisys.

From 2006 through 2008, long-term incentive awards primarily took the form of RSUs. As with stock options, the principal award was the annual grant to executives. This grant was made during the first quarter of the year, at the time the Compensation Committee determined the number of

units to be granted and finalized the performance criteria for performance-based awards. As with stock options, RSUs may also be granted as part of the hiring process. The same procedures regarding the chief executive officer s authority with respect to, and the timing of, stock option grants to new employees also apply to RSUs granted to new hires.

Other Benefits

Elected officers participate in the retirement programs discussed below under Pension Benefits and Non-Qualified Deferred Compensation . In addition, the Company provides death benefits to the beneficiaries of executive officers. Perquisites provided to executive officers include financial counseling/tax preparation services and an annual physical.

Deductibility of Executive Compensation

Section 162(m) of the Internal Revenue Code imposes a $1 million annual limit on the amount of compensation that may be deducted by the Company with respect to each Named Officer employed as of the last day of the applicable year. The limitation does not apply to compensation based on the attainment of objective performance goals.

Both the Company s 2003 Long-Term Incentive and Equity Compensation Plan and its 2007 Long-Term Incentive and Equity Compensation Plan permit the Compensation Committee to design compensation awards to Named Officers that will meet the requirements of Section 162(m) of the Internal Revenue Code. The committee may grant awards under the plans that meet the requirements of Section 162(m) of the Internal Revenue Code at such times as the committee believes that such awards are in the best interests of the Company. The committee has considered the impact of the deduction limitation and has determined that it is not in the best interests of the Company or its stockholders to base compensation solely on objective performance criteria. Rather, the committee believes that it should retain the flexibility to base compensation on its subjective evaluation of performance as well as on the attainment of objective goals.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis set forth above with management. Based on such review and discussion, the committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement.

Compensation Committee

James J. Duderstadt
Clayton M. Jones
Theodore E. Martin
Charles B. McQuade

Summary Compensation Table

The following table sets forth information concerning the total compensation paid to or earned by each individual who served as chief executive officer during 2008, the chief financial officer and the other three most highly compensated executive officers who were serving as such as of December 31, 2008 (the Named Officers) for services rendered in all capacities to Unisys.

me and incipal Position	Year	Salary (1) ($)	Bonus (1) ($)	Stock Awards (2) ($)	Option Awards (2) ($)	Non- Equity Incentive Plan Compen- sation (3) ($)	Change in Pension Value and Non-qualified Deferred Compen- sation Earnings (4) ($)	All Other Compen- sation (5) ($)	Total ($)
Edward Coleman airman of the ard and Chief ecutive Officer	2008	233,031	303,750	81,641	65,083			37,030	720,53
eph W. McGrath	2008	972,313		(449,484)			17,686	2,111,358	2,651,87
esident and Chief	2007	959,297		634,503			161,371	142,282	1,897,45
ecutive Officer	2006	941,667		714,624		810,000	316,906	104,302	2,887,49
net B. Haugen	2008	549,910		(148,818)				76,423	477,51
nior Vice esident and	2007	530,410		222,919			9,766	95,016	858,11
ief Financial ficer	2006	520,833		199,416		300,000	78,528	24,578	1,123,35
thony P. Doye nior Vice esident; President obal Outsourcing d Infrastructure rvices	2008	511,087	425,000	344,205				95,219	1,375,51
chard C. rcello nior Vice esident; President stems and chnology	2008	471,437	163,832	382,741	48,809			83,161	1,149,98

ncy S. Sundheim nior Vice esident, General unsel and cretary	2008	499,030		146,419			31,152	78,079	754,68

(1) Amounts shown include compensation deferred under the Unisys Savings Plan or a Unisys deferred compensation plan.

(2) Amounts shown are the amounts recognized for financial statement reporting purposes for each year shown in accordance with FAS 123R except that no estimates for forfeitures in respect of service-based vesting have been taken into account. For a discussion of the assumptions made in such valuation, see note 17 to the Company s 2008 financial statements. For individuals who were not Named Officers in prior years, the amount shown does not reflect the reversal of previously recorded compensation expense related to performance-based restricted stock units for which it was determined that the performance goals would not be achieved. For more details on grants in 2008, see the Grants of Plan-Based Awards Table below.

(3) Amounts shown are payouts under the Company s 2006 turnaround incentive program.

(4) Amounts shown are the increase in pension value only. For Ms. Haugen, there was a decrease in pension value of $15,656 that is not reflected in the table.

