

PITNEY BOWES INC /DE/
Form 10-Q
May 03, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
 QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2017
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: 1-3579
PITNEY BOWES INC.
(Exact name of registrant as specified in its charter)

Delaware 06-0495050
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

3001 Summer Street, Stamford, Connecticut 06926
(Address of principal executive offices) (Zip Code)
(203) 356-5000
(Registrant's telephone number, including area code)

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

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

As of April 26, 2017, 186,500,998 shares of common stock, par value \$1 per share, of the registrant were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1: Financial Statements

PITNEY BOWES INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited; in thousands, except per share amounts)

	Three Months Ended March 31,	
	2017	2016
Revenue:		
Equipment sales	\$162,974	\$159,361
Supplies	66,818	72,051
Software	77,867	78,058
Rentals	99,870	104,090
Financing	85,745	97,423
Support services	118,847	128,260
Business services	224,519	205,346
Total revenue	836,640	844,589
Costs and expenses:		
Cost of equipment sales	69,562	71,539
Cost of supplies	21,471	20,690
Cost of software	25,308	26,815
Cost of rentals	20,662	20,495
Financing interest expense	12,974	14,915
Cost of support services	73,354	75,249
Cost of business services	150,843	135,538
Selling, general and administrative	306,303	326,882
Research and development	31,856	26,568
Restructuring charges and asset impairments, net	2,082	6,933
Interest expense, net	25,676	19,301
Total costs and expenses	740,091	744,925
Income before income taxes	96,549	99,664
Provision for income taxes	31,416	37,024
Net income	65,133	62,640
Less: Preferred stock dividends attributable to noncontrolling interests	—	4,594
Net income attributable to Pitney Bowes Inc.	\$65,133	\$58,046
Earnings per share attributable to common stockholders:		
Basic	\$0.35	\$0.30
Diluted	\$0.35	\$0.30
Dividends declared per share of common stock	\$0.1875	\$0.1875

See Notes to Condensed Consolidated Financial Statements

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PITNEY BOWES INC.
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Unaudited; in thousands)

	Three Months Ended March 31,	
	2017	2016
Net income	\$65,133	\$62,640
Less: Preferred stock dividends attributable to noncontrolling interests	—	4,594
Net income attributable to Pitney Bowes Inc.	65,133	58,046
Other comprehensive income, net of tax:		
Foreign currency translations	19,915	39,849
Net unrealized gain (loss) on cash flow hedges, net of tax of \$353 and \$(18), respectively	576	(28)
Net unrealized gain on investment securities, net of tax of \$344 and \$2,029, respectively	585	3,454
Adjustments to pension and postretirement plans, net of tax of \$(304) and \$(777), respectively	(1,482)	(1,230)
Amortization of pension and postretirement costs, net of tax of \$3,517 and \$3,799, respectively	6,708	6,748
Other comprehensive income, net of tax	26,302	48,793
Comprehensive income attributable to Pitney Bowes Inc.	\$91,435	\$106,839

See Notes to Condensed Consolidated Financial Statements

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PITNEY BOWES INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited; in thousands, except share and per share amounts)

	March 31, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$739,553	\$764,522
Short-term investments	43,895	38,448
Accounts receivable (net of allowance of \$14,613 and \$14,372, respectively)	389,990	455,527
Short-term finance receivables (net of allowance of \$13,844 and \$13,323, respectively)	853,390	893,950
Inventories	115,638	92,726
Current income taxes	11,919	11,373
Other current assets and prepayments	78,749	68,637
Total current assets	2,233,134	2,325,183
Property, plant and equipment, net	319,899	314,603
Rental property and equipment, net	178,281	188,054
Long-term finance receivables (net of allowance of \$5,986 and \$7,177, respectively)	664,630	673,207
Goodwill	1,583,302	1,571,335
Intangible assets, net	159,200	165,172
Noncurrent income taxes	78,946	74,806
Other assets	529,779	524,773
Total assets	\$5,747,171	\$5,837,133
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable and accrued liabilities	\$1,317,532	\$1,378,822
Current income taxes	49,933	34,434
Current portion of long-term debt	785,287	614,485
Advance billings	295,688	299,878
Total current liabilities	2,448,440	2,327,619
Deferred taxes on income	210,604	204,289
Tax uncertainties and other income tax liabilities	61,195	61,276
Long-term debt	2,499,025	2,750,405
Other noncurrent liabilities	574,245	597,204
Total liabilities	5,793,509	5,940,793
Commitments and contingencies (See Note 12)		
Stockholders' deficit:		
Cumulative preferred stock, \$50 par value, 4% convertible	1	1
Cumulative preference stock, no par value, \$2.12 convertible	478	483
Common stock, \$1 par value (480,000,000 shares authorized; 323,337,912 shares issued)	323,338	323,338
Additional paid-in capital	126,564	148,125
Retained earnings	5,138,300	5,107,734
Accumulated other comprehensive loss	(913,831)	(940,133)
Treasury stock, at cost (137,029,999 and 137,669,194 shares, respectively)	(4,721,188)	(4,743,208)
Total Pitney Bowes Inc. stockholders' deficit	(46,338)	(103,660)

Total liabilities and stockholders' deficit	\$5,747,171	\$5,837,133
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See Notes to Condensed Consolidated Financial Statements

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PITNEY BOWES INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; in thousands)

	Three Months Ended March 31,	
	2017	2016
Cash flows from operating activities:		
Net income	\$65,133	\$62,640
Restructuring payments	(12,416)	(21,656)
Special pension plan contributions	—	(36,731)
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on disposal of businesses	—	2,059
Depreciation and amortization	44,295	44,300
Gain on debt forgiveness	—	(10,000)
Stock-based compensation	5,638	6,303
Restructuring charges and asset impairments, net	2,082	6,933
Changes in operating assets and liabilities, net of acquisitions/divestitures:		
Decrease in accounts receivable	67,765	77,629
Decrease in finance receivables	63,390	53,935
Increase in inventories	(22,195)	(11,489)
Increase in other current assets and prepayments	(9,746)	(7,955)
Decrease in accounts payable and accrued liabilities	(32,829)	(110,067)
Increase in current and non-current income taxes	13,542	13,380
(Decrease) increase in advance billings	(9,194)	1,289
Other, net	(21,459)	(7,077)
Net cash provided by operating activities	154,006	63,493
Cash flows from investing activities:		
Purchases of available-for-sale securities	(34,308)	(31,661)
Proceeds from sales/maturities of available-for-sale securities	34,396	46,209
Capital expenditures	(35,920)	(40,670)
Acquisition of businesses, net of cash acquired	(7,889)	(13,371)
Change in reserve account deposits	(19,346)	(16,253)
Other investing activities	(5,803)	(4,786)
Net cash used in investing activities	(68,870)	(60,532)
Cash flows from financing activities:		
Proceeds from the issuance of long-term debt	—	300,000
Principal payments of long-term debt	(79,278)	(370,952)
Net change in short-term borrowings	—	179,550
Dividends paid to stockholders	(34,567)	(36,010)
Common stock repurchases	—	(128,451)
Other financing activities	(5,658)	(4,962)
Net cash used in financing activities	(119,503)	(60,825)
Effect of exchange rate changes on cash and cash equivalents	9,398	19,906
Decrease in cash and cash equivalents	(24,969)	(37,958)
Cash and cash equivalents at beginning of period	764,522	640,190
Cash and cash equivalents at end of period	\$739,553	\$602,232
Cash interest paid	\$52,989	\$59,566
Cash income tax payments, net of refunds	\$18,511	\$25,585

See Notes to Condensed Consolidated Financial Statements

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PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

1. Description of Business and Basis of Presentation

Pitney Bowes Inc. (we, us, our, or the company), was incorporated in the state of Delaware in 1920. We are a global technology company offering innovative products and solutions that help our clients navigate the complex world of commerce. We offer products and solutions for customer information management, location intelligence and customer engagement to help our clients market to their customers, and products and solutions for shipping, mailing, and cross border ecommerce that enable the sending of packages across the globe. Clients around the world rely on our products, solutions and services. For more information about us, our products, services and solutions, visit www.pb.com.

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In addition, the December 31, 2016 Condensed Consolidated Balance Sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. In management's opinion, all adjustments, consisting only of normal recurring adjustments, considered necessary to fairly state our financial position, results of operations and cash flows for the periods presented have been included. Operating results for the periods presented are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2017. These statements should be read in conjunction with the financial statements and notes thereto included in our Annual Report to Stockholders on Form 10-K for the year ended December 31, 2016 (2016 Annual Report).

In the fourth quarter of 2016, we determined that certain investments were classified as cash and cash equivalents. Accordingly, the Condensed Consolidated Statement of Cash Flows for the period ended March 31, 2016 has been revised to reduce beginning cash and cash equivalents by \$10 million and ending cash and cash equivalents by \$11 million with corresponding change to other investing activities.

New Accounting Pronouncements - Standards Adopted in 2017

In January 2017, the Financial Accounting Standard Board (FASB) issued Accounting Standard Update (ASU) 2017-04, Intangibles - Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment, which eliminates Step 2 of the current two-step goodwill impairment test and requires only a one-step quantitative impairment test, whereby a goodwill impairment loss will be measured as the excess of a reporting unit's carrying amount over its fair value (not to exceed the total goodwill allocated to that reporting unit). The ASU is effective for interim and annual periods beginning after December 15, 2019, and is required to be applied prospectively. We elected to early adopt this standard effective January 1, 2017. The adoption of this standard had no impact on our consolidated financial statements or disclosures.

