

PITNEY BOWES INC /DE/  
Form 10-Q  
May 03, 2013

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, 2013

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-3579

PITNEY BOWES INC.

(Exact name of registrant as specified in its charter)

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

1 Elmcroft Road, Stamford, Connecticut 06926-0700  
(Address of principal executive offices) (Zip Code)

(203) 356-5000  
(Registrant's telephone number, including area code)

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

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

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

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

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

As of April 22, 2013, 201,473,817 shares of common stock, par value \$1 per share, of the registrant were outstanding.

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 for the Three Months Ended March 31, 2013 and 2012</u>               | <u>3</u>  |
|                | <u>Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2013 and 2012</u> | <u>4</u>  |
|                | <u>Condensed Consolidated Balance Sheets at March 31, 2013 and December 31, 2012</u>                                | <u>5</u>  |
|                | <u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2013 and 2012</u>           | <u>6</u>  |
|                | <u>Notes to Condensed Consolidated Financial Statements</u>   | <u>7</u>  |
| <u>Item 2:</u> | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                        | <u>26</u> |
| <u>Item 3:</u> | <u>Quantitative and Qualitative Disclosures about Market Risk</u>   | <u>33</u> |
| <u>Item 4:</u> | <u>Controls and Procedures</u>  | <u>33</u> |

Part II - Other Information:

|                 |  |           |
|-----------------|--|-----------|
| <u>Item 1:</u>  | <u>Legal Proceedings</u>   | <u>34</u> |
| <u>Item 1A:</u> | <u>Risk Factors</u>  | <u>34</u> |
| <u>Item 2:</u>  | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>34</u> |
| <u>Item 6:</u>  | <u>Exhibits</u>  | <u>34</u> |
|                 | <u>Signatures</u>  | <u>35</u> |

## PART I. FINANCIAL INFORMATION

## Item 1: Financial Statements

## PITNEY BOWES INC.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited; in thousands, except per share data)

|  | Three Months Ended |           |
|--|--------------------|-----------|
|  | March 31,          |           |
|  | 2013               | 2012      |
| Revenue:   |                    |           |
| Equipment sales  | \$214,999          | \$220,179 |
| Supplies   | 74,287             | 76,365    |
| Software   | 87,012             | 104,350   |
| Rentals  | 136,379            | 140,389   |
| Financing  | 116,762            | 126,748   |
| Support services   | 165,486            | 173,518   |
| Business services  | 372,031            | 378,587   |
| Total revenue  | 1,166,956          | 1,220,136 |
| Costs and expenses:  |                    |           |
| Cost of equipment sales  | 109,337            | 96,916    |
| Cost of supplies   | 23,262             | 23,871    |
| Cost of software   | 20,706             | 21,093    |
| Cost of rentals  | 27,755             | 30,225    |
| Financing interest expense   | 19,875             | 21,139    |
| Cost of support services   | 108,009            | 115,087   |
| Cost of business services  | 291,648            | 286,817   |
| Selling, general and administrative  | 377,206            | 405,486   |
| Research and development   | 33,335             | 34,073    |
| Other interest expense   | 30,739             | 29,367    |
| Interest income  | (1,748             | ) (1,733  |
| Other expense (income), net  | 25,121             | (3,234    |
| Total costs and expenses   | 1,065,245          | 1,059,107 |
| Income from continuing operations before income taxes                                    | 101,711            | 161,029   |
| Provision for income taxes   | 27,549             | 15,493    |
| Income from continuing operations  | 74,162             | 145,536   |
| (Loss) income from discontinued operations, net of tax                                   | (2,062             | ) 17,728  |
| Net income before attribution of noncontrolling interests                                | 72,100             | 163,264   |
| Less: Preferred stock dividends of subsidiaries attributable to noncontrolling interests | 4,594              | 4,594     |
| Net income - Pitney Bowes Inc.   | \$67,506           | \$158,670 |
| Amounts attributable to common stockholders:   |                    |           |
| Net income from continuing operations  | \$69,568           | \$140,942 |
| (Loss) income from discontinued operations, net of tax                                   | (2,062             | ) 17,728  |
| Net income - Pitney Bowes Inc.   | \$67,506           | \$158,670 |
| Basic earnings per share attributable to common stockholders:                            |                    |           |
| Continuing operations  | \$0.35             | \$0.70    |
| Discontinued operations  | (0.01              | ) 0.09    |
| Net income - Pitney Bowes Inc.   | \$0.34             | \$0.79    |

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|   |        |        |
|---|--------|--------|
| Diluted earnings per share attributable to common stockholders: |        |        |
| Continuing operations   | \$0.34 | \$0.70 |
| Discontinued operations   | (0.01  | ) 0.09 |
| Net income - Pitney Bowes Inc.                                  | \$0.33 | \$0.79 |

See Notes to Condensed Consolidated Financial Statements

3

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

|   | Three Months Ended<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2013                            | 2012      |
| Net income  | \$72,100                        | \$163,264 |
| Other comprehensive income, net of tax:   |                                 |           |
| Net unrealized gain on cash flow hedges, net of tax of \$344 and \$32, respectively               | 538                             | 49        |
| Net unrealized gain on investment securities, net of tax of \$175 and \$(548), respectively       | 274                             | (857)     |
| Amortization of pension and postretirement costs, net of tax of \$6,139 and \$6,886, respectively | 10,631                          | 11,988    |
| Foreign currency translations   | (42,204)                        | ) 33,359  |
| Other comprehensive (loss) income   | (30,761)                        | ) 44,539  |
| Comprehensive income  | 41,339                          | 207,803   |
| Less: Preferred stock dividends of subsidiaries attributable to noncontrolling interests          | 4,594                           | 4,594     |
| Total comprehensive income - Pitney Bowes Inc.  | \$36,745                        | \$203,209 |

See Notes to Condensed Consolidated Financial Statements

4

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

|   | March 31, 2013 | December 31,<br>2012 |
|---|----------------|----------------------|
| <b>ASSETS</b>   |                |                      |
| Current assets:   |                |                      |
| Cash and cash equivalents   | \$909,664      | \$913,276            |
| Short-term investments  | 37,712         | 36,611               |
| Accounts receivable, gross  | 663,357        | 748,469              |
| Allowance for doubtful accounts receivables                               | (15,739        | ) (20,219            |
| Accounts receivable, net  | 647,618        | 728,250              |
| Finance receivables   | 1,160,865      | 1,213,776            |
| Allowance for credit losses   | (23,774        | ) (25,484            |
| Finance receivables, net  | 1,137,091      | 1,188,292            |
| Inventories   | 167,469        | 179,678              |
| Current income taxes  | 49,082         | 51,836               |
| Other current assets and prepayments                                      | 113,142        | 114,184              |
| Total current assets  | 3,061,778      | 3,212,127            |
| Property, plant and equipment, net  | 377,246        | 385,377              |
| Rental property and equipment, net  | 236,026        | 241,192              |
| Finance receivables   | 993,242        | 1,041,099            |
| Allowance for credit losses   | (13,206        | ) (14,610            |
| Finance receivables, net  | 980,036        | 1,026,489            |
| Investment in leveraged leases  | 34,236         | 34,546               |
| Goodwill  | 2,115,450      | 2,136,138            |
| Intangible assets, net  | 153,440        | 166,214              |
| Non-current income taxes  | 93,391         | 94,434               |
| Other assets  | 564,503        | 563,374              |
| Total assets  | \$7,616,106    | \$7,859,891          |
| <b>LIABILITIES, NONCONTROLLING INTERESTS AND STOCKHOLDERS' EQUITY</b>     |                |                      |
| Current liabilities:  |                |                      |
| Accounts payable and accrued liabilities                                  | \$1,586,957    | \$1,809,226          |
| Current income taxes  | 207,081        | 240,681              |
| Notes payable and current portion of long-term obligations                | 375,000        | 375,000              |
| Advance billings  | 466,677        | 452,130              |
| Total current liabilities   | 2,635,715      | 2,877,037            |
| Deferred taxes on income  | 94,883         | 69,222               |
| Tax uncertainties and other income tax liabilities                        | 144,739        | 145,881              |
| Long-term debt  | 3,657,634      | 3,642,375            |
| Other non-current liabilities   | 713,578        | 718,375              |
| Total liabilities   | 7,246,549      | 7,452,890            |
| Noncontrolling interests (Preferred stockholders' equity in subsidiaries) | 296,370        | 296,370              |
| Commitments and contingencies (See Note 12)                               |                |                      |
| Stockholders' equity:   |                |                      |
| Cumulative preferred stock, \$50 par value, 4% convertible                | 4              | 4                    |
| Cumulative preference stock, no par value, \$2.12 convertible             | 648            | 648                  |
|   | 323,338        | 323,338              |

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|  |             |              |   |
|--|-------------|--------------|---|
| Common stock, \$1 par value (480,000,000 shares authorized; 323,337,912 shares issued) |             |              |   |
| Additional paid-in capital   | 203,454     | 223,847      |   |
| Retained earnings  | 4,736,961   | 4,744,802    |   |
| Accumulated other comprehensive loss   | (711,974    | ) (681,213   | ) |
| Treasury stock, at cost (121,867,606 and 122,453,865 shares, respectively)             | (4,479,244  | ) (4,500,795 | ) |
| Total Pitney Bowes Inc. stockholders' equity   | 73,187      | 110,631      |   |
| Total liabilities, noncontrolling interests and stockholders' equity                   | \$7,616,106 | \$7,859,891  |   |
| See Notes to Condensed Consolidated Financial Statements                               |             |              |   |

