REGIONS FINANCIAL CORP
Form 10-K
February 27, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2007

OR

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

For the transition period from to

Commission File Number 000-50831

REGIONS FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**63-0589368**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1900 Fifth Avenue North, Birmingham, Alabama 35203

(Address of principal executive offices)

Registrant s telephone number, including area code: (205) 944-1300

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, $.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant s most recently completed second fiscal quarter.

Common Stock, $.01 par value $22,669,702,117 as of June 30, 2007.

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

Common Stock, $.01 par value 693,601,138 shares issued and outstanding as of February 19, 2008.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the Annual Meeting to be held on April 17, 2008 are incorporated by reference into Part III.

REGIONS FINANCIAL CORPORATION

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PART I

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, other periodic reports filed by Regions Financial Corporation (Regions) under the Securities Exchange Act of 1934, as amended, and any other written or oral statements made by or on behalf of Regions may include forward-looking statements. The Private Securities Litigation Reform Act of 1995 (the Act) provides a safe harbor for forward-looking statements which are identified as such and are accompanied by the identification of important factors that could cause actual results to differ materially from the forward-looking statements. For these statements, we, together with our subsidiaries, unless the context implies otherwise, claim the protection afforded by the safe harbor in the Act. Forward-looking statements are not based on historical information, but rather are related to future operations, strategies, financial results or other developments. Forward-looking statements are based on management s expectations as well as certain assumptions and estimates made by, and information available to, management at the time the statements are made. Those statements are based on general assumptions and are subject to various risks, uncertainties and other factors that may cause actual results to differ materially from the views, beliefs and projections expressed in such statements. These risks, uncertainties and other factors include, but are not limited to, those described below:

- Regions ability to achieve the earnings expectations related to businesses that have been acquired, including its merger with AmSouth Bancorporation (AmSouth), or that may be acquired in the future, which in turn depends on a variety of factors, including:
  - Regions ability to achieve the anticipated cost savings and revenue enhancements with respect to the acquired operations, or lower than expected revenues from continuing operations;
  - the assimilation of the combined companies corporate cultures;
  - the continued growth of the markets that the acquired entities serve, consistent with recent historical experience;
  - difficulties related to the integration of the businesses.
- Regions ability to expand into new markets and to maintain profit margins in the face of competitive pressures.
- Regions ability to keep pace with technological changes.
- Regions ability to develop competitive new products and services in a timely manner and the acceptance of such products and services by Regions customers and potential customers.
- Regions ability to effectively manage interest rate risk, market risk, credit risk, operational risk, legal risk, and regulatory and compliance risk.
- Regions ability to manage fluctuations in the value of assets and liabilities and off-balance sheet exposure so as to maintain sufficient capital and liquidity to support Regions business.
- The current stresses in the financial markets.

The cost and other effects of material contingencies, including litigation contingencies.

The effects of increased competition from both banks and non-banks.

Possible changes in interest rates may increase funding costs and reduce earning asset yields, thus reducing margins.

Possible changes in general economic and business conditions in the United States in general and in the communities Regions serves in particular.

Possible changes in the creditworthiness of customers and the possible impairment of collectibility of loans.

The effects of geopolitical instability and risks such as terrorist attacks.

Possible changes in trade, monetary and fiscal policies, laws and regulations, and other activities of governments, agencies and similar organizations, including changes in accounting standards, may have an adverse effect on business.

Possible changes in consumer and business spending and saving habits could affect Regions ability to increase assets and to attract deposits.

The effects of weather and natural disasters such as droughts and hurricanes.

The words believe, expect, anticipate, project and similar expressions often signify forward-looking statements. You should not place undue reliance on any forward-looking statements, which speak only as of the date made. We assume no obligation to update or revise any forward-looking statements that are made from time to time.

Item 1. ***Business***

Regions Financial Corporation (together with its subsidiaries on a consolidated basis, Regions or Company) is a financial holding company headquartered in Birmingham, Alabama, which operates throughout the South, Midwest and Texas. Regions provides traditional commercial, retail and mortgage banking services, as well as other financial services in the fields of investment banking, asset management, trust, mutual funds, securities brokerage, insurance and other specialty financing. At December 31, 2007, Regions had total consolidated assets of approximately $141.0 billion, total consolidated deposits of approximately $94.8 billion and total consolidated stockholders equity of approximately $19.8 billion.

Regions is a Delaware corporation that, on July 1, 2004, became the successor by merger to Union Planters Corporation and the former Regions Financial Corporation. Its principal executive offices are located at 1900 Fifth Avenue North, Birmingham, Alabama 35203, and its telephone number at that address is (205) 944-1300.

Banking Operations

Regions conducts its banking operations through Regions Bank, an Alabama chartered commercial bank that is a member of the Federal Reserve System. At December 31, 2007, Regions operated almost 2,000 banking offices in Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, South Carolina, Tennessee, Texas and Virginia.

The following chart reflects the distribution of branch locations in each of the states in which Regions conducts its banking operations.

	Branches
Alabama	255
Arkansas	119
Florida	427
Georgia	158
Illinois	74
Indiana	69
Iowa	18
Kentucky	19
Louisiana	138
Mississippi	165
Missouri	69
North Carolina	9
South Carolina	40
Tennessee	314
Texas	88
Virginia	3
Totals	1,965

Other Financial Services Operations

In addition to its banking operations, Regions provides additional financial services through the following subsidiaries:

Morgan Keegan & Company, Inc. (Morgan Keegan), a subsidiary of Regions Financial Corporation, is a full-service regional brokerage and investment banking firm. Morgan Keegan offers products and services including securities brokerage, asset management, financial planning, mutual funds, securities underwriting, sales and trading, and investment banking. Morgan Keegan also manages the delivery of trust services, which are provided pursuant to the trust powers of Regions Bank. Morgan Keegan, one of the largest investment firms in the South, employs approximately 1,300 financial advisors offering products and services from over 400 offices located in Alabama, Arkansas, Florida, Georgia, Illinois, Kentucky, Louisiana, Massachusetts, Mississippi, New York, North Carolina, South Carolina, Tennessee, Texas and Virginia.

Regions Insurance Group, Inc., a subsidiary of Regions Financial Corporation, offers insurance products through the following subsidiaries: Regions Insurance, Inc. (formerly Rebsamen Insurance, Inc.), headquartered in Little Rock, Arkansas, and Regions Insurance Services, Inc., headquartered in Memphis, Tennessee. Through its insurance brokerage operations in Alabama, Arkansas, Indiana, Louisiana, Missouri, Mississippi, Tennessee and Texas, Regions Insurance Group offers all lines of personal and commercial insurance, including property, casualty, life, health and accident. Regions Insurance Services offers credit-related insurance products (title, term life, credit life, debt cancellation, environmental, crop and mortgage insurance) to customers of Regions. With $111 million in annual revenues and 30 offices in eight states, Regions Insurance Group, Inc. is one of the largest bank-owned insurance brokers in the United States.

Regions Agency, Inc., a subsidiary of Regions Financial Corporation, acts as an insurance agent or broker with respect to credit life insurance, accident and health insurance and other types of insurance relating to extensions of credit by Regions Bank or Regions banking-related subsidiaries.

Regions Life Insurance Company, a subsidiary of Regions Financial Corporation, acts as a re-insurer of credit life insurance and accident and health insurance in connection with the activities of certain affiliates of Regions.

Regions Interstate Billing Service, Inc., a subsidiary of Regions Bank, factors commercial accounts receivable and performs billing and collection services, focusing on clients in the heavy-duty truck and automotive business, but also serving other businesses that meet certain criteria.

Regions Equipment Finance Corporation, a subsidiary of Regions Bank, provides domestic and international equipment financing products, focusing on commercial clients.

Acquisition Program

A substantial portion of the growth of Regions from its inception as a bank holding company in 1971 through the November 2006 merger with AmSouth Bancorporation has been through the acquisition of other financial institutions, including commercial banks and thrift institutions, and the assets and deposits thereof. As part of its ongoing strategic plan, Regions continually evaluates business combination opportunities. Any future business combination or series of business combinations that Regions might undertake may be material, in terms of assets acquired or liabilities assumed, to Regions financial condition. Recent business combinations in the financial services industry have typically involved the payment of a premium over book and market values. This practice could result in dilution of book value and net income per share for the acquirer.

Segment Information

Reference is made to Note 22 Business Segment Information to the consolidated financial statements included under Item 8 of this Form 10-K for information required by this item.

Supervision and Regulation

Regions and its subsidiaries are subject to the extensive regulatory framework applicable to bank holding companies and their subsidiaries. Regulation of financial institutions such as Regions and its subsidiaries is intended primarily for the protection of depositors, the deposit insurance fund of the Federal Deposit Insurance Corporation (FDIC) and the banking system as a whole, and generally is not intended for the protection of stockholders or other investors. Described below are the material elements of selected laws and regulations applicable to Regions and its subsidiaries. The descriptions are not intended to be complete and are qualified in their entirety by reference to the full text of the statutes and regulations described. Changes in applicable law or regulation, and in their application by regulatory agencies, cannot be predicted, but they may have a material effect on the business and results of Regions and its subsidiaries.

General. Regions is a bank holding company, registered with the Board of Governors of the Federal Reserve System (the Federal Reserve) and a financial holding company under the Bank Holding Company Act of 1956, as amended (BHC Act). As such, Regions and its subsidiaries are subject to the supervision, examination and reporting requirements of the BHC Act and the regulations of the Federal Reserve.

The Gramm-Leach-Bliley Act, adopted in 1999 (GLB Act), significantly relaxed previously existing restrictions on the activities of banks and bank holding companies. Under such legislation, an eligible bank holding company may elect to be a financial holding company and thereafter may engage in a range of activities that are financial in nature and that were not previously permissible for banks and bank holding companies. A financial holding company may engage directly or through a subsidiary in the statutorily authorized activities of securities dealing, underwriting and market making, insurance underwriting and agency activities, merchant banking and insurance company portfolio investments. A financial holding company also may engage in any activity that the Federal Reserve determines by rule or order to be financial in nature, incidental to such financial activity, or complementary to a financial activity and that does not pose a substantial risk to the safety and soundness of an institution or to the financial system generally.

In addition to these activities, a financial holding company may engage in those activities permissible for a bank holding company that has not elected to be treated as a financial holding company, including factoring accounts receivable, acquiring and servicing loans, leasing personal property, performing certain data processing services, acting as agent or broker in selling credit life insurance and certain other types of insurance in connection with credit transactions and conducting certain insurance underwriting activities. The BHC Act does not place territorial limitations on permissible non-banking activities of bank holding companies. Despite prior approval, the Federal Reserve has the power to order any bank holding company or its subsidiaries to terminate any activity or to terminate its ownership or control of any subsidiary when the Federal Reserve has reasonable grounds to believe that continuation of such activity or such ownership or control constitutes a serious risk to the financial soundness, safety or stability of any bank subsidiary of the bank holding company.

The GLB Act provides generally for umbrella regulation of financial holding companies by the Federal Reserve, and for functional regulation of banking activities by bank regulators, securities activities by securities regulators, and insurance activities by insurance regulators.

For a bank holding company to be eligible for financial holding company status, all of its subsidiary insured depository institutions must be well capitalized and well managed. A bank holding company may become a financial holding company by filing a declaration with the Federal Reserve that it elects to become a financial holding company. The Federal Reserve must deny expanded authority to any bank holding company with a subsidiary insured depository institution that received less than a satisfactory rating on its most recent Community Reinvestment Act of 1977 (the CRA) review as of the time it submits its declaration. If, after becoming a financial holding company and undertaking activities not permissible for a bank holding company, the company fails to continue to meet any of the prerequisites for financial holding company status, the company must enter into an agreement with the Federal Reserve to comply with all applicable capital and management requirements. If the company does not return to compliance within 180 days, the Federal Reserve may order the company to divest its subsidiary banks or the company may discontinue or divest investments in companies engaged in, activities permissible only for a bank holding company that has elected to be treated as a financial holding company.

The BHC Act requires every bank holding company to obtain the prior approval of the Federal Reserve before: (1) it may acquire direct or indirect ownership or control of any voting shares of any bank or savings and loan association, if after such acquisition, the bank holding company will directly or indirectly own or control more than 5.0% of the voting shares of the institution; (2) it or any of its subsidiaries, other than a bank, may acquire all or substantially all of the assets of any bank or savings and loan association; or (3) it may merge or consolidate with any other bank holding company.

The BHC Act further provides that the Federal Reserve may not approve any transaction that would result in a monopoly or would be in furtherance of any combination or conspiracy to monopolize or attempt to monopolize the business of banking in any section of the United States, or the effect of which may be substantially to lessen competition or to tend to create a monopoly in any section of the country, or that in any other manner would be in restraint of trade, unless the anticompetitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the community to be served. The Federal Reserve is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks concerned and the convenience and needs of the community to be served. Consideration of financial resources generally focuses on capital adequacy, and consideration of convenience and needs issues includes the parties performance under the CRA, both of which are discussed below. In addition, the Federal Reserve must take into account the institutions effectiveness in combating money laundering.

