

PITNEY BOWES INC /DE/  
Form 10-Q  
May 05, 2010

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, 2010**

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**

(State or other jurisdiction of incorporation or organization)

**06-0495050**

(I.R.S. Employer Identification No.)

**1 Elmcroft Road, Stamford, Connecticut**

(Address of principal executive offices)

**06926-0700**

(Zip Code)

**(203) 356-5000**

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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.

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Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐

No ☐

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of April 29, 2010.

| Class                                 | Outstanding        |
|---------------------------------------|--------------------|
| Common Stock, \$1 par value per share | 207,528,336 shares |

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**PITNEY BOWES INC.  
INDEX**

Page Number

**Part I - Financial Information:**

|                                            |                                                                                                             |    |
|--------------------------------------------|-------------------------------------------------------------------------------------------------------------|----|
| <u>Item 1:</u>                             | <u>Financial Statements (Unaudited)</u>                                                                     |    |
|                                            | <u>Condensed Consolidated Statements of Income</u><br><u>Three Months Ended March 31, 2010 and 2009</u>     | 3  |
|                                            | <u>Condensed Consolidated Balance Sheets</u><br><u>March 31, 2010 and December 31, 2009</u>                 | 4  |
|                                            | <u>Condensed Consolidated Statements of Cash Flows</u><br><u>Three Months Ended March 31, 2010 and 2009</u> | 5  |
|                                            | <u>Notes to Condensed Consolidated Financial Statements</u>                                                 | 6  |
| <u>Item 2:</u>                             | <u>Management's Discussion and Analysis of Financial Condition</u><br><u>and Results of Operations</u>      | 22 |
| <u>Item 3:</u>                             | <u>Quantitative and Qualitative Disclosures about Market Risk</u>                                           | 28 |
| <u>Item 4:</u>                             | <u>Controls and Procedures</u>                                                                              | 28 |
| <b><u>Part II - Other Information:</u></b> |                                                                                                             |    |
| <u>Item 1:</u>                             | <u>Legal Proceedings</u>                                                                                    | 28 |
| <u>Item 1A:</u>                            | <u>Risk Factors</u>                                                                                         | 29 |
| <u>Item 2:</u>                             | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                                          | 29 |
| <u>Item 3:</u>                             | <u>Defaults Upon Senior Securities</u>                                                                      | 29 |
| <u>Item 4:</u>                             | <u>Submission of Matters to a Vote of Security Holders</u>                                                  | 29 |
| <u>Item 5:</u>                             | <u>Other Information</u>                                                                                    | 29 |
| <u>Item 6:</u>                             | <u>Exhibits</u>                                                                                             | 29 |
| <u>Signatures</u>                          |                                                                                                             | 30 |

**PART I. FINANCIAL INFORMATION****Item 1: Financial Statements**

**PITNEY BOWES INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
(Unaudited; in thousands, except per share data)

|                                                                                                 | <b>Three Months Ended March 31,</b> |                   |
|-------------------------------------------------------------------------------------------------|-------------------------------------|-------------------|
|                                                                                                 | <b>2010</b>                         | <b>2009</b>       |
| Revenue:                                                                                        |                                     |                   |
| Equipment sales                                                                                 | \$ 239,936                          | \$ 231,825        |
| Supplies                                                                                        | 85,277                              | 88,029            |
| Software                                                                                        | 83,129                              | 79,726            |
| Rentals                                                                                         | 155,437                             | 168,130           |
| Financing                                                                                       | 162,775                             | 182,798           |
| Support services                                                                                | 180,034                             | 174,347           |
| Business services                                                                               | 441,645                             | 454,729           |
| <b>Total revenue</b>                                                                            | <b>1,348,233</b>                    | <b>1,379,584</b>  |
| Costs and expenses:                                                                             |                                     |                   |
| Cost of equipment sales                                                                         | 106,402                             | 104,064           |
| Cost of supplies                                                                                | 25,365                              | 23,341            |
| Cost of software                                                                                | 20,591                              | 19,497            |
| Cost of rentals                                                                                 | 37,071                              | 35,851            |
| Financing interest expense                                                                      | 21,938                              | 24,452            |
| Cost of support services                                                                        | 114,606                             | 117,347           |
| Cost of business services                                                                       | 330,472                             | 353,044           |
| Selling, general and administrative                                                             | 443,297                             | 450,391           |
| Research and development                                                                        | 40,865                              | 46,949            |
| Restructuring charges and asset impairments                                                     | 20,722                              | -                 |
| Other interest expense                                                                          | 27,658                              | 27,751            |
| Interest income                                                                                 | (762)                               | (1,552)           |
| <b>Total costs and expenses</b>                                                                 | <b>1,188,225</b>                    | <b>1,201,135</b>  |
| <b>Income from continuing operations before income taxes</b>                                    | <b>160,008</b>                      | <b>178,449</b>    |
| <b>Provision for income taxes</b>                                                               | <b>73,245</b>                       | <b>72,149</b>     |
| <b>Income from continuing operations</b>                                                        | <b>86,763</b>                       | <b>106,300</b>    |
| <b>(Loss) gain from discontinued operations, net of income tax</b>                              | <b>(3,130)</b>                      | <b>2,623</b>      |
| <b>Net income before attribution of noncontrolling interests</b>                                | <b>83,633</b>                       | <b>108,923</b>    |
| <b>Less: Preferred stock dividends of subsidiaries attributable to noncontrolling interests</b> | <b>4,594</b>                        | <b>4,521</b>      |
| <b>Pitney Bowes Inc. net income</b>                                                             | <b>\$ 79,039</b>                    | <b>\$ 104,402</b> |

Amounts attributable to Pitney Bowes Inc. common stockholders:

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|                                          |    |                |    |         |
|------------------------------------------|----|----------------|----|---------|
| Income from continuing operations        | \$ | <b>82,169</b>  | \$ | 101,779 |
| (Loss) gain from discontinued operations |    | <b>(3,130)</b> |    | 2,623   |

|                              |    |               |    |         |
|------------------------------|----|---------------|----|---------|
| Pitney Bowes Inc. net income | \$ | <b>79,039</b> | \$ | 104,402 |
|------------------------------|----|---------------|----|---------|

|                                                                                                     |    |               |    |      |
|-----------------------------------------------------------------------------------------------------|----|---------------|----|------|
| Basic earnings per share of common stock attributable to Pitney Bowes Inc. common stockholders (1): |    |               |    |      |
| Continuing operations                                                                               | \$ | <b>0.40</b>   | \$ | 0.49 |
| Discontinued operations                                                                             |    | <b>(0.02)</b> |    | 0.01 |

|            |    |             |    |      |
|------------|----|-------------|----|------|
| Net income | \$ | <b>0.38</b> | \$ | 0.51 |
|------------|----|-------------|----|------|

|                                                                                                   |    |               |    |      |
|---------------------------------------------------------------------------------------------------|----|---------------|----|------|
| Diluted earnings per share of common stock attributable to Pitney Bowes Inc. common stockholders: |    |               |    |      |
| Continuing operations                                                                             | \$ | <b>0.40</b>   | \$ | 0.49 |
| Discontinued operations                                                                           |    | <b>(0.02)</b> |    | 0.01 |

|            |    |             |    |      |
|------------|----|-------------|----|------|
| Net income | \$ | <b>0.38</b> | \$ | 0.50 |
|------------|----|-------------|----|------|

|                                              |    |              |    |      |
|----------------------------------------------|----|--------------|----|------|
| Dividends declared per share of common stock | \$ | <b>0.365</b> | \$ | 0.36 |
|----------------------------------------------|----|--------------|----|------|

(1) The sum of the earnings per share amounts may not equal the totals above due to rounding.

*See Notes to Condensed Consolidated Financial Statements*

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

|                                                                                | March 31,<br>2010 | December 31,<br>2009 |
|--------------------------------------------------------------------------------|-------------------|----------------------|
| <b>ASSETS</b>                                                                  |                   |                      |
| Current assets:                                                                |                   |                      |
| Cash and cash equivalents                                                      | \$ 476,940        | \$ 412,737           |
| Short-term investments                                                         | 19,211            | 14,682               |
| Accounts receivables, gross                                                    | 804,929           | 859,633              |
| Allowance for doubtful accounts receivables                                    | (39,491)          | (42,781)             |
| Accounts receivables, net                                                      | 765,438           | 816,852              |
| Finance receivables                                                            | 1,380,606         | 1,417,708            |
| Allowance for credit losses                                                    | (44,578)          | (46,790)             |
| Finance receivables, net                                                       | 1,336,028         | 1,370,918            |
| Inventories                                                                    | 162,070           | 156,502              |
| Current income taxes                                                           | 82,095            | 101,248              |
| Other current assets and prepayments                                           | 101,014           | 98,297               |
| Total current assets                                                           | 2,942,796         | 2,971,236            |
| Property, plant and equipment, net                                             | 488,245           | 514,904              |
| Rental property and equipment, net                                             | 344,363           | 360,207              |
| Finance receivables                                                            | 1,331,847         | 1,380,810            |
| Allowance for credit losses                                                    | (24,177)          | (25,368)             |
| Finance receivables, net                                                       | 1,307,670         | 1,355,442            |
| Investment in leveraged leases                                                 | 242,666           | 233,359              |
| Goodwill                                                                       | 2,254,115         | 2,286,904            |
| Intangible assets, net                                                         | 294,014           | 316,417              |
| Non-current income taxes                                                       | 108,023           | 108,260              |
| Other assets                                                                   | 386,457           | 387,182              |
| Total assets                                                                   | \$ 8,368,349      | \$ 8,533,911         |
| <b>LIABILITIES, NONCONTROLLING INTERESTS AND STOCKHOLDERS (DEFICIT) EQUITY</b> |                   |                      |
| Current liabilities:                                                           |                   |                      |
| Accounts payable and accrued liabilities                                       | \$ 1,661,467      | \$ 1,748,254         |
| Current income taxes                                                           | 155,871           | 144,385              |
| Notes payable and current portion of long-term obligations                     | 103,533           | 226,022              |
| Advance billings                                                               | 482,849           | 447,786              |
| Total current liabilities                                                      | 2,403,720         | 2,566,447            |
| Deferred taxes on income                                                       | 313,991           | 293,459              |
| Tax uncertainties and other income tax liabilities                             | 533,775           | 525,253              |
| Long-term debt                                                                 | 4,215,728         | 4,213,640            |
| Other non-current liabilities                                                  | 610,424           | 625,079              |

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|                                                                                        |              |              |
|----------------------------------------------------------------------------------------|--------------|--------------|
| Total liabilities                                                                      | 8,077,638    | 8,223,878    |
| Noncontrolling interests (Preferred stockholders' equity in subsidiaries)              | 296,370      | 296,370      |
| Commitments and contingencies (See Note 17)                                            |              |              |
| Stockholders' (deficit) equity:                                                        |              |              |
| Cumulative preferred stock, \$50 par value, 4% convertible                             | 4            | 4            |
| Cumulative preference stock, no par value, \$2.12 convertible                          | 841          | 868          |
| Common stock, \$1 par value (480,000,000 shares authorized; 323,337,912 shares issued) | 323,338      | 323,338      |
| Additional paid-in capital                                                             | 246,922      | 256,133      |
| Retained earnings                                                                      | 4,309,185    | 4,305,794    |
| Accumulated other comprehensive loss                                                   | (483,232)    | (457,378)    |
| Treasury stock, at cost (116,004,935 and 116,140,084 shares, respectively)             | (4,402,717)  | (4,415,096)  |
| Total Pitney Bowes Inc. stockholders' (deficit) equity                                 | (5,659)      | 13,663       |
| Total liabilities, noncontrolling interests and stockholders' (deficit) equity         | \$ 8,368,349 | \$ 8,533,911 |