5

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

|  | Three Months Ended March |           |
|--|--------------------------|-----------|
|  | 31,                      |           |
|  | 2013                     | 2012      |
| Cash flows from operating activities:  |                          |           |
| Net income before attribution of noncontrolling interests                                  | \$72,100                 | \$163,264 |
| Restructuring payments   | (16,275)                 | (26,245)  |
| Special pension plan contributions   | —                        | (95,000)  |
| Tax payments related to sale of leveraged lease assets                                     | —                        | (69,233)  |
| Adjustments to reconcile net income to net cash provided by operating activities:          |                          |           |
| Gain on sale of leveraged lease assets, net of tax   | —                        | (12,886)  |
| Proceeds from settlement of derivative instruments   | 4,838                    | —         |
| Depreciation and amortization  | 57,227                   | 64,370    |
| Stock-based compensation   | 3,704                    | 4,377     |
| Changes in operating assets and liabilities:   |                          |           |
| (Increase) decrease in accounts receivable   | 71,401                   | 34,798    |
| (Increase) decrease in finance receivables   | 76,628                   | 63,926    |
| (Increase) decrease in inventories   | 8,807                    | 925       |
| (Increase) decrease in other current assets and prepayments                                | (4,396)                  | (13,002)  |
| Increase (decrease) in accounts payable and accrued liabilities                            | (169,292)                | (141,759) |
| Increase (decrease) in current and non-current income taxes                                | (11,472)                 | 53,087    |
| Increase (decrease) in advance billings  | 23,101                   | 43,166    |
| Increase (decrease) in other operating capital, net  | 15,789                   | 1,592     |
| Net cash provided by operating activities  | 132,160                  | 71,380    |
| Cash flows from investing activities:  |                          |           |
| Short-term and other investments   | 2,143                    | (8,334)   |
| Capital expenditures   | (38,839)                 | (50,029)  |
| Proceeds from sale of leveraged lease assets   | —                        | 105,506   |
| Net investment in external financing   | (506)                    | (825)     |
| Reserve account deposits   | (27,327)                 | (25,674)  |
| Net cash (used in) provided by investing activities  | (64,529)                 | 20,644    |
| Cash flows from financing activities:  |                          |           |
| Proceeds from the issuance of long-term obligations, net of fees and discounts of \$13,387 | 411,613                  | —         |
| Principal payments of long-term obligations  | (404,637)                | (150,000) |
| Increase in commercial paper borrowings, net   | —                        | 177,830   |
| Proceeds from the issuance of common stock under employee stock-based compensation plans   | 1,876                    | 2,059     |
| Dividends paid to stockholders   | (75,347)                 | (74,938)  |
| Net cash used in financing activities  | (66,495)                 | (45,049)  |
| Effect of exchange rate changes on cash and cash equivalents                               | (4,748)                  | 12,340    |
| (Decrease) increase in cash and cash equivalents   | (3,612)                  | 59,315    |
| Cash and cash equivalents at beginning of period   | 913,276                  | 856,238   |
| Cash and cash equivalents at end of period   | \$909,664                | \$915,553 |
| Cash interest paid   | \$72,650                 | \$77,572  |

|  |          |          |
|--|----------|----------|
| Cash income tax payments, net of refunds | \$36,871 | \$28,148 |
|--|----------|----------|

See Notes to Condensed Consolidated Financial Statements

6

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## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

## 1. Description of Business and Basis of Presentation

Pitney Bowes Inc. and its subsidiaries (we, us, our or the company) is a global provider of software, hardware and services that enables and integrates both physical and digital communications. We offer a full suite of equipment, supplies, software, services and solutions for managing and integrating physical and digital communication channels. We conduct our business activities in seven reporting segments within two business groups: Small & Medium Business Solutions and Enterprise Business Solutions. See Note 13 for information regarding our reportable segments. The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In addition, the December 31, 2012 Condensed Consolidated Balance Sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. In management's opinion, all adjustments, consisting only of normal recurring adjustments, considered necessary to state fairly our financial position, results of operations and cash flows for the periods presented have been included. Operating results for the periods presented are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2013.

In January 2013, the Financial Accounting Standards Board issued Accounting Standards Update No. 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities (ASU 2013-01), ASU 2013-01 requires an entity to disclose gross and net information about transactions that are (1) offset in the financial statements or (2) subject to an enforceable master netting arrangement or similar agreement, regardless of whether the transactions are actually offset in the statement of financial position. The disclosure requirements are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The amounts impacting our disclosure were immaterial at March 31, 2013 and December 31, 2012.

In February 2013, the Financial Accounting Standards Board issued Accounting Standards Update No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (ASU 2013-02). ASU 2013-02 requires an entity to present either parenthetically on the face of the financial statements, or in the notes, significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. The new standard became effective this quarter. The adoption of this standard resulted in additional disclosures, but did not impact our financial condition, results of operations or cash flows.

During the fourth quarter of 2012, we determined that changes in certain investment-related working capital accounts that were classified as cash flows from operating activities in the Condensed Consolidated Statement of Cash Flows should have been classified as cash flows from investing activities. Accordingly, the Condensed Consolidated Statement of Cash Flows for the period ended March 31, 2012 has been revised to reflect the correct classification of cash flows, resulting in an increase in cash provided by operating activities and an increase in cash used in investing activities of \$25 million.

These statements should be read in conjunction with the financial statements and notes thereto included in our Annual Report to Stockholders on Form 10-K for the year ended December 31, 2012 (the 2012 Annual Report). Certain prior year amounts have been reclassified to conform to the current period presentation.

## 2. Inventories

Inventories at March 31, 2013 and December 31, 2012 consisted of the following:

|                                   | March 31,<br>2013 | December 31,<br>2012 |
|-----------------------------------|-------------------|----------------------|
| Raw materials and work in process | \$60,389          | \$66,221             |
| Supplies and service parts        | 70,842            | 72,551               |

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|                                    |           |           |   |
|------------------------------------|-----------|-----------|---|
| Finished products                  | 63,925    | 68,335    |   |
| Inventory at FIFO cost             | 195,156   | 207,107   |   |
| Excess of FIFO cost over LIFO cost | (27,687   | ) (27,429 | ) |
| Total inventory, net               | \$167,469 | \$179,678 |   |

7

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## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

## 3. Finance Assets

## Finance Receivables

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

Sales-type lease receivables are generally due in monthly, quarterly or semi-annual installments over periods ranging from three to five years. Loan receivables arise primarily from financing services offered to our customers for postage and related supplies. Loan receivables are generally due each month; however, customers may rollover outstanding balances.

Finance receivables at March 31, 2013 and December 31, 2012 consisted of the following:

|  | March 31, 2013    |               |             |
|--|-------------------|---------------|-------------|
|  | North<br>America  | International | Total       |
| Sales-type lease receivables                   |                   |               |             |
| Gross finance receivables                      | \$1,527,074       | \$435,822     | \$1,962,896 |
| Unguaranteed residual values                   | 139,759           | 20,190        | 159,949     |
| Unearned income                                | (307,448 )        | (98,744 )     | (406,192 )  |
| Allowance for credit losses                    | (15,572 )         | (7,767 )      | (23,339 )   |
| Net investment in sales-type lease receivables | 1,343,813         | 349,501       | 1,693,314   |
| Loan receivables                               |                   |               |             |
| Loan receivables                               | 393,283           | 44,171        | 437,454     |
| Allowance for credit losses                    | (11,829 )         | (1,812 )      | (13,641 )   |
| Net investment in loan receivables             | 381,454           | 42,359        | 423,813     |
| Net investment in finance receivables          | \$1,725,267       | \$391,860     | \$2,117,127 |
|  |                   |               |             |
|  | December 31, 2012 |               |             |
|  | North<br>America  | International | Total       |
| Sales-type lease receivables                   |                   |               |             |
| Gross finance receivables                      | \$1,581,711       | \$461,510     | \$2,043,221 |
| Unguaranteed residual values                   | 148,664           | 21,025        | 169,689     |
| Unearned income                                | (316,030 )        | (104,258 )    | (420,288 )  |
| Allowance for credit losses                    | (16,979 )         | (8,662 )      | (25,641 )   |
| Net investment in sales-type lease receivables | 1,397,366         | 369,615       | 1,766,981   |
| Loan receivables                               |                   |               |             |
| Loan receivables                               | 414,960           | 47,293        | 462,253     |
| Allowance for credit losses                    | (12,322 )         | (2,131 )      | (14,453 )   |
| Net investment in loan receivables             | 402,638           | 45,162        | 447,800     |
| Net investment in finance receivables          | \$1,800,004       | \$414,777     | \$2,214,781 |

## Allowance for Credit Losses and Aging of Receivables

We estimate our finance receivable risks and provide an allowance for credit losses accordingly. We evaluate the adequacy of the allowance for credit losses based on historical loss experience, the nature and volume of our portfolios, adverse situations that may affect a client's ability to pay, prevailing economic conditions and our ability to manage the collateral and make adjustments to the allowance as necessary. This evaluation is inherently subjective and actual results may differ significantly from estimated reserves.

We establish credit approval limits based on the credit quality of the client and the type of equipment financed. Our policy is to discontinue revenue recognition for lease receivables that are more than 120 days past due and for

unsecured loan receivables that are more than 90 days past due. We resume revenue recognition when payments reduce the account balance aging to 60 days or less past due. Finance receivables deemed uncollectible are written off against the allowance after all collection efforts have been exhausted and management deems the account to be uncollectible. We believe that our finance receivable credit risk is limited because of our large number of clients, small account balances for most of our clients, and geographic and industry diversification.

8

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## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

Activity in the allowance for credit losses for finance receivables for the three months ended March 31, 2013 was as follows:

|                            | Sales-type Lease Receivables |               | Loan Receivables |               | Total    |
|----------------------------|------------------------------|---------------|------------------|---------------|----------|
|                            | North America                | International | North America    | International |          |
| Balance at January 1, 2013 | \$16,979                     | \$8,662       | \$12,322         | \$2,131       | \$40,094 |
| Amounts charged to expense | 1,067                        | 360           | 2,462            | 70            | 3,959    |
| Accounts written off       | (2,474)                      | (1,255)       | (2,955)          | (389)         | (7,073)  |
| Balance at March 31, 2013  | \$15,572                     | \$7,767       | \$11,829         | \$1,812       | \$36,980 |

## Aging of Receivables

The aging of gross finance receivables at March 31, 2013 and December 31, 2012 was as follows:

|                            | Sales-type Lease Receivables |               | Loan Receivables |               | Total       |
|----------------------------|------------------------------|---------------|------------------|---------------|-------------|
|                            | North America                | International | North America    | International |             |
| March 31, 2013             |                              |               |                  |               |             |
| < 31 days                  | \$1,445,912                  | \$399,412     | \$375,470        | \$42,329      | \$2,263,123 |
| > 30 days and < 61 days    | 36,003                       | 13,952        | 9,602            | 1,126         | 60,683      |
| > 60 days and < 91 days    | 22,693                       | 11,824        | 3,647            | 341           | 38,505      |
| > 90 days and < 121 days   | 6,143                        | 3,735         | 1,845            | 187           | 11,910      |
| > 120 days                 | 16,323                       | 6,899         | 2,719            | 188           | 26,129      |
| Total                      | \$1,527,074                  | \$435,822     | \$393,283        | \$44,171      | \$2,400,350 |
| Past due amounts > 90 days |                              |               |                  |               |             |
| Still accruing interest    | \$6,143                      | \$3,735       | \$—              | \$—           | \$9,878     |
| Not accruing interest      | 16,323                       | 6,899         | 4,564            | 375           | 28,161      |
| Total                      | \$22,466                     | \$10,634      | \$4,564          | \$375         | \$38,039    |

|                            | Sales-type Lease Receivables |               | Loan Receivables |               | Total       |
|----------------------------|------------------------------|---------------|------------------|---------------|-------------|
|                            | North America                | International | North America    | International |             |
| December 31, 2012          |                              |               |                  |               |             |
| < 31 days                  | \$1,497,797                  | \$435,780     | \$392,108        | \$45,324      | \$2,371,009 |
| > 30 days and < 61 days    | 37,348                       | 9,994         | 12,666           | 1,368         | 61,376      |
| > 60 days and < 91 days    | 24,059                       | 5,198         | 4,577            | 285           | 34,119      |
| > 90 days and < 121 days   | 6,665                        | 3,327         | 2,319            | 179           | 12,490      |
| > 120 days                 | 15,842                       | 7,211         | 3,290            | 137           | 26,480      |
| Total                      | \$1,581,711                  | \$461,510     | \$414,960        | \$47,293      | \$2,505,474 |
| Past due amounts > 90 days |                              |               |                  |               |             |
| Still accruing interest    | \$6,665                      | \$3,327       | \$—              | \$—           | \$9,992     |
| Not accruing interest      | 15,842                       | 7,211         | 5,609            | 316           | 28,978      |
| Total                      | \$22,507                     | \$10,538      | \$5,609          | \$316         | \$38,970    |

## Credit Quality

The extension of credit and management of credit lines to new and existing clients uses a combination of an automated credit score, where available, and a detailed manual review of the client's financial condition and, when applicable, payment history. Once credit is granted, the payment performance of the client is managed through

automated collections processes and is supplemented with direct follow up should an account become delinquent. We have robust automated collections and extensive portfolio management processes.