(5) Amounts shown are tax reimbursements, premiums paid for company-owned life insurance policies, company matching contributions under the Unisys Savings Plan (including amounts credited by the Company to the individual s account under the Company s deferred compensation plan as described in Unisys Savings Plan on page 41) and perquisites (unless the aggregate amount of perquisites for an individual is less than $10,000). Amounts shown for Mr. McGrath also include the amount accrued in respect of the termination of employment arrangement described on page 42. For 2008, amounts consist of the following: Mr. Coleman tax reimbursements of $9,250, company matching contributions under the Unisys Savings Plan of $9,902 and perquisites of $17,878, which consist of use of a company-paid apartment, personal use of company aircraft and commuting expense; Mr. McGrath accrued termination payments of $1,944,626, tax reimbursements of $555, life insurance premiums of $91,492, company matching contributions under the Unisys Savings Plan of $58,339, and perquisites of $16,346, which consist of financial counseling reimbursement, country club dues, commuting expenses and executive physical; Ms. Haugen life insurance premiums of $43,428 and company matching contributions under the Unisys Savings Plan of $32,995; Mr. Doye tax reimbursements of $2,214, life insurance premiums of $59,825 and company matching contributions under the Unisys Savings Plan of $33,180; Mr. Marcello tax reimbursements of $547, life insurance premiums of

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$39,507 and company matching contributions under the Unisys Savings Plan of $43,107; Ms. Sundheim life insurance premiums of $48,137 and company matching contributions under the Unisys Savings Plan of $29,942.

(6) Mr. Coleman became Chairman of the Board and Chief Executive Officer on October 7, 2008.

(7) Mr. McGrath resigned as an officer and director of the Company effective October 7, 2008. He remained with the Company through December 31, 2008.

Grants of Plan-Based Awards

The following table sets forth information on grants of plan-based awards during 2008 to the Named Officers.

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards	Grant Date Fair Value of Stock and Option Awards
Name	**Grant Date**	**Threshold ($)**	**Target ($)**	**Maximum ($)**	**Threshold (#)**	**Target (#)**	**Maximum (#)**	**(#)**	**(#)**	**($/sh)**	**($)**
J. Edward Coleman	10/8/08							300,000	1,200,000	1.87	1,428,956
Joseph W. McGrath	2/7/08				274,948	549,896	824,844	137,474			4,531,139
					206,211	412,422	618,633				
Janet B. Haugen	2/7/08				69,782	139,563	209,345	34,891			1,149,999
					52,336	104,672	157,008				
Anthony P. Doye	2/7/08				77,822	155,643	233,465	38,911			1,282,498
					58,366	116,732	175,098				
Richard C. Marcello	2/7/08				69,782	139,563	209,345	34,891			1,149,999
					52,336	104,672	157,008				
Nancy S. Sundheim	2/7/08				42,476	84,951	127,427	21,238			699,996
					31,857	63,713	95,570				

All awards shown above for Mr. Coleman were granted in accordance with his employment agreement described above in Compensation Discussion and Analysis . All such awards were approved by the Board on October 6, 2008. Awards shown for Mr. Coleman under All Other Stock Awards are time-based restricted stock units granted under the Unisys Corporation 2003 Long-Term Incentive and Equity Compensation Plan. These awards will vest at a rate of one-third each year beginning on the first anniversary of the date of grant if Mr. Coleman is then employed by the

Company. Awards shown for Mr. Coleman under All Other Option Awards are non-qualified stock options granted under the Unisys Corporation 2007 Long-Term Incentive and Equity Compensation Plan (the 2007 Plan). These options will vest one-third each year beginning on the first anniversary of the date of grant if Mr. Coleman is then employed by the Company.

All awards shown above for the other Named Officers were granted under the 2007 Plan. Awards shown under Estimated Future Payouts Under Equity Incentive Plan Awards are performance-based restricted stock units that will vest into shares of Unisys common stock if pre-tax profit and/or revenue growth goals are achieved in the 2008 performance period (in the case of the first set of numbers in each row) or in the 2008-2010 performance period (in the case of the second set of numbers in each row). Performance-based units will be converted into shares at a rate of 0 to 1.5 shares per unit depending on the degree to which the performance goals are met. If performance goals had been met, performance-based units granted in respect of the 2008 performance period were scheduled to vest one-third each year beginning on the first anniversary of the date of grant. Because the performance goals for 2008 were not met, none of these units will vest. If performance goals are met and if the individual is then employed by the Company, performance-based units granted in respect of the 2008-2010 performance period will vest on the third anniversary of the date of grant. Awards shown under All Other Stock Awards are time-based restricted stock units that will vest at a rate of one-third each year beginning on the first anniversary of the date of grant if the individual is then employed by the Company or has met certain age and service criteria. See Compensation Discussion and Analysis above.

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Outstanding Equity Awards at Fiscal Year-End

The following table shows equity awards to the Named Officers that were outstanding as of December 31, 2008.