Regions Bank is a member of the FDIC, and, as such, its deposits are insured by the FDIC to the extent provided by law. It is also subject to numerous statutes and regulations that affect its business activities and operations, and is supervised and examined by one or more state or federal bank regulatory agencies.

Regions Bank is a state bank, chartered in Alabama and is a member of the Federal Reserve System. Regions Bank is generally subject to supervision and examination by both the Federal Reserve and the Alabama Department of Banking. The Federal Reserve and the Alabama Department of Banking regularly examine the operations of Regions Bank and are given authority to approve or disapprove mergers, consolidations, the establishment of branches and similar corporate actions. The federal and state banking regulators also have the power to prevent the continuance or development of unsafe or unsound banking practices or other violations of law. Various consumer laws and regulations also affect the operations of Regions Bank. In addition, commercial banks are affected significantly by the actions of the Federal Reserve as it attempts to control money and credit availability in order to influence the economy.

Community Reinvestment Act. Regions Bank is subject to the provisions of the CRA. Under the terms of the CRA, Regions Bank has a continuing and affirmative obligation consistent with safe and sound operation to help meet the credit needs of its communities, including providing credit to individuals residing in low- and moderate-income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution s discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires each appropriate federal bank regulatory agency, in connection with its examination of a depository institution, to assess such institution s record in assessing and meeting the credit needs of the community served by that institution, including low- and moderate-income neighborhoods. The regulatory agency s assessment of the institution s record is made available to the public. The assessment also is part of the Federal Reserve s consideration of applications to acquire, merge or consolidate with another banking institution or its holding company, to establish a new branch office that will accept deposits or to relocate an office. In the case of a bank holding company applying for approval to acquire a bank or other bank holding company, the Federal Reserve will assess the records of each subsidiary depository institution of the applicant bank holding company, and such records may be the basis for denying the application. Regions Bank received a satisfactory CRA rating in its most recent examination.

USA PATRIOT Act. A major focus of governmental policy relating to financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The USA PATRIOT Act of 2001 (the USA PATRIOT Act) broadened the application of anti-money laundering regulations to apply to additional types of financial institutions such as broker-dealers, investment advisors and insurance companies, and strengthened the ability of the U.S. Government to help prevent, detect and prosecute international money laundering and the financing of terrorism. The principal provisions of Title III of the USA PATRIOT Act require that regulated financial institutions, including state member banks: (i) establish an anti-money laundering program that includes training and audit components; (ii) comply with regulations regarding the verification of identity of any person seeking to open an account; (iii) take additional required precautions with non-U.S. owned accounts; and (iv) perform certain verification and certification of money laundering risk for their foreign correspondent banking relationships. Failure of a financial institution to comply with the USA PATRIOT Act s requirements could have serious legal and reputational consequences for the institution. Regions banking, broker-dealer and insurance subsidiaries have augmented their systems and procedures to meet the requirements of these regulations and will continue to revise and update their policies, procedures and controls to reflect changes required by the USA PATRIOT Act and implementing regulations.

Payment of Dividends. Regions is a legal entity separate and distinct from its banking and other subsidiaries. The principal source of cash flow of Regions, including cash flow to pay dividends to its stockholders and principal and interest on any debt of Regions, is dividends from Regions Bank. There are statutory and regulatory limitations on the payment of dividends by Regions Bank to Regions, as well as by Regions to its stockholders.

As to the payment of dividends, Regions Bank is subject to the laws and regulations of the state of Alabama and to the regulations of the Federal Reserve.

If, in the opinion of a federal regulatory agency, an institution under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which, depending on the financial condition of the institution, could include the payment of dividends), such agency may require, after notice and hearing, that such institution cease and desist from such practice. The federal banking agencies have indicated that paying dividends that deplete an institution s capital base to an inadequate level would be an unsafe and unsound banking practice. Under the

Federal Deposit Insurance Corporation Act (FDIA), an insured institution may not pay any dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. See Regulatory Remedies under the FDIA below. Moreover, the Federal Reserve and the FDIC have issued policy statements stating that bank holding companies and insured banks should generally pay dividends only out of current operating earnings.

At December 31, 2007, under dividend restrictions imposed under federal and state laws, Regions Bank, without obtaining governmental approvals, could declare aggregate dividends to Regions of approximately $223.3 million.

The payment of dividends by Regions and Regions Bank may also be affected or limited by other factors, such as the requirement to maintain adequate capital above regulatory guidelines.

Capital Adequacy. Regions and Regions Bank are required to comply with the applicable capital adequacy standards established by the Federal Reserve. There are two basic measures of capital adequacy for bank holding companies that have been promulgated by the Federal Reserve: a risk-based measure and a leverage measure.

The risk-based capital standards are designed to make regulatory capital requirements more sensitive to differences in credit and market risk profiles among banks and financial holding companies, to account for off- balance-sheet exposure, and to minimize disincentives for holding liquid assets. Assets and off-balance-sheet items are assigned to broad risk categories, each with appropriate weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items.

The minimum guideline for the ratio of total capital (Total Capital) to risk-weighted assets (including certain off-balance-sheet items, such as standby letters of credit) is 8.0%. At least half of the Total Capital must be composed of common equity, undivided profits, minority interests in the equity accounts of consolidated subsidiaries (including, for bank holding companies but not banks, trust preferred securities), non-cumulative perpetual preferred stock and for bank holding companies (but not banks) a limited amount of cumulative perpetual preferred stock, less goodwill and certain other intangible assets (Tier 1 Capital). Tier 2 Capital may consist of, among other things, qualifying subordinated debt, mandatorily convertible debt securities, other preferred stock and trust preferred securities and a limited amount of the allowance for loan losses. Non-cumulative perpetual preferred stock, trust preferred securities and other so-called restricted core capital elements are currently limited to 25% of Tier 1 Capital. The minimum guideline for Tier 1 Capital is 4.0%. At December 31, 2007, Regions consolidated Tier 1 Capital ratio was 7.29% and its Total Capital ratio was 11.25%.

In addition, the Federal Reserve has established minimum leverage ratio guidelines for bank holding companies. These guidelines provide for a minimum ratio of Tier 1 Capital to average total assets, less goodwill and certain other intangible assets (the Leverage Ratio), of 3.0% for bank holding companies that meet certain specified criteria, including having the highest regulatory rating. All other bank holding companies generally are required to maintain a Leverage Ratio of at least 3.0%, plus an additional cushion of 100 to 200 basis points. Regions Leverage Ratio at December 31, 2007 was 6.66%. The guidelines also provide that bank holding companies experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Furthermore, the Federal Reserve has indicated that it will consider a tangible Tier 1 Capital leverage ratio (deducting all intangibles) and other indicators of capital strength in evaluating proposals for expansion or new activities.

A subsidiary bank is subject to substantially similar risk-based and leverage capital requirements as those applicable to Regions. Regions Bank was in compliance with applicable minimum capital requirements as of December 31, 2007. Neither Regions nor Regions Bank has been advised by any federal banking agency of any specific minimum capital ratio requirement applicable to it as of December 31, 2007.

In 2004, the Basel Committee on Banking Supervision published a new set of risk-based capital standards (Basel II) in order to update the original international capital standards that had been put in place in 1988 (Basel I). Basel II provides two approaches for setting capital standards for credit risk an internal ratings-based approach tailored to individual institutions circumstances and a standardized approach that bases risk weighting on external credit assessments to a much greater extent than permitted in the existing risk-based capital guidelines. Basel II also would set capital requirements for operational risk and refine the existing capital requirements for market risk exposures. The U.S. banking and thrift agencies are developing proposed revisions to their existing capital adequacy regulations and standards based on Basel II. In November 2007, the agencies adopted a definitive final rule for implementing Basel II in the United States that will apply only to internationally active banking organizations, or core banks (defined as those with consolidated total assets of $250 billion or more or consolidated on-balance sheet foreign exposures of $10 billion or more). The final rule will be effective as of April 1, 2008. Other U.S. banking organizations may elect to adopt the requirements of this rule (if they meet applicable qualification requirements), but they will not be required to comply. The rule also allows a banking organization s primary Federal supervisor to determine that application of the rule would not be appropriate in light of the bank s asset size, level of complexity, risk profile or scope of operations. In July 2007, the agencies agreed to issue a proposed rule that would provide non-core banks with the option to adopt an approach consistent with the standardized approach of Basel II. This new proposal, which is intended to be finalized before the core banks may start their first transition period year under Basel II, will replace the agencies earlier proposed amendments to existing risk-based capital guidelines to make them more risk sensitive (formerly referred to as the Basel I-A approach). Regions Bank is not required to comply with Basel II.

Failure to meet capital guidelines could subject a bank to a variety of enforcement remedies, including the termination of deposit insurance by the FDIC, and to certain restrictions on its business. See Regulatory Remedies under the FDIA below.

Support of Subsidiary Banks. Under Federal Reserve policy, Regions is expected to act as a source of financial strength to, and to commit resources to support, its subsidiary bank. This support may be required at times when, absent such Federal Reserve policy, Regions may not be inclined to provide it. In addition, any capital loans by a bank holding company to its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a bank holding company s bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

Transactions with Affiliates. There are various legal restrictions on the extent to which Regions and its non-bank subsidiaries may borrow or otherwise obtain funding from Regions Bank. Under Sections 23A and 23B of the Federal Reserve Act and the Federal Reserve s Regulation W, Regions Bank (and its subsidiaries) may only engage in lending and other covered transactions with non-bank and non-savings bank affiliates to the following extent: (a) in the case of any single such affiliate, the aggregate amount of covered transactions of Regions Bank and its subsidiaries may not exceed 10% of the capital stock and surplus of Regions Bank; and (b) in the case of all affiliates, the aggregate amount of covered transactions of Regions Bank and its subsidiaries may not exceed 20% of the capital stock and surplus of Regions Bank. Covered transactions also are subject to certain collateralization requirements. Covered transactions are defined by statute to include a loan or extension of credit, as well as a purchase of securities issued by an affiliate, a purchase of assets (unless otherwise exempted by the Federal Reserve) from the affiliate, the acceptance of securities issued by the affiliate as collateral for a loan, and the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate.

Regulatory Remedies under the FDIA. The FDIA establishes a system of regulatory remedies to resolve the problems of undercapitalized institutions. The federal banking regulators have established five capital categories (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized) and must take certain mandatory supervisory actions, and are authorized to take other discretionary actions, with respect to institutions in the three undercapitalized categories, the severity of which will depend upon the capital category in which the institution is placed. Generally, subject to a narrow exception, the FDIA requires the banking regulator to appoint a receiver or conservator for an institution that is critically undercapitalized. The federal banking agencies have specified by regulation the relevant capital level for each category.

Under the agencies rules implementing the FDIA s remedy provisions, an institution that (1) has a Total Capital ratio of 10.0% or greater, a Tier 1 Capital ratio of 6.0% or greater, and a Leverage Ratio of 5.0% or greater and (2) is not subject to any written agreement, order, capital directive or regulatory remedy directive issued by the appropriate federal banking agency is deemed to be well capitalized. An institution with a Total Capital ratio of 8.0% or greater, a Tier 1 Capital ratio of 4.0% or greater, and a Leverage Ratio of 4.0% or greater is considered to be adequately capitalized. A depository institution that has a Total Capital ratio of less than 8.0%, a Tier 1 Capital ratio of less than 4.0%, or a Leverage Ratio of less than 4.0% is considered to be undercapitalized. An institution that has a Total Capital ratio of less than 6.0%, a Tier 1 Capital ratio of less than 3.0%, or a Leverage Ratio of less than 3.0% is considered to be significantly undercapitalized, and an institution that has a tangible equity capital to assets ratio equal to or less than 2.0% is deemed to be critically undercapitalized. For purposes of the regulation, the term tangible equity includes core capital elements counted as Tier 1 Capital for purposes of the risk-based capital standards plus the amount of outstanding cumulative perpetual preferred stock (including related surplus), minus all intangible assets with certain exceptions. A depository institution may be deemed to be in a capitalization category that is lower than is indicated by its actual capital position if it receives an unsatisfactory examination rating.

An institution that is categorized as undercapitalized, significantly undercapitalized or critically undercapitalized is required to submit an acceptable capital restoration plan to its appropriate federal banking agency. Under the FDIA, a bank holding company must guarantee that a subsidiary depository institution meets its capital restoration plan, subject to certain limitations. The obligation of a controlling bank holding company under the FDIA to fund a capital restoration plan is limited to the lesser of 5.0% of an undercapitalized subsidiary s assets or the amount required to meet regulatory capital requirements. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions, establishing any branches or engaging in any new line of business, except in accordance with an accepted capital restoration plan or with the approval of the FDIC. In addition, the appropriate federal banking agency is given authority with respect to any undercapitalized depository institution to take any of the actions it is required to or may take with respect to a significantly undercapitalized institution as described below if it determines that those actions are necessary to carry out the purpose of the FDIA.

Institutions that are significantly undercapitalized or undercapitalized and either fail to submit an acceptable capital restoration plan or fail to implement an approved capital restoration plan may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets and cessation of receipt of deposits from correspondent banks. Critically undercapitalized depository institutions are subject to appointment of a receiver or conservator.

At December 31, 2007, Regions Bank had the requisite capital levels to qualify as well capitalized.

