PITNEY BOWES INC /DE/
Form 10-Q
May 06, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________________ to ________________
Commission file number: 1-3579
PITNEY BOWES INC.
(Exact name of registrant as specified in its charter)

Delaware	06-0495050
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3001 Summer Street, Stamford, Connecticut	06926
(Address of principal executive offices)	(Zip Code)

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

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

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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of April 29, 2016, 188,620,368 shares of common stock, par value $1 per share, of the registrant were outstanding.

PITNEY BOWES INC.
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PART I. FINANCIAL INFORMATION
Item 1: Financial Statements
PITNEY BOWES INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited; in thousands, except per share amounts)

	Three Months Ended March 31,	
	2016	2015
Revenue:		
Equipment sales	$159,361	$165,964
Supplies	72,051	73,368
Software	78,058	86,357
Rentals	104,090	113,997
Financing	97,423	105,630
Support services	128,260	139,558
Business services	205,346	205,807
Total revenue	844,589	890,681
Costs and expenses:		
Cost of equipment sales	71,539	75,013
Cost of supplies	20,690	22,659
Cost of software	26,815	29,864
Cost of rentals	20,495	20,701
Financing interest expense	14,915	18,770
Cost of support services	75,249	83,599
Cost of business services	135,538	139,919
Selling, general and administrative	326,882	314,529
Research and development	26,568	26,048
Restructuring charges, net	6,933	(81)
Interest expense, net	19,301	24,064
Total costs and expenses	744,925	755,085
Income from continuing operations before income taxes	99,664	135,596
Provision for income taxes	37,024	50,547
Income from continuing operations	62,640	85,049
Income from discontinued operations, net of tax	—	157
Net income	62,640	85,206
Less: Preferred stock dividends attributable to noncontrolling interests	4,594	4,594
Net income attributable to Pitney Bowes Inc.	$58,046	$80,612
Amounts attributable to common stockholders:		
Net income from continuing operations	$58,046	$80,455
Income from discontinued operations, net of tax	—	157
Net income attributable to Pitney Bowes Inc.	$58,046	$80,612
Basic earnings per share attributable to common stockholders:		
Continuing operations	$0.30	$0.40
Discontinued operations	—	—
Net income attributable to Pitney Bowes Inc.	$0.30	$0.40
Diluted earnings per share attributable to common stockholders:		
Continuing operations	$0.30	$0.40

Discontinued operations	—	—
Net income attributable to Pitney Bowes Inc.	$0.30	$0.40
Dividends declared per share of common stock	$0.1875	$0.1875

See Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended March 31,	
	2016	2015
Net income	$62,640	$85,206
Less: Preferred stock dividends attributable to noncontrolling interests	4,594	4,594
Net income attributable to Pitney Bowes Inc.	58,046	80,612
Other comprehensive income (loss), net of tax:		
Foreign currency translations	39,849	(72,179)
Net unrealized (loss) gain on cash flow hedges, net of tax of $(18), and $341, respectively	(28)	549
Net unrealized gain on investment securities, net of tax of $2,029 and $1,012, respectively	3,454	1,730
Adjustments to pension and postretirement plans, net of tax of $(777) and $0, respectively	(1,230)	—
Amortization of pension and postretirement costs, net of tax of $3,799, and $4,167, respectively	6,748	7,409
Other comprehensive income (loss), net of tax	48,793	(62,491)
Comprehensive income attributable to Pitney Bowes Inc.	$106,839	$18,121