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable (1)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#) (2)	Market Value of Shares or Units of Stock That Have Not Vested ($) (3)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) (4)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($) (3)
J. Edward Coleman		1,200,000		1.87	10/8/2013	300,000	255,000		
Joseph W. McGrath	60,000			34.5938	1/6/2009	154,140	131,019	1,462,317	1,242,969
	20,000			30.1875	4/22/2009				
	75,000			34.1250	2/17/2010				
	75,000			18.5700	2/15/2011				
	200,000			12.1050	2/14/2012				
	200,000			24.2100	2/14/2012				
	100,000			8.4150	2/13/2013				
	85,000			14.2700	2/11/2014				
	250,000			9.9750	12/22/2014				
	150,000			7.6200	2/9/2010				
	600,000			6.0500	12/19/2010				
Janet B. Haugen	30,000			30.1875	4/22/2009	39,891	33,907	409,235	347,850
	40,000			34.1250	2/17/2010				
	25,000			9.4063	7/27/2010				
	50,000			18.5700	2/15/2011				

	125,000		12.1050	2/14/2012				
	125,000		24.2100	2/14/2012				
	80,000		8.4150	2/13/2013				
	75,000		14.2700	2/11/2014				
	75,000		7.6200	2/9/2010				
	100,000		6.0500	12/19/2010				
Anthony P. Doye					252,244	214,407	272,375	231,519
Richard C. Marcello	16,667	33,333	9.00	7/18/2012	68,224	57,990	244,235	207,600
Nancy S. Sundheim	12,000		30.1875	4/22/2009	23,738	20,177	216,164	183,739
	12,000		42.3438	9/24/2009				
	60,000		7.62	2/9/2010				
	25,000		34.125	2/17/2010				
	100,000		6.05	12/19/2010				
	40,000		18.57	2/15/2011				
	75,000		12.105	2/14/2012				
	75,000		24.21	2/14/2012				
	50,000		8.415	2/13/2013				
	50,000		14.27	2/11/2014				

(1) Awards shown are non-qualified stock options scheduled to vest as follows if the individual is then employed by the Company or has met certain age and service criteria: Mr. Coleman 400,000 shares on each of October 8, 2009, October 8, 2010 and October 8, 2011; Mr. Marcello 16,667 shares on July 18, 2009, 16,666 shares on July 18, 2010.

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(2) Awards shown are time-based restricted stock units that vest on specified dates if the individual is then employed by the Company or has met certain age and service criteria. Awards shown are scheduled to vest as follows:

Name	Vesting Date	Number of Shares
J. Edward Coleman	10/8/2009	100,000
	10/8/2010	100,000
	10/8/2011	100,000
Joseph W. McGrath	2/7/2009	45,825
	3/8/2009	16,666
	2/7/2010	45,825
	2/7/2011	45,824
Janet B. Haugen	2/7/2009	11,631
	3/8/2009	5,000
	2/7/2010	11,630
	2/7/2011	11,630
Anthony P. Doye	2/7/2009	12,971
	12/6/2009	16,667
	2/7/2010	12,970
	12/6/2010	196,666
	2/7/2011	12,970
Richard C. Marcello	2/7/2009	11,631
	7/18/2009	16,667
	2/7/2010	11,630
	7/18/2010	16,666
	2/7/2011	11,630
Nancy S. Sundheim	2/7/2009	7,080
	3/8/2009	2,500
	2/7/2010	7,079
	2/7/2011	7,079

(3) Market value reflects the $0.85 closing price of Unisys common stock on December 31, 2008.

(4) Awards shown are performance-based restricted stock units that vest if performance goals for the relevant performance period are met and the individual is then employed by the Company. The number of shares shown in this column is based on achieving threshold performance goals in the relevant performance period. Awards shown for Mr. McGrath were cancelled on December 31, 2008. Assuming threshold performance goals are met, the restricted stock units for the other Named Officers are scheduled to vest as follows:

Name	Vesting Date	Number of Shares
Janet B. Haugen	2/7/2009	46,521
	3/8/2009	15,000
	2/7/2010	46,521
	3/7/2010	150,000
	2/7/2011	151,193
Anthony P. Doye	2/7/2009	51,881

	2/7/2010	51,881
	2/7/2011	168,613
Richard C. Marcello	2/7/2009	46,521
	2/7/2010	46,521
	2/7/2011	151,193
Nancy S. Sundheim	2/7/2009	28,317
	3/8/2009	7,500
	2/7/2010	28,317
	3/7/2010	60,000
	2/7/2011	92,030

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No performance-based restricted stock units scheduled to vest on February 7, 2009 or on March 8, 2009 vested into any shares of Unisys common stock.

Option Exercises and Stock Vested

The following table gives information on stock option exercises and the vesting of stock awards during 2008 for each of the Named Officers.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
J. Edward Coleman				
Joseph W. McGrath			16,667	66,835
Janet B. Haugen			5,000	20,050
Anthony P. Doye			16,667	9,334
Richard C. Marcello			16,667	67,085
Nancy S. Sundheim			2,500	10,025

Pension Benefits

The Company s officers participate in three pension plans sponsored by Unisys in the United States:

Unisys Pension Plan (UPP) a qualified defined benefit pension plan available to all U.S. employees who met eligibility requirements by December 31, 2006.

Unisys Corporation Supplemental Executive Retirement Income Plan (SERIP) a nonqualified excess defined benefit plan available to all U.S. employees who met eligibility requirements by December 31, 2006 and whose qualified plan benefits are limited by the Internal Revenue Code or limited because they have deferred compensation under non-qualified plans. The plan is designed to make up for the benefit shortfall created by the Internal Revenue Code limits and the non-qualified deferrals of compensation.