9

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## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

The portfolio management processes ensure that our global strategy is executed, collection resources are allocated appropriately and enhanced tools and processes are implemented as needed.

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

The table below shows the North America portfolio at March 31, 2013 and December 31, 2012 by relative risk class (low, medium, high) based on the relative scores of the accounts within each class. The relative scores are determined based on a number of factors, including the company type, ownership structure, payment history and financial information. A fourth class is shown for accounts that are not scored. Absence of a score is not indicative of the credit quality of the account. The degree of risk, as defined by the third party, refers to the relative risk that an account in the next 12 month period may become delinquent.

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

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

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

|                              | March 31,<br>2013 | December 31,<br>2012 |
|------------------------------|-------------------|----------------------|
| Sales-type lease receivables |                   |                      |
| Low                          | \$ 1,030,809      | \$ 1,016,413         |
| Medium                       | 397,721           | 450,432              |
| High                         | 45,669            | 43,658               |
| Not Scored                   | 52,875            | 71,208               |
| Total                        | \$ 1,527,074      | \$ 1,581,711         |
| Loan receivables             |                   |                      |
| Low                          | \$ 248,494        | \$ 254,567           |
| Medium                       | 127,599           | 136,069              |
| High                         | 13,786            | 14,624               |
| Not Scored                   | 3,404             | 9,700                |
| Total                        | \$ 393,283        | \$ 414,960           |

## Troubled Debt

We maintain a program for U.S. clients in our North America loan portfolio who are experiencing financial difficulties, but are able to make reduced payments over an extended period of time. Upon acceptance into the program, the client's credit line is closed and interest accrual is suspended. There is generally no forgiveness of debt or reduction of balances owed. The balance of loans in this program, related loan loss allowance and write-offs are insignificant to the overall portfolio.

## Leveraged Leases

Our investment in leveraged lease assets at March 31, 2013 and December 31, 2012 consisted of the following:

|  | March 31,<br>2013 | December 31,<br>2012 |
|--|-------------------|----------------------|
| Rental receivables                           | \$ 78,287         | \$ 83,254            |
| Unguaranteed residual values                 | 13,841            | 14,177               |
| Principal and interest on non-recourse loans | (50,802           | ) (55,092            |
| Unearned income                              | (7,090            | ) (7,793             |
| Investment in leveraged leases               | 34,236            | 34,546               |

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|  |          |           |   |
|--|----------|-----------|---|
| Less: deferred taxes related to leveraged leases | (18,234  | ) (19,372 | ) |
| Net investment in leveraged leases               | \$16,002 | \$15,174  |   |

10

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## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

## 4. Intangible Assets and Goodwill

## Intangible assets

Intangible assets at March 31, 2013 and December 31, 2012 consisted of the following:

|                          | March 31, 2013        |                          |                     | December 31, 2012     |                          |                     |
|--------------------------|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
|                          | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Customer relationships   | \$403,534             | \$(274,203 )             | \$129,331           | \$407,901             | \$(269,100 )             | \$138,801           |
| Supplier relationships   | 29,000                | (22,838 )                | 6,162               | 29,000                | (22,113 )                | 6,887               |
| Software & technology    | 167,873               | (152,074 )               | 15,799              | 169,632               | (151,628 )               | 18,004              |
| Trademarks & trade names | 34,554                | (32,450 )                | 2,104               | 35,078                | (32,615 )                | 2,463               |
| Non-compete agreements   | 7,372                 | (7,328 )                 | 44                  | 7,471                 | (7,412 )                 | 59                  |
| Total intangible assets  | \$642,333             | \$(488,893 )             | \$153,440           | \$649,082             | \$(482,868 )             | \$166,214           |

Amortization expense for intangible assets was \$10 million and \$12 million for the three months ended March 31, 2013 and 2012, respectively. The future amortization expense for intangible assets as of March 31, 2013 was as follows:

|  |           |
|--|-----------|
| Remaining for year ended December 31, 2013 | \$28,120  |
| Year ended December 31, 2014               | 36,919    |
| Year ended December 31, 2015               | 32,383    |
| Year ended December 31, 2016               | 24,071    |
| Year ended December 31, 2017               | 11,409    |
| Thereafter                                 | 20,538    |
| Total                                      | \$153,440 |

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

## Goodwill

The changes in the carrying amount of goodwill, by reporting segment, for the three months ended March 31, 2013 were as follows:

|                                   | Gross value before accumulated impairment | Accumulated impairment | December 31, 2012 | Other (1)   | March 31, 2013 |
|-----------------------------------|---|------------------------|-------------------|-------------|----------------|
| North America Mailing             | \$355,874                                 | \$—                    | \$355,874         | \$(4,164 )  | \$351,710      |
| International Mailing             | 183,908                                   | —                      | 183,908           | (5,664 )    | 178,244        |
| Small & Medium Business Solutions | 539,782                                   | —                      | 539,782           | (9,828 )    | 529,954        |
| Production Mail                   | 131,866                                   | —                      | 131,866           | (3,773 )    | 128,093        |
| Software                          | 671,218                                   | —                      | 671,218           | (5,398 )    | 665,820        |
| Management Services               | 488,399                                   | (84,500 )              | 403,899           | (1,689 )    | 402,210        |
| Mail Services                     | 259,105                                   | (63,965 )              | 195,140           | —           | 195,140        |
| Marketing Services                | 194,233                                   | —                      | 194,233           | —           | 194,233        |
| Enterprise Business Solutions     | 1,744,821                                 | (148,465 )             | 1,596,356         | (10,860 )   | 1,585,496      |
| Total                             | \$2,284,603                               | \$(148,465 )           | \$2,136,138       | \$(20,688 ) | \$2,115,450    |

(1) Primarily foreign currency translation adjustments.



## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

## 5. Debt

Debt at March 31, 2013 and December 31, 2012 consisted of the following:

|   | March 31,<br>2013 | December 31,<br>2012 |
|---|-------------------|----------------------|
| Term loans                                | \$230,000         | \$230,000            |
| 3.875% notes due 2013                     | 375,000           | 375,000              |
| 4.875% notes due 2014 <sup>(1), (2)</sup> | 299,570           | 450,000              |
| 5.0% notes due 2015 <sup>(1)</sup>        | 274,879           | 400,000              |
| 4.75% notes due 2016 <sup>(1)</sup>       | 370,914           | 500,000              |
| 5.75% notes due 2017                      | 500,000           | 500,000              |
| 5.60% notes due 2018                      | 250,000           | 250,000              |
| 4.75% notes due 2018                      | 350,000           | 350,000              |
| 6.25% notes due 2019                      | 300,000           | 300,000              |
| 5.25% notes due 2022                      | 110,000           | 110,000              |
| 5.25% notes due 2037                      | 500,000           | 500,000              |
| 6.70% notes due 2043 <sup>(3)</sup>       | 425,000           | —                    |
| Other <sup>(4)</sup>                      | 47,271            | 52,375               |
| Total debt                                | 4,032,634         | 4,017,375            |
| Current portion                           | 375,000           | 375,000              |
| Long-term debt                            | \$3,657,634       | \$3,642,375          |

During the quarter, we completed a cash tender offer (the Tender Offer) for a portion of our 4.875% Notes due 2014, our 5.0% Notes due 2015, and our 4.75% Notes due 2016 (the Subject Notes). Holders who validly tendered their notes received the principal amount of the notes tendered, all accrued and unpaid interest and a premium (1) amount. An aggregate \$405 million of the Subject Notes were tendered. A net loss of \$25 million, consisting of the premium payments, the write-off of unamortized costs and fees, partially offset by a gain from the unwinding of interest rate swap agreements, was recognized as Other expense (income), net on the Condensed Consolidated Statements of Income.

Prior to the Tender Offer, we had interest rate swap agreements with an aggregate notional value of \$450 million (2) that effectively converted the fixed rate interest payments on these notes into variable interest rates. As a result of the Tender Offer, we unwound \$225 million of these swap agreements.

During the quarter, we issued \$425 million of 30-year notes with a fixed-rate of 6.7%. Interest is payable quarterly (3) commencing in June 2013. The notes mature in 2043, but may be redeemed, at our option, in whole or in part, at any time on or after March 7, 2018 at a redemption price equal to 100% of the principal amount, plus accrued and unpaid interest. The net proceeds from the notes were used to fund the repurchase of notes under the Tender Offer.

(4) Other consists of the unamortized net proceeds received from unwinding of interest rate swaps, the mark-to-market adjustment of interest rate swaps and debt discounts and premiums.

At March 31, 2013, there were no outstanding commercial paper borrowings. During the quarter, commercial paper borrowings averaged \$100 million at a weighted-average interest rate of 0.41% and the maximum amount outstanding at any time was \$300 million.

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

6. Noncontrolling Interests (Preferred Stockholders' Equity in Subsidiaries)

Pitney Bowes International Holdings, Inc. (PBIH), a subsidiary, has 300,000 shares, or \$300 million, of outstanding perpetual voting preferred stock (the Preferred Stock) held by certain institutional investors. The holders of the Preferred Stock 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 the company. The Preferred Stock is entitled to cumulative dividends at a rate of 6.125% through 2016 after which it becomes callable and, if it remains outstanding, will yield a dividend that increases by 50% every six months thereafter. No dividends were in arrears at March 31, 2013 or December 31, 2012. There was no change in the carrying value of noncontrolling interests during the period ended March 31, 2013 or the year ended December 31, 2012.