*See Notes to Condensed Consolidated Financial Statements*

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

|                                                                                   | Three Months Ended March<br>31, |            |
|-----------------------------------------------------------------------------------|---------------------------------|------------|
|                                                                                   | 2010                            | 2009       |
| Cash flows from operating activities:                                             |                                 |            |
| Net income before attribution of noncontrolling interests                         | \$ 83,633                       | \$ 108,923 |
| Restructuring charges, net of tax                                                 | 13,527                          | -          |
| Restructuring payments                                                            | (27,720)                        | (32,701)   |
| Payments for settlement of derivative instruments                                 | -                               | (20,281)   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |            |
| Depreciation and amortization                                                     | 79,701                          | 87,386     |
| Stock-based compensation                                                          | 5,055                           | 5,270      |
| Changes in operating assets and liabilities, excluding effects of acquisitions:   |                                 |            |
| (Increase) decrease in accounts receivables                                       | 60,369                          | 72,768     |
| (Increase) decrease in finance receivables                                        | 74,205                          | 102,248    |
| (Increase) decrease in inventories                                                | (7,152)                         | (11,499)   |
| (Increase) decrease in prepaid, deferred expense and other assets                 | (5,151)                         | (2,540)    |
| Increase (decrease) in accounts payable and accrued liabilities                   | (56,894)                        | (141,542)  |
| Increase (decrease) in current and non-current income taxes                       | 57,312                          | 58,561     |
| Increase (decrease) in advance billings                                           | 21,694                          | 44,192     |
| Increase (decrease) in other operating capital, net                               | 7,569                           | 5,686      |
| Net cash provided by operating activities                                         | 306,148                         | 276,471    |
| Cash flows from investing activities:                                             |                                 |            |
| Short-term and other investments                                                  | 242                             | 6,397      |
| Capital expenditures                                                              | (28,367)                        | (47,776)   |
| Net investment in external financing                                              | (1,400)                         | 764        |
| Reserve account deposits                                                          | (11,221)                        | (21,675)   |
| Net cash used in investing activities                                             | (40,746)                        | (62,290)   |
| Cash flows from financing activities:                                             |                                 |            |
| Decrease in notes payable, net                                                    | (121,994)                       | (384,650)  |
| Proceeds from long-term obligations                                               | -                               | 297,513    |
| Proceeds from issuance of common stock                                            | 2,992                           | 2,279      |
| Dividends paid to common stockholders                                             | (75,649)                        | (74,297)   |
| Dividends paid to noncontrolling interests                                        | (4,594)                         | (4,521)    |
| Net cash used in financing activities                                             | (199,245)                       | (163,676)  |
| Effect of exchange rate changes on cash and cash equivalents                      | (1,954)                         | (3,959)    |
| Increase in cash and cash equivalents                                             | 64,203                          | 46,546     |
| Cash and cash equivalents at beginning of period                                  | 412,737                         | 376,671    |
| Cash and cash equivalents at end of period                                        | \$ 476,940                      | \$ 423,217 |

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|                             |    |        |    |        |
|-----------------------------|----|--------|----|--------|
| Cash interest paid          | \$ | 72,788 | \$ | 72,749 |
| Cash income taxes paid, net | \$ | 24,820 | \$ | 9,374  |

*See Notes to Condensed Consolidated Financial Statements*

**PITNEY BOWES INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited; tabular dollars in thousands, except for per share data)**

### ***1. Basis of Presentation***

The terms *we*, *us*, and *our* are used in this report to refer collectively to Pitney Bowes Inc. and its subsidiaries.

The accompanying unaudited Condensed Consolidated Financial Statements of Pitney Bowes Inc. 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, 2009 Condensed Consolidated Balance Sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. In our opinion, all adjustments (consisting of only normal recurring adjustments) considered necessary to present fairly our financial position at March 31, 2010 and December 31, 2009, our results of operations for the three months ended March 31, 2010 and 2009 and our cash flows for the three months ended March 31, 2010 and 2009 have been included. Operating results for the three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for any other interim period or the year ending December 31, 2010.

These statements should be read in conjunction with the financial statements and notes thereto included in our 2009 Annual Report to Stockholders on Form 10-K.

Certain prior year amounts have been reclassified to conform with the current period presentation.

### ***2. Nature of Operations***

We are the largest provider of mail processing equipment and integrated mail solutions in the world. We offer a full suite of equipment, supplies, software and services for end-to-end mailstream solutions which enable our customers to optimize the flow of physical and electronic mail, documents and packages across their operations. We conduct our business activities in seven reporting segments within two business groups: Mailstream Solutions and Mailstream Services. See Note 6 to the Condensed Consolidated Financial Statements for details of our reporting segments and a description of their activities.

### ***3. Recent Accounting Pronouncements***

#### ***Revenue Recognition***

In September 2009, new guidance was introduced addressing the accounting for revenue arrangements with multiple elements and certain revenue arrangements that include software. This will allow companies to allocate consideration in a multiple element arrangement in a way that better reflects the economics of the transaction and will result in the elimination of the residual method. In addition, tangible products that have software components that are essential to the functionality of the tangible product will be scoped out of the software revenue guidance. The new guidance will also result in more expansive disclosures. The new guidance will be effective on January 1, 2011, with early adoption permitted. We are currently evaluating the impact of adopting the new guidance.

### ***4. Discontinued Operations***

The following table shows selected financial information included in discontinued operations for the three months ended March 31, 2010 and 2009, respectively:

|                                                      | <b>Three Months Ended March<br/>31,</b> |             |
|------------------------------------------------------|-----------------------------------------|-------------|
|                                                      | <b>2010</b>                             | <b>2009</b> |
| Pre-tax income                                       | \$ -                                    | \$ 9,773    |
| Tax provision                                        | (3,130)                                 | (7,150)     |
| (Loss) gain from discontinued operations, net of tax | \$ (3,130)                              | \$ 2,623    |

The net loss for the three months ended March 31, 2010 relates to the accrual of interest on uncertain tax positions.

**PITNEY BOWES INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited; tabular dollars in thousands, except for per share data)**

The net gain for the three months ended March 31, 2009 relates to \$9.8 million pre-tax income (\$6.0 million net of tax) for a bankruptcy settlement, which was partially offset by the accrual of interest on uncertain tax positions. We received a bankruptcy settlement for unsecured claims pertaining to the leasing of certain aircraft. These leasing transactions were originally executed by our former Capital Services business, which was sold in 2006. At the time of the Capital Services sale, we retained the rights to the bankruptcy claims. Since these claims were attributable to our former Capital Services business, we recorded the gain on this settlement in discontinued operations.

### **5. Earnings per Share**

A reconciliation of the basic and diluted earnings per share computations for the three months ended March 31, 2010 and 2009 is as follows:

|                                                                                                      | 2010      |                               |              | 2009       |                               |              |
|------------------------------------------------------------------------------------------------------|-----------|-------------------------------|--------------|------------|-------------------------------|--------------|
|                                                                                                      | Income    | Weighted<br>Average<br>Shares | Per<br>Share | Income     | Weighted<br>Average<br>Shares | Per<br>Share |
| Pitney Bowes Inc. net income                                                                         | \$ 79,039 |                               |              | \$ 104,402 |                               |              |
| Less:                                                                                                |           |                               |              |            |                               |              |
| Preferred stock dividends                                                                            | -         |                               |              | -          |                               |              |
| Preference stock dividends                                                                           | (17)      |                               |              | (19)       |                               |              |
| Basic earnings per share                                                                             | \$ 79,022 | 207,333                       | \$ 0.38      | \$ 104,383 | 206,255                       | \$ 0.51      |
| Effect of dilutive securities:                                                                       |           |                               |              |            |                               |              |
| Data for basic earnings per share                                                                    | \$ 79,022 | 207,333                       |              | \$ 104,383 | 206,255                       |              |
| Preferred stock                                                                                      | -         | 2                             |              | -          | 3                             |              |
| Preference stock                                                                                     | 17        | 525                           |              | 19         | 596                           |              |
| Stock options and stock purchase plans                                                               | -         | 22                            |              | -          | -                             |              |
| Other stock plans                                                                                    | -         | 22                            |              | -          | 4                             |              |
| Diluted earnings per share                                                                           | \$ 79,039 | 207,904                       | \$ 0.38      | \$ 104,402 | 206,858                       | \$ 0.50      |
|                                                                                                      |           |                               | Per<br>Share |            |                               | Per<br>Share |
| Basic earnings per share of common stock attributable to<br>Pitney Bowes Inc. common stockholders:   |           |                               |              |            |                               |              |
| Continuing operations                                                                                |           |                               | \$ 0.40      |            |                               | \$ 0.49      |
| Discontinued operations                                                                              |           |                               | (0.02)       |            |                               | 0.01         |
| Net income                                                                                           |           |                               | \$ 0.38      |            |                               | \$ 0.51      |
|                                                                                                      |           |                               | Per<br>Share |            |                               | Per<br>Share |
| Diluted earnings per share of common stock attributable to<br>Pitney Bowes Inc. common stockholders: |           |                               |              |            |                               |              |
| Continuing operations                                                                                |           |                               | \$ 0.40      |            |                               | \$ 0.49      |
| Discontinued operations                                                                              |           |                               | (0.02)       |            |                               | 0.01         |

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|            |         |         |
|------------|---------|---------|
| Net income | \$ 0.38 | \$ 0.50 |
|------------|---------|---------|

Note: The sum of the earnings per share amounts may not equal the totals above due to rounding.

Approximately 5.2 million and 6.9 million common stock equivalent shares for the three months ended March 31, 2010 and 2009, respectively, issuable upon the exercise of stock options were excluded from the above computations because the exercise prices of such options were greater than the average market price of the common stock and therefore the impact of these shares was anti-dilutive.

**PITNEY BOWES INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited; tabular dollars in thousands, except for per share data)**

On February 8, 2010, we made our annual stock compensation grant which consisted of approximately 1.7 million stock options and 0.8 million restricted stock units.

**6. Segment Information**

We conduct our business activities in seven reporting segments within two business groups, Mailstream Solutions and Mailstream Services. The principal products and services of each of our reporting segments are as follows:

Mailstream Solutions:

*U.S. Mailing:* Includes the U.S. revenue and related expenses from the sale, rental and financing of our mail finishing, mail creation, shipping equipment and software; supplies; support and other professional services; and payment solutions.

*International Mailing:* Includes the non-U.S. revenue and related expenses from the sale, rental and financing of our mail finishing, mail creation, shipping equipment and software; supplies; support and other professional services; and payment solutions.

*Production Mail:* Includes the worldwide revenue and related expenses from the sale, financing, support and other professional services of our high-speed, production mail systems and sorting equipment.