Unisys Corporation Elected Officer Pension Plan (EOPP) a nonqualified defined benefit plan available to all elected officers who met eligibility requirements by December 31, 2006. The plan is designed to provide a minimum target of retirement income for executives.

Effective December 31, 2006, each of these plans was frozen and benefits thereunder ceased to accrue. No new participants are now allowed.

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The table below presents pension plan information as of December 31, 2008 for certain of the Named Officers. Mr. Coleman, Mr. Marcello and Mr. Doye are not participants in any of the three pension plans as they did not meet the eligibility requirements for any of the plans prior to December 31, 2006.

Name	Plan Name	Number of Years of Credited Service (#)	Present Value of Accumulated Benefit ($)	Payments During Last Fiscal Year ($)
Joseph W. McGrath	UPP	8.000	224,019	
	SERIP	8.000	224,255	
	EOPP	8.000	1,552,977	
Janet B. Haugen	UPP	10.667	228,468	
	SERIP	10.667	101,896	
	EOPP	10.667	805,941	
Nancy S. Sundheim	UPP	19.333	533,116	
	SERIP	19.333	132,247	
	EOPP	19.333	1,333,253	

The present value of the accumulated benefit has been determined assuming benefits commence as of the earliest date at which each executive is entitled to unreduced benefits. This is generally the later of age 62 and achievement of vesting requirements. However, for executives who are not eligible for unreduced benefits prior to age 65, benefits are assumed to commence at age 65. The calculations use the same actuarial assumptions used for financial disclosure requirements for the pension plans, except that the calculations assume that each of the above individuals will remain with the Company until such retirement date and therefore do not apply any decrements in respect of termination, disability and the like. Assumptions as to life expectancy are based on the RP2000 Mortality Table projected to 2010 for healthy males and females. The discount rate used is 6.75%. Where benefits are payable as a 50% contingent annuity without actuarial reduction, which is the case for EOPP participants who are married, benefits have been valued using actuarial factors assuming 80% of plan participants are married and assuming wives are three years younger than husbands.

The following summarizes the benefits under the specific plans:

Unisys Pension Plan

14,005 309 24,485 24,724 (239)
Licensing revenue
27 - 27 37 - 37
Total net sales
$32,582 $36,743 $(4,161) $61,199 $67,857 $(6,658)

Total store sales for the three months ended January 29, 2011 decreased by $4,497,000, or 19.8%, as compared to the three months ended January 23, 2010. Comparable store sales for the three months ended January 29, 2011 decreased by $3,575,000, or 16.5%, as compared to the three months ended January 23, 2010. Total store sales for the six months ended January 29, 2011 decreased by $6,456,000, or 15.0%, as compared to the six months ended January 23, 2010. Comparable store sales for the six months ended January 29, 2011 decreased by $4,935,000, or 12%, as compared to the six months ended January 23, 2010. These decreases were primarily due to:

- late deliveries of merchandise as a result of credit limits imposed by certain of our vendors prior to the sale of our wholesale division. These late deliveries, coupled with our conservative expectations for the holiday season, resulted in lower than optimal inventory levels;

- the product and design choices made by our merchandising and design team that was in place in fiscal year 2010. For a more detailed discussion of our merchandising initiatives, see “Operating Initiatives – Merchandising and Design Changes”;

- lower consumer traffic at our stores as compared to the same period in the prior year; and
- a reduction in the number of stores from 132 at January 23, 2010 to 126 at January 29, 2011.

Direct sales for the three months ended January 29, 2011 increased by $309,000, or 2.2%, as compared to the three months ended January 23, 2010. Direct sales for the six months ended January 29, 2011 decreased by $239,000, or 1.0%, as compared to the six months ended January 23, 2010. The decrease in sales for the six month period was the result of not mailing a summer clearance catalog during the first quarter of fiscal year 2011 due to our lower inventory levels and our continued efforts to reduce costs, partially offset by higher sales for the three months ended January 29, 2011. This catalog, which was mailed during the first quarter of fiscal year 2010, historically consisted mainly of discounted merchandise.

Licensing revenue for the three and six months ended January 29, 2011 was $27, 000 and $37,000, respectively.

Gross Profit

Gross margin (gross profit as a percentage of net sales) for the three months ended January 29, 2011 was 35.0% as compared to 36.7% for the three months ended January 23, 2010. This decrease was due to lower sales for the period, which increased our fixed costs as a percentage of sales.

Gross margin (gross profit as a percentage of net sales) for the six months ended January 29, 2011 was 37.4% as compared to 36.0% for the six months ended January 23, 2010. The largest contributors to this increase were the following:

- Product costs as a percentage of sales decreased by 2.0 percentage points for the six months ended January 29, 2011 as compared to the six months ended January 23, 2010. The higher product margin was due to markdown assistance that we received from our vendors in the six months ended January 29, 2011, which we did not receive in the same period in the prior year.