7. Income Taxes

The effective tax rate for the three months ended March 31, 2013 and 2012 was 27.1% and 9.6%, respectively. The effective tax rate for the three months ended March 31, 2013 includes tax benefits of \$4 million from the retroactive effect of 2013 U.S. tax legislation. The effective tax rate for the three months ended March 31, 2012 includes tax benefits of \$17 million from the sale of non-U.S. leveraged lease assets and \$22 million from the resolution of tax examinations.

As is the case with other large corporations, our tax returns are examined each year by tax authorities in the U.S., other countries and local jurisdictions in which we have operations. We regularly assess the likelihood of tax adjustments in each of the tax jurisdictions in which we do business and account for the related financial statement implications. We believe we have established tax reserves that are appropriate given the possibility of tax adjustments. However, determining the appropriate level of tax reserves requires judgment regarding the uncertain application of tax law and the possibility of tax adjustments. Future changes in tax reserve requirements could have a material impact, positive or negative, on our results of operations, financial position and cash flows.

On August 27, 2012, the Third Circuit Court of Appeals overturned a prior Tax Court decision and ruled in favor of the IRS and adverse to the Historic Boardwalk Hall LLC, a partnership in which we had made an investment in the year 2000. The decision has been appealed and, therefore, the judgment is not yet final. Based on our partnership contractual relationship, we do not expect this matter to have a material effect on our results of operations.

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

## 8. Stockholders' Equity

Changes in stockholders' equity for the three months ended March 31, 2013 and 2012 were as follows:

|                                  | Preferred<br>stock | Preference<br>stock | Common<br>stock | Additional<br>paid-in<br>capital | Retained<br>earnings | Accumulated<br>other<br>comprehensiv<br>loss | Treasury<br>stock | Total<br>equity |
|----------------------------------|--------------------|---------------------|-----------------|----------------------------------|----------------------|--|-------------------|-----------------|
| Balance at January 1, 2013       | \$4                | \$ 648              | \$323,338       | \$223,847                        | \$4,744,802          | \$ (681,213 )                                | \$(4,500,795)     | \$110,631       |
| Net income                       | —                  | —                   | —               | —                                | 67,506               | —  | —                 | 67,506          |
| Other comprehensive income       | —                  | —                   | —               | —                                | —                    | (30,761 )                                    | —                 | (30,761 )       |
| Cash dividends                   |                    |                     |                 |                                  |                      |  |                   |                 |
| Common (\$1.125 per share)       | —                  | —                   | —               | —                                | (75,334 )            | —  | —                 | (75,334 )       |
| Preference                       | —                  | —                   | —               | —                                | (13 )                | —  | —                 | (13 )           |
| Issuances of common stock        | —                  | —                   | —               | (24,097 )                        | —                    | —  | 21,551            | (2,546 )        |
| Stock-based compensation expense | —                  | —                   | —               | 3,704                            | —                    | —  | —                 | 3,704           |
| Balance at March 31, 2013        | \$4                | \$ 648              | \$323,338       | \$203,454                        | \$4,736,961          | \$ (711,974 )                                | \$(4,479,244)     | \$73,187        |

|                                  | Preferred<br>stock | Preference<br>stock | Common<br>stock | Additional<br>paid-in<br>capital | Retained<br>earnings | Accumulated<br>other<br>comprehensiv<br>loss | Treasury<br>stock | Total<br>equity |
|----------------------------------|--------------------|---------------------|-----------------|----------------------------------|----------------------|--|-------------------|-----------------|
| Balance at January 1, 2012       | \$4                | \$ 659              | \$323,338       | \$240,584                        | \$4,600,217          | \$ (661,645 )                                | \$(4,542,143)     | \$(38,986)      |
| Net income                       | —                  | —                   | —               | —                                | 158,670              | —  | —                 | 158,670         |
| Other comprehensive income       | —                  | —                   | —               | —                                | —                    | 44,539                                       | —                 | 44,539          |
| Cash dividends                   |                    |                     |                 |                                  |                      |  |                   |                 |
| Common (\$1.11 per share)        | —                  | —                   | —               | —                                | (74,925 )            | —  | —                 | (74,925 )       |
| Preference                       | —                  | —                   | —               | —                                | (13 )                | —  | —                 | (13 )           |
| Issuances of common stock        | —                  | —                   | —               | (18,931 )                        | —                    | —  | 16,352            | (2,579 )        |
| Conversions to common stock      | —                  | (6 )                | —               | (121 )                           | —                    | —  | 127               | —               |
| Stock-based compensation expense | —                  | —                   | —               | 4,337                            | —                    | —  | —                 | 4,337           |
| Balance at March 31, 2012        | \$4                | \$ 653              | \$323,338       | \$225,869                        | \$4,683,949          | \$ (617,106 )                                | \$(4,525,664)     | \$91,043        |





## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

## 9. Accumulated Other Comprehensive Income

Changes in accumulated other comprehensive income (AOCI) for the three months ended March 31, 2013 was as follows:

|  | Gains (losses)<br>on cash flow<br>hedges | Unrealized<br>gains (losses)<br>on available<br>for sale<br>securities | Defined benefit<br>pension plans<br>and nonpension<br>postretirement<br>benefit plans | Foreign<br>currency<br>items | Total        |
|--|--|--|---|------------------------------|--------------|
| Beginning balance  | \$(7,777 )                               | \$4,513  | \$(759,199 )  | \$81,250                     | \$(681,213 ) |
| Other comprehensive income before<br>reclassifications (a)                   | 72                                       | (1,372 )   | —   | (42,204 )                    | (43,504 )    |
| Amounts reclassified from accumulated<br>other comprehensive income (a), (b) | 466                                      | 1,646  | 10,631  | —                            | 12,743       |
| Net current period other comprehensive<br>income                             | 538                                      | 274  | 10,631  | (42,204 )                    | (30,761 )    |
| Ending balance   | \$(7,239 )                               | \$4,787  | \$(748,568 )  | \$39,046                     | \$(711,974 ) |

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

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

Reclassifications out of accumulated other comprehensive income for the three months ended March 31, 2013 was as follows:

| AOCI Component   | Amount<br>Reclassified<br>from AOCI<br>(a) | Affected Statement of<br>Income Line Item |
|--|--|---|
| Gains (losses) on cash flow hedges   |  |   |
| Foreign exchange contracts   | \$(382 )                                   | Revenue                                   |
| Foreign exchange contracts   | 126  | Cost of sales                             |
| Interest rate lock contracts   | (507 )                                     | Interest expense                          |
|  | (763 )                                     | Total before tax                          |
|  | 297  | Tax benefit                               |
|  | \$(466 )                                   | Net of tax                                |
| Unrealized gains (losses) on available for sale securities                   |  |   |
|  | \$(2,612 )                                 | Interest income                           |
|  | 966  | Tax benefit                               |
|  | \$(1,646 )                                 | Net of tax                                |
| Defined Benefit Pension Plans and Nonpension Postretirement Benefit<br>Plans |  |   |
| Transition credit  | \$2 (b)                                    |   |
| Prior service costs  | (198 ) (b)                                 |   |
| Actuarial losses   | (16,574 ) (b)                              |   |
|  | (16,770 )                                  | Total before tax                          |

|             |             |
|-------------|-------------|
| 6,139       | Tax benefit |
| \$(10,631 ) | Net of tax  |

- (a) Amounts in parentheses indicate debits (reductions) to income.
- (b) These items are included in the computation of net periodic costs of defined benefit pension plans and nonpension postretirement benefit plans (see Note 14 for additional details).

15

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## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

## 10. Fair Value Measurements and Derivative Instruments

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

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

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

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

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, 2013 and December 31, 2012. 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.

|   | March 31, 2013 |           |         |           |
|---|----------------|-----------|---------|-----------|
|   | Level 1        | Level 2   | Level 3 | Total     |
| Assets:   |                |           |         |           |
| Investment securities   |                |           |         |           |
| Money market funds / commercial paper                                       | \$532,425      | \$37,554  | \$—     | \$569,979 |
| Equity securities   | —              | 27,198    | —       | 27,198    |
| Commingled fixed income securities  | —              | 29,378    | —       | 29,378    |
| Debt securities - U.S. and foreign governments, agencies and municipalities | 122,589        | 24,640    | —       | 147,229   |
| Debt securities - corporate   | —              | 43,468    | —       | 43,468    |
| Mortgage-backed / asset-backed securities                                   | —              | 160,489   | —       | 160,489   |
| Derivatives   |                |           |         |           |
| Interest rate swaps   | —              | 3,980     | —       | 3,980     |
| Foreign exchange contracts  | —              | 1,654     | —       | 1,654     |
| Total assets  | \$655,014      | \$328,361 | \$—     | \$983,375 |
| Liabilities:  |                |           |         |           |
| Derivatives   |                |           |         |           |
| Foreign exchange contracts  | \$—            | \$(3,288) | \$—     | \$(3,288) |
| Total liabilities   | \$—            | \$(3,288) | \$—     | \$(3,288) |

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

|   | December 31, 2012 |           |         | Total       |
|---|-------------------|-----------|---------|-------------|
|   | Level 1           | Level 2   | Level 3 |             |
| Assets:   |                   |           |         |             |
| Investment securities   |                   |           |         |             |
| Money market funds / commercial paper                                       | \$581,648         | \$34,369  | \$—     | \$616,017   |
| Equity securities   | —                 | 25,106    | —       | 25,106      |
| Commingled fixed income securities  | —                 | 29,359    | —       | 29,359      |
| Debt securities - U.S. and foreign governments, agencies and municipalities | 124,221           | 18,908    | —       | 143,129     |
| Debt securities - corporate   | —                 | 43,926    | —       | 43,926      |
| Mortgage-backed / asset-backed securities                                   | —                 | 162,375   | —       | 162,375     |
| Derivatives   |                   |           |         |             |
| Interest rate swaps   | —                 | 10,117    | —       | 10,117      |
| Foreign exchange contracts  | —                 | 2,582     | —       | 2,582       |
| Total assets  | \$705,869         | \$326,742 | \$—     | \$1,032,611 |
| Liabilities:  |                   |           |         |             |
| Derivatives   |                   |           |         |             |
| Foreign exchange contracts  | \$—               | \$(1,174) | \$—     | \$(1,174)   |
| Total liabilities   | \$—               | \$(1,174) | \$—     | \$(1,174)   |
| Investment Securities   |                   |           |         |             |

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

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

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

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

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

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

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

Investment securities include investments held by The Pitney Bowes Bank (the Bank), an indirect wholly owned subsidiary whose primary business is to provide financing solutions to clients that rent or lease postage meters. The Bank's key product offering, Purchase Power, is a revolving credit solution, which enables clients to finance their postage costs when they refill their meter. The Bank also provides

17

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## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

a deposit solution to those clients that prefer to prepay postage and earn interest on their deposits. When a client refills their postage meter, the funds are withdrawn from the savings account to pay for the postage. The Bank's assets and liabilities consist primarily of cash, finance receivables, short and long-term investments and deposit accounts.