In March 2016, the FASB issued ASU 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The standard includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. We retroactively adopted this ASU effective January 1, 2017. Accordingly, the Condensed Consolidated Statement of Cash Flows as of March 31, 2016 has been recast to increase net cash provided by operating activities and net cash used in financing activities by \$5 million.

In July 2015, the FASB issued ASU 2015-11, Inventory - Simplifying the Measurement of Inventory, which requires inventory to be measured at the lower of cost and net realizable value (estimated selling price less reasonably predictable costs of completion, disposal and transportation). Inventory measured using the last-in, first-out (LIFO) basis is not impacted by the new guidance. This standard became effective January 1, 2017 and there was no impact on our consolidated financial statements or disclosures.

New Accounting Pronouncements - Standards Not Yet Adopted

In March 2017, the FASB issued ASU 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Benefit Cost. The ASU requires the service cost component of net periodic benefit cost to be presented in the same income statement line item as other employee compensation costs arising from services rendered during the period. Other components of the net periodic benefit cost are to be presented separately, in an appropriately titled line item outside of any subtotal of operating income or disclosed in the footnotes. The standard also limits the amount eligible for capitalization to the service cost component. The standard is effective for interim and annual periods beginning after December 15, 2017 and we are currently assessing the impact this standard will have on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-06 – Plan Accounting: Defined Benefit Pension Plans (Topic 960); Defined Contribution Pension Plans (Topic 962); Health and Welfare Benefit Plans (Topic 965): Employee Benefit Plan Master Trust Reporting. The ASU requires separate disclosure in the statement of net assets available for benefits and the statement of changes in net assets available for benefits of changes in any interests held in a Master Trust and other enhanced disclosures. The standard is effective for interim and annual

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

periods beginning after December 15, 2018 and we are currently evaluating the impact of this standard on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, Clarifying the Definition of a Business, which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The standard is effective for interim and annual periods beginning after December 15, 2017. The impact on our consolidated financial statements will depend on the facts and circumstances of any specific future transactions.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes: Inter-entity Transfers of Assets other than Inventory, which requires tax expense to be recognized from the sale of intra-entity assets, other than inventory, when the transfer occurs, even though the effects of the transaction are eliminated in consolidation. Under current guidance, the tax effects of transfers are deferred until the transferred asset is sold or otherwise recovered through use. The standard is effective for interim and annual periods beginning after December 15, 2017 and early adoption is permitted, including adoption during an interim period. We are currently assessing the impact this standard will have on our consolidated financial statements.

In August, 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force). The ASU is intended to reduce diversity in practice in the presentation and classification of certain cash receipts and cash payments by providing guidance on eight specific cash flow issues. The ASU is effective for interim and annual periods beginning after December 15, 2017 and early adoption is permitted, including adoption during an interim period. We are currently assessing the impact this standard will have on our consolidated statement of cash flows.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses. The ASU sets forth a “current expected credit loss” (CECL) model which requires companies to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost and applies to some off-balance sheet credit exposures. This standard is effective for interim and annual periods beginning after December 15, 2019. We are currently assessing the impact this standard will have on our consolidated financial statements and disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases. This standard, among other things, will require lessees to recognize almost all leases on their balance sheet as a right-of-use asset and a lease liability and result in enhanced disclosures. The standard is effective for interim and annual periods beginning after December 15, 2018 and early adoption is permitted. We are currently assessing the impact this standard will have on our consolidated financial statements and disclosures.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments—Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. This standard primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The standard is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. We are currently assessing the impact this standard will have on our consolidated financial statements and disclosures.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which requires companies to recognize revenue for the transfer of goods and services to customers in amounts that reflect the consideration the company expects to receive in exchange for those goods and services. In addition, the standard requires enhanced disclosures about the nature, amount, timing and uncertainty of revenue. There were several amendments to the standard during 2016, including clarification of the accounting for licenses of intellectual property and identifying performance obligations. The standard is effective beginning January 1, 2018 and can be adopted either retrospectively to each reporting period presented or on a modified retrospective basis with a cumulative effect adjustment at the date of the initial application. We plan to adopt the standard retrospectively with a cumulative effect

adjustment.

We are continuing to assess all potential impacts of the standard across all of our business segments and believe that the most significant impact will be in our Software Solutions segment related to the timing of software licenses and certain other ancillary revenue streams. In addition, we currently capitalize certain costs associated with the acquisition of new customers and recognize these costs over their expected revenue stream of eight years. Under the new standard, these costs will be expensed as incurred. Also, we are continuing to review our sales commission plans to determine which payments may be capitalized. We plan to use the practical expedient that allows companies to expense costs to obtain a contract when the estimated amortization period is less than one year.

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PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

2. Segment Information

Effective January 1, 2017, we revised our segment reporting to reflect a change in how we manage and report office shipping solutions, which were previously reported within the Global Ecommerce segment. The needs of retail and ecommerce clients are different from those of office shipping clients. Accordingly, the results for office shipping solutions are now reported within Small & Medium Business Solutions and the retail and ecommerce shipping solutions remain in Global Ecommerce. Prior period results have been recast to conform to our current segment presentation. The principal products and services of each of our reportable segments are as follows:

Small & Medium Business Solutions:

North America Mailing: Includes the revenue and related expenses from mailing and office shipping solutions, financing services, and supplies for small and medium businesses to efficiently create physical and digital mail, evidence postage and help simplify and save on the sending, tracking and receiving of letters, parcels and flats in the U.S. and Canada.

International Mailing: Includes the revenue and related expenses from mailing and office shipping solutions, financing services, and supplies for small and medium businesses to efficiently create physical and digital mail, evidence postage and help simplify and save on the sending, tracking and receiving of letters, parcels and flats in areas outside the U.S. and Canada.

Enterprise Business Solutions:

Production Mail: Includes the worldwide revenue and related expenses from the sale of production mail inserting and sortation equipment, high-speed production print systems, supplies and related support services to large enterprise clients to process inbound and outbound mail.

Presort Services: Includes revenue and related expenses from presort mail and parcel services for our large enterprise clients to qualify large mail volumes for postal worksharing discounts.

Digital Commerce Solutions:

Software Solutions: Includes the worldwide revenue and related expenses from the licensing of customer engagement, customer information and location intelligence software solutions and related support services.

Global Ecommerce: Includes the worldwide revenue and related expenses from cross-border ecommerce transactions and domestic retail and ecommerce shipping solutions.

We determine segment earnings before interest and taxes (EBIT) by deducting from segment revenue the related costs and expenses attributable to the segment. Segment EBIT excludes interest, taxes, general corporate expenses, restructuring charges, and other items that are not allocated to a particular business segment. Management uses segment EBIT to measure profitability and performance at the segment level and believes that it provides a useful measure of operating performance and underlying trends of the businesses. Segment EBIT may not be indicative of our overall consolidated performance and therefore, should be read in conjunction with our consolidated results of operations.

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

Revenue and EBIT by business segment is presented below:

	Revenue	
	Three Months	
	Ended March 31,	
	2017	2016
North America Mailing	\$355,578	\$371,453
International Mailing	93,058	104,986
Small & Medium Business Solutions	448,636	476,439
Production Mail	88,955	87,425
Presort Services	132,677	127,396
Enterprise Business Solutions	221,632	214,821
Software Solutions	78,220	77,922
Global Ecommerce	88,152	75,407
Digital Commerce Solutions	166,372	153,329
Total revenue	\$836,640	\$844,589
	EBIT	
	Three Months Ended	
	March 31,	
	2017	2016
North America Mailing	\$141,008	\$160,831
International Mailing	13,269	11,176
Small & Medium Business Solutions	154,277	172,007
Production Mail	8,964	6,824
Presort Services	30,717	28,910
Enterprise Business Solutions	39,681	35,734
Software Solutions	2,749	(2,572)
Global Ecommerce	(4,270)	(3,469)
Digital Commerce Solutions	(1,521)	(6,041)
Total segment EBIT	192,437	201,700
Reconciling items:		
Interest, net	(38,650)	(34,216)
Unallocated corporate expenses	(55,156)	(57,767)
Restructuring charges and asset impairments, net	(2,082)	(6,933)
Acquisition and disposition-related expenses	—	(3,120)
Income before income taxes	96,549	99,664
Provision for income taxes	31,416	37,024
Net income	\$65,133	\$62,640

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

3. Earnings per Share

The calculations of basic and diluted earnings per share are presented below.

	Three Months Ended March 31,	
	2017	2016
Numerator:		
Amounts attributable to common stockholders:		
Net income attributable to Pitney Bowes Inc. (numerator for diluted EPS)	\$65,133	\$58,046
Less: Preference stock dividend	9	10
Income attributable to common stockholders (numerator for basic EPS)	\$65,124	\$58,036
Denominator:		
Weighted-average shares used in basic EPS	185,982	192,241
Effect of dilutive shares:		
Conversion of Preferred stock and Preference stock	293	304
Employee stock plans	600	636
Weighted-average shares used in diluted EPS	186,875	193,181
Basic earnings per share	\$0.35	\$0.30
Diluted earnings per share	\$0.35	\$0.30
Anti-dilutive shares not used in calculating diluted weighted-average shares	11,176	8,870

4. Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined on the last-in, last-out (LIFO) basis for most U.S. inventories and the first-in, first-out (FIFO) basis for most non-U.S. inventories. Inventories at March 31, 2017 and December 31, 2016 consisted of the following:

	March 31, December 31,	
	2017	2016
Raw materials	\$35,499	\$ 28,541
Work in process	5,994	6,498
Supplies and service parts	49,729	45,152
Finished products	36,559	24,678
Inventory at FIFO cost	127,781	104,869
Excess of FIFO cost over LIFO cost	(12,143)	(12,143)
Total inventory, net	\$115,638	\$ 92,726

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

5. Finance Assets

Finance Receivables

Finance receivables are comprised of sales-type lease receivables and unsecured revolving loan receivables.