*Software:* Includes the worldwide revenue and related expenses from the sale and support services of non-equipment-based mailing, customer communication and location intelligence software.

Mailstream Services:

*Management Services:* Includes worldwide facilities management services; secure mail services; reprographic, document management services; and litigation support and eDiscovery services.

*Mail Services:* Includes presort mail services and cross-border mail services.

*Marketing Services:* Includes direct marketing services for targeted customers.

Earnings before interest and taxes ( EBIT ), a non-GAAP measure, is useful to management in demonstrating the operational profitability of the segments by excluding interest and taxes, which are generally managed across the entire company on a consolidated basis. EBIT is determined by deducting from revenue the related costs and expenses attributable to the segment. Segment EBIT also excludes general corporate expenses, restructuring charges and asset impairments.

As a result of certain organizational changes made during the third quarter of 2009, we have reclassified certain 2009 amounts to conform to the revised presentation. The amounts reclassified did not have a material impact to our segment disclosures.

**PITNEY BOWES INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited; tabular dollars in thousands, except for per share data)**

Revenue and EBIT by business segment for the three months ended March 31, 2010 and 2009 are as follows:

|                       | <b>Three Months Ended March 31,</b> |              |
|-----------------------|-------------------------------------|--------------|
|                       | <b>2010</b>                         | <b>2009</b>  |
| Revenue:              |                                     |              |
| U.S. Mailing          | \$ 477,041                          | \$ 516,017   |
| International Mailing | 235,303                             | 237,312      |
| Production Mail       | 124,776                             | 109,429      |
| Software              | 79,373                              | 75,375       |
| Mailstream Solutions  | 916,493                             | 938,133      |
| Management Services   | 254,616                             | 266,502      |
| Mail Services         | 145,102                             | 141,251      |
| Marketing Services    | 32,022                              | 33,698       |
| Mailstream Services   | 431,740                             | 441,451      |
| Total revenue         | \$ 1,348,233                        | \$ 1,379,584 |

|                                             | <b>Three Months Ended March 31,</b> |             |
|---------------------------------------------|-------------------------------------|-------------|
|                                             | <b>2010</b>                         | <b>2009</b> |
| EBIT: (1)                                   |                                     |             |
| U.S. Mailing                                | \$ 171,137                          | \$ 190,628  |
| International Mailing                       | 36,981                              | 30,939      |
| Production Mail                             | 10,914                              | 5,067       |
| Software                                    | 4,332                               | 2,604       |
| Mailstream Solutions                        | 223,364                             | 229,238     |
| Management Services                         | 20,092                              | 13,637      |
| Mail Services                               | 24,320                              | 18,575      |
| Marketing Services                          | 4,522                               | 4,222       |
| Mailstream Services                         | 48,934                              | 36,434      |
| Total EBIT                                  | 272,298                             | 265,672     |
| Unallocated amounts:                        |                                     |             |
| Interest, net (2)                           | (48,834)                            | (50,651)    |
| Corporate expenses                          | (42,734)                            | (36,572)    |
| Restructuring charges and asset impairments | (20,722)                            | -           |

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|                                                       |    |                |    |         |
|-------------------------------------------------------|----|----------------|----|---------|
| Income from continuing operations before income taxes | \$ | <b>160,008</b> | \$ | 178,449 |
|-------------------------------------------------------|----|----------------|----|---------|

- (1) Earnings before interest and taxes excludes general corporate expenses, restructuring charges and asset impairments.
- (2) Interest, net includes financing interest expense, other interest expense and interest income.

9

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**PITNEY BOWES INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited; tabular dollars in thousands, except for per share data)

**7. Inventories**

Inventories are composed of the following:

|                                   | March 31,<br>2010 | December 31,<br>2009 |
|-----------------------------------|-------------------|----------------------|
| Raw materials and work in process | \$ 42,105         | \$ 36,331            |
| Supplies and service parts        | 69,098            | 69,506               |
| Finished products                 | 50,867            | 50,665               |
| Total                             | \$ 162,070        | \$ 156,502           |

**8. Fixed Assets**

|                                    | March 31,<br>2010 | December 31,<br>2009 |
|------------------------------------|-------------------|----------------------|
| Property, plant and equipment      | \$ 1,812,796      | \$ 1,820,797         |
| Accumulated depreciation           | (1,324,551)       | (1,305,893)          |
| Property, plant and equipment, net | \$ 488,245        | \$ 514,904           |
| Rental property and equipment      | \$ 704,989        | \$ 728,537           |
| Accumulated depreciation           | (360,626)         | (368,330)            |
| Rental property and equipment, net | \$ 344,363        | \$ 360,207           |

Depreciation expense was \$63.3 million and \$70.0 million for the three months ended March 31, 2010 and 2009, respectively.

**9. Intangible Assets and Goodwill**

Intangible assets are composed of the following:

|                          | March 31, 2010              |                             |                           | December 31, 2009           |                             |                           |
|--------------------------|-----------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|---------------------------|
|                          | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount |
| Customer relationships   | \$ 421,696                  | \$ (204,949)                | \$ 216,747                | \$ 428,888                  | \$ (197,497)                | \$ 231,391                |
| Supplier relationships   | 29,000                      | (14,017)                    | 14,983                    | 29,000                      | (13,292)                    | 15,708                    |
| Software & technology    | 162,638                     | (107,862)                   | 54,776                    | 164,211                     | (103,388)                   | 60,823                    |
| Trademarks & trade names | 35,121                      | (28,070)                    | 7,051                     | 35,855                      | (27,898)                    | 7,957                     |
| Non-compete agreements   | 7,679                       | (7,222)                     | 457                       | 7,753                       | (7,215)                     | 538                       |
| Total intangible assets  | \$ 656,134                  | \$ (362,120)                | \$ 294,014                | \$ 665,707                  | \$ (349,290)                | \$ 316,417                |

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Amortization expense for intangible assets for the three months ended March 31, 2010 and 2009 was \$16.4 million and \$17.4 million, respectively.

**PITNEY BOWES INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited; tabular dollars in thousands, except for per share data)**

The estimated future amortization expense related to intangible assets is as follows:

|                                            | <b>Amount</b>     |
|--------------------------------------------|-------------------|
| Remaining for year ended December 31, 2010 | \$ 43,000         |
| Year ended December 31, 2011               | 54,000            |
| Year ended December 31, 2012               | 48,000            |
| Year ended December 31, 2013               | 42,000            |
| Year ended December 31, 2014               | 37,000            |
| Thereafter                                 | 70,014            |
| <b>Total</b>                               | <b>\$ 294,014</b> |

Changes in the carrying amount of goodwill by business segment for the three months ended March 31, 2010 are as follows:

|                             | Balance at<br>December 31,<br>2009 | Acquired during<br>the period | Other (1)              | Balance at<br>March 31,<br>2010 |
|-----------------------------|------------------------------------|-------------------------------|------------------------|---------------------------------|
| U.S. Mailing                | \$ 218,567                         | \$ -                          | \$ (75)                | \$ 218,492                      |
| International Mailing       | 342,549                            | -                             | (15,765)               | 326,784                         |
| Production Mail             | 137,366                            | -                             | (2,691)                | 134,675                         |
| Software                    | 633,938                            | -                             | (6,718)                | 627,220                         |
| <b>Mailstream Solutions</b> | <b>1,332,420</b>                   | <b>-</b>                      | <b>(25,249)</b>        | <b>1,307,171</b>                |
| <br>Management Services     | <br>500,055                        | <br>-                         | <br>(7,190)            | <br>492,865                     |
| Mail Services               | 259,632                            | -                             | (350)                  | 259,282                         |
| Marketing Services          | 194,797                            | -                             | -                      | 194,797                         |
| <b>Mailstream Services</b>  | <b>954,484</b>                     | <b>-</b>                      | <b>(7,540)</b>         | <b>946,944</b>                  |
| <br><b>Total</b>            | <br><b>\$ 2,286,904</b>            | <br><b>\$ -</b>               | <br><b>\$ (32,789)</b> | <br><b>\$ 2,254,115</b>         |

(1) Other primarily includes foreign currency translation adjustments.

### **10. Long-term Debt**

On September 15, 2009, we repaid the 8.55% notes with a \$150 million face value at their maturity. The repayment of these notes was funded through cash generated from operations and issuance of commercial paper.

On June 29, 2009, we entered into an interest rate swap for an aggregate notional amount of \$100 million to effectively convert our interest payments on a portion of the \$400 million, 4.625% fixed rate notes due in 2012, into variable interest rates. The variable rates payable are based on one month LIBOR plus 249 basis points. In July 2009, we entered into three additional interest rate swaps for an aggregate notional amount of \$300 million to effectively convert our interest payments on the remainder of the \$400 million, 4.625% fixed rate notes due in 2012, into variable interest rates. The variable rates payable are based on one month LIBOR plus 248 basis points for \$100 million notional amount and one month LIBOR plus 250 basis points for \$200 million notional amount.

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On March 2, 2009, we issued \$300 million of 10-year fixed-rate notes with a coupon rate of 6.25%. The interest is paid semi-annually beginning September 15, 2009. The notes mature on March 15, 2019. We simultaneously unwound four forward starting swap agreements (forward swaps) used to hedge the interest rate risk associated with the forecasted issuance of the fixed-rate debt. The unwind of the derivatives resulted in a loss (and cash payment) of \$20.3 million which was recorded to other comprehensive income, net of tax, and will be amortized to net interest expense over the 10-year term of the notes. The proceeds from these notes were used for general corporate purposes, including the repayment of commercial paper.

**PITNEY BOWES INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited; tabular dollars in thousands, except for per share data)**

**11. Noncontrolling Interests (Preferred Stockholders' Equity in Subsidiaries)**

At January 1, 2009, Pitney Bowes International Holdings, Inc. (PBIH), a subsidiary of the Company, had 3,750,000 shares outstanding or \$375 million of variable term voting preferred stock owned by certain outside institutional investors. These preferred shares were entitled as a group to 25% of the combined voting power of all classes of capital stock of PBIH. All outstanding common stock of PBIH, representing the remaining 75% of the combined voting power of all classes of capital stock, was owned directly or indirectly by Pitney Bowes Inc. The preferred stock, \$.01 par value, was entitled to cumulative dividends at rates set at auction. The weighted average dividend rate was 4.8% for the variable term voting preferred stock for the three months ended March 31, 2009.

During 2009, PBIH issued 300,000 shares, or \$300 million, of perpetual voting preferred stock to certain outside institutional investors. These preferred shares are entitled as a group to 25% of the combined voting power of all classes of capital stock of PBIH. All outstanding common stock of PBIH, representing the remaining 75% of the combined voting power of all classes of capital stock, is owned directly or indirectly by Pitney Bowes Inc. The preferred stock is entitled to cumulative dividends at a rate of 6.125% for a period of 7 years after which it becomes callable and, if it remains outstanding, will yield a dividend that increases by 150% every six months thereafter.

During 2009, PBIH redeemed \$375 million of its existing variable term voting preferred stock. The redemption was funded by a combination of the issuance of the \$300 million perpetual voting preferred stock, cash flows from operations and the issuance of commercial paper.