- All other costs included in cost of sales, including buying costs, store occupancy, store depreciation, freight and distribution center costs, decreased by $5,107,000 for the six months ended January 29, 2011 as compared to the six months ended January 23, 2010. As a percentage of sales, these costs decreased by 1.4 percentage points for the six months ended January 29, 2011 as compared to the same period in the prior year. This decrease was primarily attributable to headcount reductions, which resulted from streamlining the buying and merchandising departments, and fewer stores in the six months ended January 29, 2011 as compared to the same period in the prior year.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three months ended January 29, 2011 decreased by $1,294,000 to $13,850,000, or 42.5% of sales, from $15,144,000, or 41.2% of sales, for the three months ended January 23, 2010. This decrease is primarily attributable to the following:

- Store selling, general and administrative expenses decreased by $1,026,000 to $5,756,000 for the three months ended January 29, 2011 from $6,782,000 for the same period in the prior year. This decrease was primarily due to decreases in (i) salaries and salary-related costs of $279,000, (ii) store signage costs of $268,000 and (iii) telecommunications costs of $195,000. We also had a loss on the disposal of telecommunications equipment in the prior year of $169,000. The decrease in salaries and salary-related costs was due to lower store coverage requirements and a reduction in head count as compared to the same period in the prior year. The lower store signage costs was the result of changing signs within our stores less frequently during the three months ended

January 29, 2011 as compared to the same period in the prior year. The lower telecommunications costs and the loss on the disposal of telecommunications equipment in the prior year were the result of the cancellation of a telecommunications contract that required us to maintain a more expensive connection between our stores and our data center.

Selling, general and administrative expenses for the six months ended January 29, 2011 decreased by $3,162,000 to $25,192,000, or 41.2% of sales, from $28,354,000, or 41.8% of sales, for the six months ended January 23, 2010. This decrease is primarily attributable to the following:

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- Store selling, general and administrative expenses decreased by $2,046,000 to $10,763,000 for the six months ended January 29, 2011 from $12,809,000 for the same period in the prior year. This decrease was primarily due to decreases in (i) salaries and salary-related costs of $867,000, (ii) telecommunications costs of $339,000, (iii) store signage costs of $306,000 and (iv) credit card fees of $160,000. We also had a loss on the disposal of telecommunications equipment in the prior year of $169,000. The decrease in salaries and salary-related costs was due to lower store coverage requirements and a reduction in head count as compared to the same period in the prior year. The lower store signage costs was the result of changing signs within our stores less frequently during the six months ended January 29, 2011 as compared to the same period in the prior year. The lower telecommunications costs and the loss on the disposal of telecommunications equipment in the prior year were the result of the cancellation of a telecommunications contract that required us to maintain a more expensive connection between our stores and our data center. The decrease in credit card fees was due to lower store sales during the six months ended January 29, 2011 as compared to the same period in the prior year.

- Direct selling, general and administrative expenses decreased by $446,000 to $8,728,000 for the six months ended January 29, 2011 from $9,174,000 for the same period in the prior year. This decrease was primarily due to lower catalog expenses of $402,000, lower website development expenses of $154,000 and lower customer contact center expenses of $95,000, partially offset by higher e-commerce marketing expenses of $235,000. The decrease in catalog expenses was due to not mailing the summer clearance catalog during the first quarter of fiscal year 2011. We did not incur website development expenses during the six months ended January 29, 2011 that were incurred during the same period in the prior year in connection with the completion of the migration to our new e-commerce platform. The decrease in customer contact center expenses resulted from a lower head count. The increase in e-commerce marketing expenses is related to our efforts to increase our website and online marketing initiatives.

Interest Expense, Net

For the three and six months ended January 29, 2011, net interest expense was $344,000 and $743,000 as compared to $589,000 and $950,000 for the three and six months ended January 23, 2010. The decrease resulted primarily from lower borrowings under our revolving credit facility (described below under “Revolving Credit Facility”), partially offset by a higher interest rate on our term loan (described below under “Term Loan”).

Income Tax Provision

Our effective tax rate is less than 1% for the three and six months ended January 29, 2011 and January 23, 2010. Our income tax provision for the three and six months ended January 29, 2011 and January 23, 2010 primarily represents minimum and net worth taxes due in various states. Due to the uncertainty of realization in future periods, no tax benefit has been recognized on the net losses for these periods. Accordingly, a full valuation allowance has been established on the current loss and all net deferred tax assets existing at the end of the period, excluding the deferred tax liability related to our trademarks, which have an indefinite life.

Discontinued Operations

During the fourth quarter of fiscal year 2010, we made a strategic decision to divest our wholesale division due to continuing losses and in order to focus on our core retail operations. Our wholesale division’s operations are classified as discontinued operations for all periods presented in the consolidated financial statements appearing elsewhere in this report. The loss from discontinued operations, net of tax, was $1,393,000 for the six months ended January 29, 2011 as compared to $4,146,000 for the same period in the prior year. This decrease in our loss was primarily due to a gain of approximately $1,070,000 that we recorded as a result of the sale of our wholesale division. Revenues from discontinued operations were $3,421,000 and $10,672,000 for the six months ended January 29, 2011 and January 23, 2010, respectively.