FDIC Insurance Assessments. Regions Bank pays deposit insurance premiums to the FDIC based on an assessment rate established by the FDIC. In 2006, the FDIC enacted various rules to implement the provisions of the Federal Deposit Insurance Reform Act of 2005 (the FDI Reform Act). Pursuant to the FDI Reform Act, in 2006 the FDIC merged the Bank Insurance Fund with the Savings Association Insurance Fund to create a newly named Deposit Insurance Fund (the DIF) that covers both banks and savings associations. Effective January 1, 2007, the FDIC revised the risk-based premium system under which the FDIC classifies institutions based on the factors described below and generally assesses higher rates on those institutions that tend to pose greater risks to the DIF. Effective May 8, 2007, the FDIC implemented guidelines that will be used to determine how adjustments of up to 0.50% will be made to the quarterly assessment rates of insured institutions that are categorized as large Risk Category I institutions.

For most banks and savings associations, including Regions Bank, FDIC rates will depend upon a combination of CAMELS component ratings and financial ratios. CAMELS ratings reflect the applicable bank regulatory agency s evaluation of the financial institution s capital, asset quality, management, earnings, liquidity and sensitivity to risk. For large banks and savings associations that have long-term debt issuer ratings, assessment rates will depend upon such ratings and CAMELS component ratings. For institutions such as Regions Bank, which are in the lowest risk category, assessment rates will vary initially from five (5) to seven (7) basis points per $100 of insured deposits. The FDIA, as amended by the FDI Reform Act, requires the FDIC to set a ratio of deposit insurance reserves to estimated insured deposits, the designated reserve ratio (the DRR), for a particular year within a range of 1.15% to 1.50%. For 2008, the FDIC has set the DRR at 1.25%, which is unchanged from 2007 levels. Under the FDI Reform Act and the FDIC s revised premium assessment program, every FDIC-insured institution will pay some level of deposit insurance assessments regardless of the level of the DRR. We cannot predict whether, as a result of an adverse change in economic conditions or other reasons, the FDIC will be required in the future to increase deposit insurance assessments above current levels. The FDIC has also finalized rules providing for a one-time credit assessment to each eligible insured depository institution based on the assessment base of the institution on December 31, 1996. The credit may be applied against the institution s 2007 assessment, and for the three years thereafter the institution may apply the credit against up to 90% of its assessment. Regions Bank qualified for a credit of approximately $110 million, of which $34 million was applied in 2007, leaving a remaining balance at year end of $76 million to be applied over the next two years, based on the current assessment rate.

In addition, the Deposit Insurance Funds Act of 1996 authorized the Financing Corporation (FICO) to impose assessments on DIF applicable deposits in order to service the interest on FICO s bond obligations from deposit insurance fund assessments. The amount assessed on individual institutions by FICO will be in addition to the amount, if any, paid for deposit insurance according to the FDIC s risk-related assessment rate schedules. FICO assessment rates may be adjusted quarterly to reflect a change in assessment base. The FICO annual assessment rate for the fourth quarter of 2007 was 1.14 cents per $100 deposits and will remain the same for the first quarter of 2008. Regions Bank had a FICO assessment of $10.7 million in FDIC deposit premiums in 2007.

Under the FDIA, insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Safety and Soundness Standards. The FDIA requires the federal bank regulatory agencies to prescribe standards, by regulations or guidelines, relating to internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, stock valuation and compensation, fees and benefits, and such other operational and managerial standards as the agencies deem appropriate. Guidelines adopted by the federal bank regulatory agencies establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder. In addition, the agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the prompt corrective action provisions of FDIA. See Regulatory Remedies under the FDIA above. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Depositor Preference. The Omnibus Budget Reconciliation Act of 1993 provides that deposits and certain claims for administrative expenses and employee compensation against an insured depository institution would be afforded a priority over other general unsecured claims against such an institution in the liquidation or other resolution of such an institution by any receiver.

Regulation of Morgan Keegan. As a registered investment adviser and broker-dealer, Morgan Keegan is subject to regulation and examination by the Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA), the New York Stock Exchange (NYSE) and other self-regulatory organizations (SROs), which may affect its manner of operation and profitability. Such regulations cover a broad range of subject matter. Rules and regulations for registered broker-dealers cover such issues as: capital requirements; sales and trading practices; use of client funds and securities; the conduct of directors, officers and employees; record-keeping and recording; supervisory procedures to prevent improper trading on material non-public information; qualification and licensing of sales personnel; and limitations on the extension of credit in securities transactions. Rules and regulations for registered investment advisers include limitations on the ability of investment advisers to charge performance-based or non-refundable fees to clients, record-keeping and reporting requirements, disclosure requirements, limitations on principal transactions between an adviser or its affiliates and advisory clients, and anti-fraud standards.

Morgan Keegan is subject to the net capital requirements set forth in Rule 15c3-1 of the Securities Exchange Act of 1934. The net capital requirements measure the general financial condition and liquidity of a broker-dealer by specifying a minimum level of net capital that a broker-dealer must maintain, and by requiring that a significant portion of its assets be kept liquid. If Morgan Keegan failed to maintain its minimum required net capital, it would be required to cease executing customer transactions until it came back into compliance. This could also result in Morgan Keegan losing its FINRA membership, its registration with the SEC or require a complete liquidation.

The SEC s risk assessment rules also apply to Morgan Keegan as a registered broker-dealer. These rules require broker-dealers to maintain and preserve records and certain information, describe risk management policies and procedures, and report on the financial condition of affiliates whose financial and securities activities are reasonably likely to have a material impact on the financial and operational condition of the broker-dealer. Certain material associated persons of Morgan Keegan, as defined in the risk assessment rules, may also be subject to SEC regulation.

In addition to federal registration, state securities commissions require the registration of certain broker-dealers and investment advisers. Morgan Keegan is registered as a broker-dealer with every state, the District of Columbia, and Puerto Rico. Morgan Keegan is registered as an investment adviser in the following states: Alabama, Arkansas, California, Connecticut, Delaware, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin and the District of Columbia.

Violations of federal, state and SRO rules or regulations may result in the revocation of broker-dealer or investment adviser licenses, imposition of censures or fines, the issuance of cease and desist orders, and the suspension or expulsion of officers and employees from the securities business firm. In addition, Morgan Keegan s business may be materially affected by new rules and regulations issued by the SEC or SROs as well as any changes in the enforcement of existing laws and rules that affect its securities business.

Regulation of Insurers and Insurance Brokers. Regions operations in the areas of insurance brokerage and reinsurance of credit life insurance are subject to regulation and supervision by various state insurance regulatory authorities. Although the scope of regulation and form of supervision may vary from state to state, insurance laws generally grant broad discretion to regulatory authorities in adopting regulations and supervising regulated activities. This supervision generally includes the licensing of insurance brokers and agents and the regulation of the handling of customer funds held in a fiduciary capacity. Certain of Regions insurance company subsidiaries are subject to extensive regulatory supervision and to insurance laws and regulations requiring, among other things, maintenance of capital, record keeping, reporting and examinations.

Financial Privacy. The federal banking regulators have adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to non-affiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a non-affiliated third party. These regulations affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

Office of Foreign Assets Control Regulation. The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These are typically known as the OFAC rules based on their administration by the U.S. Treasury Department Office of Foreign Assets Control (OFAC). The OFAC-administered sanctions targeting countries take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on U.S. persons engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences.

Other. The United States Congress and state lawmaking bodies continue to consider a number of wide-ranging proposals for altering the structure, regulation and competitive relationships of the nation s financial institutions. It cannot be predicted whether or in what form further legislation may be adopted or the extent to which Regions business may be affected thereby.

Competition

All aspects of Regions business are highly competitive. Regions subsidiaries compete with other financial institutions located in the states in which they operate and other adjoining states, as well as large banks in major financial centers and other financial intermediaries, such as savings and loan associations, credit unions, consumer finance companies, brokerage firms, insurance companies, investment companies, mutual funds, mortgage companies and financial service operations of major commercial and retail corporations.

Customers for banking services and other financial services offered by Regions subsidiaries are generally influenced by convenience, quality of service, personal contacts, price of services and availability of products. Although Regions position varies in different markets, Regions believes that its affiliates effectively compete with other financial services companies in their relevant market areas.

Employees

As of December 31, 2007, Regions and its subsidiaries had 33,161 employees.

Available Information

Regions maintains a website at *www.regions.com*. Regions makes available on its website free of charge its annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to those reports which are filed with or furnished to the SEC pursuant to Section 13(a) of the Securities Exchange Act of 1934. These documents are made available on Regions website as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. Also available on the website are Regions (i) Corporate Governance Principles, (ii) Code of Business Conduct and Ethics, (iii) Code of Ethics for Senior Financial Officers and (iv) the charters of its Nominating and Corporate Governance Committee, Audit Committee, Compensation Committee and Risk Committee. You may also request a copy of any of these documents, at no cost, by writing or telephoning Regions at the following address:

ATTENTION: Investor Relations

REGIONS FINANCIAL CORPORATION

1900 Fifth Avenue North

Birmingham, Alabama 35203

(205) 581-7890

Item 1A. ***Risk Factors***

Making or continuing an investment in securities issued by Regions, including our common stock, involves certain risks that you should carefully consider. The risks and uncertainties described below are not the only risks that may have a material adverse effect on Regions. Additional risks and uncertainties also could adversely affect our business and our results. If any of the following risks actually occur, our business, financial condition or results of operations could be negatively affected, the market price for your securities could decline, and you could lose all or a part of your investment. Further, to the extent that any of the information contained in this Annual Report on Form 10-K constitutes forward-looking statements, the risk factors set forth below also are cautionary statements identifying important factors that could cause Regions actual results to differ materially from those expressed in any forward-looking statements made by or on behalf of Regions.

Our success will be dependent on our ability to profitably manage our growth.

We expect to continue to expand our franchise through continued branch expansion. Our ability to manage our growth successfully will depend on our ability to maintain cost controls and asset quality while attracting additional loans and deposits on favorable terms. Although we have been able to achieve significant growth, our expansion strategy could have an adverse impact on our profitability in the short term due to the operating and other non-interest expenses associated with growth and branching. The opening of new branches requires an investment of funds that will not generate profits for a period of time, if at all.

We may need to raise additional capital in the future and such capital may not be available when needed or at all.

We may need to raise additional capital in the future to support growth or for other capital needs. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of our control, and our financial performance. We cannot assure you that such capital will be available to us on acceptable terms or at all. If we are unable to raise additional capital on acceptable terms when needed, our ability to further expand our operations through internal growth could be limited.

Rapid and significant changes in market interest rates may adversely affect our performance.

Most of our assets and liabilities are monetary in nature and subject us to significant risks from changes in interest rates. Our profitability depends to a large extent on our net interest income, and changes in interest rates can impact our net interest income as well as the valuation of our assets and liabilities.

Our current one-year interest rate sensitivity position is moderately asset sensitive, meaning that a gradual increase in interest rates over a twelve-month horizon does not have a pronounced impact on net interest income over a twelve-month forecast horizon. However, like most financial institutions, our results of operations are affected by changes in interest rates and our ability to manage interest rate risks. Changes in market interest rates, or changes in the relationships between short-term and long-term market interest rates, or changes in the relationships between different interest rate indices, can affect the interest rates charged on interest-earning assets differently than the interest rates paid on interest-bearing liabilities. This difference could result in an increase in interest expense relative to interest income, or a decrease in our interest rate spread. For a more detailed discussion of these risks and our management strategies for these risks, see Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operation and Item 7A Quantitative and Qualitative Disclosures about Market Risk of this Form 10-K.

Our net interest margin depends on many factors that are partly or completely out of our control, including competition, federal economic monetary and fiscal policies, and general economic conditions. Despite our strategies to manage interest rate risks, changes in interest rates can still have a material adverse impact on our profitability.

The performance of our investment portfolio is subject to fluctuations due to changes in interest rates and market conditions.

Changes in interest rates can negatively affect the performance of most of our investments. Interest rate volatility can reduce unrealized gains or create unrealized losses in our portfolios. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions, and other factors beyond our control. Fluctuations in interest rates affect our returns on, and the market value of, our investment securities.

The fair market value of the securities in our portfolio and the investment income from these securities also fluctuate depending on general economic and market conditions. In addition, actual net investment income and/or cash flows from investments that carry prepayment risk, such as mortgage-backed and other asset-backed securities, may differ from those anticipated at the time of investment as a result of interest rate fluctuations.

Changes in the policies of monetary authorities and other government action could adversely affect our profitability.

The results of operations of Regions are affected by credit policies of monetary authorities, particularly the Federal Reserve. The instruments of monetary policy employed by the Federal Reserve include open-market operations in U.S. government securities, changes in the discount rate or the federal funds rate on bank borrowings, and changes in reserve requirements against bank deposits. In view of changing conditions in the national economy and in the money markets, particularly in light of the continuing threat of terrorist attacks and the current military operations in the Middle East, we cannot predict possible future changes in interest rates, deposit levels, and loan demand on our business and earnings. Furthermore, the actions of the United States government and other governments in responding to such terrorist attacks or the military operations in the Middle East may result in currency fluctuations, exchange controls, market disruption and other adverse effects.