Preferred dividends are reported in the Condensed Consolidated Statements of Income as Preferred stock dividends of subsidiaries attributable to noncontrolling interests. Preferred dividends totaled \$4.6 million and \$4.5 million for the three months ended March 31, 2010 and 2009, respectively. No dividends were in arrears at March 31, 2010 or December 31, 2009.

A rollforward of noncontrolling interests is as follows:

|                                                        |            |
|--------------------------------------------------------|------------|
| Beginning balance at January 1, 2009                   | \$ 374,165 |
| Movements:                                             |            |
| Share issuances (1)                                    | 296,370    |
| Share redemptions                                      | (374,165)  |
| Ending balance at December 31, 2009 and March 31, 2010 | \$ 296,370 |

(1) Net of issuance costs of \$3.6 million.

**12. Comprehensive Income**

Comprehensive income for the three months ended March 31, 2010 and 2009 are as follows:

|                                                     | Three Months Ended March 31, |            |
|-----------------------------------------------------|------------------------------|------------|
|                                                     | 2010                         | 2009       |
| Pitney Bowes Inc. net income                        | \$ 79,039                    | \$ 104,402 |
| Other comprehensive income, net of tax:             |                              |            |
| Foreign currency translation adjustments            | (33,343)                     | (59,430)   |
| Net unrealized gain on derivatives                  | 320                          | 6,350      |
| Net unrealized gain (loss) on investment securities | 144                          | (79)       |
| Amortization of pension and postretirement costs    | 7,025                        | 4,595      |
| Comprehensive income                                | \$ 53,185                    | \$ 55,838  |



**PITNEY BOWES INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited; tabular dollars in thousands, except for per share data)

### ***13. Restructuring Charges and Asset Impairments***

We recorded pre-tax restructuring charges and asset impairments of \$20.7 million for the three months ended March 31, 2010.

#### **2009 Program**

In 2009, we announced that we are undertaking a series of initiatives that are designed to transform and enhance the way we operate as a global company. In order to enhance our responsiveness to changing market conditions, we are executing a strategic transformation program designed to create improved processes and systems to further enable us to invest in future growth in areas such as our global customer interactions and product development processes. This program is expected to continue into 2012 and will result in the reduction of up to 10 percent of the positions in the company. We expect the total pre-tax cost of this program will be in the range of \$250 million to \$350 million primarily related to severance and benefit costs incurred in connection with such workforce reductions. Most of the total pre-tax costs will be cash-related charges. Currently, we are targeting annualized benefits by 2012, net of system and related investments, in the range of at least \$150 million to \$200 million on a pre-tax basis. These costs and the related benefits will be recognized as different actions are approved and implemented.

During the three months ended March 31, 2010, we recorded pre-tax restructuring charges of \$20.7 million, of which \$10.8 million related to severance and benefit costs, \$9.3 million related to other exit costs and \$0.7 million related to asset impairments associated with this program. As of March 31, 2010, approximately 900 employee terminations have occurred under this program. The majority of the liability at March 31, 2010 is expected to be paid during the next twelve months from cash generated from operations.

Pre-tax restructuring reserves at March 31, 2010 for the restructuring actions taken in connection with the 2009 program are composed of the following:

|                             | Balance at<br>December 31,<br>2009 | Expenses  | Cash<br>payments | Non-cash<br>charges | Balance at<br>March 31,<br>2010 |
|-----------------------------|------------------------------------|-----------|------------------|---------------------|---------------------------------|
| Severance and benefit costs | \$ 45,895                          | \$ 10,754 | \$ (12,213)      | \$ -                | \$ 44,436                       |
| Asset impairments           | -                                  | 652       | -                | (652)               | -                               |
| Other exit costs            | 6,807                              | 9,316     | (6,558)          | -                   | 9,565                           |
| Total                       | \$ 52,702                          | \$ 20,722 | \$ (18,771)      | \$ (652)            | \$ 54,001                       |

#### **2007 Program**

We announced a program in November 2007 to lower our cost structure, accelerate efforts to improve operational efficiencies, and transition our product line. The program included charges primarily associated with older equipment that we had stopped selling upon transition to the new generation of fully digital, networked, and remotely-downloadable equipment.

As of March 31, 2010, approximately 3,000 employee terminations have occurred under this program. The majority of the liability at March 31, 2010 is expected to be paid during the next nine months from cash generated from operations.

Pre-tax restructuring reserves at March 31, 2010 for the restructuring program announced in November 2007 are composed of the following:

|                             | Balance at<br>December 31,<br>2009 | Expenses | Cash<br>payments | Non-cash<br>charges | Balance at<br>March 31,<br>2010 |
|-----------------------------|------------------------------------|----------|------------------|---------------------|---------------------------------|
| Severance and benefit costs | \$ 15,019                          | \$ -     | \$ (7,629)       | \$ -                | \$ 7,390                        |
| Other exit costs            | 20,905                             | -        | (1,320)          | -                   | 19,585                          |

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|       |    |        |    |   |    |         |    |   |    |        |
|-------|----|--------|----|---|----|---------|----|---|----|--------|
| Total | \$ | 35,924 | \$ | - | \$ | (8,949) | \$ | - | \$ | 26,975 |
|-------|----|--------|----|---|----|---------|----|---|----|--------|

**PITNEY BOWES INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited; tabular dollars in thousands, except for per share data)

**14. Pensions and Other Benefit Programs**

*Defined Benefit Pension Plans*

The components of net periodic benefit cost for defined benefit pension plans for the three months ended March 31, 2010 and 2009 are as follows:

|                                             | United States                |          | Foreign                      |          |
|---------------------------------------------|------------------------------|----------|------------------------------|----------|
|                                             | Three Months Ended March 31, |          | Three Months Ended March 31, |          |
|                                             | 2010                         | 2009     | 2010                         | 2009     |
| Service cost                                | \$ 5,717                     | \$ 7,340 | \$ 1,775                     | \$ 1,592 |
| Interest cost                               | 22,796                       | 24,224   | 6,929                        | 5,792    |
| Expected return on plan assets              | (31,035)                     | (30,151) | (7,238)                      | (6,256)  |
| Amortization of transition credit           | -                            | -        | (2)                          | (2)      |
| Amortization of prior service (credit) cost | (632)                        | (596)    | 69                           | 103      |
| Amortization of net loss                    | 8,072                        | 7,027    | 2,543                        | 580      |
| Settlement                                  | 2,881                        | -        | -                            | -        |
| Net periodic benefit cost                   | \$ 7,799                     | \$ 7,844 | \$ 4,076                     | \$ 1,809 |

As we previously disclosed in our Consolidated Financial Statements for the year ended December 31, 2009, we expect to contribute up to \$20 million to each of our U.S. and foreign pension plans during 2010. We will reassess our funding alternatives as the year progresses. At March 31, 2010, \$13.7 million and \$2.8 million of contributions have been made to the U.S. and foreign pension plans, respectively.

*Nonpension Postretirement Benefit Plans*

The components of net periodic benefit cost for nonpension postretirement benefit plans for the three months ended March 31, 2010 and 2009 are as follows:

|                                      | Three Months Ended March 31, |          |
|--------------------------------------|------------------------------|----------|
|                                      | 2010                         | 2009     |
| Service cost                         | \$ 930                       | \$ 802   |
| Interest cost                        | 3,398                        | 3,562    |
| Amortization of prior service credit | (628)                        | (620)    |
| Amortization of net loss             | 1,663                        | 946      |
| Net periodic benefit cost            | \$ 5,363                     | \$ 4,690 |

For the three months ended March 31, 2010 and 2009, we made \$7.4 million and \$8.0 million of contributions representing benefit payments, respectively.

**15. Income Taxes**

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The effective tax rate for the three months ended March 31, 2010 and 2009 was 45.8% and 40.4%, respectively. The effective tax rate for 2010 included \$9.1 million of tax charges related to the write-off of deferred tax assets as a result of the recent health care reform legislation in the U.S. This legislation, signed in March 2010, includes a provision eliminating the tax deduction for retiree health care costs to the extent of federal subsidies received by companies that provide retiree prescription drug benefits equivalent to Medicare Part D coverage. The tax rates for 2010 and 2009 included \$8.6 million and \$11.1 million, respectively, of tax charges related to the write-off of deferred tax assets associated with the expiration of out-of-the-money vested stock options and the vesting of restricted stock units previously granted to our employees. These write-offs of deferred tax assets will not require us to pay any taxes.

We regularly assess the likelihood of tax adjustments in each of the tax jurisdictions in which we have operations and account for the related financial statement implications. Tax reserves have been established which we believe to be appropriate given the possibility

**PITNEY BOWES INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited; tabular dollars in thousands, except for per share data)**

of tax adjustments. Determining the appropriate level of tax reserves requires us to exercise judgment regarding the uncertain application of tax law. The amount of reserves is adjusted when information becomes available or when an event occurs indicating a change in the reserve is appropriate. Future changes in tax reserve requirements could have a material impact on our results of operations.

We are continually under examination by tax authorities in the United States, other countries and local jurisdictions in which we have operations. The years under examination vary by jurisdiction. The current IRS exam of tax years 2001-2004 is estimated to be completed within the next two years and the examination of years 2005-2008 has commenced. In connection with the 2001-2004 exam, we have received notices of proposed adjustments to our filed returns. Tax reserves have been established which we believe to be appropriate given the possibility of tax adjustments. We are also disputing a formal request from the IRS in the form of a civil summons to provide certain Company workpapers. We believe that certain documents being sought should not be produced because they are privileged. A variety of post-1999 tax years remain subject to examination by other tax authorities, including the U.K., Canada, France, Germany and various U.S. states. Tax reserves have been established which we believe to be appropriate given the possibility of tax adjustments. However, the resolution of such matters could have a material impact on our results of operations, financial position and cash flows.

***16. Fair Value Measurements***

The fair value measurement guidance established a fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of the fair value hierarchy are as follows:

Level 1 Unadjusted quoted prices in active markets for identical assets and liabilities. Examples of Level 1 assets include money market securities and U.S. Treasury securities.

Level 2 Observable inputs other than Level 1 inputs such as quoted prices for similar assets or liabilities; quoted prices in markets that trade infrequently; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Examples of Level 2 assets and liabilities include derivative contracts whose values are determined using a model with inputs that are observable in the market or can be derived from or corroborated by observable market data, such as mortgage-backed securities, asset backed securities, U.S. agency securities, and corporate notes and bonds.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability. These inputs may be derived with internally developed methodologies that result in management's best estimate of fair value.

**PITNEY BOWES INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited; tabular dollars in thousands, except for per share data)**

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, 2010 and December 31, 2009, respectively. As required by the fair value measurements guidance, 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 their placement within the fair value hierarchy levels.