Sales-type lease receivables are generally due in monthly, quarterly or semi-annual installments over periods ranging from three to five years. Loan receivables arise primarily from financing services offered to our customers for postage and supplies. Loan receivables are generally due each month; however, customers may rollover outstanding balances. Interest is recognized on loan receivables using the effective interest method and related annual fees are initially deferred and recognized ratably over the annual period covered. Customer acquisition costs are expensed as incurred.

Finance receivables at March 31, 2017 and December 31, 2016 consisted of the following:

	March 31, 2017			December 31, 2016		
	North America	International	Total	North America	International	Total
Sales-type lease receivables						
Gross finance receivables	\$1,073,533	\$266,437	\$1,339,970	\$1,088,053	\$273,262	\$1,361,315
Unguaranteed residual values	89,292	13,543	102,835	90,190	13,655	103,845
Unearned income	(220,515)	(61,056)	(281,571)	(223,908)	(60,458)	(284,366)
Allowance for credit losses	(8,816)	(2,569)	(11,385)	(8,247)	(2,647)	(10,894)
Net investment in sales-type lease receivables	933,494	216,355	1,149,849	946,088	223,812	1,169,900
Loan receivables						
Loan receivables	342,037	34,579	376,616	374,147	32,716	406,863
Allowance for credit losses	(7,369)	(1,076)	(8,445)	(8,517)	(1,089)	(9,606)
Net investment in loan receivables	334,668	33,503	368,171	365,630	31,627	397,257
Net investment in finance receivables	\$1,268,162	\$249,858	\$1,518,020	\$1,311,718	\$255,439	\$1,567,157

Allowance for Credit Losses

We provide an allowance for probable credit losses based on historical loss experience, the nature and volume of our portfolios, adverse situations that may affect a client's ability to pay, prevailing economic conditions and our ability to manage the collateral. We continually evaluate the adequacy of the allowance for credit losses and make adjustments as necessary. The assumptions used in determining an estimate of credit losses are inherently subjective and actual results may differ significantly from estimated reserves.

We establish credit approval limits based on the credit quality of the client and the type of equipment financed. Our policy is to discontinue revenue recognition for lease receivables that are more than 120 days past due and for loan receivables that are more than 90 days past due. We resume revenue recognition when the client's payments reduce the account aging to less than 60 days past due. Finance receivables deemed uncollectible are written off against the allowance after all collection efforts have been exhausted and management deems the account to be uncollectible. We believe that our finance receivable credit risk is low because of the geographic and industry diversification of our clients and small account balances for most of our clients.

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

Activity in the allowance for credit losses for the three months ended March 31, 2017 and 2016 was as follows:

	Sales-type Lease Receivables		Loan Receivables		
	North America	International	North America	International	Total
Balance at January 1, 2017	\$8,247	\$ 2,647	\$8,517	\$ 1,089	\$20,500
Amounts charged to expense	1,758	178	639	144	2,719
Write-offs and other	(1,189)	(256)	(1,787)	(157)	(3,389)
Balance at March 31, 2017	\$8,816	\$ 2,569	\$7,369	\$ 1,076	\$19,830

	Sales-type Lease Receivables		Loan Receivables		
	North America	International	North America	International	Total
Balance at January 1, 2016	\$6,606	\$ 3,542	\$10,024	\$ 1,518	\$21,690
Amounts charged to expense	995	50	1,300	157	2,502
Write-offs and other	(1,705)	(495)	(2,138)	(123)	(4,461)
Balance at March 31, 2016	\$5,896	\$ 3,097	\$9,186	\$ 1,552	\$19,731

Aging of Receivables

The aging of gross finance receivables at March 31, 2017 and December 31, 2016 was as follows:

	March 31, 2017 Sales-type Lease Receivables		Loan Receivables		
	North America	International	North America	International	Total
1 - 90 days	\$1,004,804	\$ 262,172	\$333,362	\$ 34,251	\$1,634,589
> 90 days	68,729	4,265	8,675	328	81,997
Total	\$1,073,533	\$ 266,437	\$342,037	\$ 34,579	\$1,716,586
Past due amounts > 90 days					
Still accruing interest	\$12,104	\$ 1,192	\$—	\$ —	\$13,296
Not accruing interest	56,625	3,073	8,675	328	68,701
Total	\$68,729	\$ 4,265	\$8,675	\$ 328	\$81,997

As of March 31, 2017, we had North America sales-type lease receivables aged greater than 90 days with a contract value of \$69 million. As of April 28, 2017, we received payments with a contract value of approximately \$26 million related to these receivables.

	December 31, 2016 Sales-type Lease Receivables		Loan Receivables		
	North America	International	North America	International	Total
1 - 90 days	\$1,025,313	\$ 269,247	\$366,726	\$ 32,420	\$1,693,706
> 90 days	62,740	4,015	7,421	296	74,472
Total	\$1,088,053	\$ 273,262	\$374,147	\$ 32,716	\$1,768,178
Past due amounts > 90 days					
Still accruing interest	\$8,831	\$ 972	\$—	\$ —	\$9,803

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Not accruing interest	53,909	3,043	7,421	296	64,669
Total	\$62,740	\$ 4,015	\$7,421	\$ 296	\$74,472

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PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

Credit Quality

The extension of credit and management of credit lines to new and existing clients uses a combination of an automated credit score, where available, and a detailed manual review of the client's financial condition and, when applicable, payment history. Once credit is granted, the payment performance of the client is managed through automated collections processes and is supplemented with direct follow up should an account become delinquent. We have robust automated collections and extensive portfolio management processes. The portfolio management processes ensure that our global strategy is executed, collection resources are allocated appropriately and enhanced tools and processes are implemented as needed.

We use a third party to score the majority of the North America portfolio on a quarterly basis using a commercial credit score. We do not use a third party to score our International portfolio because the cost to do so is prohibitive, given that it is a localized process and there is no single credit score model that covers all countries.

The table below shows the North America portfolio at March 31, 2017 and December 31, 2016 by relative risk class based on the relative scores of the accounts within each class. The relative scores are determined based on a number of factors, including the company type, ownership structure, payment history and financial information. A fourth class is shown for accounts that are not scored. Absence of a score is not indicative of the credit quality of the account. The degree of risk (low, medium, high), as defined by the third party, refers to the relative risk that an account in the next 12 month period may become delinquent.

Low risk accounts are companies with very good credit scores and are considered to approximate the top 30% of all commercial borrowers.

Medium risk accounts are companies with average to good credit scores and are considered to approximate the middle 40% of all commercial borrowers.

High risk accounts are companies with poor credit scores, are delinquent or are at risk of becoming delinquent and are considered to approximate the bottom 30% of all commercial borrowers.

	March 31, 2017	December 31, 2016
Sales-type lease receivables		
Low	\$865,202	\$ 879,823
Medium	137,624	135,953
High	22,202	22,600
Not Scored	48,505	49,677
Total	\$1,073,533	\$ 1,088,053
Loan receivables		
Low	\$265,626	\$ 296,598
Medium	54,164	53,647
High	6,078	7,216
Not Scored	16,169	16,686
Total	\$342,037	\$ 374,147

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

6. Intangible Assets and Goodwill

Intangible Assets

Intangible assets at March 31, 2017 and December 31, 2016 consisted of the following:

	March 31, 2017			December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$447,830	\$(308,756)	\$139,074	\$445,039	\$(300,906)	\$144,133
Software & technology	150,748	(137,693)	13,055	150,037	(136,508)	13,529
Trademarks & other	36,372	(29,301)	7,071	36,212	(28,702)	7,510
Total intangible assets	\$634,950	\$(475,750)	\$159,200	\$631,288	\$(466,116)	\$165,172

Amortization expense was \$8 million and \$11 million for the three months ended March 31, 2017 and 2016, respectively.

Future amortization expense as of March 31, 2017 was as follows:

Remaining for year ending December 31, 2017	\$21,768
Year ending December 31, 2018	27,455
Year ending December 31, 2019	24,079
Year ending December 31, 2020	18,904
Year ending December 31, 2021	15,301
Thereafter	51,693
Total	\$159,200

Actual amortization expense may differ from the amounts above due to, among other things, fluctuations in foreign currency exchange rates, impairments, acquisitions and accelerated amortization.

Goodwill

Changes in the carrying value of goodwill, by reporting segment, for the three months ended March 31, 2017 are shown in the table below. Prior year amounts have been recast for the change in reportable segments.

	December 31, 2016	Acquisitions	Foreign currency translation	March 31, 2017
North America Mailing	\$ 354,000	\$ —	\$ 1,402	\$355,402
International Mailing	145,566	—	1,587	147,153
Small & Medium Business Solutions	499,566	—	2,989	502,555
Production Mail	101,099	—	766	101,865
Presort Services	196,890	6,229	—	203,119
Enterprise Business Solutions	297,989	6,229	766	304,984
Software Solutions	501,591	—	1,983	503,574
Global Ecommerce	272,189	—	—	272,189
Digital Commerce Solutions	773,780	—	1,983	775,763
Total goodwill	\$ 1,571,335	\$ 6,229	\$ 5,738	\$1,583,302

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

7. Fair Value Measurements and Derivative Instruments

We measure certain financial assets and liabilities at fair value on a recurring basis. Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. An entity is required to classify certain assets and liabilities measured at fair value based on the following fair value hierarchy that prioritizes the inputs used to measure fair value:

Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2 – Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity, may be derived from internally developed methodologies based on management's best estimate of fair value and that are significant to the fair value of the asset or liability.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect its placement within the fair value hierarchy. The following tables show, by level within the fair value hierarchy, our financial assets and liabilities that are accounted for at fair value on a recurring basis at March 31, 2017 and December 31, 2016.