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

Available-for-sale securities at March 31, 2013 and December 31, 2012 consisted of the following:

|   | March 31, 2013    |                              |                               |                         |
|---|-------------------|------------------------------|-------------------------------|-------------------------|
|   | Amortized<br>cost | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses | Estimated<br>fair value |
| Money market funds / commercial paper                     | \$14,402          | \$42                         | \$—                           | \$14,444                |
| U.S. and foreign governments, agencies and municipalities | 123,272           | 3,707                        | (135)                         | ) 126,844               |
| Corporate   | 40,772            | 2,744                        | (48)                          | ) 43,468                |
| Mortgage-back / asset-back securities                     | 158,030           | 3,203                        | (744)                         | ) 160,489               |
| Total   | \$336,476         | \$9,696                      | \$(927)                       | ) \$345,245             |
|   | December 31, 2012 |                              |                               |                         |
|   | Amortized<br>cost | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses | Estimated<br>fair value |
| Money market funds / commercial paper                     | \$44,611          | \$53                         | \$—                           | \$44,664                |
| U.S. and foreign governments, agencies and municipalities | 127,807           | 3,972                        | (56)                          | ) 131,723               |
| Corporate   | 41,095            | 2,851                        | (20)                          | ) 43,926                |
| Mortgage-back / asset-back securities                     | 162,180           | 3,340                        | (3,145)                       | ) 162,375               |
| Total   | \$375,693         | \$10,216                     | \$(3,221)                     | ) \$382,688             |

Scheduled maturities of investment securities at March 31, 2013 were as follows:

|                                | Amortized<br>cost | Estimated<br>fair value |
|--------------------------------|-------------------|-------------------------|
| Within 1 year                  | \$53,086          | \$53,218                |
| After 1 year through 5 years   | 40,122            | 41,610                  |
| After 5 years through 10 years | 76,310            | 79,377                  |
| After 10 years                 | 166,958           | 171,040                 |
| Total                          | \$336,476         | \$345,245               |

We have not experienced any significant write-offs in our investment portfolio. The majority of our MBS are either guaranteed or supported by the U.S. government. We have no investments in inactive markets that would warrant a possible change in our pricing methods or classification within the fair value hierarchy. 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. We limit 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. We record our derivative instruments at fair value, and the accounting for changes in the fair value of the derivatives depends on the intended use of the derivative, the resulting designation, and the effectiveness of the instrument in offsetting the risk

exposure it is designed to hedge.

18

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## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

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

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. The valuation of our foreign exchange derivatives is based on the market approach using observable market inputs, such as forward rates.

The fair value of our derivative instruments at March 31, 2013 and December 31, 2012 was as follows:

| Designation of Derivatives                        | Balance Sheet Location                    | March 31,<br>2013 | December 31,<br>2012 |
|---|---|-------------------|----------------------|
| Derivatives designated as hedging instruments     | Other current assets and prepayments:     |                   |                      |
|   | Foreign exchange contracts                | \$558             | \$78                 |
|   | Other assets:                             |                   |                      |
|   | Interest rate swaps                       | 3,980             | 10,117               |
| Derivatives not designated as hedging instruments | Accounts payable and accrued liabilities: |                   |                      |
|   | Foreign exchange contracts                | (425)             | (320)                |
|   | Other current assets and prepayments:     |                   |                      |
|   | Foreign exchange contracts                | 1,096             | 2,504                |
|   | Accounts payable and accrued liabilities: |                   |                      |
|   | Foreign exchange contracts                | (2,863)           | (854)                |
|   | Total derivative assets                   | \$5,634           | \$12,699             |
|   | Total derivative liabilities              | (3,288)           | (1,174)              |
|   | Total net derivative assets               | \$2,346           | \$11,525             |

## 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 earnings. The following represents the results of fair value hedging relationships for the three months ended March 31, 2013 and 2012:

| Derivative Instrument | Location of Gain (Loss) | Three Months Ended March 31,              |         |   |            |
|-----------------------|-------------------------|---|---------|---|------------|
|                       |                         | Derivative Gain<br>Recognized in Earnings |         | Hedged Item Expense<br>Recognized in Earnings |            |
|                       |                         | 2013                                      | 2012    | 2013  | 2012       |
| Interest rate swaps   | Interest expense        | \$1,993                                   | \$3,327 | \$(5,484)                                     | \$(10,109) |

## Foreign Exchange Contracts

We enter into foreign currency exchange contracts to mitigate the currency risk associated with the anticipated purchase of inventory between affiliates and from third parties. These contracts are designated as cash flow hedges. The effective portion of the gain or loss on cash flow hedges is included in AOCI in the period that the change in fair value occurs and is reclassified to earnings in the period that the hedged item is recorded in earnings. At March 31, 2013 and December 31, 2012, we had outstanding contracts associated with these anticipated transactions with a notional amount of \$30 million and \$25 million, respectively. The value of these contracts at March 31, 2013 and December 31, 2012 was less than \$1 million.



The amounts included in AOCI at March 31, 2013 will be recognized in earnings within the next 12 months. No amount of ineffectiveness was recorded in earnings for these designated cash flow hedges.

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

The following represents the results of cash flow hedging relationships for the three months ended March 31, 2013 and 2012:

| Derivative Instrument      | Three Months Ended March 31,  |         | Location of Gain (Loss)<br>(Effective Portion) | Gain (Loss) Reclassified<br>from AOCI to Earnings<br>(Effective Portion) |         |
|----------------------------|---|---------|--|--|---------|
|                            | Derivative Gain (Loss)<br>Recognized in AOCI<br>(Effective Portion) |         |  | 2013   | 2012    |
|                            | 2013  | 2012    |  |  |         |
| Foreign exchange contracts | \$630   | \$(659) | Revenue  | \$(382)  | ) \$301 |
|                            |   |         | Cost of sales                                  | 126  | (66)    |
|                            |   |         |  | \$(256)  | ) \$235 |

We also enter into foreign exchange contracts to minimize the impact of exchange rate fluctuations on short-term intercompany loans and related interest that are denominated in a foreign currency. The revaluation of the intercompany loans and interest and the mark-to-market adjustment on the derivatives are both recorded in earnings. Outstanding foreign exchange contracts to buy or sell various currencies had a net liability value of \$2 million at March 31, 2013 and December 31, 2012. All outstanding contracts at March 31, 2013 mature by the end of the year. The following represents the results of our non-designated derivative instruments for the three months ended March 31, 2013 and 2012:

| Derivatives Instrument     | Location of Derivative Gain (Loss)          | Three Months Ended March 31,                     |             |
|----------------------------|---|--|-------------|
|                            |   | Derivative Gain (Loss)<br>Recognized in Earnings |             |
|                            |   | 2013   | 2012        |
| Foreign exchange contracts | Selling, general and administrative expense | \$(4,351)  | ) \$(4,224) |

## Credit-Risk-Related Contingent Features

Certain derivative instruments contain credit-risk-related contingent features that would require us to post collateral based on a combination of our long-term senior unsecured debt ratings and the net fair value of our derivatives. At March 31, 2013, we were not required to post any collateral. The maximum amount of collateral that we would have been required to post at March 31, 2013, had the credit-risk-related contingent features been triggered, was \$2 million.

## Fair Value of Financial Instruments

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

The fair value of our debt is estimated based on recently executed transactions and market price quotations. We classify our debt as Level 2 in the fair value hierarchy. The carrying value and estimated fair value of our debt at March 31, 2013 and December 31, 2012 was as follows:

|                | March 31,<br>2013 | December 31,<br>2012 |
|----------------|-------------------|----------------------|
| Carrying value | \$4,032,634       | \$4,017,375          |
| Fair value     | \$4,229,484       | \$4,200,970          |



## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

## 11. Restructuring Charges and Asset Impairments

Activity in our restructuring reserves for the three months ended March 31, 2013 was as follows:

|                            | Severance<br>and benefits<br>costs | Other exit<br>costs | Total     |
|----------------------------|------------------------------------|---------------------|-----------|
| Balance at January 1, 2013 | \$62,540                           | \$5,218             | \$67,758  |
| Cash payments              | (15,022 )                          | (1,253 )            | (16,275 ) |
| Balance at March 31, 2013  | \$47,518                           | \$3,965             | \$51,483  |

The majority of the remaining restructuring payments are expected to be paid through 2014; however, due to certain international labor laws and long-term lease agreements, some payments will extend beyond 2014. We expect that cash flows from operations will be sufficient to fund these payments.

In order to drive operational excellence, on April 29, management decided to embark on a process designed to enhance our responsiveness to changing market conditions, further streamline our business operations, reduce our cost structure and create long-term flexibility to invest in growth. We are analyzing a wide range of opportunities for both process and operational improvements. We anticipate that these primarily cash related actions will result in restructuring charges in the range of \$75 to \$125 million and will be recognized as specific initiatives are approved and implemented. We expect to begin implementing actions and taking charges in the second quarter.

## 12. Commitments and Contingencies

In the ordinary course of business, we are routinely defendants in, or party to a number of pending and threatened legal actions. These may involve litigation by or against us relating to, among other things, contractual rights under vendor, insurance or other contracts; intellectual property or patent rights; equipment, service, payment or other disputes with 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.

In October 2009, the company and certain of its 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. Plaintiffs filed an amended complaint in September 2010. On March 23, 2013, the Court granted our motion to dismiss, and dismissed the case in its entirety. Plaintiff did not appeal the decision, and therefore, this case has now concluded in favor of Pitney Bowes and its officers named in the lawsuit.

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

13. Segment Information

We conduct our business activities in seven reporting segments within two business groups, Small & Medium Business Solutions and Enterprise Business Solutions. The principal products and services of each of our reporting segments are as follows:

Small & Medium Business Solutions:

North America Mailing: Includes the U.S. and Canadian 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 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 outside North America.

Enterprise Business Solutions:

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

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

Management Services: Includes worldwide revenue and related expenses from facilities management services; secure mail services; reprographic, document management services; print outsourcing services; and litigation support and eDiscovery services.

Mail Services: Includes worldwide revenue and related expenses from presort mail services and cross-border ecommerce solutions.

Marketing Services: Includes revenue and related expenses from direct marketing services for targeted clients.