**Recurring Fair Value Measurements at March 31, 2010 by Level**

|                                                                             | Level 1        | Level 2        | Level 3  | Total          |
|-----------------------------------------------------------------------------|----------------|----------------|----------|----------------|
| <b>Assets:</b>                                                              |                |                |          |                |
| Investment securities                                                       |                |                |          |                |
| Money market funds / commercial paper                                       | \$ 266,595     | \$ 3,152       | \$ -     | \$ 269,747     |
| Equity securities                                                           | -              | 21,702         | -        | 21,702         |
| Debt securities - U.S. and foreign governments, agencies and municipalities | 51,048         | 33,296         | -        | 84,344         |
| Debt securities - corporate                                                 | -              | 12,366         | -        | 12,366         |
| Asset-backed securities                                                     | -              | 196            | -        | 196            |
| Mortgage-backed securities                                                  | -              | 19,296         | -        | 19,296         |
| Derivatives                                                                 |                |                |          |                |
| Interest rate swaps                                                         | -              | 15,831         | -        | 15,831         |
| Foreign exchange contracts                                                  | -              | 2,159          | -        | 2,159          |
| <br>Total assets                                                            | <br>\$ 317,643 | <br>\$ 107,998 | <br>\$ - | <br>\$ 425,641 |
| <b>Liabilities:</b>                                                         |                |                |          |                |
| Derivatives                                                                 |                |                |          |                |
| Foreign exchange contracts                                                  | \$ -           | \$ 5,034       | \$ -     | \$ 5,034       |
| <br>Total liabilities                                                       | <br>\$ -       | <br>\$ 5,034   | <br>\$ - | <br>\$ 5,034   |

**Recurring Fair Value Measurements at December 31, 2009 by Level**

|                                                                             | Level 1    | Level 2 | Level 3 | Total      |
|-----------------------------------------------------------------------------|------------|---------|---------|------------|
| <b>Assets:</b>                                                              |            |         |         |            |
| Investment securities                                                       |            |         |         |            |
| Money market funds / commercial paper                                       | \$ 225,581 | \$ -    | \$ -    | \$ 225,581 |
| Equity securities                                                           | -          | 21,027  | -       | 21,027     |
| Debt securities - U.S. and foreign governments, agencies and municipalities | 53,173     | 28,754  | -       | 81,927     |
| Debt securities - corporate                                                 | -          | 13,305  | -       | 13,305     |
| Asset-backed securities                                                     | -          | 296     | -       | 296        |
| Mortgage-backed securities                                                  | -          | 19,708  | -       | 19,708     |
| Derivatives                                                                 |            |         |         |            |
| Interest rate swaps                                                         | -          | 13,284  | -       | 13,284     |
| Foreign exchange contracts                                                  | -          | 2,390   | -       | 2,390      |

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|              |            |           |      |            |
|--------------|------------|-----------|------|------------|
| Total assets | \$ 278,754 | \$ 98,764 | \$ - | \$ 377,518 |
|--------------|------------|-----------|------|------------|

**Liabilities:**

Derivatives

|                            |      |          |      |          |
|----------------------------|------|----------|------|----------|
| Foreign exchange contracts | \$ - | \$ 3,050 | \$ - | \$ 3,050 |
|----------------------------|------|----------|------|----------|

|                   |      |          |      |          |
|-------------------|------|----------|------|----------|
| Total liabilities | \$ - | \$ 3,050 | \$ - | \$ 3,050 |
|-------------------|------|----------|------|----------|

**Investment Securities**

For our investments, we use the market approach for recurring fair value measurements and the valuation techniques use inputs that are observable, or can be corroborated by observable data, in an active marketplace.

**PITNEY BOWES INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited; tabular dollars in thousands, except for per share data)**

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 of companies and other highly liquid and low-risk securities. Money market funds are principally used for overnight deposits and are classified in Level 1 of the fair value hierarchy as unadjusted quoted prices in active markets are available for these securities. Direct investments in commercial paper are not listed on an exchange in an active market and are classified in Level 2 of the fair value hierarchy.

*Equity Securities:* Equity securities are comprised of mutual funds investing in U.S. and foreign common stock. These mutual funds are classified in Level 2 of the fair value hierarchy as they are not separately listed on an exchange. As a result, the funds are valued using quoted prices for similar assets.

*Debt Securities - U.S. and Foreign Governments, Agencies and Municipalities:* Debt securities valued using active, high volume trades for identical securities are classified in Level 1 of the fair value hierarchy. 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 in Level 2 of the fair value hierarchy.

*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 in Level 2 of the fair value hierarchy.

*Asset-Backed Securities ( ABS ) and Mortgage-Backed Securities ( MBS ):* These securities are valued based on external pricing indices. When external index pricing is not observable, ABS and MBS are valued based on external price/spread data. If neither pricing method is available, we then utilize broker quotes. We verify that the unadjusted indices or broker quotes are reasonable and that the market is active by comparing prices across multiple (three or more) dealers. When inputs are observable and supported by an active market, asset backed securities and mortgage-backed securities are classified as Level 2 of the fair value hierarchy.

Investment securities are largely composed of investments by The Pitney Bowes Bank (PBB). PBB, our wholly-owned subsidiary, is a Utah-chartered Industrial Loan Company (ILC). The bank's investments at March 31, 2010 were \$253.1 million. We reported these investments in the Condensed Consolidated Balance Sheets as cash and cash equivalents of \$181.5 million, short-term investments of \$15.3 million and long-term investments, which are presented within other assets, of \$56.3 million. The bank's investments at December 31, 2009 were \$222.4 million. We reported these investments in the Condensed Consolidated Balance Sheets as cash and cash equivalents of \$151.3 million, short-term investments of \$14.2 million and long-term investments, which are presented within other assets, of \$56.9 million.

We have not experienced any write-offs in our investment portfolio. The majority of our mortgage-backed securities are either guaranteed or supported by the U.S. government. Market events have not caused our money market funds to experience declines in their net asset value below \$1.00 dollar per share or to incur imposed limits on redemptions. We have no investments in inactive markets which would warrant a possible change in our pricing methods or classification within the fair value hierarchy. Further, we have no investments in auction rate securities.

#### **Derivative Instruments**

In the normal course of business, we are exposed to the impact of interest rate changes and foreign currency fluctuations. The company limits these risks by following established risk management policies and procedures, including the use of derivatives. We use derivatives to manage the related cost of debt and to limit the effects of foreign exchange rate fluctuations on financial results. We do not use derivatives for trading or speculative purposes.

As required by the fair value measurements guidance, we have incorporated counterparty risk into the fair value of our derivative assets and our credit risk into the value of our derivative liabilities. We derive credit risk from observable data related to credit default swaps. We have not seen a material change in the creditworthiness of those banks acting as derivative counterparties.

**PITNEY BOWES INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited; tabular dollars in thousands, except for per share data)**

The valuation of our interest rate swaps 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. Our foreign exchange derivatives are measured at fair value using observable market inputs, such as forward rates.

The following is a summary of our derivative fair values at March 31, 2010 and December 31, 2009:

| Designation of Derivatives                               | Balance Sheet Location                           | Fair Value        |                      |
|----------------------------------------------------------|--------------------------------------------------|-------------------|----------------------|
|                                                          |                                                  | March 31,<br>2010 | December 31,<br>2009 |
| <b>Derivatives designated as hedging instruments</b>     | <b>Other current assets and prepayments:</b>     |                   |                      |
|                                                          | Foreign exchange contracts                       | \$ 399            | \$ 456               |
|                                                          | <b>Other assets:</b>                             |                   |                      |
|                                                          | Interest rate swaps                              | 15,831            | 13,284               |
|                                                          | <b>Accounts payable and accrued liabilities:</b> |                   |                      |
|                                                          | Foreign exchange contracts                       | 1,028             | 1,114                |
| <b>Derivatives not designated as hedging instruments</b> | <b>Other current assets and prepayments:</b>     |                   |                      |
|                                                          | Foreign exchange contracts                       | 1,760             | 1,934                |
|                                                          | <b>Accounts payable and accrued liabilities:</b> |                   |                      |
|                                                          | Foreign exchange contracts                       | 4,006             | 1,936                |
|                                                          | <b>Total Derivative Assets</b>                   | \$ 17,990         | \$ 15,674            |
|                                                          | <b>Total Derivative Liabilities</b>              | \$ 5,034          | \$ 3,050             |
|                                                          | <b>Total Net Derivative Assets</b>               | \$ 12,956         | \$ 12,624            |

**Interest Rate Swaps**

Derivatives designated as fair value hedges include interest rate swaps related to fixed rate debt. Changes in the fair value of both the derivative and item being hedged are recognized in income.

In June 2009, we entered into an interest rate swap for an aggregate notional amount of \$100 million to effectively convert our interest payments on a portion of the \$400 million, 4.625% fixed rate notes due in 2012, into variable interest rates. The variable rates payable are based on one month LIBOR plus 249 basis points. In July 2009, we entered into three additional interest rate swaps for an aggregate notional amount of \$300 million to effectively convert our interest payments on the remainder of the \$400 million, 4.625% fixed rate notes due in 2012, into variable interest rates. The variable rates payable are based on one month LIBOR plus 248 basis points for \$100 million notional amount and one month LIBOR plus 250 basis points for \$200 million notional amount. At March 31, 2010, the fair value of the derivative was an asset of \$6.6 million. Long-term debt was increased by \$6.6 million at March 31, 2010. At December 31, 2009, the fair value of the derivatives was an asset of \$4.7 million. Long-term debt was increased by \$4.7 million at December 31, 2009.

In March 2008, we entered into two interest rate swaps for an aggregate notional amount of \$250 million to effectively convert the fixed rate of 5.60% on \$250 million of our notes, due 2018, into variable interest rates. The variable rates payable by us are based on six month LIBOR plus 111.5 basis points. At March 31, 2010, the fair value of the derivatives was an asset of \$9.2 million. Long-term debt was increased by \$9.2 million at March 31, 2010. At December 31, 2009, the fair value of the derivatives was an asset of \$8.6 million. Long-term debt was increased by \$8.6 million at December 31, 2009.

**PITNEY BOWES INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited; tabular dollars in thousands, except for per share data)**

The following represents the results of our derivatives in fair value hedging relationships for the three months ended March 31, 2010 and 2009:

| Derivative Instrument | Location of Gain (Loss) Recognized in Income | Derivative Gain (Loss) Recognized in Income |          | Hedged Item Income (Expense) Recognized in Income |            |
|-----------------------|----------------------------------------------|---------------------------------------------|----------|---------------------------------------------------|------------|
|                       |                                              | 2010                                        | 2009     | 2010                                              | 2009       |
| Interest rate swaps   | Interest expense                             | \$ 4,530                                    | \$ 1,540 | \$ (8,125)                                        | \$ (3,500) |

**Foreign Exchange Contracts**

We enter into foreign currency exchange contracts arising from the anticipated purchase of inventory between affiliates. These contracts are designated as cash flow hedges. The effective portion of the gain or loss on the cash flow hedges is included in other comprehensive income in the period that the change in fair value occurs and is reclassified to income in the same period that the hedged item is recorded in income. At March 31, 2010, we had 138 outstanding contracts with a notional amount of \$24.1 million associated with these anticipated transactions and a derivative net liability position of \$0.6 million. At December 31, 2009, we had 149 outstanding contracts with a notional amount of \$27.8 million associated with these anticipated transactions and a derivative net liability position of \$0.7 million.