	March 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Investment securities				
Money market funds / commercial paper	\$121,807	\$255,169	\$	—\$376,976
Equity securities	—	23,432	—	23,432
Commingled fixed income securities	1,543	21,598	—	23,141
Debt securities - U.S. and foreign governments, agencies and municipalities	111,144	22,126	—	133,270
Debt securities - corporate	—	71,093	—	71,093
Mortgage-backed / asset-backed securities	—	158,681	—	158,681
Derivatives				
Interest rate swap	—	2,056	—	2,056
Foreign exchange contracts	—	889	—	889
Total assets	\$234,494	\$555,044	\$	—\$789,538
Liabilities:				
Derivatives				
Foreign exchange contracts	\$—	\$(263))	\$(263)
Total liabilities	\$—	\$(263))	\$(263)

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

	December 31, 2016			Total
	Level 1	Level 2	Level 3	
Assets:				
Investment securities				
Money market funds / commercial paper	\$ 114,471	\$ 217,175	\$ —	—\$ 331,646
Equity securities	—	24,571	—	24,571
Commingled fixed income securities	1,536	22,132	—	23,668
Debt securities - U.S. and foreign governments, agencies and municipalities	116,822	19,358	—	136,180
Debt securities - corporate	—	69,891	—	69,891
Mortgage-backed / asset-backed securities	—	158,996	—	158,996
Derivatives				
Interest rate swap	—	1,588	—	1,588
Foreign exchange contracts	—	637	—	637
Total assets	\$ 232,829	\$ 514,348	\$ —	—\$ 747,177
Liabilities:				
Derivatives				
Foreign exchange contracts	\$ —	\$(3,717)	\$ —	—\$(3,717)
Total liabilities	\$ —	\$(3,717)	\$ —	—\$(3,717)

Investment Securities

The valuation of investment securities is based on the market approach using inputs that are observable, or can be corroborated by observable data, in an active marketplace. The following information relates to our classification into the fair value hierarchy:

Money Market Funds / Commercial Paper: Money market funds typically invest in government securities, certificates of deposit, commercial paper and other highly liquid, low risk securities. Money market funds are principally used for overnight deposits and are classified as Level 1 when unadjusted quoted prices in active markets are available and as Level 2 when they are not actively traded on an exchange. Direct investments in commercial paper are not listed on an exchange in an active market and are classified as Level 2.

Equity Securities: Equity securities are comprised of mutual funds investing in U.S. and foreign common stock. These mutual funds are classified as Level 2 as they are not separately listed on an exchange.

Commingled Fixed Income Securities: Mutual funds that invest in a variety of fixed-income securities including securities of the U.S. government and its agencies, corporate debt, mortgage-backed securities and asset-backed securities. The value of the funds is based on the market value of the underlying investments owned by each fund, minus its liabilities, divided by the number of shares outstanding, as reported by the fund manager. These commingled funds are not listed on an exchange in an active market and are classified as Level 2.

Debt Securities – U.S. and Foreign Governments, Agencies and Municipalities: Debt securities are classified as Level 1 where active, high volume trades for identical securities exist. Valuation adjustments are not applied to these securities. Debt securities valued using quoted market prices for similar securities or benchmarking model derived prices to quoted market prices and trade data for identical or comparable securities are classified as Level 2.

Debt Securities – Corporate: Corporate debt securities are valued using recently executed transactions, market price quotations where observable, or bond spreads. The spread data used are for the same maturity as the security. These securities are classified as Level 2.

Mortgage-Backed Securities / Asset-Backed Securities: These securities are valued based on external pricing indices. When external index pricing is not observable, these securities are valued based on external price/spread data. These securities are classified as Level 2.

Investment securities include investments held by The Pitney Bowes Bank (the Bank), whose primary business is to provide financing solutions to clients that rent postage meters and purchase supplies. The Bank's assets and liabilities consist primarily of cash, finance receivables, short and long-term investments and deposit accounts.

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

Available-For-Sale Securities

Certain investment securities are classified as available-for-sale and recorded at fair value in the Condensed Consolidated Balance Sheets as cash and cash equivalents, short-term investments and other assets depending on the type of investment and maturity. Unrealized holding gains and losses are recorded, net of tax, in accumulated other comprehensive income (AOCI).

Available-for-sale securities at March 31, 2017 and December 31, 2016 consisted of the following:

	March 31, 2017			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
U.S. and foreign governments, agencies and municipalities	\$ 125,151	\$ 1,694	\$ (1,473)	\$ 125,372
Corporate notes and bonds	70,302	1,312	(521)	71,093
Commingled fixed income securities	1,576	—	(33)	1,543
Mortgage-backed / asset-backed securities	158,718	1,583	(1,620)	158,681
Total	\$ 355,747	\$ 4,589	\$ (3,647)	\$ 356,689
	December 31, 2016			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
U.S. and foreign governments, agencies and municipalities	\$ 136,316	\$ 1,571	\$ (1,707)	\$ 136,180
Corporate notes and bonds	69,376	1,180	(665)	69,891
Commingled fixed income securities	1,568	—	(32)	1,536
Mortgage-backed / asset-backed securities	159,312	1,566	(1,882)	158,996
Total	\$ 366,572	\$ 4,317	\$ (4,286)	\$ 366,603

At March 31, 2017, investment securities that were in a loss position for 12 or more continuous months had aggregate unrealized holding losses of less than \$1 million and an estimated fair value of \$7 million, and investment securities that were in a loss position for less than 12 continuous months had aggregate unrealized holding losses of \$3 million and an estimated fair value of \$166 million.

At December 31, 2016, investment securities that were in a loss position for 12 or more continuous months had aggregate unrealized holding losses of less than \$1 million and an estimated fair value of \$12 million, and investment securities that were in a loss position for less than 12 continuous months had aggregate unrealized holding losses of \$4 million and an estimated fair value of \$171 million.

We have not recognized an other-than-temporary impairment on any of the investment securities in an unrealized loss position because we have the ability and intent to hold these securities until recovery of the unrealized losses and we expect to receive the contractual principal and interest on these investment securities at maturity.

Scheduled maturities of available-for-sale securities at March 31, 2017 were as follows:

	Amortized cost	Estimated fair value
Within 1 year	\$ 29,886	\$ 29,936
After 1 year through 5 years	106,796	107,300
After 5 years through 10 years	63,107	63,339

After 10 years	155,958	156,114
Total	\$355,747	\$356,689

The expected payments on mortgage-backed and asset-backed securities may not coincide with their contractual maturities as borrowers have the right to prepay obligations with or without prepayment penalties.

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PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

We have not experienced any significant write-offs in our investment portfolio. The majority of our mortgage-backed securities are either guaranteed or supported by the U.S. Government. We have no investments in inactive markets that would warrant a possible change in our pricing methods or classification within the fair value hierarchy.

Derivative Instruments

In the normal course of business, we are exposed to the impact of changes in foreign currency exchange rates and interest rates. We limit these risks by following established risk management policies and procedures, including the use of derivatives. We use derivative instruments to limit the effects of exchange rate fluctuations on financial results and manage the related cost of debt. We do not use derivatives for trading or speculative purposes. We record derivative instruments at fair value and the accounting for changes in the fair value depends on the intended use of the derivative, the resulting designation and the effectiveness of the instrument in offsetting the risk exposure it is designed to hedge.

Foreign Exchange Contracts

We enter into foreign exchange contracts to mitigate the currency risk associated with the anticipated purchase of inventory between affiliates and from third parties. These contracts are designated as cash flow hedges. The effective portion of the gain or loss on cash flow hedges is included in AOCI in the period that the change in fair value occurs and is reclassified to earnings in the period that the hedged item is recorded in earnings. At March 31, 2017 and December 31, 2016, we had outstanding contracts associated with these anticipated transactions with notional amounts of \$12 million and \$13 million, respectively.

The valuation of foreign exchange derivatives is based on the market approach using observable market inputs, such as foreign currency spot and forward rates and yield curves. We also incorporate counterparty credit risk and our credit risk into the fair value measurement of our derivative assets and liabilities, respectively. We derive credit risk from observable data in the credit default swap market. We have not seen a material change in the creditworthiness of those banks acting as derivative counterparties.

Interest Rate Swap

We entered into an interest rate swap with a notional amount of \$300 million to mitigate the interest rate risk associated with our \$300 million variable-rate term loans. The swap is designated as a cash flow hedge. The effective portion of the gain or loss on the cash flow hedge is included in AOCI in the period that the change in fair value occurs and is reclassified to earnings in the period that the hedged item is recorded in earnings. Under the terms of the swap agreement, we pay fixed-rate interest of 0.8826% and receive variable-rate interest based on 1-month LIBOR. The variable interest rate resets monthly.

The valuation of our interest rate swap is based on the income approach using a model with inputs that are observable or that can be derived from or corroborated by observable market data.

PITNEY BOWES INC.