If we experience greater credit losses than anticipated, our earnings may be adversely affected.

As a lender, we are exposed to the risk that our customers will be unable to repay their loans according to their terms and that any collateral securing the payment of their loans may not be sufficient to assure repayment. Credit losses are inherent in the business of making loans and could have a material adverse effect on our operating results. Our credit risk with respect to our real estate and construction loan portfolio will relate principally to the creditworthiness of corporations and the value of the real estate serving as security for the repayment of loans. Our credit risk with respect to our commercial and consumer loan portfolio will relate principally to the general creditworthiness of businesses and individuals within our local markets.

We make various assumptions and judgments about the collectibility of our loan portfolio and provide an allowance for estimated credit losses based on a number of factors. We believe that our allowance for credit losses is adequate. However, if our assumptions or judgments are wrong, our allowance for credit losses may not be sufficient to cover our actual credit losses. We may have to increase our allowance in the future in response to the request of one of our primary banking regulators, to adjust for changing conditions and assumptions, or as a result of any deterioration in the quality of our loan portfolio. The actual amount of future provisions for credit losses cannot be determined at this time and may vary from the amounts of past provisions.

Further disruptions in the residential real estate market could adversely affect our performance.

As of December 31, 2007, residential homebuilder loans represented approximately 8% of our total loan portfolio. This portfolio came under stress in the fourth quarter of 2007 and, due to its weakening credit quality, we increased our loan loss provision and our total allowance for credit losses. In addition, we have implemented several measures to support the management of the residential homebuilder loan portfolio, including reassignment of experienced, key relationship managers to focus on work-out strategies for distressed borrowers.

While we expect that these actions will help mitigate the overall effects of the credit down cycle, the weakness in the homebuilder portfolio is expected to continue well into 2008. Accordingly, it is anticipated that our non-performing asset and charge-off levels will continue to increase in 2008.

Further, the effects of recent mortgage market challenges, combined with the ongoing decrease in residential real estate market prices and demand, could result in further price reductions in home values, adversely affecting the value of collateral securing the residential real estate and construction loans that we hold, as well as loan originations and gains on sale of real estate and construction loans.

Our profitability and liquidity may be affected by changes in economic conditions in the areas where our operations or loans are concentrated.

Regions success depends to a certain extent on the general economic conditions of the geographic markets served by Regions Bank in the states of Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, South Carolina, Tennessee, Texas and Virginia. The local economic conditions in these areas have a significant impact on Regions Bank s commercial, real estate and construction loans, the ability of borrowers to repay these loans and the value of the collateral securing these loans. Adverse changes in the economic conditions of these geographical areas in general or any one or more of these local markets could negatively impact the financial results of Regions banking operations and have a negative effect on its profitability.

Our ability to achieve the benefits expected from the merger with AmSouth Bancorporation.

Regions ability to achieve the benefits of the merger with AmSouth depend on a variety of factors, including:

- Regions ability to achieve the anticipated cost savings and revenue enhancements with respect to the acquired operations, or lower than expected revenues from continuing operations;
- The assimilation of the combined companies corporate cultures;
- the continued growth of the markets that the acquired entities serve, consistent with recent historical experience;
- difficulties related to the integration of the businesses.

Hurricanes and other weather-related events could cause a disruption in our operations or other consequences that could have an adverse impact on the results of operations.

A significant portion of our operations are located in the areas bordering the Gulf of Mexico and Atlantic Ocean, regions that are susceptible to hurricanes. Such weather events can cause disruption to our operations and could have a material adverse effect on our overall results of operations. We maintain hurricane insurance including coverage for lost profits and extra expense; however, there is no insurance against the loss of market that a catastrophic hurricane could produce. Further, a hurricane in any of our market areas could adversely impact the ability of borrowers to timely repay their loans and may adversely impact the value of any collateral held by us. Some of the states in which we operate are experiencing an extreme drought. The effects of the drought are difficult to predict, but could have an adverse effect on many areas of the economy.

We need to stay current on technological changes in order to compete and meet customer demands.

The financial services market, including banking services, is undergoing rapid changes with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and may enable financial institutions to reduce costs. Our future success may depend, in part, on our ability to use technology to provide products and services that provide convenience to customers and to create additional efficiencies in our operations.

Industry competition may have an adverse effect on our success.

Our profitability depends on our ability to compete successfully. We operate in a highly competitive environment. Certain of our competitors are larger and have more resources than we do. In our market areas, we face competition from other commercial banks, savings and loan associations, credit unions, internet banks, finance companies, mutual funds, insurance companies, brokerage and investment banking firms, and other financial intermediaries that offer similar services. Some of our non-bank competitors are not subject to the same extensive regulations that govern Regions or Regions Bank and may have greater flexibility in competing for business.

We are subject to extensive governmental regulation, which could have an adverse impact on our operations.

The banking industry is extensively regulated and supervised under both federal and state law. We are subject to the regulation and supervision of the Federal Reserve, the FDIC, and the Superintendent of Banking of the State of Alabama. These regulations are intended primarily to protect depositors, the public and the FDIC insurance fund, and not our shareholders. These regulations govern matters ranging from the regulation of certain debt obligations, changes in the control of bank holding companies and state-chartered banks, and the maintenance of adequate capital to the general business operations and financial condition of Regions Bank, including permissible types, amounts and terms of loans and investments, to the amount of reserves against deposits, restrictions on dividends, establishment of branch offices, and the maximum interest rate that may be charged by law. Additionally, certain subsidiaries of Regions and Regions Bank, such as Morgan Keegan, are subject to regulation, supervision and examination by other regulatory authorities, such as the SEC, FINRA and state securities and insurance regulators. We are subject to changes in federal and state law, as well as regulations and governmental policies, income tax laws and accounting principles. Regulations affecting banks and other financial institutions are undergoing continuous change, and the ultimate effect of such changes cannot be predicted. Regulations and laws may be modified at any time, and new legislation may be enacted that will affect us, Regions Bank and our subsidiaries. We cannot assure you that such modifications or new laws will not adversely affect us. Our regulatory position is discussed in greater detail under Item 1 Business Supervision and Regulation of this Form 10-K.

Future issuances of additional securities could result in dilution of your ownership.

Weighted average shares

50,843	43,780	48,593	43,918

Total

$(.24)	$.47	$(1.35)	$(.31)

Diluted Earnings (Loss) Per Common Share

Net income (loss) attributable to Unisys Corporation common shareholders

$(12.1) $20.4 $(65.6) $(13.5)

Add preferred stock dividends

Net income (loss) attributable to Unisys Corporation for diluted earnings per share

$(12.1) $20.4 $(65.6) $(13.5)

Weighted average shares

50,843 43,780 48,593 43,918

Plus incremental shares from assumed conversions

Employee stock plans

415

Preferred stock

Adjusted weighted average shares

50,843	44,195	48,593	43,918

Total

$(.24)	$.46	$(1.35)	$(.31)

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In the six months ended June 30, 2014 and 2013, the following weighted-average number of stock options and restricted stock units were antidilutive and therefore excluded from the computation of diluted earnings per share (in thousands): 3,542 and 3,550, respectively. In the six months ended June 30, 2014 and 2013, the following weighted-average number of mandatory convertible preferred stock was antidilutive and therefore excluded from the computation of diluted earnings per share (in thousands): 877 and 2,587.

b. Pension and Postretirement Benefits. Net periodic pension expense for the three and six months ended June 30, 2014 and 2013 is presented below (in millions of dollars):

	Three Months Ended June 30, 2014			Three Months Ended June 30, 2013		
	Total	U.S. Plans	Int l. Plans	Total	U.S. Plans	Int l. Plans
Service cost	$ 1.9	$	$ 1.9	$ 2.6	$	$ 2.6
Interest cost	92.3	62.2	30.1	81.2	55.0	26.2
Expected return on plan assets	(112.9)	(72.0)	(40.9)	(107.4)	(72.7)	(34.7)
Amortization of prior service cost	(.3)	.2	(.5)	(.3)	.1	(.4)
Recognized net actuarial loss	37.5	27.0	10.5	46.7	34.1	12.6
Curtailment gain	(.6)		(.6)			
Net periodic pension expense	$ 17.9	$ 17.4	$ .5	$ 22.8	$ 16.5	$ 6.3

	Six Months Ended June 30, 2014			Six Months Ended June 30, 2013		
	Total	U.S. Plans	Int l. Plans	Total	U.S. Plans	Int l. Plans
Service cost	$ 4.3	$	$ 4.3	$ 5.2	$	$ 5.2
Interest cost	184.6	124.7	59.9	162.3	109.8	52.5
Expected return on plan assets	(225.6)	(144.0)	(81.6)	(215.4)	(145.7)	(69.7)
Amortization of prior service cost	(.6)	.4	(1.0)	(.4)	.3	(.7)
Recognized net actuarial loss	75.3	54.8	20.5	94.3	69.0	25.3
Curtailment gain	(.6)		(.6)			
Net periodic pension expense	$ 37.4	$ 35.9	$ 1.5	$ 46.0	$ 33.4	$ 12.6

In 2014, the company estimates that it will make cash contributions of approximately $235 million to its worldwide defined benefit pension plans, which is comprised of $109 million primarily for non-U.S. defined benefit pension plans and $126 million for the company s U.S. qualified defined benefit pension plan. In 2013, the company made cash contributions of $147.2 million to its worldwide defined benefit pension plans. For the six months ended June 30, 2014 and 2013, $103.1 million and $61.3 million, respectively, of cash contributions have been made.

Net periodic postretirement benefit expense for the three and six months ended June 30, 2014 and 2013 is presented below (in millions of dollars):

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Service cost	$ .1	$ .2	$ .3	$ .3
Interest cost	2.0	2.0	4.0	4.0
Expected return on assets	(.2)	(.1)	(.3)	(.2)
Amortization of prior service cost	.5	.5	.9	.9
Recognized net actuarial loss	.9	1.3	1.7	2.7
Net periodic postretirement benefit expense	$ 3.3	$ 3.9	$ 6.6	$ 7.7

The company expects to make cash contributions of approximately $19 million to its postretirement benefit plan in 2014 compared with $18.0 million in 2013. For the six months ended June 30, 2014 and 2013, $6.4 million and $7.0 million, respectively, of cash contributions have been made.

c. Fair Value Measurements. Due to its foreign operations, the company is exposed to the effects of foreign currency exchange rate fluctuations on the U.S. dollar, principally related to intercompany account balances. The company uses derivative financial instruments to reduce its exposure to market risks from changes in foreign currency exchange rates on such balances. The company enters into foreign exchange forward contracts, generally having maturities of one month, which have not been designated as hedging instruments. At June 30, 2014 and 2013, the notional amount of these contracts was $525.1 million and $469.1 million, respectively. At June 30, 2014 and 2013, the fair value of such contracts was a net loss of $.5 million and $.9 million, respectively, of which $1.3 million and $1.8 million, respectively, has been recognized in Prepaid expenses and other current assets and $1.8 and $2.7 million, respectively, has been recognized in Other accrued liabilities in the company s consolidated balance sheet. For the six months ended June 30, 2014 and 2013, changes in the fair value of these instruments was a gain of $8.0 million and a loss of $2.7 million, respectively, which has been recognized in earnings in Other income (expense), net in the company s consolidated statement of income. The fair value of these forward contracts is based on quoted prices for similar but not identical financial instruments; as such, the inputs are considered Level 2 inputs.

Financial assets with carrying values approximating fair value include cash and cash equivalents and accounts receivable. Financial liabilities with carrying values approximating fair value include accounts payable and other accrued liabilities. The carrying amounts of these financial assets and liabilities approximate fair value due to their short maturities. At June 30, 2014 and December 31, 2013, the carrying amount of long-term debt was less than fair value, which is based on market prices (Level 2 inputs), of such debt by approximately $18 million and $15 million, respectively.

d. Stock Options. Under stockholder approved stock-based plans, stock options, stock appreciation rights, restricted stock and restricted stock units may be granted to officers, directors and other key employees. At June 30, 2014, 2.4 million shares of unissued common stock of the company were available for granting under these plans.

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

	Six Months Ended June 30,	
	2014	2013
Weighted-average fair value of grant	$ 11.27	$ 8.76
Risk-free interest rate	1.04%	.54%
Expected volatility	45.65%	50.19%
Expected life of options in years	3.71	3.69
Expected dividend yield		

Restricted stock unit awards may contain time-based units, performance-based units or a combination of both. Each performance-based unit will vest into zero to 1.5 shares depending on the degree to which the performance goals are met. Compensation expense resulting from these awards is recognized as expense ratably for each installment from the date of grant until the date the restrictions lapse and is based on the fair market value at the date of grant and the probability of achievement of the specific performance-related goals.

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

During the six months ended June 30, 2014 and 2013, the company recorded $9.3 million and $8.9 million of share-based compensation expense, respectively, which is comprised of $3.2 million and $3.1 million of restricted stock unit expense and $6.1 million and $5.8 million of stock option expense, respectively.