The following represents the results of cash flow hedging relationships for the three months ended March 31, 2010 and 2009:

| Derivative Instrument      | Derivative Gain (Loss) Recognized in OCI (Effective Portion) (1) |          | Location of Derivative Gain (Loss) Reclassified from AOCI into Income (Effective Portion) | Gain (Loss) Reclassified from AOCI to Income (Effective Portion) |      |
|----------------------------|------------------------------------------------------------------|----------|-------------------------------------------------------------------------------------------|------------------------------------------------------------------|------|
|                            | 2010                                                             | 2009     |                                                                                           | 2010                                                             | 2009 |
| Foreign exchange contracts | \$ (120)                                                         | \$ (664) | Revenue                                                                                   | \$ 162                                                           | \$ - |
| Foreign exchange contracts | 133                                                              | 112      | Cost of sales                                                                             | (178)                                                            | -    |
|                            | \$ 13                                                            | \$ (552) |                                                                                           | \$ (16)                                                          | \$ - |

- (1) For the three months ended March 31, 2010 and 2009, there were 2 and 7 derivatives, respectively, that were entered into and settled within the quarter. Thus, these amounts were not recorded to AOCI but were recorded directly to income. For the three months ended March 31, 2010, these derivatives reduced revenue by less than \$0.1 million. For the three months ended March 31, 2009, these derivatives reduced both revenue and cost of sales in the amounts of \$0.3 million and less than \$0.1 million, respectively.

As of March 31, 2010, \$0.3 million of the \$0.6 million derivative loss recognized in AOCI will be recognized in income within the next 12 months.

No amount of ineffectiveness was recorded in the Condensed Consolidated Statements of Income for these designated cash flow hedges.

We also enter into foreign exchange contracts to minimize the impact of exchange rate fluctuations on intercompany loans and related interest that are denominated in a foreign currency. The revaluation of the short-term intercompany loans and interest and the mark-to-market on the derivatives are both recorded to income. At March 31, 2010, we had 27 outstanding foreign exchange contracts to buy or sell various currencies with a net liability value of \$2.2 million. The contracts will mature by June 30, 2010. At December 31, 2009, the net liability value of these derivatives was less than \$0.1 million.

**PITNEY BOWES INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited; tabular dollars in thousands, except for per share data)**

The following represents the results of our non-designated derivative instruments for the three months ended March 31, 2010 and 2009:

| Derivatives Not Designated<br>as Hedging Instruments | Location of Derivative Gain (Loss)          | Derivative Gain (Loss)<br>Recognized in Income |            |
|------------------------------------------------------|---------------------------------------------|------------------------------------------------|------------|
|                                                      |                                             | 2010                                           | 2009       |
| Foreign exchange contracts                           | Selling, general and administrative expense | \$ (7,135)                                     | \$ (3,847) |

***Credit-Risk-Related Contingent Features***

At March 31, 2010, Pitney Bowes maintained investment grade ratings of A / A1. Certain of our derivative instruments contain provisions that would require us to post collateral upon a significant downgrade in our long-term senior unsecured debt ratings. Based on derivative values at March 31, 2010, we would have been required to post \$2.2 million in collateral had our long-term senior unsecured debt ratings fallen below BB- / Ba3.

**Fair Value of Financial Instruments**

The estimated fair value of our financial instruments follows:

|                       | March 31, 2010        |                | December 31, 2009     |                |
|-----------------------|-----------------------|----------------|-----------------------|----------------|
|                       | Carrying<br>value (1) | Fair value     | Carrying<br>value (1) | Fair value     |
| Investment securities | \$ 406,412            | \$ 407,651     | \$ 360,800            | \$ 361,845     |
| Loans receivable      | \$ 447,836            | \$ 447,836     | \$ 478,191            | \$ 478,191     |
| Derivatives, net      | \$ 12,956             | \$ 12,956      | \$ 12,624             | \$ 12,624      |
| Long-term debt        | \$ (4,248,359)        | \$ (4,443,442) | \$ (4,271,555)        | \$ (4,409,961) |

(1) Carrying value includes accrued interest and deferred fee income, where applicable.

The fair value of long-term debt is estimated based on quoted dealer prices for the same or similar issues. The carrying value for cash, cash equivalents, accounts receivable, loans receivable, accounts payable and notes payable approximate fair value because of the short maturity of these instruments.

***17. 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 customers; 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.

Our wholly-owned subsidiary, Imagitas, Inc., was a defendant in ten purported class actions filed in six different states. These lawsuits have been coordinated in the United States District Court for the Middle District of Florida, In re: Imagitas, Driver's Privacy Protection Act Litigation (Coordinated, May 28, 2007). Each of these lawsuits alleged that the Imagitas DriverSource program violated the federal Drivers Privacy Protection Act (DPPA). Under the DriverSource program, Imagitas entered into contracts with state governments to mail out automobile registration renewal materials along with third party advertisements, without revealing the personal information of any state resident to any advertiser. The DriverSource program assisted the state in performing its governmental function of delivering these mailings and funding the costs of them. The plaintiffs in these actions were seeking statutory damages under the DPPA. On April 9, 2008, the District Court granted Imagitas' motion for summary judgment in one of the coordinated cases, Rine, et al. v. Imagitas, Inc. (United States District Court, Middle District of Florida, filed August 1, 2006). On July 30, 2008, the District Court issued a final judgment in the Rine lawsuit and stayed all of the other cases filed against Imagitas pending an appellate decision in Rine. On August 27, 2008, the Rine plaintiffs filed an appeal of the District Court's decision in the United States Court of Appeals, Eleventh Judicial Circuit (the Circuit Court). On December 21, 2009, the Circuit Court

affirmed the District Court decision. On February 22, 2010, the Circuit Court denied the Rine plaintiffs petition for rehearing en banc. The

**PITNEY BOWES INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited; tabular dollars in thousands, except for per share data)**

Nine plaintiffs ability to pursue further review of this decision has expired. With respect to the remaining stayed cases, the District Court has requested that the parties provide status reports and a proposed schedule for the remaining proceedings.

We expect to prevail in the lawsuits against Imagitas; however, as litigation is inherently unpredictable, there can be no assurance in this regard. If the plaintiffs do prevail, the results may have a material effect on our financial position, future results of operations or cash flows, including, for example, our ability to offer certain types of goods or services in the future.

On October 28, 2009, the Company and certain of our current and former officers, were named as defendants in NECA-IBEW Health & Welfare Fund v. Pitney Bowes Inc. et al., a class action lawsuit filed in the U.S. District Court for the District of Connecticut. The complaint asserts claims under the Securities Exchange Act of 1934 on behalf of those who purchased the common stock of the Company during the period between July 30, 2007 and October 29, 2007 alleging that the company, in essence, missed two financial projections. We believe this case is without merit and intend to defend it vigorously.

*Product Warranties*

We provide product warranties in conjunction with certain product sales, generally for a period of 90 days from the date of installation. Our product warranty liability reflects our best estimate of probable liability for product warranties based on historical claims experience, which has not been significant, and other currently available evidence. Accordingly, our product warranty liability at March 31, 2010 and December 31, 2009, respectively, was not material.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) contains statements that are forward-looking. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially because of factors discussed in Forward-Looking Statements and elsewhere in this report.

The following analysis of our financial condition and results of operations should be read in conjunction with Pitney Bowes' Condensed Consolidated Financial Statements contained in this report and Pitney Bowes' Form 10-K for the year ended December 31, 2009.

**Forward-Looking Statements**

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 in this Form 10-Q may change based on various factors. The future is difficult to predict. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. These forward-looking statements are those which talk about our current expectations as to the future and include, but are not limited to, statements about the transformation initiatives, and amounts, timing and results of possible restructuring charges and future earnings or risks. Words such as estimate, target, project, plan, believe, expect, anticipate, intend, and similar expressions may identify such forward-looking statements. Some of the 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:

- negative developments in economic conditions, including adverse impacts on customer demand
- changes in postal or banking regulations
- timely development and acceptance of new products
- success in gaining product approval in new markets where regulatory approval is required
- successful entry into new markets
- mailers' utilization of alternative means of communication or competitors' products
- our success at managing customer credit risk
- our success at managing costs associated with our strategy of outsourcing functions and operations not central to our business
- changes in interest rates
- foreign currency fluctuations
- cost, timing and execution of our transformation plans including any potential asset impairments
- regulatory approvals and satisfaction of other conditions to consummation and integration of any acquisitions
- interrupted use of key information systems
- changes in privacy laws
- changes in international or national political conditions, including any terrorist attacks
- intellectual property infringement claims
- impact on mail volume resulting from current concerns over the use of the mail for transmitting harmful biological agents
- third-party suppliers' ability to provide product components, assemblies or inventories
- negative income tax adjustments for prior audit years and changes in tax laws or regulations
- changes in pension and retiree medical costs
- acts of nature

**Overview**

For the first quarter, revenue decreased 2% to \$1.35 billion, with foreign currency translation having a favorable impact of 3%. The decrease is due largely to continued weak business conditions in certain of our operations.

Pitney Bowes net income was \$79.0 million or \$0.38 per diluted share in the first quarter of 2010 as compared with \$104.4 million or \$0.50 earnings per diluted share in the first quarter of 2009. Pitney Bowes net income in the first quarter of 2010 included non-cash after-tax charges for restructuring activities of 7 cents per diluted share, tax charges associated with health care reform in the U.S. of 4 cents per diluted share and out-of-the-money stock options that expired during the quarter of 4 cents per diluted share, and a charge for discontinued operations of 2 cents per diluted share. Pitney Bowes net income in the first quarter of 2009 included a 5 cents per diluted share non-cash tax charge associated with out-of-the-money stock options that expired during the quarter and 1 cent per diluted share positive adjustment for discontinued operations.

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Despite a decline in revenue for the quarter in four of our seven business segments, EBIT increased in six of our seven segments when compared to the first quarter of 2009 due to our ongoing productivity investments and cost reduction initiatives. We generated strong cash flow provided by operating activities of \$306.1 million during the current quarter as compared to \$276.5 million for the same period in the prior year. We also reduced our debt by \$122.0 million during the three months ended March 31, 2010.

See **Results of Operations** **First Quarter of 2010 Compared to First Quarter of 2009** for a more detailed discussion of our results of operations.

### **Outlook**

Some economic and business indicators in mail-intensive industries continue to be weak. These factors have impacted our financial results and in particular some of our recurring revenue streams, including our high-margin financing, rental, and supplies revenue streams. While we have been successful in reducing our cost structure across the entire business and shifting to a more variable cost structure, these actions have not been enough to offset the impact of lower revenue.

We continue to expect our mix of revenue to change, with a greater percentage of revenue coming from diversified revenue streams associated with fully featured smaller systems and a smaller percentage from larger system sales. We expect that our future results will continue to be impacted by changes in global economic conditions and their impact on mail intensive industries. It is not expected that total mail volumes will rebound to prior peak levels in an economic recovery, and future volume trends will continue to be a factor for our businesses.

We are, however, starting to see some early signs of improving conditions in parts of our business in the U.S., especially some of our larger business customers, though parts of the world are still slow to come out of the recession. We expect a greater percentage of our annual earnings will occur in the second half of the year as global markets continue to stabilize and improve, and we realize increased benefits from our transformation initiatives.

### **Results of Operations** **First Quarter of 2010 compared to First Quarter of 2009**

#### ***Business segment results***

The following table shows revenue and earnings before interest and taxes ( EBIT ) for the three months ended March 31, 2010 and 2009 by business segment. We use EBIT, a non-GAAP measure, to determine our segment profitability. Refer to the reconciliation of segment amounts to income from continuing operations before income taxes in Note 6 to the Condensed Consolidated Financial Statements.