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(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

The fair value of derivative instruments at March 31, 2017 and December 31, 2016 was as follows:

Designation of Derivatives	Balance Sheet Location	March 31, December 31,	
		2017	2016
Derivatives designated as hedging instruments			
Foreign exchange contracts	Other current assets and prepayments	\$ 353	\$ 487
	Accounts payable and accrued liabilities	(35)	(136)
Interest Rate Swap	Other assets	2,056	1,588
Derivatives not designated as hedging instruments			
Foreign exchange contracts	Other current assets and prepayments	536	150
	Accounts payable and accrued liabilities	(228)	(3,581)
	Total derivative assets	\$ 2,945	\$ 2,225
	Total derivative liabilities	(263)	(3,717)
	Total net derivative asset (liabilities)	\$ 2,682	\$ (1,492)

The majority of the amounts included in AOCI at March 31, 2017 will be recognized in earnings within the next 12 months. No amount of ineffectiveness was recorded in earnings for these designated cash flow hedges.

The following represents the results of cash flow hedging relationships for the three months ended March 31, 2017 and 2016:

Derivative Instrument	Three Months Ended March 31,		Location of Gain (Loss) (Effective Portion)	Gain (Loss) Reclassified from AOCI to Earnings (Effective Portion)	
	Recognized in AOCI (Effective Portion)			2017 2016	
	2017	2016		2017	2016
Foreign exchange contracts	\$50	\$(393)	Revenue	\$(28)	(380)
			Cost of sales	111	225
Interest rate swap	468	—	Interest Expense	—	—
	\$518	\$(393)		\$83	\$(155)

We also enter into foreign exchange contracts to minimize the impact of exchange rate fluctuations on short-term intercompany loans and related interest that are denominated in a foreign currency. The revaluation of the intercompany loans and interest and the mark-to-market adjustment on the derivatives are both recorded in earnings. All outstanding contracts at March 31, 2017 mature within 12 months.

The following represents the results of our non-designated derivative instruments for the three months ended March 31, 2017 and 2016:

Derivatives Instrument	Location of Derivative Gain (Loss)	Three Months Ended March 31, Derivative Gain (Loss) Recognized in Earnings	
		2017	2016

Foreign exchange contracts Selling, general and administrative expense \$(1,849) \$(5,977)

Credit-Risk-Related Contingent Features

Certain derivative instruments contain credit-risk-related contingent features that would require us to post collateral based on a combination of our long-term senior unsecured debt ratings and the net fair value of our derivatives. At March 31, 2017, we did not post any collateral and the maximum amount of collateral that we would have been required to post had the credit-risk-related contingent features been triggered was not significant.

PITNEY BOWES INC.

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Fair Value of Financial Instruments

Our financial instruments include cash and cash equivalents, investment securities, accounts receivable, loan receivables, derivative instruments, accounts payable and debt. The carrying value for cash and cash equivalents, accounts receivable, loans receivable, and accounts payable approximate fair value because of the short maturity of these instruments.

The fair value of our debt is estimated based on recently executed transactions and market price quotations. The inputs used to determine the fair value of our debt were classified as Level 2 in the fair value hierarchy. The carrying value and estimated fair value of our debt at March 31, 2017 and December 31, 2016 were as follows:

	March 31, 2017	December 31, 2016
Carrying value	\$3,284,312	\$ 3,364,890
Fair value	\$3,341,434	\$ 3,412,581

8. Restructuring Charges

Activity in our restructuring reserves for the three months ended March 31, 2017 and 2016 was as follows:

	Severance and benefits costs	Other exit costs	Total
Balance at January 1, 2017	\$28,376	\$281	\$28,657
Expenses, net	1,419	67	1,486
Cash payments	(12,294)	(122)	(12,416)
Balance at March 31, 2017	\$17,501	\$226	\$17,727
Balance at January 1, 2016	\$43,700	\$3,722	\$47,422
Expenses, net	4,590	1,060	5,650
Cash payments	(19,956)	(1,700)	(21,656)
Balance at March 31, 2016	\$28,334	\$3,082	\$31,416

The majority of the remaining restructuring reserves are expected to be paid over the next 12 to 24 months; however, due to certain international labor laws and long-term lease agreements, some payments will extend beyond 24 months. We expect to fund these payments from cash flows from operations.

PITNEY BOWES INC.

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(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

9. Debt

Total debt at March 31, 2017 and December 31, 2016 consisted of the following:

	Interest rate	March 31, 2017	December 31, 2016
Notes due September 2017	5.75%	\$ 385,109	\$ 385,109
Notes due March 2018	5.6%	250,000	250,000
Notes due May 2018	4.75%	350,000	350,000
Notes due March 2019	6.25%	300,000	300,000
Notes due October 2021	3.375%	600,000	600,000
Notes due March 2024	4.625%	500,000	500,000
Notes due January 2037	5.25%	35,841	115,041
Notes due March 2043	6.7%	425,000	425,000
Term loans	Variable	450,000	450,000
Other debt		5,584	5,677
Principal amount		3,301,534	3,380,827
Less: unamortized debt discount and issuance costs		27,600	28,796
Plus: unamortized interest rate swap proceeds		10,378	12,859
Total debt		3,284,312	3,364,890
Less: current portion long-term debt		785,287	614,485
Long-term debt		\$ 2,499,025	\$ 2,750,405

In January 2017, bondholders of the 5.25% Notes due 2037 caused us to redeem \$79 million of the debt outstanding.

10. Pensions and Other Benefit Programs

The components of net periodic benefit cost (income) were as follows:

	Defined Benefit Pension Plans				Nonpension Postretirement Benefit Plans	
	United States		Foreign		Three Months Ended	
	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Service cost	\$30	\$32	\$542	\$527	\$419	\$501
Interest cost	17,244	18,830	4,544	5,661	1,771	2,136
Expected return on plan assets	(24,544)	(25,589)	(7,780)	(8,472)	—	—
Amortization of transition credit	—	—	(2)	(2)	—	—
Amortization of prior service (credit) cost	(15)	(15)	(18)	(17)	74	74
Amortization of net actuarial loss	7,268	6,706	2,034	1,343	884	1,360
Settlement ⁽¹⁾	—	1,098	—	—	—	—
Net periodic benefit cost (income)	\$(21)	\$1,062	\$(680)	\$(960)	\$3,148	\$4,071

(1) Included in restructuring charges and asset impairments, net in the Condensed Consolidated Statements of Income. Through March 31, 2017 and 2016, contributions to our U.S. pension plans were \$2 million and \$4 million, respectively, and contributions to our foreign plans were \$9 million and \$38 million, respectively. Nonpension postretirement benefit plan contributions were \$5 million and \$4 million through March 31, 2017 and March 31, 2016, respectively.

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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11. Income Taxes

The effective tax rate for the three months ended March 31, 2017 and 2016 was 32.5% and 37.1%, respectively. The effective tax rate for the three months ended March 31, 2017 and 2016 includes a \$4 million and \$3 million charge, respectively, from the write-off of deferred tax assets associated with expiration of out-of-the-money vested stock options and the vesting of restricted stock. The effective tax rate for the three months ended March 31, 2017 also includes a \$4 million benefit from the resolution of tax examinations.

As is the case with other large corporations, our tax returns are examined each year by tax authorities in the U.S. and other global taxing jurisdictions in which we have operations. As a result, it is reasonably possible that the amount of our unrecognized tax benefits will decrease in the next 12 months, and we expect this change could be up to 25% of our unrecognized tax benefits.

The IRS examinations of our consolidated U.S. income tax returns for tax years prior to 2012 are closed to audit; however, various post-2006 U.S. state and local tax returns are still subject to examination. In Canada, the examination of our tax filings prior to 2011 are closed to audit, except for the pending application of legal principles to specific issues arising in earlier years. Other significant jurisdictions include France, which is closed to audit through the end of 2012, Germany, which is closed to audit through the end of 2011 and the U.K., which, except for an item under appeal, is closed to audit through the end of 2011. We have other less significant tax filings currently subject to examination.

12. Commitments and Contingencies

In the ordinary course of business, we are routinely defendants in, or party to a number of pending and threatened legal actions. These may involve litigation by or against us relating to, among other things, contractual rights under vendor, insurance or other contracts; intellectual property or patent rights; equipment, service, payment or other disputes with clients; or disputes with employees. Some of these actions may be brought as a purported class action on behalf of a purported class of employees, customers or others. In management's opinion, the potential liability, if any, that may result from these actions, either individually or collectively, is not reasonably expected to have a material effect on our financial position, results of operations or cash flows. However, as litigation is inherently unpredictable, there can be no assurances in this regard.