Liquidity and Capital Resources

Cash Used in Operations

Net cash used in operating activities for the six months ended January 29, 2011 was $7,967,000, resulting primarily from the following:

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- net losses for the six months ended January 29, 2011 of $3,091,000 from continuing operations and $1,393,000 from discontinued operations;
- a decrease in accounts payable and other accrued expenses of $2,853,000, which resulted from our making more timely payments to our vendors for inventory and other services;
- net cash used in operating activities of our discontinued operations of $2,595,000;
- an increase in inventory of $1,626,000, which resulted from normal seasonal inventory fluctuations, and
- an increase in prepaid expenses and other current assets of $540,000, which resulted from an increase in our deferred catalog costs as of January 29, 2011 as compared to July 31, 2010. This increase was due to normal seasonal fluctuations.

These decreases in cash flow were partially offset by non-cash expenses of $1,611,000 for depreciation and amortization and $499,000 for stock compensation expenses.

Cash Provided by Investing Activities

Cash provided by investing activities for the six months ended January 29, 2011 was $4,406,000, which resulted primarily from the proceeds of the sale of the wholesale division's assets of $4,469,000.

Cash Provided by Financing Activities

Net cash provided by financing activities for the three months ended January 29, 2011 was $3,293,000, which resulted primarily from an inflow of $4,660,000 of cash that was held in a restricted cash account as of July 31, 2010, partially offset by net repayments under the revolving credit facility of $1,259,000.

Revolving Credit Facility

We and certain of our subsidiaries have a senior revolving credit facility, as amended (the "Facility") with Wells Fargo Retail Finance II, LLC ("Wells Fargo"), which matures on January 28, 2012. The Facility originally was for a maximum amount of $50 million comprised of a $25 million line of credit with a $15 million sub-limit for letters of credit, and up to an additional $25 million commitment in increments of $5 million at our option so long as we were in compliance with the terms of the Facility. The Facility also originally was secured by a first priority security interest in all of our assets.

The actual amount of credit available under the Facility is determined using measurements based on our receivables, inventory and other measures. The applicable percentages used in calculating the borrowing base under the Facility were reduced on March 16, 2010 following the closing of the Private Placement. Interest is payable monthly, in arrears, at the Wells Fargo prime rate plus 175 basis points for "Base Rate" loans and at LIBOR plus 300 basis points for "LIBOR Rate" loans. There also is a fee of 50 basis points on any unused portion of the Facility.

On November 4, 2008, the borrowers utilized the accordion feature under the Facility to increase the borrowing limit from $25 million to $30 million. In utilizing the accordion feature, our minimum availability reserve increased by $375,000 (7.5% of the $5,000,000 increase) to $2,250,000 (7.5% of the $30,000,000) and we incurred a one-time closing fee of $12,500.

On September 21, 2009, the Facility was amended to provide for a $2,000,000 bridge facility at an annual interest rate of LIBOR plus 10% (the "Bridge Loan"), to be repaid upon the earlier of December 7, 2009 and the consummation of a financing in which we received net proceeds of at least $4,900,000. On October 23, 2009, the Facility was further amended to extend the December 7, 2009 repayment date to August 1, 2010 and to reduce the net proceeds that we were required to receive to an aggregate of $4,400,000.

On July 30, 2010, we repaid the Bridge Loan with proceeds from the Term Loan described below. In connection therewith, the Facility was amended to, among other things, (i) reduce the line of credit commitment from $25 million to $20 million and (ii) provide for the Facility to be secured by a second priority interest in all of our intellectual property and a first priority security interest in substantially all of our other assets.

In connection with the amendments to the Facility described above, we incurred a one-time amendment fee of $150,000, one half of which was paid in connection with the September 2009 amendment to the Facility and the remainder was paid subsequent to the fiscal year ended July 31, 2010 following the repayment of the Bridge Loan.

As of January 29, 2011, we had $2,010,000 outstanding under the Facility at a rate of 5.0%. For the six months ended January 29, 2011, borrowings under the Facility peaked at $5,698,000 and the average borrowing during the period was approximately $3,176,000. In addition, at January 29, 2011, we had $620,000 of outstanding letters of credit under the Facility.

The Facility contains customary representations and warranties, affirmative and restrictive covenants and events of default. The restrictive covenants limit our ability to create certain liens, make certain types of borrowings and investments, liquidate or dissolve, engage in mergers, consolidations, significant asset sales and affiliate transactions, dispose of inventory, incur certain lease obligations, make capital expenditures, pay dividends, redeem or repurchase outstanding equity and issue capital stock. In lieu of financial covenants, fixed charge coverage and overall debt ratios, we also are required to maintain specified minimum availability reserves. At January 29, 2011, we were in compliance with the Facility's covenants and minimum availability reserve requirements.

Term Loan

On July 30, 2010, we and certain of our subsidiaries entered into a financing agreement ("Hilco Financing Agreement") with the lending parties from time to time a party thereto and Hilco, as lender and also as arranger and agent. The Hilco Financing Agreement provides for a term loan in the aggregate principal amount of $7,000,000 ("Term Loan"). From the Term Loan proceeds, $2,000,000 was used to repay the Bridge Loan with the balance to be available to us for additional working capital.