Prior year results have been reclassified to conform to the current year presentation. Refer to Note 6 to the Condensed Consolidated Financial Statements for further detail on these changes.

|                       | Revenue                      |              |          | EBIT                         |            |          |
|-----------------------|------------------------------|--------------|----------|------------------------------|------------|----------|
|                       | Three Months Ended March 31, |              |          | Three Months Ended March 31, |            |          |
|                       | 2010                         | 2009         | % change | 2010                         | 2009       | % change |
| U.S. Mailing          | \$ 477,041                   | \$ 516,017   | (8)%     | \$ 171,137                   | \$ 190,628 | (10)%    |
| International Mailing | 235,303                      | 237,312      | (1)%     | 36,981                       | 30,939     | 20%      |
| Production Mail       | 124,776                      | 109,429      | 14%      | 10,914                       | 5,067      | 115%     |
| Software              | 79,373                       | 75,375       | 5%       | 4,332                        | 2,604      | 66%      |
| Mailstream Solutions  | 916,493                      | 938,133      | (2)%     | 223,364                      | 229,238    | (3)%     |
| Management Services   | 254,616                      | 266,502      | (4)%     | 20,092                       | 13,637     | 47%      |
| Mail Services         | 145,102                      | 141,251      | 3%       | 24,320                       | 18,575     | 31%      |
| Marketing Services    | 32,022                       | 33,698       | (5)%     | 4,522                        | 4,222      | 7%       |
| Mailstream Services   | 431,740                      | 441,451      | (2)%     | 48,934                       | 36,434     | 34%      |
| Total                 | \$ 1,348,233                 | \$ 1,379,584 | (2)%     | \$ 272,298                   | \$ 265,672 | 2%       |

During the first quarter of 2010, Mailstream Solutions revenue decreased 2% to \$916 million and EBIT decreased 3% to \$223 million, compared to the prior year. Within Mailstream Solutions:

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U.S. Mailing revenue and EBIT decreased 8% and 10%, respectively, primarily due to lower rental revenue, and the lower levels of finance receivables and related financing income. The decline in the finance receivables portfolio was due to reduced equipment sales in prior periods.

International Mailing revenue decreased 1%, which includes the favorable impact of foreign currency translation of 11%. The continued weak economic environment in many countries negatively impacted the demand for our products and services and as a result many customers are delaying making purchase decisions for new mailing systems. International Mailing EBIT, however, increased 20% to \$37.0 million, primarily driven by our initiatives to improve productivity and consolidate administrative functions.

Production Mail revenue increased 14% primarily as a result of increased global customer demand for our high-speed inserting systems. In part, demand was driven by the need for some customers to replace aging equipment. As a result, Production Mail ended the quarter with a strong backlog of customer orders globally. Foreign currency translation also had a favorable impact of 4% on revenue. Production Mail's EBIT increased to \$10.9 million compared to \$5.1 million in the prior year due to the positive leverage from revenue growth and ongoing productivity initiatives.

Software revenue increased 5% due to the favorable impact of foreign currency translation of 6%. We continue to expand our software-as-a-service offerings and recurring revenue streams from term licenses. We are also experiencing continued customer interest in our data integration, document composition and location intelligence software products. Software EBIT increased to \$4.3 million compared to \$2.6 million in the prior year primarily due to our efforts to integrate our operations and focus our product offerings.

During the first quarter of 2010, Mailstream Services revenue decreased 2% to \$432 million. However, EBIT increased 34% to \$49 million, compared to the prior year. Within Mailstream Services:

Management Services revenue decreased 4%, which includes the favorable impact of foreign currency translation of 2%. Revenue was adversely impacted by lower business activity in prior periods and decreased print and transaction volumes. Management Services EBIT, however, increased by 47% primarily due to the positive result of our actions to align costs with changing volumes through a more variable cost infrastructure and ongoing productivity initiatives.

Mail Services revenue increased 3% due to increases in volume of mail processed, due in part to higher standard class mail volumes. Overall volume increases were also driven in part by our ability to help mailers benefit from the discounts available when properly utilizing the Intelligent Mail Barcode. Mail Services EBIT increased by 31% driven by the higher revenue levels and ongoing automation and productivity initiatives.

Marketing Services revenue decreased 5%, mostly due to the impact of fewer household moves and the resulting decline in the volume of required change of address kits. Marketing Services EBIT increased 7% due to ongoing productivity initiatives.

### *Revenue by source*

The following table shows revenue by source for the three months ended March 31, 2010 and 2009:

|                   | Three Months Ended March 31, |              |          |
|-------------------|------------------------------|--------------|----------|
|                   | 2010                         | 2009         | % change |
| Equipment sales   | \$ 239,936                   | \$ 231,825   | 3%       |
| Supplies          | 85,277                       | 88,029       | (3)%     |
| Software          | 83,129                       | 79,726       | 4%       |
| Rentals           | 155,437                      | 168,130      | (8)%     |
| Financing         | 162,775                      | 182,798      | (11)%    |
| Support services  | 180,034                      | 174,347      | 3%       |
| Business services | 441,645                      | 454,729      | (3)%     |
| Total revenue     | \$ 1,348,233                 | \$ 1,379,584 | (2)%     |

Equipment sales revenue increased 3% compared to the prior year mostly due to the favorable impact of foreign currency translation of 5%. Lower placements of mailing equipment internationally were mostly offset by an increase in large-ticket Production Mail systems. Revenue also continues to be adversely affected by the ongoing changing mix in equipment placements to more fully featured smaller systems.



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Supplies revenue decreased 3% compared to the prior year due to lower supplies usage resulting from lower mail volumes and fewer installed meters in the U.S. and internationally. Foreign currency translation had a favorable impact of 4%.

Software revenue increased 4% compared to the prior year due to the favorable impact of foreign currency translation of 6%. Revenue has been negatively impacted as many businesses continued to delay certain capital spending worldwide.

Rentals revenue decreased 8% compared to the prior year as a result of fewer equipment sales and meter rental placements in prior periods. Foreign currency translation had a favorable impact of 2%.

Financing revenue decreased 11% compared to the prior year. Lower equipment sales over the prior periods have resulted in a decline in our U.S. and international lease portfolios. Foreign currency translation had a favorable impact of 2%.

Support services revenue increased 3% compared to the prior year mostly due to the favorable impact of foreign currency translation of 4%. Excluding the impact of foreign currency translation, revenue decreased 1% principally driven by lower new equipment placements.

Business services revenue decreased 3% compared to the prior year primarily due to lower net new business at Management Services. Foreign currency translation had a favorable impact of 1%.

### *Costs and expenses*

(Dollars in thousands)

**Three Months Ended March 31,**

|                                     | <b>Percentage of Revenue</b> |             |             |             |
|-------------------------------------|------------------------------|-------------|-------------|-------------|
|                                     | <b>2010</b>                  | <b>2009</b> | <b>2010</b> | <b>2009</b> |
| Cost of equipment sales             | \$ 106,402                   | \$ 104,064  | 44.3%       | 44.9%       |
| Cost of supplies                    | \$ 25,365                    | \$ 23,341   | 29.7%       | 26.5%       |
| Cost of software                    | \$ 20,591                    | \$ 19,497   | 24.8%       | 24.5%       |
| Cost of rentals                     | \$ 37,071                    | \$ 35,851   | 23.8%       | 21.3%       |
| Financing interest expense          | \$ 21,938                    | \$ 24,452   | 13.5%       | 13.4%       |
| Cost of support services            | \$ 114,606                   | \$ 117,347  | 63.7%       | 67.3%       |
| Cost of business services           | \$ 330,472                   | \$ 353,044  | 74.8%       | 77.6%       |
| Selling, general and administrative | \$ 443,297                   | \$ 450,391  | 32.9%       | 32.6%       |
| Research and development            | \$ 40,865                    | \$ 46,949   | 3.0%        | 3.4%        |

Cost of equipment sales as a percentage of revenue was 44.3% in the first quarter of 2010 compared with 44.9% in the prior year, primarily due to margin improvements in U.S. Mailing, the U.K. and Canada.

Cost of supplies as a percentage of revenue was 29.7% in the first quarter of 2010 compared with 26.5% in the prior year primarily due to the increasing mix of lower margin product sales in the U.S.

Cost of software as a percentage of revenue was 24.8% in the first quarter of 2010 compared with 24.5% in the prior year due to the lower revenue levels associated with the continued transition to annuity-based pricing for some solutions.

Cost of rentals as a percentage of revenue was 23.8% in the first quarter of 2010 compared with 21.3% in the prior year primarily due to the fixed costs associated with meter depreciation on lower revenues in both the U.S. Mailing and International Mailing segments.

Financing interest expense as a percentage of revenue was 13.5% in the first quarter of 2010 compared with 13.4% in the prior year. In computing our financing interest expense, which represents our cost of borrowing associated with the generation of financing revenues, we assumed a 10:1 leveraging ratio of debt to equity and applied our overall effective interest rate to the average outstanding finance receivables.

Cost of support services as a percentage of revenue was 63.7% in the first quarter of 2010 compared with 67.3% in the prior year. Improvements in our U.S. Mailing, International Mailing and Production Mail segments were driven by the positive impacts of ongoing productivity initiatives.

Cost of business services as a percentage of revenue was 74.8% in the first quarter of 2010 compared with 77.6% in the prior year. This improvement was due to the positive impacts of cost reduction programs in our Management Services and Mail Services businesses.



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Selling, general and administrative ( SG&A ) expenses as a percentage of revenue was 32.9% in the first quarter of 2010 compared with 32.6% in the prior year. SG&A expense declined \$7.1 million or 2%, primarily as a result of our cost reduction initiatives. Lower revenue and the negative impact of foreign currency translation of 3% more than offset these benefits on a percentage of revenue basis.

Research and development expenses decreased \$6.1 million from the prior year. The decline in overall spending is due to the wind-down of redundant costs related to our transition to offshore development capabilities. Research and development expenses as a percentage of total revenue was 3.0% in the first quarter of 2010 compared with 3.4% in the prior year.

### ***Restructuring charges and asset impairments***

See Note 13 to the Condensed Consolidated Financial Statements.

### ***Other interest expense***

(Dollars in thousands)

|                                                                                                                            | <b>Three Months Ended March 31,</b> |             |                 |
|----------------------------------------------------------------------------------------------------------------------------|-------------------------------------|-------------|-----------------|
|                                                                                                                            | <b>2010</b>                         | <b>2009</b> | <b>% change</b> |
| Other interest expense                                                                                                     | \$ <b>27,658</b>                    | \$ 27,751   | (0)%            |
| Other interest expense decreased by \$0.1 million or less than 1% in the first quarter of 2010 compared to the prior year. |                                     |             |                 |

### ***Income taxes / effective tax rate***

The effective tax rate for the three months ended March 31, 2010 and 2009 was 45.8% and 40.4%, respectively. The effective tax rate for 2010 included \$9.1 million of tax charges related to the write-off of deferred tax assets as a result of the recent health care reform legislation in the U.S. This legislation, signed in March 2010, includes a provision eliminating the tax deduction for retiree health care costs to the extent of federal subsidies received by companies that provide retiree prescription drug benefits equivalent to Medicare Part D coverage. The tax rates for 2010 and 2009 included \$8.6 million and \$11.1 million, respectively, of tax charges related to the write-off of deferred tax assets associated with the expiration of out-of-the-money vested stock options and the vesting of restricted stock units previously granted to our employees. Later in 2010, an additional write-off of approximately \$6 million of deferred tax assets could be required as additional vested stock options expire and restricted stock units vest. These write-offs of deferred tax assets will not require us to pay any taxes.