13. Stockholders' (Deficit) Equity

Changes in stockholders' (deficit) equity for the three months ended March 31, 2017 and 2016 were as follows:

	Preferred stock	Preferred stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Total deficit
Balance at January 1, 2017	\$ 1	\$ 483	\$ 323,338	\$ 148,125	\$ 5,107,734	\$ (940,133)	\$ (4,743,208)	\$ (103,660)
Net income	—	—	—	—	65,133	—	—	65,133
Other comprehensive income	—	—	—	—	—	26,302	—	26,302
Dividends paid	—	—	—	—	(34,567)	—	—	(34,567)
Issuance of common stock	—	—	—	(27,098)	—	—	21,914	(5,184)
Conversion to common stock	—	(5)	—	(101)	—	—	106	—
Stock-based compensation expense	—	—	—	5,638	—	—	—	5,638

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Balance at March 31, 2017 \$ 1 \$ 478 \$323,338 \$126,564 \$5,138,300 \$(913,831) \$(4,721,188) \$(46,338)

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PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

	Preferred stock	Preference stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Total equity
Balance at January 1, 2016	\$ 1	\$ 505	\$323,338	\$161,280	\$5,155,537	\$(888,635)	\$(4,573,305)	\$178,721
Net income	—	—	—	—	58,046	—	—	58,046
Other comprehensive loss	—	—	—	—	—	48,793	—	48,793
Dividends paid	—	—	—	—	(36,010)	—	—	(36,010)
Issuance of common stock	—	—	—	(21,555)	—	—	17,421	(4,134)
Conversion to common stock	—	(13)	—	(273)	—	—	286	—
Stock-based compensation expense	—	—	—	6,303	—	—	—	6,303
Repurchase of common stock	—	—	—	—	—	—	(128,451)	(128,451)
Balance at March 31, 2016	\$ 1	\$ 492	\$323,338	\$145,755	\$5,177,573	\$(839,842)	\$(4,684,049)	\$123,268

14. Accumulated Other Comprehensive Income (Loss)

Reclassifications out of AOCI for the three months ended March 31, 2017 and 2016 were as follows:

	Amount Reclassified from AOCI (a) Three Months Ended March 31, 2017 2016	
Gains (losses) on cash flow hedges		
Revenue	\$28	\$(380)
Cost of sales	(111)	225
Interest expense, net	(507)	(507)
Total before tax	(590)	(662)
Benefit for income tax	(230)	(258)
Net of tax	\$(360)	\$(404)

Gains (losses) on available for sale securities

Interest expense, net	\$(109)	\$18
(Benefit) provision for income tax	(40)	7
Net of tax	\$(69)	\$11

Pension and Postretirement Benefit Plans (b)

Transition credit	\$2	\$2
Prior service costs	(41)	(42)

Actuarial losses	(10,186)	(9,409)
Settlements	—	(1,098)
Total before tax	(10,225)	(10,547)
Benefit from income tax	(3,517)	(3,799)
Net of tax	\$(6,708)	\$(6,748)

- (a) Amounts in parentheses indicate reductions to income and increases to other comprehensive income (loss).
- (b) Reclassified from accumulated other comprehensive loss into selling, general and administrative expenses. These amounts are included in the computation of net periodic costs (see Note 10 for additional details).

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

Changes in AOCI for the three months ended March 31, 2017 and 2016 were as follows:

	Cash flow hedges	Available for sale securities	Pension and postretirement benefit plans	Foreign currency adjustments	Total
Balance at January 1, 2017	\$(1,485)	\$ 120	\$(787,813)	\$(150,955)	\$(940,133)
Other comprehensive income (loss) before reclassifications (a)	216	516	(1,482)	19,915	19,165
Reclassifications into earnings (a), (b)	360	69	6,708	—	7,137
Net other comprehensive income	576	585	5,226	19,915	26,302
Balance at March 31, 2017	\$(909)	\$ 705	\$(782,587)	\$(131,040)	\$(913,831)
	Cash flow hedges	Available for sale securities	Pension and postretirement benefit plans	Foreign currency adjustments	Total
Balance at January 1, 2016	\$(3,912)	\$ 536	\$(738,768)	\$(146,491)	\$(888,635)
Other comprehensive (loss) income before reclassifications (a)	(432)	3,465	(1,230)	39,849	41,652
Reclassifications into earnings (a), (b)	404	(11)	6,748	—	7,141
Net other comprehensive (loss) income	(28)	3,454	5,518	39,849	48,793
Balance at March 31, 2016	\$(3,940)	\$ 3,990	\$(733,250)	\$(106,642)	\$(839,842)

(a) Amounts are net of tax. Amounts in parentheses indicate debits to AOCI.

(b) See table above for additional details of these reclassifications.

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations
 Forward-Looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) contains statements that are forward-looking. We want to caution readers that any forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 may change based on various factors. These forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties and actual results could differ materially. Words such as "estimate," "target," "project," "plan," "believe," "expect," "anticipate," "intend" and similar expressions may identify such forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Factors which could cause future financial performance to differ materially from the expectations as expressed in any forward-looking statement made by or on our behalf include, without limitation:

- declining physical mail volumes
- competitive factors, including pricing pressures, technological developments, introduction of new products and services by competitors and fuel prices
- our ability to fully utilize the new enterprise business platform in North America and successfully implement it internationally without significant disruption to existing operations
- our success in developing new products and services, including digital-based products and services, obtaining regulatory approval if required, and the market's acceptance of these new products and services
- the success of our investment in rebranding the company to build market awareness and to create new demand for our products, services and solutions
- changes in postal or banking regulations
- macroeconomic factors, including global and regional business conditions that adversely impact customer demand, foreign currency exchange rates, interest rates and labor conditions
- capital market disruptions or credit rating downgrades that adversely impact our ability to access capital markets at reasonable costs
- the continued availability and security of key information systems and the cost to comply with information security requirements and privacy laws
- a breach of security, including a cyberattack or other comparable event
- third-party suppliers' ability to provide product components, assemblies or inventories
- our success at managing the relationships with our outsource providers, including the costs of outsourcing functions and operations not central to our business
- the loss of some of our larger clients in the Global Ecommerce segment
- integrating newly acquired businesses including operations and product and service offerings
- intellectual property infringement claims
- our success at managing customer credit risk
 - significant changes in pension, health care and retiree medical costs
- income tax adjustments or other regulatory levies for prior audit years and changes in tax laws, rulings or regulations
- a disruption of our businesses due to changes in international or national political conditions, including the use of the mail for transmitting harmful biological agents or other terrorist attacks
- acts of nature

Overview

Revenue - First Quarter 2017 compared to First Quarter 2016

Revenue for the first quarter of 2017 decreased less than 1% to \$837 million compared to \$845 million in the first quarter of 2016 and increased slightly on a constant currency basis.

Business services revenue grew 9% and equipment sales increased 2%. Financing revenue declined 12%, support services revenue declined 7%, supplies revenue declined 7% and rentals revenue declined 4%. Software revenue was flat.

Small & Medium Business Solutions (SMB) revenue decreased 6% primarily due to lower recurring revenue streams. Revenue declined 11%, 7% on a constant currency basis, in International Mailing and 4% in North America Mailing.

In North America, we continue to offer new products and digital capabilities, which resulted in an increase in equipment sales during the quarter, and our North America Mailing web channel experienced growth in the quarter. Enterprise Business Solutions revenue increased 3%, driven by a 4% increase in Presort Services and a 2% increase in Production Mail, 3% on a constant currency basis. During the quarter, we expanded our Presort Services network. Digital Commerce Solutions (DCS) revenue increased 9%, driven by a 17% increase in Global Ecommerce revenue, 20% on a constant currency basis. During the quarter, we continued to build our partner channels in Software Solutions, which contributed to revenue growth. In Global Ecommerce, we continued to add retailers to our cross-border platform and invest in market growth opportunities and innovation.

Net Income

Net income was \$65 million for the first quarter of 2017 compared to \$63 million in the first quarter of 2016. The increase was primarily due to benefits from our cost reduction initiatives and new enterprise business platform and a lower effective tax rate. Net income was negatively impacted by lower stream revenue and higher research and development costs as we continue to invest in strategic areas. Additionally, the first quarter of 2016 included a \$10 million benefit associated with the forgiveness of a loan by the State of Connecticut.

Cash Flows

Cash flows from operations in the first quarter of 2017 was \$154 million compared to \$63 million in first quarter of 2016. The increase was primarily driven by the timing of accounts payable and lower variable compensation payments in the first quarter of 2017 compared to the first quarter of 2016. During the quarter we also used cash to:

- Reduce debt by \$79 million;
- Pay dividends of \$35 million to our common stockholders; and
- Invest \$36 million on capital expenditures.

Outlook

We expect that the introduction of new products and digital capabilities, the implementation of our new enterprise business platform, incremental marketing programs, our prior restructuring actions and cost savings initiatives will provide long-term benefits. These benefits will be offset, in part, by a normalization of variable compensation and higher marketing and research and development expenses in 2017.

Within SMB Solutions, we anticipate that the introduction of new solutions and services, particularly those included in the Pitney Bowes Commerce Cloud, including our SendPro solution, will help further stabilize revenue over the long-term.

Within Enterprise Business Solutions, we anticipate revenue and profitability growth in Presort Services due to network expansion. We expect that Production Mail revenue growth will be challenged by consolidation and outsourcing pressures on services revenue and the timing of deals.

Within DCS, we continue to build our partner channel in Software Solutions by adding new regional systems integrators and location intelligence partners. We continue to invest in expanding the indirect channel and training partner sales and technical resources. Although it takes time for a partner program to add significantly to our revenue, this channel is already starting to contribute to revenue growth. We continue to focus on improving direct sales effectiveness to grow the license revenue pipeline. We have made changes to the sales organization structure to expedite this improvement. We anticipate continued growth in our ecommerce business resulting from expansion of

our existing marketplace sites (sites where multiple sellers provide their offerings), individual retail clients, new client acquisition and expanded service offerings. We also will continue to invest in our retail and ecommerce shipping business. A strong U.S. dollar could continue to affect demand for U.S. goods sold to customers in other countries, but such an impact could continue to be mitigated by the positive effects of a weakened British Pound on sales of U.K. goods to customers in other countries. We continue to expand and globalize our cross-border ecommerce offerings, including the successful launch of our cross-border platform for Australian retail clients, which diversifies the business and helps to mitigate foreign currency risk.