Segment earnings before interest and taxes (EBIT), a non-GAAP measure, is determined by deducting from segment revenue the related costs and expenses attributable to the segment. Segment EBIT excludes interest, taxes, general corporate expenses not allocated to a particular business segment, restructuring charges, asset impairments and goodwill charges which are recognized on a consolidated basis. Management uses segment EBIT to measure profitability and performance at the segment level. Segment EBIT may not be indicative of our overall consolidated performance and therefore, should be read in conjunction with our consolidated results of operations. Segment information for our Mail Services segment for all periods presented has been restated to reflect the presentation of the International Mail Services (IMS) business as a discontinued operation (see Note 15).

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

Revenue and EBIT by business segment for the three months ended March 31, 2013 and 2012 was as follows:

|   | Three Months Ended March 31, |             |
|---|------------------------------|-------------|
|   | 2013                         | 2012        |
| Revenue:  |                              |             |
| North America Mailing                                 | \$430,375                    | \$461,305   |
| International Mailing                                 | 167,455                      | 168,014     |
| Small & Medium Business Solutions                     | 597,830                      | 629,319     |
| Production Mail                                       | 118,802                      | 115,016     |
| Software  | 80,721                       | 100,327     |
| Management Services                                   | 225,256                      | 230,630     |
| Mail Services   | 118,855                      | 114,636     |
| Marketing Services                                    | 25,492                       | 30,208      |
| Enterprise Business Solutions                         | 569,126                      | 590,817     |
| Total revenue   | \$1,166,956                  | \$1,220,136 |
|   |                              |             |
|   | Three Months Ended March 31, |             |
|   | 2013                         | 2012        |
| EBIT:   |                              |             |
| North America Mailing                                 | \$154,505                    | \$178,171   |
| International Mailing                                 | 17,749                       | 19,997      |
| Small & Medium Business Solutions                     | 172,254                      | 198,168     |
| Production Mail                                       | 3,055                        | 2,779       |
| Software  | 4,890                        | 10,692      |
| Management Services                                   | 12,545                       | 13,315      |
| Mail Services   | 19,349                       | 34,245      |
| Marketing Services                                    | 1,986                        | 4,817       |
| Enterprise Business Solutions                         | 41,825                       | 65,848      |
| Total EBIT  | 214,079                      | 264,016     |
| Reconciling items:                                    |                              |             |
| Interest, net <sup>(1)</sup>                          | (48,866                      | ) (48,773   |
| Unallocated corporate and other expenses              | (63,502                      | ) (54,214   |
| Income from continuing operations before income taxes | \$101,711                    | \$161,029   |

(1) Includes financing interest expense, other interest expense and interest income.

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

## 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, 2013 and 2012 were as follows:

|                                    | Three Months Ended March 31, |           |          |          |
|------------------------------------|------------------------------|-----------|----------|----------|
|                                    | United States                |           | Foreign  |          |
|                                    | 2013                         | 2012      | 2013     | 2012     |
| Service cost                       | \$3,799                      | \$4,954   | \$1,582  | \$2,018  |
| Interest cost                      | 18,371                       | 20,603    | 6,823    | 6,923    |
| Expected return on plan assets     | (27,086 )                    | (30,618 ) | (8,166 ) | (8,023 ) |
| Amortization of transition credit  | —                            | —         | (2 )     | (2 )     |
| Amortization of prior service cost | 129                          | 205       | 28       | 28       |
| Amortization of net actuarial loss | 11,037                       | 13,314    | 3,176    | 3,496    |
| Curtailement                       | 814                          | —         | —        | —        |
| Net periodic benefit cost          | \$7,064                      | \$8,458   | \$3,441  | \$4,440  |

Through March 31, 2013, we contributed \$3 million to our U.S. pension plans and \$4 million to our foreign pension plans.

## Nonpension Postretirement Benefit Plans

The components of net periodic benefit cost for nonpension postretirement benefit plans for the three months ended March 31, 2013 and 2012 were as follows:

|                                      | Three Months Ended March 31, |         |
|--------------------------------------|------------------------------|---------|
|                                      | 2013                         | 2012    |
| Service cost                         | \$1,017                      | \$891   |
| Interest cost                        | 2,514                        | 3,075   |
| Amortization of prior service credit | 41                           | (523 )  |
| Amortization of net actuarial loss   | 2,361                        | 2,367   |
| Net periodic benefit cost            | \$5,933                      | \$5,810 |

Contributions for benefit payments for our nonpension postretirement benefit plans were \$8 million and \$6 million for the three months ended March 31, 2013 and 2012, respectively.

## 15. Discontinued Operations and Assets Held for Sale

During the fourth quarter of 2012, we made a strategic decision to exit our IMS operations related to the international delivery of mail and catalogs. During the first quarter 2013, we sold our U.S. IMS operations. All amounts related to IMS are presented as discontinued operations in the Condensed Consolidated Statements of Income.

Revenue for IMS for the three months ended March 31, 2013 and 2012 was \$20 million and \$36 million, respectively. Net loss for IMS for each of the three months ended March 31, 2013 and 2012 was \$2 million. Discontinued operations for the three months ended March 31, 2012 also includes \$19 million of tax benefits arising from the conclusion of tax examinations and issued related to our Capital Services business that was sold in 2006.





## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

## 16. Earnings per Share

The calculations of basic and diluted earnings per share for the three months ended March 31, 2013 and 2012 are presented below.

|  | Three Months Ended March |           |
|--|--------------------------|-----------|
|  | 31,<br>2013              | 2012      |
| Numerator:   |                          |           |
| Amounts attributable to common stockholders:   |                          |           |
| Net income from continuing operations  | \$69,568                 | \$140,942 |
| (Loss) income from discontinued operations   | (2,062                   | ) 17,728  |
| Net income - Pitney Bowes Inc. (numerator for diluted EPS)                                   | 67,506                   | 158,670   |
| Less: Preference stock dividend  | (13                      | ) (13     |
| Income attributable to common stockholders (numerator for basic EPS)                         | \$67,493                 | \$158,657 |
| Denominator (in thousands):  |                          |           |
| Weighted-average shares used in basic EPS  | 201,148                  | 199,960   |
| Effect of dilutive shares:   |                          |           |
| Preferred stock  | 2                        | 2         |
| Preference stock   | 396                      | 398       |
| Stock plans  | 664                      | 312       |
| Weighted-average shares used in diluted EPS  | 202,210                  | 200,672   |
| Basic earnings per share:  |                          |           |
| Continuing operations  | \$0.35                   | \$0.70    |
| Discontinued operations  | (0.01                    | ) 0.09    |
| Net income   | \$0.34                   | \$0.79    |
| Diluted earnings per share:  |                          |           |
| Continuing operations  | \$0.34                   | \$0.70    |
| Discontinued operations  | (0.01                    | ) 0.09    |
| Net income   | \$0.33                   | \$0.79    |
| Anti-dilutive shares not used in calculating diluted weighted-average shares (in thousands): | 13,868                   | 13,811    |

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) contains statements that are forward-looking. We want to caution readers that any forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act) in this Form 10-Q may change based on various factors. These forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties and actual results could differ materially. Words such as "estimate", "target", "project", "plan", "believe", "expect", "anticipate", "intend", and similar expressions may identify such forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Factors which could cause future financial performance to differ materially from the expectations as expressed in any forward-looking statement made by or on our behalf include, without limitation:

- declining physical mail volumes
- mailers' utilization of alternative means of communication or competitors' products
- access to capital at a reasonable cost to continue to fund various discretionary priorities, including business investments, pension contributions and dividend payments
- timely development and acceptance of new products and services
- successful entry into new markets
- success in gaining product approval in new markets where regulatory approval is required
- changes in postal or banking regulations
- interrupted use of key information systems
- third-party suppliers' ability to provide product components, assemblies or inventories
- our success at managing the relationships with our outsource providers, including the costs of outsourcing functions and operations not central to our business
- changes in privacy laws
- intellectual property infringement claims
- regulatory approvals and satisfaction of other conditions to consummate and integrate any acquisitions
- negative developments in economic conditions, including adverse impacts on customer demand
- our success at managing customer credit risk
- significant changes in pension, health care and retiree medical costs
- changes in interest rates, foreign currency fluctuations or credit ratings
- income tax adjustments or other regulatory levies for prior audit years and changes in tax laws, rulings or regulations
- impact on mail volume resulting from concerns over the use of the mail for transmitting harmful biological agents
- changes in international or national political conditions, including any terrorist attacks
- acts of nature

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our Condensed Consolidated Financial Statements contained in this report and our Annual Report to Stockholders on Form 10-K for the year ended December 31, 2012 (2012 Annual Report).

Overview

For the first quarter of 2013, revenue decreased 4% to \$1,167 million compared to \$1,220 million in the first quarter of 2012. Software revenue declined 17% due to fewer large dollar value licensing deals, a continued slowdown in our global markets due to uncertain economic conditions and constrained public sector spending. Financing revenue declined 8% due to the impact of lower equipment sales in prior periods. Support services revenue declined 5% due to lower new equipment placements and business services revenue declined 2% due to continued pricing pressures on new business and contract renewals. Foreign currency translation had a less than 1% unfavorable impact on revenue in the quarter.

During the quarter, we redeemed an aggregate \$405 million of debt scheduled to mature in 2014-2016 through a cash tender offer. We also issued \$425 million of 30-year fixed rate debt. The net proceeds received were \$412 million and were used to fund the tender offer. Income from continuing operations includes a net charge of \$25 million from the early redemption of debt, consisting primarily of premium payments, the write-off of unamortized costs, fees, and a gain from the unwind of interest rate swaps associated with the debt. The expense impact due to the interest rate differential between the new debt issued and the debt redeemed will be an increase of approximately \$10 million over the remainder of the year.

Net income from continuing operations attributable to common stockholders decreased to \$70 million, or \$0.34 per diluted share in the first quarter of 2013 compared to \$141 million or \$0.70 per diluted share in the first quarter of 2012, primarily due to lower revenue in the current year period and \$22 million of tax benefits recognized in the prior year period from the conclusion of tax examinations.

Through March 31, 2013, we generated \$132 million of cash from operations. We paid dividends to our common shareholders of \$75 million and funded capital investments of \$39 million.

#### Outlook

Worldwide economic weakness continues to create a challenging business environment causing many of our customers to remain cautious about spending and, therefore, impacting the performance of our business segments. Small and Medium Business Solutions (SMB) revenues will continue to be challenged by the decline in physical mail volumes as alternative means of communications evolve and gain further acceptance. We anticipate that the historical equipment sales trends should show improvement in future periods, due in part to global sales of our Connect+™ communications systems and SendSuite Live™ shipping solutions. A slowing of the rate of decline for overall SMB revenue will lag that of equipment sales because recurring revenue streams typically lag the trends in equipment sales.