### ***Discontinued operations***

See Note 4 to the Condensed Consolidated Financial Statements.

### ***Noncontrolling interests (Preferred stock dividends of subsidiaries)***

See Note 11 to the Condensed Consolidated Financial Statements.

### **Liquidity and Capital Resources**

We believe that cash flow from operations, existing cash and liquid investments, as well as borrowing capacity under our commercial paper program, the existing credit facility and debt capital markets should be sufficient to finance our capital requirements and to cover our customer deposits. Our potential uses of cash include but are not limited to the following: growth and expansion opportunities; internal investments; customer financing; restructuring payments; tax payments; interest and dividend payments; pension and other benefit plan funding; acquisitions; and share repurchase program.

We continue to review our liquidity profile. We have carefully monitored for material changes in the creditworthiness of those banks acting as derivative counterparties, depository banks or credit providers to us through credit ratings and the credit default swap market. We have determined that there has not been a material variation in the underlying sources of cash flows currently used to finance the operations of the company. To date, we have had consistent access to the commercial paper market.

**Cash Flow Summary**

The change in cash and cash equivalents is as follows:

| (Dollars in thousands)                                       | Three Months Ended March 31, |            |
|--------------------------------------------------------------|------------------------------|------------|
|                                                              | 2010                         | 2009       |
| Net cash provided by operating activities                    | \$ 306,148                   | \$ 276,471 |
| Net cash used in investing activities                        | (40,746)                     | (62,290)   |
| Net cash used in financing activities                        | (199,245)                    | (163,676)  |
| Effect of exchange rate changes on cash and cash equivalents | (1,954)                      | (3,959)    |
| Increase in cash and cash equivalents                        | \$ 64,203                    | \$ 46,546  |

**2010 Cash Flows**

Net cash provided by operating activities consists primarily of net income adjusted for non-cash items and changes in operating assets and liabilities. The increase in net cash provided by operating activities was due to decreases in finance receivable and accounts receivable balances of \$74.2 million and \$60.4 million, respectively. The decrease in finance receivables is due to the decline in the finance receivables portfolio as a result of reduced equipment sales from prior periods. The decrease in accounts receivable is primarily due to lower billings and strong collections. In addition, the timing of tax payments favorably contributed \$57.3 million. Partially offsetting these positive impacts was a reduction in accounts payable and accrued liabilities of \$56.9 million, primarily due to the timing of payments such as year-end incentive compensation and commissions as well as \$27.7 million in restructuring payments associated with the 2009 and 2007 programs.

Net cash used in investing activities consisted principally of capital expenditures of \$28.4 million.

Net cash used in financing activities included a decrease of \$122.0 million due to the repayment of commercial paper and dividends paid to common stockholders of \$75.6 million for the three months ended March 31, 2010.

**2009 Cash Flows**

The increase in net cash provided by operating activities was due to decreases in finance receivable and accounts receivable balances of \$102.2 million and \$72.8 million, respectively, resulting from lower billings and strong collections. In addition, the timing of tax payments favorably contributed \$58.6 million. Partially offsetting these positive impacts was a reduction in accounts payable and accrued liabilities of \$141.5 million, primarily due to the timing of payments such as year-end incentive compensation and commissions as well as \$32.7 million in restructuring payments associated with the 2007 program and a \$20.3 million payment for the settlement of derivatives related to the March 2009 debt issuance.

Net cash used in investing activities consisted principally of capital expenditures of \$47.8 million combined with a decrease in reserve account balances of \$21.7 million which is due to the timing of customer deposits as well as increased cash preservation by customers.

Net cash used in financing activities consisted primarily of a decrease in notes payable of \$384.7 million due to the repayment of commercial paper, which was partially offset by the proceeds from long term obligations of \$297.5 million related to the March 2009 debt issuance. Dividends paid to stockholders were \$74.3 million for the three months ended March 31, 2009.

**Capital Expenditures**

During the first three months of 2010, capital expenditures included \$11.7 million in net additions to property, plant and equipment and \$16.7 million in net additions to rental equipment and related inventories compared with \$24.6 million and \$23.2 million, respectively, in the same period in 2009. The decrease in capital expenditures is due to tighter control over capital spending.

**Financings and Capitalization**

We have a commercial paper program that is a significant source of liquidity for the Company. During 2010, we have continued to have consistent access to the commercial paper market. As of March 31, 2010, we had \$99 million of outstanding commercial paper issuances. We also have a committed line of credit of \$1.5 billion which supports commercial papers issuance and is provided by a syndicate of 16 banks until

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2011. As of March 31, 2010, this line of credit had not been drawn down. We are a Well-Known Seasoned Issuer with the SEC which allows us to issue debt securities, preferred stock, preference stock, common stock, purchase contracts, depositary shares, warrants and units in a more expedited fashion.

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We believe our financing needs in the short and long-term can be met from cash generated internally, the issuance of commercial paper, debt issuance under our effective shelf registration statement and borrowing capacity under our existing credit agreements.

### **Recent Accounting Pronouncements**

#### *Revenue Recognition*

In September 2009, new guidance was introduced addressing the accounting for revenue arrangements with multiple elements and certain revenue arrangements that include software. This will allow companies to allocate consideration in a multiple element arrangement in a way that better reflects the economics of the transaction and will result in the elimination of the residual method. In addition, tangible products that have software components that are essential to the functionality of the tangible product will be scoped out of the software revenue guidance. The new guidance will also result in more expansive disclosures. The new guidance will be effective on January 1, 2011, with early adoption permitted. We are currently evaluating the impact of adopting the new guidance.

### **Regulatory Matters**

With exception of the impact of the U.S. health care reform legislation disclosed in Note 15 to the Condensed Consolidated Financial Statements, there have been no significant changes to the regulatory matters disclosed in our 2009 Annual Report on Form 10-K.

### **Item 3: Quantitative and Qualitative Disclosures about Market Risk**

There were no material changes to the disclosures made in the Annual Report on Form 10-K for the year ended December 31, 2009 regarding this matter.

### **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 Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures are also designed to reasonably assure that such information is accumulated and communicated to our 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 the effectiveness of our disclosure controls and procedures and internal control over financial reporting. The CEO and CFO concluded that our disclosure controls and procedures were effective as of March 31, 2010. In addition, no changes in internal control over financial reporting occurred during the three months ended March 31, 2010, 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 disclosure controls and procedures are designed to provide reasonable assurance of achieving their stated objectives, and the CEO and CFO have concluded that the disclosure controls and procedures are effective at that reasonable assurance level.

## **PART II. OTHER INFORMATION**

### **Item 1: Legal Proceedings**

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 customers; 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.

Our wholly-owned subsidiary, Imagitas, Inc., was a defendant in ten purported class actions filed in six different states. These lawsuits have been coordinated in the United States District Court for the Middle District of Florida, In re: Imagitas, Driver's Privacy Protection Act Litigation (Coordinated, May 28, 2007). Each of these lawsuits alleged that the Imagitas DriverSource program violated the federal Drivers Privacy Protection Act (DPPA). Under the DriverSource program, Imagitas entered into contracts with state governments to mail out automobile registration renewal materials along with third party advertisements, without revealing the personal information of any state resident to any advertiser. The DriverSource program assisted the state in performing its governmental function of delivering these mailings and funding the costs of them. The plaintiffs in these actions were seeking

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statutory damages under the DPPA. On April 9, 2008, the District Court granted Imagitas' motion for summary judgment in one of the coordinated cases, Rine, et al. v. Imagitas, Inc. (United States District Court, Middle District of Florida, filed August 1, 2006). On July 30, 2008, the District Court issued a final judgment in the Rine lawsuit and stayed all of the other cases filed against Imagitas pending an appellate decision in Rine. On August 27, 2008, the Rine plaintiffs filed an appeal of the District Court's decision in the United States Court of Appeals, Eleventh Judicial Circuit (the Circuit Court). On December 21, 2009, the Circuit Court affirmed the District Court decision. On February 22, 2010, the Circuit Court denied the Rine plaintiffs' petition for rehearing en banc. The Rine plaintiffs' ability to pursue further review of this decision has expired. With respect to the remaining stayed cases, the District Court has requested that the parties provide status reports and a proposed schedule for the remaining proceedings.

We expect to prevail in the lawsuits against Imagitas; however, as litigation is inherently unpredictable, there can be no assurance in this regard. If the plaintiffs do prevail, the results may have a material effect on our financial position, future results of operations or cash flows, including, for example, our ability to offer certain types of goods or services in the future.

On October 28, 2009, the Company and certain of our current and former officers, were named as defendants in NECA-IBEW Health & Welfare Fund v. Pitney Bowes Inc. et al., a class action lawsuit filed in the U.S. District Court for the District of Connecticut. The complaint asserts claims under the Securities Exchange Act of 1934 on behalf of those who purchased the common stock of the Company during the period between July 30, 2007 and October 29, 2007 alleging that the company, in essence, missed two financial projections. We believe this case is without merit and intend to defend it vigorously.

### Item 1A: Risk Factors

There were no material changes to the risk factors identified in the Annual Report on Form 10-K for the year ended December 31, 2009.

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

#### *Repurchases of Equity Securities*

We repurchase shares of our common stock under a systematic program to manage the dilution created by shares issued under employee stock plans and for other purposes. This program authorizes repurchases in the open market. We have not repurchased or acquired any other shares of our common stock during 2010 in any other manner.

No shares were purchased during the first quarter of 2010, leaving approximately \$73.4 million available for future repurchases under this program at March 31, 2010.

### Item 3: Defaults Upon Senior Securities

None.

### Item 4: Submission of Matters to a Vote of Security Holders

Not applicable.

### Item 5: Other Information

None.

### Item 6: Exhibits

See Index of Exhibits.

**Signatures**

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

PITNEY BOWES INC.

May 5, 2010

/s/ Michael Monahan

Michael Monahan  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

/s/ S. J. Green

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

30

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### Exhibit Index

| Exhibit Number | Description                                                                                                                              | Page Number |
|----------------|------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| (12)           | Computation of ratio of earnings to fixed charges                                                                                        | Page 32     |
| (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 | Page 33     |
| (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 | Page 34     |
| (32.1)         | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350                                                              | Page 35     |
| (32.2)         | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350                                                              | Page 36     |
| 101.INS        | XBRL Report Instance Document                                                                                                            |             |
| 101.SCH        | XBRL Taxonomy Extension Schema Document                                                                                                  |             |
| 101.CAL        | XBRL Taxonomy Calculation Linkbase Document                                                                                              |             |
| 101.LAB        | XBRL Taxonomy Label Linkbase Document                                                                                                    |             |
| 101.PRE        | XBRL Taxonomy Presentation Linkbase Document                                                                                             |             |