RESULTS OF OPERATIONS

Revenue by source and the related cost of revenue are shown in the following tables:

	Three Months Ended March 31,		Actual		Constant	
	2017	2016	%	change	Currency	% change
Equipment sales	\$162,974	\$159,361	2	%	3	%
Supplies	66,818	72,051	(7)	%	(6)	%
Software	77,867	78,058	—	%	2	%
Rentals	99,870	104,090	(4)	%	(4)	%
Financing	85,745	97,423	(12)	%	(11)	%
Support services	118,847	128,260	(7)	%	(6)	%
Business services	224,519	205,346	9	%	10	%
Total revenue	\$836,640	\$844,589	(1)	%	—	%

	Three Months Ended March 31,		Percentage of	
	2017	2016	2017	2016
Cost of equipment sales	\$69,562	\$71,539	42.7%	44.9%
Cost of supplies	21,471	20,690	32.1%	28.7%
Cost of software	25,308	26,815	32.5%	34.4%
Cost of rentals	20,662	20,495	20.7%	19.7%
Financing interest expense	12,974	14,915	15.1%	15.3%
Cost of support services	73,354	75,249	61.7%	58.7%
Cost of business services	150,843	135,538	67.2%	66.0%
Total cost of revenue	\$374,174	\$365,241	44.7%	43.2%

The discussion below refers to revenue growth on a constant currency basis to exclude the impact of changes in foreign currency exchange rates since the prior period under comparison. We believe that the use of a constant currency revenue measure provides a better understanding of the underlying revenue performance of the businesses. Constant currency is calculated by converting our current period reported revenue at the prior year's exchange rates. Revenue and Cost of Revenues - 2017 compared to 2016

Equipment sales

Equipment sales revenue increased 2% in the quarter. On a constant currency basis, equipment sales increased 3%, primarily due to:

- 3% from higher inserter and sorter placements in Production Mail;
- 3% from higher equipment sales in North America Mailing; partially offset by
- 2% from a decline in equipment sales in International Mailing.

Cost of equipment sales as a percentage of equipment sales decreased to 42.7% in the quarter primarily due to additional sales of higher margin equipment in Production Mail and improved equipment sales margins in International Mailing due to cost savings initiatives.

Supplies

Supplies revenue decreased 7% in the quarter. On a constant currency basis, supplies revenue decreased 6% primarily due to:

- 7% from North America mailing primarily due to a decline in installed mailing equipment and postage volumes; partially offset by
- 1% from higher supplies revenue in Production Mail.

Cost of supplies as a percentage of supplies revenue increased to 32.1% in the quarter due to higher mix of low margin products.

Software

Software revenue was flat in the quarter. On a constant currency basis revenue increased 2% primarily due to: 2% from increased licensing revenue, particularly Customer Information Management license revenues, reflecting progress in developing the indirect channel and traction with new offerings; and 2% from increases in data and software as a service (SaaS) revenue; partially offset by 1% from a decline in maintenance revenue.

Cost of software as a percentage of software revenue decreased to 32.5% for the quarter due to savings from cost reduction initiatives.

Rentals

Rentals revenue decreased 4% for the quarter primarily due to a declining meter population. Cost of rentals as a percentage of rentals revenue increased to 20.7% for the quarter primarily due to higher costs associated with retiring aging meters.

Financing

Financing revenue decreased 12% in the quarter. On a constant currency basis, financing revenue decreased 11% primarily due to a decline in the portfolio and lower fees.

We allocate a portion of our total cost of borrowing to financing interest expense. In computing financing interest expense, we assume an 8:1 debt to equity leverage ratio and apply our overall effective interest rate to the average outstanding finance receivables.

Financing interest expense as a percentage of financing revenue decreased to 15.1% for the quarter primarily due to a lower average outstanding finance receivables balance.

Support Services

Support services revenue decreased 7% in the quarter. On a constant currency basis, support services revenue decreased 6% primarily due to:

4% from a decline in installed mailing equipment worldwide; and 2% from lower maintenance revenue on production mail equipment as some in-house mailers moved their mail processing to third-party service bureaus who service some of their own equipment.

Cost of support services as a percentage of support services revenue increased to 61.7% for the quarter primarily due to lower maintenance revenue without corresponding cost reduction.

Business Services

Business services revenue increased 9% in the quarter. On a constant currency basis, business services revenue increased 10% primarily due to:

7% from the growth in Global Ecommerce due to higher cross-border and retail volumes; and 3% from higher revenue in Presort Services from higher volumes.

Cost of business services as a percentage of business services revenue increased to 67.2% primarily due to higher costs in our Global Ecommerce business as we continue to invest in the business.

Selling, general and administrative (SG&A)

SG&A expense decreased 6% in the quarter to \$306 million primarily due to \$11 million of benefits related to our enterprise business platform, \$3 million lower marketing expenses due to timing and the benefits of our cost-saving initiatives. Additionally, the first quarter of 2016 included a \$10 million benefit associated with the forgiveness of a loan by the State of Connecticut.

Research and Development (R&D)

R&D expense increased 20% in the quarter to \$32 million primarily due to additional investments in strategic innovation, particularly in our Digital Commerce Solutions segment, primarily Global Ecommerce.

Income taxes

See Note 11 to the Condensed Consolidated Financial Statements.

Business segment results - 2017 compared to 2016

The principal products and services of each of our reportable segments are as follows:

Small & Medium Business Solutions:

North America Mailing: Includes the revenue and related expenses from mailing and office shipping solutions, financing services, and supplies for small and medium businesses to efficiently create physical and digital mail, evidence postage and help simplify and save on the sending, tracking and receiving of letters, parcels and flats in the U.S. and Canada.

International Mailing: Includes the revenue and related expenses from mailing and office shipping solutions, financing services, and supplies for small and medium businesses to efficiently create physical and digital mail, evidence postage and help simplify and save on the sending, tracking and receiving of letters, parcels and flats in areas outside the U.S. and Canada.

Enterprise Business Solutions:

Production Mail: Includes the worldwide revenue and related expenses from the sale of production mail inserting and sortation equipment, high-speed production print systems, supplies and related support services to large enterprise clients to process inbound and outbound mail.

Presort Services: Includes revenue and related expenses from presort mail and parcel services for our large enterprise clients to qualify large mail volumes for postal worksharing discounts.

Digital Commerce Solutions:

Software Solutions: Includes the worldwide revenue and related expenses from the licensing of customer engagement, customer information and location intelligence software solutions and related support services.

Global Ecommerce: Includes the worldwide revenue and related expenses from cross-border ecommerce transactions and domestic retail and ecommerce shipping solutions.

We determine EBIT by deducting from segment revenue the related costs and expenses attributable to the segment. Segment EBIT excludes interest, taxes, general corporate expenses and restructuring charges that are not allocated to a particular business segment. Management uses segment EBIT to measure profitability and performance at the segment level. Management believes segment EBIT provides a useful measure to our operating performance and underlying trends of the businesses. Segment EBIT may not be indicative of our overall consolidated performance and therefore, should be read in conjunction with our consolidated results of operations. See Note 2 to the Condensed Consolidated Financial Statements for a reconciliation of segment EBIT to net income.

Revenue and EBIT for the three months ended March 31, 2017 and 2016 by reportable segment are presented below:

	Revenue		Three Months Ended March 31,			
	2017	2016	Actual %	Constant Currency change	Actual %	Constant Currency change
North America Mailing	\$355,578	\$371,453	(4)%	(4)%	(4)%	(4)%
International Mailing	93,058	104,986	(11)%	(7)%	(11)%	(7)%
Small & Medium Business Solutions	448,636	476,439	(6)%	(5)%	(6)%	(5)%
Production Mail	88,955	87,425	2 %	3 %	2 %	3 %
Presort Services	132,677	127,396	4 %	4 %	4 %	4 %
Enterprise Business Solutions	221,632	214,821	3 %	4 %	3 %	4 %
Software Solutions	78,220	77,922	— %	3 %	— %	3 %
Global Ecommerce	88,152	75,407	17 %	20 %	17 %	20 %

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Digital Commerce Solutions	166,372	153,329	9	%	11	%
Total	\$836,640	\$844,589	(1))%	—	%

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	EBIT		
	Three Months Ended March 31,		
	2017	2016	% change
North America Mailing	\$141,008	\$160,831	(12)%
International Mailing	13,269	11,176	19 %
Small & Medium Business Solutions	154,277	172,007	(10)%
Production Mail	8,964	6,824	31 %
Presort Services	30,717	28,910	6 %
Enterprise Business Solutions	39,681	35,734	11 %
Software Solutions	2,749	(2,572)	>100%
Global Ecommerce	(4,270)	(3,469)	(23)%
Digital Commerce Solutions	(1,521)	(6,041)	75 %
Total	\$192,437	\$201,700	(5)%

Small & Medium Business Solutions

North America Mailing

North America Mailing revenue decreased 4% in the quarter primarily due to:

3% from lower financing revenue primarily due to a decline in the lease portfolio and lower fees; and 2% from declines in supplies and support services revenue due to a decline in installed mailing equipment and lower postage volumes; partially offset by 1% from an increase in equipment sales, reflecting our investments in digital capabilities and additional sales of new products.

EBIT decreased 12% in the quarter compared to the prior year, primarily due to the decline in higher margin recurring revenue streams.

International Mailing

International Mailing revenue decreased 11% in the quarter. On a constant currency basis, revenue decreased 7% primarily due to:

4% from lower equipment sales; and 3% from declines in rental, financing and support services revenue resulting from a decline in installed mailing equipment and the lease portfolio.

EBIT increased 19% in the quarter, primarily due to improved equipment sales margins and lower expenses.

Enterprise Business Solutions

Production Mail

Production Mail revenue increased 2% in the quarter. On a constant currency basis, revenue increased 3% primarily due to:

6% from higher equipment sales due to higher inserter and sorter placements; partially offset by 3% due to lower support services revenue as a result of some in-house mailers shifting their mail processing to third-party outsourcers.