We anticipate revenue growth in certain of our Enterprise Business Solutions segments from continued expansion in Mail Services' presort operations, new ecommerce initiatives and market acceptance for our new solutions that help customers grow their business by more effectively managing their physical and digital communications with their customers. We will continue to fund investments to build capacity and infrastructure to support our ecommerce products and solutions. We are also committed to improving the performance of our Software business and recently appointed new leadership to focus on improving the cost structure and growing this business.

Our growth strategies will focus on leveraging our expertise in physical communications with our expanding capabilities in digital and hybrid communications. We will continue to develop and invest in products, software, services and solutions that help customers grow their business by more effectively communicating with their customers across physical, digital and hybrid channels. We expect our mix of business will continue to shift to more enterprise related products and solutions, and that these new revenue streams will have lower margins than our traditional Mailing business.

In order to drive operational excellence, on April 29, management decided to embark on a process designed to enhance our responsiveness to changing market conditions, further streamline our business operations, reduce our cost structure and create long-term flexibility to invest in growth. We are analyzing a wide range of opportunities for both process and operational improvements. We anticipate that these primarily cash related actions will result in restructuring charges in the range of \$75 to \$125 million and will be recognized as specific initiatives are approved and implemented. We expect to begin implementing actions and taking charges in the second quarter. We are anticipating annualized pre-tax benefits of \$100 to \$125 million, net of investments, from these actions and expect to reach this benefit run rate by 2015.

Each quarter our Board of Directors considers our recent and projected earnings and other capital needs and priorities in deciding whether to approve the amount and payment of a dividend. On April 29, 2013, our Board of Directors declared a cash dividend of \$0.1875 per share for the second quarter of 2013.

## RESULTS OF OPERATIONS

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

## Revenue

| (\$ amounts in 000s) | Three Months Ended March 31, |             |          |
|----------------------|------------------------------|-------------|----------|
|                      | 2013                         | 2012        | % change |
| Equipment sales      | \$214,999                    | \$220,179   | (2)%     |
| Supplies             | 74,287                       | 76,365      | (3)%     |
| Software             | 87,012                       | 104,350     | (17)%    |
| Rentals              | 136,379                      | 140,389     | (3)%     |
| Financing            | 116,762                      | 126,748     | (8)%     |
| Support services     | 165,486                      | 173,518     | (5)%     |
| Business services    | 372,031                      | 378,587     | (2)%     |
| Total revenue        | \$1,166,956                  | \$1,220,136 | (4)%     |

## Cost of revenue

| (\$ amounts in 000s)       | Three Months Ended March 31, |           |                       |       |
|----------------------------|------------------------------|-----------|-----------------------|-------|
|                            |                              |           | Percentage of Revenue |       |
|                            | 2013                         | 2012      | 2013                  | 2012  |
| Cost of equipment sales    | \$109,337                    | \$96,916  | 50.9%                 | 44.0% |
| Cost of supplies           | 23,262                       | 23,871    | 31.3%                 | 31.3% |
| Cost of software           | 20,706                       | 21,093    | 23.8%                 | 20.2% |
| Cost of rentals            | 27,755                       | 30,225    | 20.4%                 | 21.5% |
| Financing interest expense | 19,875                       | 21,139    | 17.0%                 | 16.7% |
| Cost of support services   | 108,009                      | 115,087   | 65.3%                 | 66.3% |
| Cost of business services  | 291,648                      | 286,817   | 78.4%                 | 75.8% |
| Total cost of revenue      | \$600,592                    | \$595,148 | 51.5%                 | 48.8% |

## Equipment sales

Equipment sales revenue decreased 2% to \$215 million in the quarter compared to the prior year quarter. The decline in equipment sales was driven primarily by lower sales in our mailing businesses as our clients continue to postpone or defer new equipment purchases due to the continued decline in mail volumes and uncertain economic environment. This decline was partially offset by revenue of \$3 million for scale updates resulting from a postal rate change in France, increased sales of our Connect+™ communications systems in France and Germany and increased sales of large production print equipment. Cost of equipment sales as a percentage of revenue increased to 50.9% in the quarter compared to 44.0% in the prior year quarter due to a higher mix of lower margin product sales, pricing pressure on competitive placements and fewer lease extensions compared to the prior year period.

## Supplies

Supplies revenue decreased 3% to \$74 million in the quarter compared to the prior year quarter, primarily due to declines in our mailing business from reduced mail volumes and fewer installed meters worldwide, partially offset by improving supplies sales from the sales of Connect+™ communications systems and production print equipment. Cost of supplies as a percentage of revenue was 31.3% in the first quarter of 2013 and first quarter of 2012.

## Software

Software revenue decreased 17% to \$87 million in the quarter compared to the prior year quarter. The decrease was primarily due to fewer large dollar licensing contracts and delays in some contract signings in our North American markets, and uncertain economic conditions and constrained public sector spending in our international markets. Software revenue in the prior year quarter also included \$13 million from two significant software contracts. Revenue in the current year quarter included \$2 million of licensing revenue from providing our Volly™ software solution to Australia Post.



Cost of software as a percentage of revenue increased to 23.8% in the quarter compared with 20.2% in the prior year quarter primarily due to the decline in revenue.

#### Rentals

Rentals revenue decreased 3% to \$136 million in the quarter compared to the prior year quarter, primarily due to lower mail volumes and fewer meters in service. Cost of rentals as a percentage of revenue improved to 20.4% in the quarter compared to 21.5% in the prior year quarter primarily due to lower depreciation expense.

#### Financing

Financing revenue decreased 8% to \$117 million in the quarter compared to the prior year quarter, primarily due to lower equipment sales in prior periods. Financing interest expense as a percentage of revenue increased to 17.0% in the quarter compared to 16.7% in the prior year quarter due to higher effective interest rates. In computing our financing interest expense, which represents our cost of borrowing associated with the generation of financing revenue, we assume a 10:1 leveraging ratio of debt to equity and apply our overall effective interest rate to the average outstanding finance receivables.

#### Support Services

Support services revenue decreased 5% to \$165 million in the quarter compared with the prior year quarter. The decrease was primarily driven by lower new equipment placements worldwide. Cost of support services as a percentage of revenue improved to 65.3% in the quarter compared with 66.3% in the prior year quarter due to productivity initiatives in our international mailing operations.

#### Business Services

Business services revenue decreased 2% to \$372 million in the quarter compared to the prior year quarter. The decrease was partly due to continuing pricing pressures on new business and contract renewals and the loss of some customer contracts in our Management Services business; and lower marketing fees related to certain marketing category contract renewals and fewer household moves in our Marketing Services business. These decreases were partially offset by revenue from our ecommerce cross-border package delivery solution initiated in the fourth quarter of 2012. Cost of business services as a percentage of revenue increased to 78.4% in the quarter compared with 75.8% in the prior year quarter primarily due to margin compression in our Management Services business and investment and start-up costs associated with our ecommerce business.

#### Selling, general and administrative (SG&A)

SG&A expense decreased 7% to \$377 million in the quarter compared with the prior year quarter driven primarily by lower salaries and benefits.

#### Other expense (income), net

Other expense, net for the three months ended March 31, 2013 of \$25 million consists of the costs associated with the early redemption of debt. See Liquidity and Capital Resources - Financings and Capitalization for a detailed discussion.

Other income, net in the three months ended March 31, 2012 of \$3 million is comprised of \$7 million of insurance proceeds received in connection with the 2011 fire at our Dallas presort facility partially offset by a loss of \$4 million on the sale of non-U.S. leveraged lease assets.

#### Income taxes

See Note 7 to the unaudited Condensed Consolidated Financial Statements.

#### Discontinued operations

See Note 15 to the unaudited Condensed Consolidated Financial Statements.

#### Preferred stock dividends of subsidiaries attributable to noncontrolling interests

See Note 6 to the unaudited Condensed Consolidated Financial Statements.





## Business segment results

We conduct our business activities in seven reporting segments within two business groups, Small & Medium Business Solutions and Enterprise Business Solutions. The following tables show revenue and EBIT by business segment for the three months ended March 31, 2013 and 2012. We are now reporting the IMS business as a discontinued operation. IMS was previously included in our Mail Services segment. We determine segment EBIT, a non-GAAP measure, by deducting from segment revenue the related costs and expenses attributable to the segment. Segment EBIT excludes interest, taxes, general corporate expenses not allocated to a particular business segment, restructuring charges, asset impairments and goodwill charges, which are recognized on a consolidated basis. Management uses segment EBIT to measure profitability and performance at the segment level. Segment EBIT may not be indicative of our overall consolidated performance and therefore, should be read in conjunction with our condensed consolidated results of operations. Refer to Note 13 to the Condensed Consolidated Financial Statements for a reconciliation of segment EBIT to income from continuing operations before income taxes.

| Revenue<br>(\$ amounts in 000s)   | Three Months Ended March 31, |             |          |
|-----------------------------------|------------------------------|-------------|----------|
|                                   | 2013                         | 2012        | % change |
| North America Mailing             | \$430,375                    | \$461,305   | (7)%     |
| International Mailing             | 167,455                      | 168,014     | —%       |
| Small & Medium Business Solutions | 597,830                      | 629,319     | (5)%     |
| Production Mail                   | 118,802                      | 115,016     | 3%       |
| Software                          | 80,721                       | 100,327     | (20)%    |
| Management Services               | 225,256                      | 230,630     | (2)%     |
| Mail Services                     | 118,855                      | 114,636     | 4%       |
| Marketing Services                | 25,492                       | 30,208      | (16)%    |
| Enterprise Business Solutions     | 569,126                      | 590,817     | (4)%     |
| Total                             | \$1,166,956                  | \$1,220,136 | (4)%     |
| EBIT<br>(\$ amounts in 000s)      | Three Months Ended March 31, |             |          |
|                                   | 2013                         | 2012        | % change |
| North America Mailing             | \$154,505                    | \$178,171   | (13)%    |
| International Mailing             | 17,749                       | 19,997      | (11)%    |
| Small & Medium Business Solutions | 172,254                      | 198,168     | (13)%    |
| Production Mail                   | 3,055                        | 2,779       | (10)%    |
| Software                          | 4,890                        | 10,692      | (54)%    |
| Management Services               | 12,545                       | 13,315      | (6)%     |
| Mail Services                     | 19,349                       | 34,245      | (43)%    |
| Marketing Services                | 1,986                        | 4,817       | (59)%    |
| Enterprise Business Solutions     | 41,825                       | 65,848      | (36)%    |
| Total                             | \$214,079                    | \$264,016   | (19)%    |

## Small &amp; Medium Business Solutions

Small & Medium Business Solutions revenue decreased 5% and EBIT decreased 13% to \$598 million and \$172 million, respectively, in the quarter compared to the prior year quarter. Within the Small & Medium Business Solutions group:

## North America Mailing

Revenue for the North America Mailing segment decreased 7% to \$430 million in the quarter compared to the prior year quarter. Contributing to this decrease was a 10% decline in equipment sales due to continued concerns about economic conditions and declining mail volumes. Financing revenue declined 9% due to declining equipment sales in prior periods. Rentals revenue declined 3% primarily due to fewer meters in service and supplies revenue declined 6% due to lower mail volumes and a declining installed meter base.