A summary of stock option activity for the six months ended June 30, 2014 follows (shares in thousands):

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value ($ in millions)
Outstanding at December 31, 2013	2,698	$ 32.74		
Granted	747	32.28		
Exercised	(241)	13.52		
Forfeited and expired	(167)	114.73		
Outstanding at June 30, 2014	3,037	29.65	2.85	$ 3.7
Expected to vest at June 30, 2014	1,418	27.36	3.98	1.6
Exercisable at June 30, 2014	1,576	31.74	1.80	2.1

The aggregate intrinsic value represents the total pretax value of the difference between the company s closing stock price on the last trading day of the period and the exercise price of the options, multiplied by the number of in-the-money stock options that would have been received by the option holders had all option holders exercised their options on June 30, 2014. The intrinsic value of the company s stock options changes based on the closing price of the company s stock. The total intrinsic value of options exercised for the six months ended June 30, 2014 and 2013 was $4.6 million and $2.1 million, respectively. As of June 30, 2014, $5.1 million of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 2.0 years.

A summary of restricted stock unit activity for the six months ended June 30, 2014 follows (shares in thousands):

	Restricted Stock Units	Weighted-Average Grant-Date Fair Value
Outstanding at December 31, 2013	401	$ 23.45
Granted	394	32.20
Vested	(101)	26.85
Forfeited and expired	(189)	23.98
Outstanding at June 30, 2014	505	29.39

The fair value of restricted stock units is determined based on the trading price of the company s common shares on the date of grant. The aggregate weighted-average grant-date fair value of restricted stock units granted during the six months ended June 30, 2014 and 2013 was $12.7 million and $4.9 million, respectively. As of June 30, 2014, there was $10.8 million of total unrecognized compensation cost related to outstanding restricted stock units granted under the company s plans. That cost is expected to be recognized over a weighted-average period of 2.6 years. The aggregate weighted-average grant-date fair value of restricted stock units vested during the six months ended June 30, 2014 and 2013 was $2.7 million and $4.3 million, respectively.

Common stock issued upon exercise of stock options or upon lapse of restrictions on restricted stock units is newly issued shares. Cash received from the exercise of stock options for the six months ended June 30, 2014 and 2013 was $2.8 million and $1.2 million, respectively. In light of its tax position, the company is currently not recognizing any tax benefits from the exercise of stock options or upon issuance of stock upon lapse of restrictions on restricted stock units. Tax benefits resulting from tax deductions in excess of the compensation costs recognized are classified as financing cash flows.

e. Segment Information. The company has two business segments: Services and Technology. Revenue classifications by segment are as follows: Services systems integration and consulting, outsourcing, infrastructure services and core maintenance; Technology enterprise-class software and servers and other technology.

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

Also included in the Technology segment s sales and operating profit are sales of hardware and software sold to the Services segment for internal use in Services engagements. The amount of such profit included in operating income of the Technology segment for the three months ended June 30, 2014 and 2013 was zero and $2.4 million, respectively. The amount for the six months ended June 30, 2014 and 2013 was $.4 million and $2.7 million, respectively. The profit on these transactions is eliminated in Corporate.

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

A summary of the company s operations by business segment for the three and six month periods ended June 30, 2014 and 2013 is presented below (in millions of dollars):

	Total	Corporate	Services	Technology
Three Months Ended June 30, 2014				
Customer revenue	$ 806.4		$ 712.9	$ 93.5
Intersegment		$ (13.8)	.1	13.7
Total revenue	$ 806.4	$ (13.8)	$ 713.0	$ 107.2
Operating income	$ 15.8	$ (14.7)	$ 28.5	$ 2.0
Three Months Ended June 30, 2013				
Customer revenue	$ 858.6		$ 739.7	$ 118.9
Intersegment		$ (16.9)	.4	16.5
Total revenue	$ 858.6	$ (16.9)	$ 740.1	$ 135.4
Operating income	$ 38.0	$ (23.5)	$ 29.2	$ 32.3
Six Months Ended June 30, 2014				
Customer revenue	$ 1,568.1		$ 1,403.8	$ 164.3
Intersegment		$ (23.4)	.3	23.1
Total revenue	$ 1,568.1	$ (23.4)	$ 1,404.1	$ 187.4

Operating income (loss)	$ (4.1)	$ (31.0)	$ 41.9	$ (15.0)
Six Months Ended June 30, 2013				
Customer revenue	$ 1,668.5		$ 1,462.7	$ 205.8
Intersegment		$ (34.2)	.9	33.3
Total revenue	$ 1,668.5	$ (34.2)	$ 1,463.6	$ 239.1
Operating income	$ 39.6	$ (44.7)	$ 51.8	$ 32.5

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

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Total segment operating income	$ 30.5	$ 61.5	$ 26.9	$ 84.3
Interest expense	(2.3)	(2.6)	(4.3)	(5.3)
Other income (expense), net	(2.5)	14.1	(12.3)	9.2
Corporate and eliminations	(14.7)	(23.5)	(31.0)	(44.7)
Total income (loss) before income taxes	$ 11.0	$ 49.5	$ (20.7)	$ 43.5

Customer revenue by classes of similar products or services, by segment, is presented below (in millions of dollars):

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Services				
Systems integration and consulting	$ 216.4	$ 234.7	$ 427.4	$ 446.5
Outsourcing	362.0	354.7	703.5	716.0
Infrastructure services	89.0	105.5	181.8	210.6
Core maintenance	45.5	44.8	91.1	89.6
	712.9	739.7	1,403.8	1,462.7
Technology				
Enterprise-class software and servers	90.8	112.2	153.4	192.2
Other technology	2.7	6.7	10.9	13.6
	93.5	118.9	164.3	205.8
Total	$ 806.4	$ 858.6	$ 1,568.1	$ 1,668.5

Geographic information about the company s revenue, which is principally based on location of the selling organization, is presented below (in millions of dollars):

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
United States	$ 308.4	$ 344.0	$ 619.7	$ 671.1
United Kingdom	126.6	95.3	222.9	197.4
Other international	371.4	419.3	725.5	800.0
Total	$ 806.4	$ 858.6	$ 1,568.1	$ 1,668.5

f. Accumulated Other Comprehensive Income. Accumulated other comprehensive loss as of December 31, 2013 and June 30, 2014 is as follows (in millions of dollars):

	Total	Translation Adjustments	Postretirement Plans
Balance at December 31, 2013	$ (3,333.4)	$ (676.8)	$ (2,656.6)
Other comprehensive income before reclassifications	21.7	38.9	(17.2)
Amounts reclassified from accumulated other comprehensive income	71.9		71.9
Current period other comprehensive income	93.6	38.9	54.7
Balance at June 30, 2014	$ (3,239.8)	$ (637.9)	$ (2,601.9)

Amounts related to postretirement plans not reclassified in their entirety out of accumulated other comprehensive income for the three and six months ended June 30, 2014 and 2013 were as follows (in millions of dollars):

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Amortization of:				
Prior service cost*	$ .1	$ .3	$ .1	$ .5
Actuarial losses*	37.3	47.0	75.3	95.3
Curtailment gain*	(.6)		(.6)	
Total before tax	36.8	47.3	74.8	95.8
Income tax benefit	(1.5)	(1.9)	(2.9)	(3.7)
Net of tax	$ 35.3	$ 45.4	$ 71.9	$ 92.1

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

Noncontrolling interests as of December 31, 2013 and June 30, 2014 are as follows (in millions of dollars):

	Noncontrolling Interests
Balance at December 31, 2013	$ 36.6
Net income	6.3
Translation adjustments	2.7
Postretirement plans	.2
Sale of subsidiary	1.5
Balance at June 30, 2014	$ 47.3

g. Supplemental Cash Flow Information. Cash paid, net of refunds, during the six months ended June 30, 2014 and 2013 for income taxes was $42.8 million and $33.4 million, respectively.

Cash paid during the six months ended June 30, 2014 and 2013 for interest was $6.6 million and $6.4 million, respectively.

h. Commitments and Contingencies. There are various lawsuits, claims, investigations and proceedings that have been brought or asserted against the company, which arise in the ordinary course of business, including actions with respect to commercial and government contracts, labor and employment, employee benefits, environmental matters, intellectual property, and non-income tax and employment compensation in Brazil. The company records a provision for these matters when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Any provisions are reviewed at least quarterly and are adjusted to reflect the impact and status of settlements, rulings, advice of counsel and other information and events pertinent to a particular matter.

The company believes that it has valid defenses with respect to legal matters pending against it. Based on its experience, the company also believes that the damage amounts claimed in the lawsuits disclosed below are not a meaningful indicator of the company s potential liability. Litigation is inherently unpredictable, however, and it is possible that the company s results of operations or cash flow could be materially affected in any particular period by the resolution of one or more of the legal matters pending against it.

In April 2007, the Ministry of Justice of Belgium sued Unisys Belgium SA-NV, a Unisys subsidiary (Unisys Belgium), in the Court of First Instance of Brussels. The Belgian government had engaged the company to design and develop software for a computerized system to be used to manage the Belgian court system. The Belgian State terminated the contract and in its lawsuit has alleged that the termination was justified because Unisys Belgium failed to deliver satisfactory software in a timely manner. It claims damages of approximately 28 million Euros. Unisys Belgium filed its defense and counterclaim in April 2008, in the amount of approximately 18.5 million Euros. The company believes it has valid defenses to the claims and contends that the Belgian State s termination of the contract was unjustified.

In December 2007, Lufthansa AG sued Unisys Deutschland GmbH, a Unisys subsidiary (Unisys Germany), in the District Court of Frankfurt, Germany, for allegedly failing to perform properly its obligations during the initial phase of a 2004 software design and development contract relating to a Lufthansa customer loyalty program. Under the contract, either party was free to withdraw from the project at the conclusion of the initial design phase. Rather than withdraw, Lufthansa instead terminated the contract and failed to pay the balance owed to Unisys Germany for the initial phase. Lufthansa s lawsuit alleges that Unisys Germany breached the contract by failing to deliver a proper design for the new system and seeks approximately 21.4 million Euros in damages. The company believes it has valid defenses and filed its defense and a counterclaim in the amount of approximately 1.5 million Euros. In July 2013, the District Court issued a decision finding Unisys Germany liable for failing to perform its obligations under the initial phase of the contract. It also dismissed Unisys Germany s counterclaim. The District Court did not conduct the damage phase of the proceeding. Unisys Germany appealed the decision on liability in August 2013. The company and outside counsel believe that the District Court decision is flawed and that there are very good arguments to challenge it. Under German law, the appellate court will review the case *de novo* without deference to the factual findings or legal conclusions of the District Court.

The company s Brazilian operations, along with those of many other companies doing business in Brazil, are involved in various litigation matters, including numerous governmental assessments related to indirect and other taxes, as well as disputes associated with former employees and contract labor. The tax-related matters pertain to value added taxes, customs, duties, sales and other non-income related tax exposures. The labor-related matters include claims related to compensation matters. The company believes that appropriate accruals have been established for such matters based on information currently available. At June 30, 2014, excluding those matters that have been assessed by management as being remote as to the likelihood of ultimately resulting in a loss, the amount related to unreserved tax-related matters, inclusive of any related interest, is estimated to be up to approximately $145 million.

The company has been involved in a matter arising from the sale of its Health Information Management (HIM) business to Molina Information Systems, LLC (Molina) under a 2010 Asset Purchase Agreement (APA). The HIM business provided system solutions and services to state governments, including the state of Idaho, for administering Medicaid programs. In August 2012, Molina sued the company in Federal District Court in Delaware alleging breaches of contract, negligent misrepresentation and intentional misrepresentation with respect to the APA and the Medicaid contract with Idaho. Molina sought compensatory damages, punitive damages, lost profits, indemnification, and declaratory relief. Molina alleged losses of approximately $35 million in the complaint. In June 2013, the District Court granted the company s motion to dismiss the complaint and allowed Molina to replead certain claims and file an amended complaint. In August 2013, Molina filed an amended complaint. Molina continues to allege losses of approximately $35 million and again seeks compensatory damages, punitive damages, lost profits, indemnification and declaratory relief. Unisys has filed a motion to dismiss the amended complaint.

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

Litigation is inherently unpredictable and unfavorable resolutions could occur. Accordingly, it is possible that an adverse outcome from such matters could exceed the amounts accrued in an amount that could be material to the company s financial condition, results of operations and cash flows in any particular reporting period.

Notwithstanding that the ultimate results of the lawsuits, claims, investigations and proceedings that have been brought or asserted against the company are not currently determinable, the company believes that at June 30, 2014, it has adequate provisions for any such matters.

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

The company evaluates the realizability of its deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization are the company s historical profitability, forecast of future taxable income and available tax-planning strategies that could be implemented to realize the net deferred tax assets. The company uses tax-planning strategies to realize or renew net deferred tax assets to avoid the potential loss of future tax benefits.

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

j. Foreign Currency Translation. Due to inflation rates in recent years, the company s Venezuelan subsidiary has applied highly inflationary accounting beginning January 1, 2010. For those international subsidiaries operating in highly inflationary economies, the U.S. dollar is the functional currency, and as such, nonmonetary assets and liabilities are translated at historical exchange rates, and monetary assets and liabilities are translated at current exchange rates. Exchange gains and losses arising from translation are included in other income (expense), net. Effective February 13, 2013, the Venezuelan government devalued its currency, the bolivar, by resetting the official exchange rate from 4.30 to the U.S. dollar to 6.30 to the U.S. dollar. As a result, the company recorded a pretax foreign exchange loss in the first quarter of 2013 of $6.5 million.