One-half of the principal amount of the Term Loan, together with accrued interest, is payable by us on July 30, 2013 ("Initial Maturity Date") and the other half of the principal amount of the Term Loan, together with accrued interest, is payable on July 30, 2014 ("Maturity Date"). The Term Loan bears interest at a fixed rate of 9.0% per annum ("Regular Interest") and an additional 6.0% per annum compounded annually ("PIK Interest"). Regular Interest is payable quarterly, in arrears, on the first day of each calendar quarter, commencing on October 1, 2010 and at maturity. PIK Interest is payable on the Initial Maturity Date and the Maturity Date, with us having the right, at the end of any calendar quarter, to pay all or any portion of the then accrued PIK Interest.

For the three months ended January 29, 2011, the Company recorded interest expense of approximately $263,000, which is comprised of approximately $160,000 of Regular Interest and approximately $103,000 of PIK Interest. For the six months ended January 29, 2011, the Company recorded interest expense of approximately $531,000, which is comprised of approximately $318,000 of Regular Interest and approximately $213,000 of PIK Interest.

The Term Loan is secured by a first priority security interest in all of our intellectual property and a second priority security interest in substantially all of our other assets, all in accordance with the terms and conditions of a Security Agreement between us and Hilco entered into concurrently with the Hilco Financing Agreement. Also, concurrently with the Hilco Financing Agreement, Hilco and Wells Fargo entered into an Intercreditor Agreement, acknowledged by us, setting forth, among other things, their respective rights and obligations as to the collateral covered by the Security Agreement. Our obligations under the Hilco Financing Agreement are also guarantied by one of our wholly-owned subsidiaries that is not a borrower under the Hilco Financing Agreement.

The Hilco Financing Agreement and other loan documents contain customary representations and warranties, affirmative and negative covenants and events of default substantially similar to those contained in the Facility, except that the Hilco Financing Agreement contains a debt service coverage ratio covenant, which becomes effective

commencing for the fiscal year ending July 30, 2011. The restrictive covenants limit our ability to create certain liens, make certain types of borrowings and investments, liquidate or dissolve, engage in mergers, consolidations, significant asset sales and affiliate transactions, dispose of inventory, incur certain lease obligations, make capital expenditures, pay dividends, redeem or repurchase outstanding equity and issue capital stock. At January 29, 2011, we were in compliance with the Term Loan's covenants. We paid a one-time fee of $280,000 in connection with the closing of the Term Loan.

Private Placement

On March 16, 2010, we completed a private placement to accredited investors of 2,907,051 shares of common stock at $1.05 per share, raising total gross proceeds of approximately $3,052,000 (“Private Placement”). The investors in the Private Placement also received two-and-a-half year Series A warrants to purchase up to an aggregate of 1,162,820 shares of common stock at an exercise price of $1.25 per share, and five-year Series B warrants to purchase up to an aggregate of 1,162,820 shares of common stock at an exercise price of $1.55 per share. Both warrants became exercisable on September 16, 2010. We also issued to Avalon Securities Ltd., the placement agent in the transaction, and its designees, warrants to purchase an aggregate of 218,030 shares of common stock at an exercise price of $1.21 per share. Except for the exercise price, these warrants are identical to the Series B warrants issued to investors in the Private Placement.

Exchange of Long-Term Debt – Related Party and Conversion of Series A Preferred Stock

On May 18, 2010, we completed the transactions contemplated by the Debt Exchange and Preferred Stock Conversion Agreement, dated as of February 1, 2010, with accounts and funds managed by and/or affiliated with Fursa Alternative Strategies LLC (collectively, “Fursa”). At the closing, we issued to Fursa an aggregate of 8,664,373 shares of common stock upon exchange of approximately $14,285,000 of outstanding secured long-term debt (including accrued interest) due to Fursa, and conversion of approximately $8,795,000 of Series A Preferred Stock (including accrued dividends) owned by Fursa, representing all of the outstanding shares of our Series A Preferred Stock, at an effective price of approximately $2.66 per share. We also issued to Fursa three, five and seven-year warrants, each to purchase 500,000 shares of common stock (for an aggregate of 1,500,000 shares of common stock) at exercise prices of $2.00, $2.33 and $2.66 per share, respectively. The transaction resulted in an increase to shareholders’ equity of $23,080,000.

Future Financing Requirements

For the six months ended January 29, 2011, our working capital deficiency increased by $1,583,000 to $(4,113,000). Our business continues to be effected by limited working capital. Management believes that its continued careful management of working capital, together with the available borrowings under the Facility and our projected operating cash flows, will be sufficient to cover our working capital requirements and capital expenditures through the end of fiscal year 2011. Our ability to achieve our fiscal year 2011 business plan is critical to maintaining adequate liquidity. There can be no assurance that we will be successful in our efforts.