EBIT decreased 13% to \$155 million in the quarter compared to the prior year quarter primarily due to the decline in revenue and fewer lease extensions during the quarter compared to the prior year quarter.



#### International Mailing

Revenue for the International Mailing segment was \$167 million in the quarter compared to \$168 million in the prior year quarter. Revenue for the current year quarter included \$3 million for scale updates resulting from a postal rate change in France and increased sales of our Connect+™ communications systems in Germany and France. However, these revenue benefits were offset by lower equipment sales in the U.K. due to the continuing uncertain economic environment and lower equipment sales in the Nordics compared to a particularly strong prior year quarter. EBIT decreased 11% to \$18 million in the quarter compared to the prior year quarter primarily due to the costs related to facilities consolidation.

#### Enterprise Business Solutions

Enterprise Business Solutions revenue decreased 4% and EBIT decreased 36% to \$569 million and \$42 million, respectively, in the quarter compared to the prior year quarter. Within the Enterprise Business Solutions group:

##### Production Mail

Revenue for the Production Mail segment increased 3% to \$119 million in the quarter compared to the prior year quarter primarily due to increased installations of large production print equipment and initial licensing revenue from providing our Volly™ software solution to Australia Post.

EBIT for the quarter was \$3 million, consistent with the prior year quarter. EBIT benefited from the higher revenue but this benefit was offset by the higher mix of lower margin printer sales.

#### Software

Revenue for the Software segment decreased 20% to \$81 million in the quarter compared to the prior year quarter. The decrease was primarily due to fewer large dollar licensing contracts and delays in some contract signings in our North American markets, and uncertain economic conditions and constrained public sector spending in our international markets. Software revenue in the prior year quarter also included \$13 million from two significant software contracts. EBIT decreased 54% to \$5 million in the quarter compared to the prior year quarter primarily due to the decline in revenue and continued investment in product development.

#### Management Services

Revenue for the Management Services segment decreased 2% to \$225 million and EBIT decreased 6% to \$13 million in the quarter compared to the prior year quarter. The decrease in revenue and EBIT was primarily due to continued pricing pressure on new business and contract renewals and the loss of some customer contracts.

#### Mail Services

Revenue for the Mail Services segment increased 4% to \$119 million in the quarter primarily due to revenue from our ecommerce cross-border package delivery solution initiated in the fourth quarter of 2012.

EBIT for the quarter decreased 43% to \$19 million compared to the prior year quarter. Prior year EBIT included a \$7 million benefit from fire-related insurance recoveries. The underlying decrease in EBIT was primarily due to investments and costs related to the startup phase of our new ecommerce offering.

#### Marketing Services

Revenue for the Marketing Services segment decreased 16% to \$25 million and EBIT decreased 59% to \$2 million in the quarter compared to the prior year quarter. The decrease in revenue and EBIT was due to lower marketing fees related to certain marketing category contract renewals and fewer household moves. We expect that similar revenue and EBIT trends will continue throughout the year.

## LIQUIDITY AND CAPITAL RESOURCES

We believe that cash generated from operations, existing cash and investments, borrowing capacity under our commercial paper program and our credit line facility are currently sufficient to support our cash needs, including items like business operations, debt repayments and customer deposits as well as discretionary uses such as capital investments, dividends and share repurchases. Cash and cash equivalents and short-term investments were \$947 million at March 31, 2013 and \$950 million at December 31, 2012.

We have had the ability to supplement short-term liquidity through our consistent and uninterrupted access to the commercial paper market to date. We have an effective shelf registration statement and the ability to fund the long-term needs of our business through broad and efficient access to capital markets, cash flow, proceeds from divestitures and a credit line facility.

Within the last 12 months, the rating agencies reduced our credit ratings. There can be no assurances that one or more of the rating agencies will not take additional adverse actions in the future.

We continuously review our liquidity profile through published credit ratings and the credit default swap market. We also monitor the creditworthiness of those banks acting as derivative counterparties, depository banks or credit providers.

### Cash Flow Summary

Net cash provided by operating activities for the three months ended March 31, 2013 was \$132 million compared to \$71 million for the three months ended March 31, 2012. Cash flow from operations in the current year benefited from higher accounts receivable and finance receivable collections of \$49 million, a special contribution of \$95 million to our pension plans in 2012, lower restructuring payments of \$10 million and proceeds of \$5 million from the unwinding of interest rate swaps. These benefits were partially offset by lower net income, including the net loss of \$25 million in connection with the Tender Offer, and higher payments of accounts payable and accrued liabilities. Net cash used in investing activities for the three months ended March 31, 2013 was \$65 million, a decrease of \$86 million compared to cash provided by investing activities of \$21 million for the three months ended March 31, 2012. Cash flow from investing activities in 2012 benefited from proceeds of \$106 million received from the sale of leveraged lease assets.

Net cash used in financing activities was \$66 million for the three months ended March 31, 2013 compared to \$45 million for the three months ended March 31, 2012. See Financings and Capitalization section below for details of significant cash flows from financing activities.

### Financings and Capitalization

We are a Well-Known Seasoned Issuer as defined in the Securities Act, which allows us to issue debt securities, preferred stock, preference stock, common stock, purchase contracts, depository shares, warrants and units in an expedited fashion. We have a commercial paper program that is an important source of liquidity for us and a committed credit facility of \$1.0 billion to support our commercial paper issuances. The credit facility expires in April 2016. We have not drawn upon the credit facility.

At March 31, 2013, there were no outstanding commercial paper borrowings. During the quarter, commercial paper borrowings averaged \$100 million at a weighted-average interest rate of 0.41% and the maximum amount outstanding at any time was \$300 million.

During the quarter, we completed a cash tender offer (the Tender Offer) for a portion of our 4.875% Notes due 2014, our 5.000% Notes due 2015, and our 4.750% Notes due 2016 (the Subject Notes). Holders who validly tendered their notes received the principal amount of the notes tendered, all accrued and unpaid interest and a premium amount. An aggregate \$405 million of the Subject Notes were tendered. A net loss of \$25 million, consisting of the premium payments, the write-off of unamortized costs and fees, partially offset by a gain from the unwinding of interest rate swap agreements, was recognized as Other expense (income), net on the Condensed Consolidated Statements of Income.

Also in the quarter, we issued \$425 million of 30-year notes with a fixed-rate of 6.7%. Interest is payable quarterly commencing in June 2013. The notes mature in 2043, but may be redeemed, at our option, in whole or in part, at any time on or after March 7, 2018 at a redemption price equal to 100% of the principal amount, plus accrued and unpaid interest. The net proceeds of \$412 million were used to fund the repurchase of notes under the Tender Offer. In June 2013, we have \$375 million of debt scheduled to mature and will fund this maturity with available cash. Cash and cash equivalents held by our foreign subsidiaries were \$264 million at March 31, 2013 and \$219 million at December 31, 2012. Cash and cash equivalents held by our foreign subsidiaries are generally used to support the liquidity needs of these subsidiaries. Most

of these amounts could be repatriated to the U.S. but would be subject to additional taxes. Repatriation of some foreign balances is restricted by local laws.

We paid dividends to our common stockholders in the amount of \$75 million during the three months ended March 31, 2013 and 2012. Each quarter, our Board of Directors considers our recent and projected earnings and other capital needs and priorities in deciding whether to approve the amount and payment of a dividend. On April 29, 2013, our Board of Directors declared a cash dividend of \$0.1875 per share for the second quarter of 2013. There are no material restrictions on our ability to declare dividends.

#### Regulatory Matters

There have been no significant changes to the regulatory matters disclosed in our 2012 Annual Report.

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

There were no material changes to the disclosures made in the 2012 Annual Report 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 Securities and Exchange Commission's rules and forms. Disclosure controls and procedures are also designed to reasonably assure that such information is accumulated and communicated to 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 our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act) and internal control over financial reporting. Our CEO and CFO concluded that, as of the end of the period covered by this report, such disclosure controls and procedures were effective to ensure that information we are required to disclose in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Exchange Act. In addition, no changes in internal control over financial reporting occurred during the fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially affect, such internal control over financial reporting. It should be noted that any system of controls is based in part upon certain assumptions designed to obtain reasonable (and not absolute) assurance as to its effectiveness, and there can be no assurance that any design will succeed in achieving its stated goals. Notwithstanding this caution, the 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

See Note 12 to the unaudited Condensed Consolidated Financial Statements.

## Item 1A: Risk Factors

There were no material changes to the risk factors identified in the 2012 Annual Report.

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

## Repurchases of Equity Securities

We periodically repurchase shares of our common stock to manage the dilution created by shares issued under employee stock plans and for other purposes in the open market. At March 31, 2013, we have remaining authorization to repurchase up to \$50 million of our common stock. There were no share repurchases during the quarter ended March 31, 2013.

## Item 6: Exhibits

| Exhibit Number | Description  | Status or incorporation by reference |
|----------------|--|--------------------------------------|
| 10(f)          | Pitney Bowes Pension Restoration Plan (Amended and Restated as of March 31, 2013)  | Exhibit 10(f)                        |
| 10(g)          | Pitney Bowes Senior Executive Severance Policy (As Amended and Restated Effective as of March 1, 2013)                                   | Exhibit 10(g)                        |
| 12             | Computation of ratio of earnings to fixed charges  | Exhibit 12                           |
| 31.1           | Certification of Chief Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended | Exhibit 31.1                         |
| 31.2           | Certification of Chief Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended | Exhibit 31.2                         |
| 32.1           | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350  | Exhibit 32.1                         |
| 32.2           | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350  | Exhibit 32.2                         |
| 101.INS        | XBRL Report Instance Document  |                                      |
| 101.SCH        | XBRL Taxonomy Extension Schema Document  |                                      |
| 101.CAL        | XBRL Taxonomy Calculation Linkbase Document  |                                      |
| 101.DEF        | XBRL Taxonomy Definition Linkbase Document   |                                      |
| 101.LAB        | XBRL Taxonomy Label Linkbase Document  |                                      |
| 101.PRE        | XBRL Taxonomy Presentation Linkbase Document   |                                      |

Signatures

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

PITNEY BOWES INC.

Date: May 3, 2013

/s/ Michael Monahan

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

/s/ Steven J. Green

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



## Exhibit Index

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