In January of 2014, the Venezuelan government announced that the exchange rate to be applied to the settlement of certain transactions, including foreign investments and royalties would be changed to the Complementary System of Foreign Currency Administration (SICAD I) auction rate. As a result, the company changed the exchange rate used to remeasure its Venezuelan subsidiary s financial statements in U.S. dollars from the official rate of 6.3 bolivars to the new SICAD I rate. At March 31, 2014, the SICAD I exchange rate used was 10.7 bolivars to the U.S. dollar. This resulted in the company recording a pretax foreign exchange loss in the first quarter of 2014 of $5.8 million. The company believes that using the SICAD I exchange rate is more economically representative of what it might expect to receive in a dividend transaction than the official exchange rate.

At June 30, 2014, the SICAD I exchange rate used was 10.6 bolivars to the U.S. dollar. An additional pretax foreign exchange loss of $.5 million was recorded in the June 2014 quarter. At June 30, 2014, the company s operations in Venezuela had net monetary assets denominated in local currency equivalent to approximately $8 million. As indicated above, the SICAD I exchange rate is determined by periodic auctions and, therefore, the potential exists for it to change significantly in future quarters. Additionally, the Venezuelan government may make further changes or introduce new exchange rate mechanisms which could result in further changes in the exchange rate used by the company to remeasure its Venezuelan subsidiary s financial statements in U.S. dollars.

k. Stockholder s Equity. On December 10, 2012, the company announced that its Board of Directors had authorized the company to purchase up to an aggregate of $50 million of the company s common stock and mandatory convertible preferred stock through December 31, 2014. During the six months ended June 30, 2014, the company repurchased an aggregate of 552,806 shares of common stock for approximately $14.0 million. Actual cash disbursements for repurchased shares may differ if the settlement dates for shares repurchased occurs after the end of the quarter. At June 30, 2014, there remained approximately $24.3 million available for future repurchases under the Board authorization.

On March 1, 2014, all of the outstanding shares of 6.25% mandatory convertible preferred stock (2,587,400 shares) were automatically converted (in accordance with its terms) into 6,912,756 shares of the company s common stock.

Because March 1, 2014 was not a business day, the mandatory conversion was effected on Monday, March 3, 2014. Annualized cash dividends on such preferred stock were approximately $16.2 million.

l. Statement of Cash Flows. In the fourth quarter of 2013, the company began to report its defined benefit pension plans expense as a separate line item within the operating cash flow section of its consolidated statements of cash flows.

Prior period s statements of cash flows have been changed to present pension plans expense separately and to adjust the amounts presented for other assets and liabilities. There was no change to total net cash provided by operating activities in the prior year.

m. Accounting Standards. In April of 2014, the Financial Accounting Standards Board (FASB) issued final accounting guidance on reporting discontinued operations. The new guidance is aimed at reducing the frequency of disposals reported as discontinued operations by focusing on strategic shifts that have or are expected to have a major effect on an entity s operations and financial results. Such a shift could include the disposal of a major line of business, a major geographical area, a major equity method investment or other major parts of the entity. In another change from current US GAAP, the guidance permits companies to have continuing cash flows and significant continuing involvement with the disposed component. The guidance does not change the presentation requirements for discontinued operations in the statement of income. The guidance requires expanded disclosures for discontinued operations and new disclosures for individually material disposals that do not meet the definition of a discontinued operation. The company has adopted this guidance effective January 1, 2014. Since the company did not dispose of any operations in the six months ended June 30, 2014, adoption of the guidance did not have an impact on the company s consolidated financial statements.

In May of 2014, the FASB issued a new revenue recognition standard entitled Revenue from Contracts with Customers. The objective of the standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows from a contract with a customer. The standard is effective for annual reporting periods beginning after December 15, 2016, which for the company is January 1, 2017. Earlier application is not permitted. The standard allows for either full retrospective adoption, meaning the standard is applied to all periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements. The company is currently assessing which method it will choose for adoption, and is evaluating the impact of the adoption on its consolidated results of operations and financial position.

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

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

Overview

The company s results in the first half of 2014 were impacted by lower revenue from enterprise servers, systems integration and infrastructure services. The lower revenue as well as execution issues on a few projects impacted margins and resulted in a net loss for the first six months of 2014.

The company reported a first half 2014 net loss attributable to Unisys Corporation common shareholders of $65.6 million, or $1.35 per diluted share, compared with first half 2013 net loss attributable to Unisys Corporation common shareholders of $13.5 million, or $.31 per diluted share.

Revenue for the six months ended June 30, 2014 declined 6 percent to $1,568.1 million compared with $1,668.5 million for the six months ended June 30, 2013.

Results of operations

Company results

Three months ended June 30, 2014 compared with the three months ended June 30, 2013

Revenue for the quarter ended June 30, 2014 was $806.4 million compared with $858.6 million for the second quarter of 2013, a decrease of 6% from the prior year. Foreign currency fluctuations had a 1-percentage-point positive impact on revenue in the current period compared with the year-ago period.

Services revenue decreased 4% and Technology revenue decreased 21% in the current quarter compared with the year-ago period. U.S. revenue decreased 10% in the second quarter compared with the year-ago period, principally due to a decline in Technology revenue. International revenue decreased 3% in the current quarter principally due to declines in Asia/Pacific and Latin America, excluding Brazil, partially offset by increases in Europe and Brazil. Foreign currency had a 1-percentage-point positive impact on international revenue in the three months ended June 30, 2014 compared with the three months ended June 30, 2013.

Total gross profit margin was 20.5% in the three months ended June 30, 2014 compared with 23.4% in the three months ended June 30, 2013, reflecting lower margins in both the Technology and Services segments.

Selling, general and administrative expense in the three months ended June 30, 2014 was $133.6 million (16.6% of revenue) compared with $144.9 million (16.9% of revenue) in the year-ago period. Continuing tight cost controls contributed to the decline.

Research and development (R&D) expenses in the second quarter of 2014 were $15.8 million compared with $17.8 million in the second quarter of 2013.

For the second quarter of 2014, the company reported an operating profit of $15.8 million compared with $38.0 million in the second quarter of 2013.

For the three months ended June 30, 2014, pension expense was $17.9 million compared with pension expense of $22.8 million for the three months ended June 30, 2013. For the full year 2014, the company expects to recognize pension expense of approximately $75 million compared with $93.5 million for the full year of 2013. The company records pension income or expense, as well as other employee-related costs such as payroll taxes and medical insurance costs, in operating income in the following income statement categories: cost of revenue; selling, general and administrative expenses; and research and development expenses. The amount allocated to each category is principally based on where the salaries of active employees are charged.

Interest expense for the three months ended June 30, 2014 was $2.3 million compared with $2.6 million for the three months ended June 30, 2013.

Other income (expense), net was an expense of $2.5 million in the second quarter of 2014 compared with income of $14.1 million in 2013. Included in the second quarter of 2014 and 2013 were foreign exchange losses of $4.0 million and foreign exchange gains of $15.7 million, respectively.

Income before income taxes for the three months ended June 30, 2014 was $11.0 million compared with $49.5 million for the three months ended June 30, 2013. The provision for income taxes was $19.9 million in the current quarter compared with $22.7 million in the year-ago period. As discussed in note (i) of the Notes to Consolidated Financial Statements, the company evaluates quarterly the realizability of its deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary. The company records a tax provision or benefit for those international subsidiaries that do not have a full valuation allowance against their net deferred tax assets. Any profit or loss recorded for the company s U.S. operations has no provision or benefit associated with it due to a full valuation allowance. As a result, the company s provision or benefit for taxes may vary significantly quarter to quarter depending on the geographic distribution of income.

Net income attributable to Unisys Corporation common shareholders for the three months ended June 30, 2014 was a loss of $12.1 million, or a loss of $.24 per diluted share, compared with net income attributable to Unisys Corporation common shareholders of $20.4 million, or $.46 per diluted share, for the three months ended June 30, 2013.

Six months ended June 30, 2014 compared with the six months ended June 30, 2013

Revenue for the six months ended June 30, 2014 was $1,568.1 million compared with $1,668.5 million for the six months ended June 30, 2013. Foreign currency fluctuations had a negligible impact on revenue in the current period compared with the year-ago period.

Services revenue decreased 4% and Technology revenue decreased 20% in the first half of 2014 compared with the year-ago period. U.S. revenue decreased 8% in the first half of 2014 compared with the year-ago period, principally due to a decline in Technology revenue. International revenue decreased 5% in the current period principally due to declines in Asia/Pacific and Latin America partially offset by an increase in Europe. Foreign currency had a 1-percentage-point negative impact on international revenue in the six months ended June 30, 2014 compared with the six months ended June 30, 2013.

Total gross profit margin was 19.0% in the six months ended June 30, 2014 compared with 21.7% in the six months ended June 30, 2013, reflecting lower margins in both the Technology and Services segments.

Selling, general and administrative expense in the six months ended June 30, 2014 was $272.1 million (17.4% of revenue) compared with $287.1 million (17.2% of revenue) in the year-ago period.

Research and development (R&D) expenses in the first half of 2014 were $30.2 million compared with $34.8 million in the first half of 2013.

For the first half of 2014, the company reported an operating loss of $4.1 million compared with an operating profit of $39.6 million in the first half of 2013.

For the six months ended June 30, 2014, pension expense was $37.4 million compared with pension expense of $46.0 million for the six months ended June 30, 2013.

Interest expense for the six months ended June 30, 2014 was $4.3 million compared with $5.3 million for the six months ended June 30, 2013.

Other income (expense), net was an expense of $12.3 million in the first half of 2014 compared with income of $9.2 million in 2013. Included in the first half of 2014 and 2013 were foreign exchange losses of $13.1 million and foreign exchange gains of $11.5 million, respectively.

Income before income taxes for the six months ended June 30, 2014 was a loss of $20.7 million compared with income of $43.5 million for the six months ended June 30, 2013. The provision for income taxes was $35.9 million in the current period compared with $44.1 million in the year-ago period.

Segment results

The company has two business segments: Services and Technology. Revenue classifications by segment are as follows: Services systems integration and consulting, outsourcing, infrastructure services and core maintenance; Technology enterprise-class software and servers and other technology.

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

Also included in the Technology segment s sales and operating profit are sales of hardware and software sold to the Services segment for internal use in Services engagements. The amount of such profit included in operating income of the Technology segment for the three months ended June 30, 2014 and 2013 was zero and $2.4 million, respectively. The amount for the six months ended June 30, 2014 and 2013 was $.4 million and $2.7 million, respectively. The profit on these transactions is eliminated in Corporate.

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

Three months ended June 30, 2014 compared with the three months ended June 30, 2013

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

	Total	Eliminations	Services	Technology
Three Months Ended June 30, 2014				
Customer revenue	$ 806.4		$ 712.9	$ 93.5
Intersegment		$ (13.8)	.1	13.7
Total revenue	$ 806.4	$ (13.8)	$ 713.0	$ 107.2
Gross profit percent	20.5%		16.8%	50.2%
Operating profit percent	2.0%		4.0%	1.9%
Three Months Ended June 30, 2013				
Customer revenue	$ 858.6		$ 739.7	$ 118.9
Intersegment		$ (16.9)	.4	16.5
Total revenue	$ 858.6	$ (16.9)	$ 740.1	$ 135.4
Gross profit percent	23.4%		18.2%	59.4%
Operating profit percent	4.4%		4.0%	23.9%

Gross profit percent and operating income percent are as a percent of total revenue.

Customer revenue by classes of similar products or services, by segment, is presented below (in millions of dollars):

	Three Months Ended June 30		Percent
	2014	2013	Change
Services			
Systems integration and consulting	$ 216.4	$ 234.7	(7.8)%
Outsourcing	362.0	354.7	2.1%
Infrastructure services	89.0	105.5	(15.6)%
Core maintenance	45.5	44.8	1.6%
	712.9	739.7	(3.6)%
Technology			
Enterprise-class software and servers	90.8	112.2	(19.1)%
Other technology	2.7	6.7	(59.7)%
	93.5	118.9	(21.4)%

	$ 806.4	$ 858.6	(6.1)%

In the Services segment, customer revenue was $712.9 million for the three months ended June 30, 2014, down 3.6% from the three months ended June 30, 2013. Foreign currency translation had a negligible impact on Services revenue in the current quarter compared with the year-ago period.

Revenue from systems integration and consulting, which was impacted by execution issues on a few projects as well as lower in-quarter project work when compared with the prior-year period, decreased 7.8% to $216.4 million in the June 2014 quarter from $234.7 million in the June 2013 quarter.

Outsourcing revenue increased 2.1% for the three months ended June 30, 2014 to $362.0 million compared with the three months ended June 30, 2013. Infrastructure services revenue decreased 15.6% for the three month period ended June 30, 2014 compared with the three month period ended June 30, 2013. The decline reflects lower volume on some existing contracts and the conclusion of other contracts.

Core maintenance revenue increased 1.6% in the current quarter compared with the prior-year quarter.