We expect that our capital expenditures for fiscal year 2011 will be less than $750,000, primarily for improvements to our information technology systems, expenditures to support our website initiatives, store refurbishment costs, and other general corporate expenditures.

Off Balance Sheet Arrangements

We are not a party to any material off-balance sheet financing arrangements except relating to open letters of credit as described in Note 5, “Financing Agreements,” included in the notes to the consolidated unaudited financial statements contained elsewhere in this report, and Note 9 to the consolidated audited financial statements included in our Annual Report on Form 10-K for the year ended July 31, 2010.

Effect of New Accounting Standards

See Note 2, “Summary of Significant Accounting Policies,” included in the notes to the consolidated unaudited financial statements appearing elsewhere in this report for a discussion of recent accounting developments and their impact on

our consolidated unaudited financial statements. There have been no recently issued accounting updates that had a material impact on our consolidated unaudited financial statements for the three and six months ended January 29, 2011 or are expected to have an impact in the future.

Seasonality and Inflation

Our business experiences seasonal sales patterns. Sales and earnings typically peak during the second and third fiscal quarters (November through April), primarily during the holiday season in November and December, as well as the Valentine's Day holiday in the month of February. As a result, we maintain higher inventory levels during these peak selling periods.

We do not believe that our operating results have been materially affected by inflation during the preceding three years. There can be no assurance, however, that our operating results will not be affected by inflation in the future.

Imports

Transactions with our foreign suppliers and our domestic suppliers that source products internationally are subject to the risks of doing business outside of the United States. Our operations are subject to constraints imposed by agreements between the United States and the foreign countries in which we do business. These agreements often impose quotas on the amount and type of goods that can be imported into the United States from these countries. Such agreements also allow the United States to impose, at any time, restraints on the importation of categories of merchandise that, under the terms of the agreements, are not subject to specified limits. Our products are also subject to United States customs duties and, in the ordinary course of business, we are from time to time subject to claims by the United States Customs Service for duties and other charges. The United States and the countries in which our products are manufactured may, from time to time, impose new quotas, duties, tariffs or other restrictions, or adversely adjust presently prevailing quotas, duty or tariff levels, which could adversely affect our operations and our ability to continue to import products at current or increased levels. We cannot predict the likelihood or frequency of any such events occurring.

ITEM 3. – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risks

We are exposed to interest rate risk associated with our Facility. As of January 29, 2011 we had $2,010,000 outstanding under the Facility at rate of 5.0%. Interest accrues on outstanding borrowings under the Facility at an agreed to reference rate, which was, at our election, either the Wells Fargo prime rate plus 175 basis points (5.0% at January 29, 2011) or LIBOR plus 300 basis points. For the six months ended January 29, 2011, borrowings under the Facility peaked at $5,698,000 and the average borrowing during the period was approximately $3,176,000. An increase or decrease in the interest rate by 100 basis points from the levels at January 29, 2011 would increase or decrease annual interest expenses by approximately $20,000.

Foreign Currency Risks

We buy products from a significant number of domestic vendors who enter into purchase obligations outside of the U.S. All of our product purchase orders are negotiated and settled in U.S. dollars. Therefore, we have no exposure to foreign currency exchange risks. However, fluctuations in foreign currency rates could have an impact on our future purchases.

ITEM 4. – CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in company reports filed or submitted under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in company reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

As required by Rules 13a-15 and 15d-15 under the Exchange Act, our chief executive officer and chief financial officer performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of January 29, 2011. Based upon their evaluation, they concluded that our disclosure controls and procedures were effective.

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Internal Control Over Financial Reporting

Our internal control over financial reporting is a process designed by, or under the supervision of, our chief executive officer and chief financial officer and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external purposes in accordance with generally accepted accounting principles in the United States. Internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of our financial statements in accordance with generally accepted accounting principles in the United States, and that our receipts and expenditures are being made only in accordance with the authorization of our board of directors and management; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Changes in Internal Control Over Financial Reporting

During the three months ended January 29, 2011, there were no changes made in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that have materially effected, or are reasonably likely to materially effect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1 – LEGAL PROCEEDINGS

We are involved from time to time in litigation incidental to our business. We believe that the outcome of such litigation will not have a material adverse effect on our results of operations or financial condition.

ITEM 1A – RISK FACTORS

There are no material changes from the risk factors set forth in the "Risk Factors" section of our Annual Report on Form 10-K filed with the SEC on October 25, 2010. Please refer to this section for disclosures regarding the risks and uncertainties in our business.

ITEM 6 – EXHIBITS

Exhibit No.	Description
31.1	Certification by Chief Executive Officer and Principal Executive Officer
31.2	Certification by Chief Financial Officer and Principal Accounting Officer
32	Section 1350 Certification

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 hereunto duly authorized.

FREDERICK'S OF HOLLYWOOD GROUP INC.

Date: March 15, 2011

By: /s/ Thomas J. Lynch
THOMAS J. LYNCH
Chief Executive Officer and
Principal Executive Officer

Date: March 15, 2011

By: /s/ Thomas Rende
THOMAS RENDE
Chief Financial Officer and
Principal Accounting Officer