EBIT increased 31% in the quarter, primarily due to higher sales of high margin inserting equipment and lower operating expenses.

Presort Services

Presort Services revenue increased 4% in the quarter primarily due to the higher volumes of Standard Class and First Class mail.

EBIT increased 6% in the quarter primarily due to higher revenue and improved margins.

Digital Commerce Solutions

Software Solutions

Software Solutions revenue increased less than 1% for the quarter. On a constant currency basis, revenue increased 3% primarily due to:

• 2% from increased licensing revenue, particularly Customer Information Management license revenues, reflecting progress in developing the indirect channel and traction with new offerings; and

2% from increases in data and software as a service (SaaS) revenue; partially offset by

1% from a decline in maintenance revenue.

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EBIT increased to \$3 million for the quarter from a loss of \$3 million in the prior year primarily due to improved gross margin and savings from cost reduction initiatives.

Global Ecommerce

Global Ecommerce revenue increased 17% in the quarter. On a constant currency basis, revenue increased 20% primarily due to:

9% from higher volumes in our cross-border marketplace, particularly in the U.K.;

6% from higher ecommerce shipping revenues; and

4% from higher retail volumes.

EBIT loss increased 23% to \$4 million in the quarter as we continue to invest in the business. EBIT loss also includes \$4 million of amortization expense in both 2017 and 2016.

LIQUIDITY AND CAPITAL RESOURCES

We believe that existing cash and investments, cash generated from operations and borrowing capacity under our commercial paper program will be sufficient to support our current cash needs, including discretionary uses such as capital investments, dividends, strategic acquisitions and share repurchases. Cash and cash equivalents and short-term investments were \$783 million at March 31, 2017 and \$803 million at December 31, 2016. We continuously review our credit profile through published credit ratings and the credit default swap market. We also monitor the creditworthiness of those banks acting as derivative counterparties, depository banks or credit providers.

Cash and cash equivalents held by our foreign subsidiaries were \$524 million at March 31, 2017 and \$475 million at December 31, 2016. Cash and cash equivalents held by our foreign subsidiaries are generally used to support the liquidity needs of these subsidiaries. Most of these amounts could be repatriated to the U.S. but would be subject to additional taxes. Repatriation of some foreign balances is restricted by local laws.

Cash Flow Summary

Changes in cash and cash equivalents for the three months ended March 31, 2017 and 2016 were as follows:

	2017	2016	Change
Net cash provided by operating activities	\$154,006	\$63,493	\$90,513
Net cash used in investing activities	(68,870)	(60,532)	(8,338)
Net cash used in financing activities	(119,503)	(60,825)	(58,678)
Effect of exchange rate changes on cash and cash equivalents	9,398	19,906	(10,508)
Change in cash and cash equivalents	\$(24,969)	\$(37,958)	\$12,989

Cash flows from operations increased \$91 million, primarily due to:

Lower variable compensation payments in 2017 attributable to 2016 performance;

Timing of payments associated with the launch of our enterprise business platform and advertising campaign in 2016;

Lower interest and tax payments; and

A special U.K. pension contribution of \$37 million made in 2016.

Cash flows used in investing activities increased by \$8 million, primarily due to:

Change in investment activities reduced cash by \$19 million; partially offset by

Lower acquisition spending of \$5 million; and

Lower capital expenditures of \$5 million.

Cash flows used in financing activities increased by \$59 million, primarily due to:

Lower cash from debt activities of \$188 million as we repaid \$79 million of debt in 2017 compared to borrowing a net \$109 million in 2016; partially offset by

\$128 million of share repurchases in 2016.

Financings and Capitalization

We are a "Well-Known Seasoned Issuer" within the meaning of Rule 405 under the Securities Act, which allows us to issue debt securities, preferred stock, preference stock, common stock, purchase contracts, depositary shares, warrants and units in an expedited fashion. We have a commercial paper program that is an important source of liquidity for us and a committed credit facility of \$1 billion to support our commercial paper issuances. The credit facility expires in January 2020. We have not drawn upon the credit facility.

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At March 31, 2017, there were no outstanding commercial paper borrowings. As of March 31, 2016 there was \$270 million of outstanding commercial paper borrowings with an effective interest rate of 1.13%.

In January 2017, bondholders of the 5.25% Notes due 2037 caused us to redeem \$79 million of the debt outstanding.

Dividends and Share Repurchases

During the three months ended March 31, 2017, we paid dividends to our stockholders of \$35 million. Each quarter, our Board of Directors considers our recent and projected earnings and other capital needs and priorities in deciding whether to approve the payment, as well as the amount, of a dividend. There are no material restrictions on our ability to declare dividends.

We did not repurchase any of our common shares during the first quarter of 2017.

Off-Balance Sheet Arrangements

At March 31, 2017, we had no off-balance sheet arrangements that have, or are reasonably likely to have, a material current or future effect on our financial condition, results of operations or liquidity.

Critical Accounting Estimates

Finance Receivables and Allowance for Credit Losses

Finance receivables are composed of sales-type lease receivables and unsecured revolving loan receivables. We provide an allowance for probable credit losses based on historical loss experience, the nature and volume of our portfolios, adverse situations that may affect a client's ability to pay, prevailing economic conditions and our ability to manage the collateral. At March 31, 2017 gross finance receivables aged greater than 90 days have grown since the implementation of our enterprise business platform in the second quarter of 2016. We believe the majority of the increased delinquency is administrative in nature and the result of a change in our billing format and process under our new enterprise business platform. The billing format under the platform is different and we are continuing to work with clients to reconcile amounts billed under the new format and thus such clients have not made payments. These accounts are considered delinquent in our analysis, but we continue to expect that payment in full will be received. The aging as disclosed in Note 5 of the condensed consolidated financial statements represents full contract value while only a small portion (approximately 30%) has been billed and recognized in income as of March 31, 2017. As of March 31, 2017, we had North America sales-type lease receivables aged greater than 90 days with a contract value of \$69 million. As of April 28, 2017, we received payments with a contract value of approximately \$26 million related to these receivables.

The quality of the portfolio has not changed. Our loan portfolio delinquency has remained fairly constant when compared to loan delinquency in our legacy platform and there has been no significant changes in customers within the portfolio. Also, we use a third party to credit score our lease and loan portfolios. The credit quality of our portfolio as determined by this third party has shown no signs of deterioration suggesting that the increase in delinquency is not a result of our customer's ability to pay, but instead is a result of changes to invoice format and presentation.

Accordingly, we do not believe that an increase in the allowance for credit losses as a result of the increase in delinquencies is necessary.

Regulatory Matters

There have been no significant changes to the regulatory matters disclosed in our 2016 Annual Report.

Item 3: Quantitative and Qualitative Disclosures about Market Risk

There were no material changes to the disclosures made in the 2016 Annual Report.

Item 4: Controls and Procedures

Disclosure controls and procedures are designed to reasonably assure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934, as amended (Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures are also designed to reasonably assure that such information is accumulated and communicated to management, including our Chief Executive Officer (CEO) and Chief Financial

Officer (CFO), as appropriate to allow timely decisions regarding required disclosure.

Under the direction of our CEO and CFO, we evaluated our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act) and internal control over financial reporting. Our CEO and CFO concluded that, as of the end of the period covered by this report, such disclosure controls and procedures were effective to ensure that information we are required to disclose in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Exchange Act. In addition, no changes in internal control over financial reporting occurred during the fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially affect, such internal control over financial reporting. It should be noted that any system of controls is based in part upon certain assumptions designed to obtain reasonable (and not absolute) assurance as to its effectiveness, and there can be no assurance that any design will succeed in achieving its stated goals. Notwithstanding this caution, the CEO and CFO have reasonable assurance that the disclosure controls and procedures were effective as of March 31, 2017.

PART II. OTHER INFORMATION

Item 1: Legal Proceedings

See Note 12 to the Condensed Consolidated Financial Statements.

Item 1A: Risk Factors

There were no material changes to the risk factors identified in our 2016 Annual Report.

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

Repurchases of Equity Securities

We periodically repurchase shares of our common stock to manage the dilution created by shares issued under employee stock plans and for other purposes in the open market. The following table provides information about our purchases of our common stock during the three months ended March 31, 2017:

	Total Number of shares purchased	Average price paid per share	Total Number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may be purchased under the plans or programs (in thousands)
Beginning balance				21,022
January 1, 2017 - January 31, 2017	—	—	—	21,022
February 1, 2017 - February 28, 2017	—	—	—	21,022
March 1, 2017 - March 31, 2017	—	—	—	21,022
	—	—	—	

Item 6: Exhibits

Exhibit Number	Description	Exhibit Number in this Form 10-Q
12	Computation of ratio of earnings to fixed charges	12
31.1	Certification of Chief Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended	31.1
31.2	Certification of Chief Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended	31.2
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350	32.1
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350	32.2
101.INS	XBRL Report Instance Document	
101.SCH	XBRL Taxonomy Extension Schema Document	
101.CAL	XBRL Taxonomy Calculation Linkbase Document	
101.DEF	XBRL Taxonomy Definition Linkbase Document	
101.LAB	XBRL Taxonomy Label Linkbase Document	
101.PRE	XBRL Taxonomy Presentation Linkbase Document	

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Signatures

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

PITNEY BOWES INC.

Date: May 2, 2017

/s/ Stanley J. Sutula III

Stanley J. Sutula III
Executive Vice President and Chief Financial Officer (Principal Financial Officer)

/s/ Steven J. Green

Steven J. Green
Vice President – Finance and Chief Accounting Officer
(Principal Accounting Officer)

Exhibit Index

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