Services gross profit was 16.8% in the second quarter of 2014 compared with 18.2% in the year-ago period. The current period gross profit margin was impacted by lower volume in the systems integration and infrastructure services businesses as well as execution issues on a few IT services projects. Services operating income percent was 4.0% in the three months ended June 30, 2014 compared with 4.0% in the three months ended June 30, 2013, as lower operating expenses offset the decline in gross profit margin.

In the Technology segment, customer revenue decreased 21.4% to $93.5 million in the current quarter compared with $118.9 million in the year-ago period, driven by lower sales of ClearPath products. Foreign currency translation had a positive impact of approximately 1-percentage point on Technology revenue in the current period compared with the prior-year period.

Revenue from the company s enterprise-class software and servers decreased 19.1% for the three months ended June 30, 2014 compared with the three months ended June 30, 2013. The decrease was due to lower sales of the company s ClearPath products.

Revenue from other technology decreased $4.0 million for the three months ended June 30, 2014 compared with the three months ended June 30, 2013, principally due to lower sales of third-party technology products.

Technology gross profit was 50.2% in the current quarter compared with 59.4% in the year-ago quarter. Technology operating profit percent was 1.9% in the three months ended June 30, 2014 compared with 23.9% in the three months ended June 30, 2013. The Technology segment s margins were down due to lower sales of ClearPath products.

Six months ended June 30, 2014 compared with the six months ended June 30, 2013

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

	Total	Eliminations	Services	Technology
Six Months Ended June 30, 2014				
Customer revenue	$ 1,568.1		$ 1,403.8	$ 164.3
Intersegment		$ (23.4)	.3	23.1
Total revenue	$ 1,568.1	$ (23.4)	$ 1,404.1	$ 187.4
Gross profit percent	19.0%		16.3%	46.9%
Operating profit (loss) percent	(.3)%		3.0%	(8.0)%
Six Months Ended June 30, 2013				
Customer revenue	$ 1,668.5		$ 1,462.7	$ 205.8
Intersegment		$ (34.2)	.9	33.3

Total revenue	$ 1,668.5	$ (34.2)	$ 1,463.6	$ 239.1
Gross profit percent	21.7%		17.8%	53.5%
Operating profit percent	2.4%		3.5%	13.6%

Gross profit percent and operating income percent are as a percent of total revenue.

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Customer revenue by classes of similar products or services, by segment, is presented below (in millions of dollars):

	Six Months Ended June 30 2014	Six Months Ended June 30 2013	Percent Change
Services			
Systems integration and consulting	$ 427.4	$ 446.5	(4.3)%
Outsourcing	703.5	716.0	(1.7)%
Infrastructure services	181.8	210.6	(13.7)%
Core maintenance	91.1	89.6	1.7%
	1,403.8	1,462.7	(4.0)%
Technology			
Enterprise-class software and servers	153.4	192.2	(20.2)%
Other technology	10.9	13.6	(19.9)%
	164.3	205.8	(20.2)%
Total	$ 1,568.1	$ 1,668.5	(6.0)%

In the Services segment, customer revenue was $1,403.8 million for the six months ended June 30, 2014, a decline of 4.0% when compared with the six months ended June 30, 2013. Foreign currency translation had a negligible impact on Services revenue in the current period compared with the year-ago period.

Revenue from systems integration and consulting was $427.4 million for the six months ended June 30, 2014 compared with $446.5 million for the six months ended June 30, 2013. The current-year period was impacted by execution issues on a few projects as well as lower in-period project work when compared with the prior-year period.

Outsourcing revenue decreased 1.7% for the six months ended June 30, 2014 to $703.5 million compared with the six months ended June 30, 2013.

Infrastructure services revenue decreased 13.7% for the six month period ended June 30, 2014 compared with the six month period ended June 30, 2013. The decline reflects lower volume on some existing contracts and the conclusion of other contracts.

Core maintenance revenue increased 1.7% in the current six-month period compared with the prior-year period.

Services gross profit was 16.3% in the first half of 2014 compared with 17.8% in the year-ago period. Services operating profit percent was 3.0% in the six months ended June 30, 2014 compared with 3.5% in the six months ended June 30, 2013. The current period was impacted by lower volume in the systems integration and infrastructure services businesses as well as execution issues on a few IT services projects.

In the Technology segment, customer revenue decreased 20.2% to $164.3 million in the first half of 2014 compared with $205.8 million in the year-ago period. Foreign currency translation had a negligible impact on Technology revenue in the current period compared with the prior-year period.

Revenue from the company s enterprise-class software and servers decreased 20.2% for the six months ended June 30, 2014 compared with the six months ended June 30, 2013. The decrease was due to lower sales of the company s

ClearPath products.

Revenue from other technology decreased $2.7 million for the six months ended June 30, 2014 compared with the six months ended June 30, 2013.

Technology gross profit was 46.9% in the current six-month period compared with 53.5% in the year-ago period. Technology operating profit (loss) percent was (8.0)% in the six months ended June 30, 2014 compared with 13.6% in the six months ended June 30, 2013. The Technology segment s margins were down due to lower sales of ClearPath products.

New accounting pronouncements

See note (m) of the Notes to Consolidated Financial Statements for a full description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on the company s consolidated financial statements.

Financial condition

The company s principal sources of liquidity are cash on hand, cash from operations and its revolving credit facility, discussed below. The company and certain international subsidiaries have access to uncommitted lines of credit from various banks. The company believes that it will have adequate sources of liquidity to meet its expected near-term cash requirements.

Cash and cash equivalents at June 30, 2014 were $574.2 million compared with $639.8 million at December 31, 2013.

As of June 30, 2014, $378.8 million of cash and cash equivalents were held by the company s foreign subsidiaries. In the future, if these funds are needed for the company s operations in the U.S., the company may be required to accrue and pay taxes to repatriate these funds.

During the six months ended June 30, 2014, cash provided by operations was $23.4 million compared with $30.2 million for the six months ended June 30, 2013. Cash provided by operations during the first half of 2014 was negatively impacted by an increase in cash contributions to the company s defined benefit pension plans. During the first half of 2014, the company contributed cash of $103.1 million to such plans compared with $61.3 million during the first half of 2013. The principal reason for the increase was that in the current period, the company contributed $44.0 million to its U.S. qualified defined benefit pension plan compared with $6.9 million in the prior-year period.

Cash used for investing activities during the six months ended June 30, 2014 was $77.7 million compared with cash usage of $67.4 million during the six months ended June 30, 2013. Net proceeds of investments were $10.1 million for the six months ended June 30, 2014 compared with net purchases of $2.7 million in the prior-year period. Proceeds from investments and purchases of investments represent derivative financial instruments used to reduce the company s currency exposure to market risks from changes in foreign currency exchange rates. In addition, in the current period, the investment in marketable software was $40.3 million compared with $29.6 million in the year-ago period, capital additions of properties were $29.0 million in 2014 compared with $16.2 million in 2013 and capital additions of outsourcing assets were $20.1 million in 2014 compared with $18.3 million in 2013. The higher capital expenditures largely reflected increased investments in new products, as well as expenditures on automation tools and leasehold improvements that support further consolidation of the company s real estate.

Cash used for financing activities during the six months ended June 30, 2014 was $15.1 million compared with cash usage of $18.2 million during the six months ended June 30, 2013.

In June 2011, the company entered into a five-year secured revolving credit facility which provides for loans and letters of credit up to an aggregate amount of $150 million (with a limit on letters of credit of $100 million). Borrowing limits under the credit agreement are based upon the amount of eligible U.S. accounts receivable. At June 30, 2014, the company had no borrowings and $22.8 million of letters of credit outstanding under the facility. At June 30, 2014, availability under the facility was $78.9 million net of letters of credit issued. Borrowings under the facility will bear interest based on short-term rates. The credit agreement contains customary representations and warranties, including that there has been no material adverse change in the company s business, properties, operations or financial condition. It also contains financial covenants requiring the company to maintain a minimum fixed charge coverage ratio and, if the company s consolidated cash plus availability under the credit facility falls below $130 million, a maximum secured leverage ratio. The credit agreement allows the company to pay dividends on its preferred stock unless the company is in default and to, among other things, repurchase its equity, prepay other debt, incur other debt or liens, dispose of assets and make acquisitions, loans and investments, provided the company complies with certain requirements and limitations set forth in the agreement. Events of default include non-payment, failure to comply with covenants, materially incorrect representations and warranties, change of control and default under other debt aggregating at least $50 million. The credit facility is guaranteed by Unisys Holding Corporation, Unisys NPL, Inc., Unisys AP Investment Company I and any future material domestic subsidiaries. The facility is secured by the assets of Unisys Corporation and the subsidiary guarantors, other than certain excluded assets. The company may elect to prepay or terminate the credit facility without penalty.

At June 30, 2014, the company has met all covenants and conditions under its various lending and funding agreements. The company expects to continue to meet these covenants and conditions.

In 2014, the company expects to make cash contributions to its worldwide defined benefit pension plans of approximately $235 million, which is comprised of $109 million primarily for non-U.S. defined benefit pension plans and $126 million for the company s U.S. qualified defined benefit pension plan.

The company has on file with the Securities and Exchange Commission an effective registration statement, expiring in June of 2015, covering debt or equity securities, which enables the company to be prepared for future market opportunities.

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

On December 10, 2012, the company announced that its Board of Directors had authorized the company to purchase up to an aggregate of $50 million of the company s common stock and mandatory convertible preferred stock through December 31, 2014. During the six months ended June 30, 2014, the company repurchased an aggregate of 552,806 shares of common stock for approximately $14.0 million. Actual cash disbursements for repurchased shares may differ if the settlement dates for shares repurchased occurs after the end of the quarter. At June 30, 2014, there remained approximately $24.3 million available for future repurchases under the Board authorization.

On March 1, 2014, all of the outstanding shares of 6.25% mandatory convertible preferred stock (2,587,400 shares) were automatically converted (in accordance with its terms) into 6,912,756 shares of the company s common stock. Because March 1, 2014 was not a business day, the mandatory conversion was effected on Monday, March 3, 2014. Annualized cash dividends on such preferred stock were approximately $16.2 million.

Factors that may affect future results

From time to time, the company provides information containing forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements provide current expectations of future events and include any statement that does not directly relate to any historical or current fact. Words such as anticipates, believes, expects, intends, plans, projects and similar expressions may identify such forward-looking statements forward-looking statements rely on assumptions and are subject to risks, uncertainties and other factors that could cause the company s actual results to differ materially from expectations. Factors that could affect future results include, but are not limited to, those discussed below. Any forward-looking statement speaks only as of the date on which that statement is made. The company assumes no obligation to update any forward-looking statement to reflect events or circumstances that occur after the date on which the statement is made.

Factors that could affect future results include the following:

The company s future results will depend upon its ability to effectively anticipate and respond to volatility and rapid technological change in its industry. The company operates in a highly volatile industry characterized by rapid technological change, evolving technology standards, short product life cycles and continually changing customer demand patterns. Future success will depend in part on the company s ability to anticipate and respond to these market trends and to design, develop, introduce, deliver or obtain new and innovative products, services and software on a timely and cost-effective basis

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using new delivery models such as cloud computing. The company may not be successful in anticipating or responding to changes in technology, industry standards or customer preferences, and the market may not demand or accept its services and product offerings. In addition, products and services developed by competitors may make the company s offerings less competitive.

Future results will depend on the company s ability to drive profitable growth in consulting and systems integration. The company s ability to grow profitably in this business will depend on the level of demand for systems integration projects and the portfolio of solutions the company offers for specific industries. It will also depend on an efficient utilization of services delivery personnel. In addition, profit margins in this business are a function of both the portfolio of solutions sold in a given period and the rates the company is able to charge for services and the chargeability of its professionals. If the company is unable to attain sufficient rates and chargeability for its professionals, profit margins will be adversely affected. The rates the company is able to charge for services are affected by a number of factors, including clients perception of the company s ability to add value through its services; introduction of new services or products by the company or its competitors; pricing policies of competitors; and general economic conditions. Chargeability is also affected by a number of factors, including the company s ability to transition employees from completed projects to new engagements, and its ability to forecast demand for services and thereby maintain an appropriate headcount.

The company s future results will depend on its ability to profitably grow its outsourcing business. The company s outsourcing contracts are multiyear engagements under which the company takes over management and support of a client s data center operations, end user devices, business processes or applications. System development activity on outsourcing contracts may require the company to make upfront investments. The company will need to have available sufficient financial resources in order to make these investments. Outsourcing contracts can be highly complex and can involve the design, development, implementation and operation of new solutions and the transitioning of clients from their existing processes to the new environment. Future results will depend on the company s ability to effectively and timely complete these implementations and transitions.

Future results will also depend on the company s ability to maintain and grow its technology business. The company continues to invest in developing new high-end enterprise server products, cybersecurity software, cloud-based products and other offerings to meet client needs. Future results will depend on the company s ability to effectively market and sell these new products while maintaining its installed base for ClearPath and developing next-generation ClearPath products.

The company faces aggressive competition in the information services and technology marketplace, which could lead to reduced demand for the company s products and services and could have an adverse effect on the company s business. The information services and technology markets in which the company operates include a large number of companies vying for customers and market share both domestically and internationally. The company s competitors include consulting and other professional services firms, systems integrators, outsourcing providers, infrastructure services providers, computer hardware manufacturers and software providers. Some of the company s competitors may develop competing products and services that offer better price-performance or that reach the market in advance of the company s offerings. Some competitors also have or may develop greater financial and other resources than the company, with enhanced ability to compete for market share, in some instances through significant economic incentives to secure contracts. Some also may be better able to compete for skilled professionals. Any of these factors could lead to reduced demand for the company s products and services and could have an adverse effect on the company s business. Future results will depend on the company s ability to mitigate the effects of aggressive competition on revenues, pricing and margins and on the company s ability to attract and retain talented people.

The company s future results will depend on its ability to retain significant clients. The company has a number of significant long-term contracts with clients, including governmental entities, and its future success will depend, in part, on retaining its relationships with these clients. The company could lose clients for such reasons as contract expiration, conversion to a competing service provider, disputes with clients or a decision to in-source services, including for contracts with governmental entities as part of the rebid process. The company could also lose clients as a result of their merger, acquisition or business failure. The company may not be able to replace the revenue and earnings from any such lost client.

The company s contracts may not be as profitable as expected or provide the expected level of revenues. In a number of the company s long-term contracts for infrastructure services, outsourcing, help desk and similar services, the company s revenue is based on the volume of products and services provided. As a result, revenue levels anticipated at the contract s inception are not guaranteed. In addition, some of these contracts may permit termination at the customer s discretion before the end of the contract s term or may permit termination or impose other penalties if the company does not meet the performance levels specified in the contracts.

The company s contracts with governmental entities are subject to the availability of appropriated funds. These contracts also contain provisions allowing the governmental entity to terminate the contract at the governmental entity s discretion before the end of the contract s term. In addition, if the company s performance is unacceptable to the customer under a government contract, the government retains the right to pursue remedies under the affected contract, which remedies could include termination.

Certain of the company s outsourcing agreements require that the company s prices be benchmarked if the customer requests it and provide that those prices may be adjusted downward if the pricing for similar services in the market has changed. As a result, revenues anticipated at the beginning of the terms of these contracts may decline in the future.

Some of the company s systems integration contracts are fixed-price contracts under which the company assumes the risk for delivery of the contracted services and products at an agreed-upon fixed price. Should the company experience problems in performing fixed-price contracts on a profitable basis, adjustments to the estimated cost to complete may be required. Future results will depend on the company s ability to perform these services contracts profitably.

The company may face damage to its reputation or legal liability if its clients are not satisfied with its services or products. The success of the company s business is dependent on strong, long-term client relationships and on its reputation for responsiveness and quality. As a result, if a client is not satisfied with the company s services or products, its reputation could be damaged and its business adversely affected. Allegations by private litigants or regulators of improper conduct, as well as negative publicity and press speculation about the company, whatever the outcome and whether or not valid, may harm its reputation. In addition to harm to reputation, if the company fails to meet its contractual obligations, it could be subject to legal liability, which could adversely affect its business, operating results and financial condition.

Future results will depend in part on the performance and capabilities of third parties with whom the company has commercial relationships. The company maintains business relationships with suppliers, channel partners and other parties that have complementary products, services or skills. Future results will depend, in part, on the performance and capabilities of these third parties, on the ability of external suppliers to deliver components at reasonable prices and in a timely manner, and on the financial condition of, and the company s relationship with, distributors and other indirect channel partners, which can affect the company s capacity to effectively and efficiently serve current and potential customers and end users.

The company s future results will depend in part on its ability to attract, motivate and retain experienced and knowledgeable personnel in key positions. The success of the company s business is dependent upon its ability to employ and train individuals with the requisite knowledge, skills and experience to execute the company s business model and achieve its business objectives.

The company has significant pension obligations and may be required to make additional significant cash contributions to its defined benefit pension plans. The company has unfunded obligations under its U.S. and non-U.S. defined benefit pension plans. In 2013, the company made cash contributions of $147.2 million to its worldwide defined benefit pension plans. Based on current legislation, recent interest rates and expected returns, in 2014 the company estimates that it will make cash contributions to its worldwide defined benefit pension plans of approximately $235 million, which is comprised of $126 million for the company s U.S. qualified defined benefit pension plan and $109 million primarily for non-U.S. defined benefit pension plans.

Deterioration in the value of the company s worldwide defined benefit pension plan assets, as well as discount rate changes, could require the company to make larger cash contributions to its defined benefit pension plans in the future. In addition, the funding of plan deficits over a shorter period of time than currently anticipated could result in making cash contributions to these plans on a more accelerated basis. Either of these events would reduce the cash available for working capital and other corporate uses and may have an adverse impact on the company s operations, financial condition and liquidity.

The company s future results will depend on its ability to continue to simplify its operations and provide services more cost efficiently. Over the past several years, the company has implemented significant cost-reduction measures and continues to focus on measures intended to further improve cost efficiency. Future results will depend on the success of these efforts as well as on the company s continued ability to focus its global resources and simplify its business structure.

The company s business can be adversely affected by global economic conditions, acts of war, terrorism or natural disasters. The company s financial results have been impacted by the global economic slowdown in recent years. If economic conditions worsen, the company could see reductions in demand and increased pressure on revenue and profit margins. The company could also see a further consolidation of clients, which could also result in a decrease in demand. The company s business could also be affected by acts of war, terrorism or natural disasters. Current world tensions could escalate, and this could have unpredictable consequences on the world economy and on the company s business.

The company s contracts with U.S. governmental agencies may subject the company to audits, criminal penalties, sanctions and other expenses and fines. The company frequently enters into contracts with governmental entities. U.S. government agencies, including the Defense Contract Audit Agency and the Department of Labor, routinely audit government contractors. These agencies review a contractor s performance under its contracts, cost structure and compliance with applicable laws, regulations and standards. The U.S. government also may review the adequacy of, and a contractor s compliance with contract terms and conditions, its systems and policies, including the contractor s purchasing, property, estimating, billing, accounting, compensation and management information systems. Any costs found to be overcharged or improperly allocated to a specific contract or any amounts improperly billed or charged for products or services will be subject to reimbursement to the government. In addition, government contractors, such as the company, are required to disclose credible evidence of certain violations of law and contract overpayments to the federal government. If the company is found to have participated in improper or illegal activities, the company may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines and suspension or prohibition from doing business with the U.S. government. Any negative publicity related to such contracts, regardless of the accuracy of such publicity, may adversely affect the company s business or reputation.

Breaches of data security could expose the company to legal liability and could harm the company s business and reputation. The company s business includes managing, processing, storing and transmitting proprietary and confidential data, including personal information, within the company s own IT systems and those that the company designs, develops, hosts or manages for clients. Breaches of data security involving these systems by hackers, other third parties or the company s employees, despite established security controls with respect to this data, could result in the loss of data or the unauthorized disclosure or misuse of confidential information of the company, its clients, or others. This could result in litigation and legal liability for the company, lead to the loss of existing or potential clients, adversely affect the market s perception of the security and reliability of the company s products and services and lead to shutdowns or disruptions of the company s IT systems. In addition, such breaches could subject the company to fines and penalties for violations of data privacy laws. This may negatively impact the company s reputation and financial results.

More than half of the company s revenue is derived from operations outside of the United States, and the company is subject to the risks of doing business internationally. More than half of the company s total revenue is derived from international operations. The risks of doing business internationally include foreign currency exchange rate fluctuations, currency restrictions and devaluations, changes in political or economic conditions, trade protection measures, import or export licensing requirements, multiple and possibly overlapping and conflicting tax laws, new tax legislation, weaker intellectual property protections in some jurisdictions and additional legal and regulatory compliance requirements applicable to businesses that operate internationally, including the Foreign Corrupt Practices Act and non-U.S. laws and regulations.

Financial market conditions may inhibit the company s ability to access capital and credit markets to address its liquidity needs. Financial market conditions may impact the company s ability to borrow, to refinance its outstanding debt, or to utilize surety bonds, letters of credit, foreign exchange derivatives and other financial instruments the company uses to conduct its business. Although the company primarily uses cash on hand to address its liquidity needs, its ability to do so assumes that its operations will continue to generate sufficient cash.

The company s services or products may infringe upon the intellectual property rights of others. The company cannot be sure that its services and products do not infringe on the intellectual property rights of third parties, and it may have infringement claims asserted against it or against its clients. These claims could cost the company money, prevent it from offering some services or products, or damage its reputation.

Pending litigation could affect the company s results of operations or cash flow. There are various lawsuits, claims, investigations and proceedings that have been brought or asserted against the company, which arise in the ordinary course of business, including actions with respect to commercial and government contracts, labor and employment, employee benefits, environmental matters, intellectual property and non-income tax and employment compensation in Brazil. See Note (h) of the Notes to Consolidated Financial Statements for more information on litigation. The company believes that it has valid defenses with respect to legal matters pending against it. Litigation is inherently unpredictable, however, and it is possible that the company s results of operations or cash flow could be materially affected in any particular period by the resolution of one or more of the legal matters pending against it.

The company could face business and financial risk in implementing future dispositions or acquisitions. As part of the company s business strategy, it may from time to time consider disposing of existing technologies, products and businesses that may no longer be in alignment with its strategic direction, including transactions of a material size, or acquiring complementary technologies, products and businesses. Potential risks with respect to dispositions include difficulty finding buyers or alternative exit strategies on acceptable terms in a timely manner; potential loss of employees or clients; dispositions at unfavorable prices or on unfavorable terms, including relating to retained liabilities; and post-closing indemnity claims. Any acquisitions may result in the incurrence of substantial additional indebtedness or contingent liabilities. Acquisitions could also result in potentially dilutive issuances of equity securities and an increase in amortization expenses related to intangible assets. Additional potential risks associated with acquisitions include integration difficulties; difficulties in maintaining or enhancing the profitability of any acquired business; risks of entering markets in which the company has no or limited prior experience; potential loss of employees or failure to maintain or renew any contracts of any acquired business; and expenses of any undiscovered or potential liabilities of the acquired product or business, including relating to employee benefits contribution obligations or environmental requirements. Further, with respect to both dispositions and acquisitions, management s attention could be diverted from other business concerns. Adverse credit conditions could also affect the company s ability to consummate dispositions or acquisitions. The risks associated with dispositions and acquisitions could have a material adverse effect upon the company s business, financial condition and results of operations. There can be no assurance that the company will be successful in consummating future dispositions or acquisitions on favorable terms or at all.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There has been no material change in the company s assessment of its sensitivity to market risk since its disclosure in its Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

Item 4. Controls and Procedures

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

Part II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

See Factors that may affect future results in Management s Discussion and Analysis of Financial Condition and Results of Operations for a discussion of risk factors.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Items 2(a) and (b) are not applicable.

2(c) Stock repurchases

On December 10, 2012, the company announced that its Board of Directors had authorized the company to purchase up to an aggregate of $50 million of the company s common stock and mandatory convertible preferred stock through December 31, 2014.

The following table provides information relating to the company s repurchase of common stock during the three months ended June 30, 2014.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of the Publicly Announced Plan	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Publicly Announced Plan
April 1, 2014 April 30, 2014	123,238	$ 28.10	123,238	$ 33,957,283
May 1, 2014 May 31, 2014	250,763	$ 23.93	250,763	$ 27,957,286
June 1, 2014 June 30, 2014	148,067	$ 24.64	148,067	$ 24,308,906

Total	522,068	$ 25.11	522,068

Item 6. Exhibits

(a) Exhibits
See Exhibit Index

SIGNATURES

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

UNISYS CORPORATION

Date: August 1, 2014

By: /s/ Janet Brutschea Haugen
Janet Brutschea Haugen
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

By: /s/ Scott Hurley
Scott Hurley
Vice President and Corporate Controller
(Chief Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of Unisys Corporation (incorporated by reference to Exhibit 3.1 to the registrant s Current Report on Form 8-K filed on April 30, 2010)
3.2	Certificate of Amendment to Restated Certificate of Incorporation of Unisys Corporation (incorporated by reference to Exhibit 3.1 to the registrant s Current Report on Form 8-K filed on April 28, 2011)
3.3	Bylaws of Unisys Corporation, as amended through April 29, 2010 (incorporated by reference to Exhibit 3.2 to the registrant s Current Report on Form 8-K filed on April 30, 2010)
12	Statement of Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
31.1	Certification of J. Edward Coleman required by Rule 13a-14(a) or Rule 15d-14(a)
31.2	Certification of Janet Brutschea Haugen required by Rule 13a-14(a) or Rule 15d-14(a)
32.1	Certification of J. Edward Coleman required by Rule 13a-14(b) or Rule 15d-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
32.2	Certification of Janet Brutschea Haugen required by Rule 13a-14(b) or Rule 15d-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
101.INSXBRL	Instance Document
101.SCHXBRL	Taxonomy Extension Schema Document
101.CALXBRL	Taxonomy Extension Calculation Linkbase Document
101.LABXBRL	Taxonomy Extension Labels Linkbase Document
101.PREXBRL	Taxonomy Extension Presentation Linkbase Document
101.DEFXBRL	Taxonomy Extension Definition Linkbase Document