See Notes to Condensed Consolidated Financial Statements

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

	March 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$612,987	$650,557
Short-term investments	122,147	117,021
Accounts receivable (net of allowance of $10,056 and $9,262, respectively)	383,839	457,327
Short-term finance receivables (net of allowance of $14,196 and $15,514, respectively)	912,755	935,170
Inventories	100,353	88,824
Current income taxes	11,494	6,584
Other current assets and prepayments	70,609	64,325
Total current assets	2,214,184	2,319,808
Property, plant and equipment, net	335,760	330,088
Rental property and equipment, net	178,877	180,662
Long-term finance receivables (net of allowance of $5,584 and $6,249, respectively)	741,138	763,054
Goodwill	1,765,002	1,745,957
Intangible assets, net	184,047	187,378
Non-current income taxes	68,437	70,294
Other assets	518,377	525,891
Total assets	$6,005,822	$6,123,132
LIABILITIES, NONCONTROLLING INTERESTS AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$1,311,486	$1,448,321
Current income taxes	27,471	16,620
Current portion of long-term debt and notes payable	269,732	461,085
Advance billings	356,412	353,025
Total current liabilities	1,965,101	2,279,051
Deferred taxes on income	216,648	205,668
Tax uncertainties and other income tax liabilities	67,502	68,429
Long-term debt	2,775,213	2,489,583
Other non-current liabilities	561,720	605,310
Total liabilities	5,586,184	5,648,041
Commitments and contingencies (See Note 13)		
Noncontrolling interests (Preferred stockholders’ equity in subsidiaries)	296,370	296,370
Stockholders’ equity:		
Cumulative preferred stock, $50 par value, 4% convertible	1	1
Cumulative preference stock, no par value, $2.12 convertible	492	505
Common stock, $1 par value (480,000,000 shares authorized; 323,337,912 shares issued)	323,338	323,338
Additional paid-in capital	145,755	161,280
Retained earnings	5,177,573	5,155,537
Accumulated other comprehensive loss	(839,842)	(888,635)
Treasury stock, at cost (131,097,268 and 127,816,704 shares, respectively)	(4,684,049)	(4,573,305)

Total Pitney Bowes, Inc. stockholders’ equity	123,268	178,721
Total liabilities, noncontrolling interests and stockholders’ equity	$6,005,822	$6,123,132

See Notes to Condensed Consolidated Financial Statements

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

	March 31,	
	2016	2015
Cash flows from operating activities:		
Net income	$62,640	$85,206
Restructuring payments	(21,656)	(21,874)
Special pension plan contributions	(36,731)	—
Tax payments related to other investments	—	(23,160)
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on disposal of businesses	2,059	821
Depreciation and amortization	44,300	42,496
Gain on debt forgiveness	(10,000)	—
Stock-based compensation	6,303	5,036
Restructuring charges, net	6,933	(81)
Changes in operating assets and liabilities, net of acquisitions/divestitures:		
Decrease in accounts receivable	76,559	48,943
Decrease in finance receivables	54,863	64,590
Increase in inventories	(11,489)	(12,029)
Increase in other current assets and prepayments	(7,978)	(13,285)
Decrease in accounts payable and accrued liabilities	(115,029)	(157,304)
Increase in current and non-current income taxes	13,380	53,429
Increase in advance billings	1,289	30,971
Other, net	(7,077)	128
Net cash provided by operating activities	58,366	103,887
Cash flows from investing activities:		
Purchases of available-for-sale securities	(31,661)	(69,201)
Proceeds from sales/maturities of available-for-sale securities	46,209	68,411
Capital expenditures	(40,504)	(43,908)
Acquisition of businesses, net of cash acquired	(13,371)	—
Change in reserve account deposits	(16,253)	(20,077)
Other investing activities	(4,399)	(593)
Net cash used in investing activities	(59,979)	(65,368)
Cash flows from financing activities:		
Proceeds from the issuance of long-term debt	300,000	—
Principal payments of long-term debt	(370,952)	(274,879)
Increase in short-term borrowings, net	179,550	100,000
Dividends paid to stockholders	(36,010)	(37,804)
Common stock repurchases	(128,451)	—
Other financing activities	—	713
Net cash used in financing activities	(55,863)	(211,970)
Effect of exchange rate changes on cash and cash equivalents	19,906	(34,935)
Decrease in cash and cash equivalents	(37,570)	(208,386)
Cash and cash equivalents at beginning of period	650,557	1,054,118
Cash and cash equivalents at end of period	$612,987	$845,732
Cash interest paid	$59,566	$68,187
Cash income tax payments, net of refunds	$25,585	$21,197

See Notes to Condensed Consolidated Financial Statements

PITNEY BOWES INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

1. Description of Business and Basis of Presentation

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

We have prepared the accompanying unaudited Condensed Consolidated Financial Statements 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, 2015 Condensed Consolidated Balance Sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. In management's opinion, all adjustments, consisting only of normal recurring adjustments, considered necessary to fairly state our financial position, results of operations and cash flows for the periods presented have been included. Operating results for the periods presented are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2016.

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, 2015 (2015 Annual Report).

In 2015, we determined that certain investments were classified as cash and cash equivalents and made reclassifications primarily between short-term investments and cash and cash equivalents. Accordingly, the Consolidated Statements of Cash Flows for the period ended March 31, 2015 has been revised to reduce beginning cash and cash equivalents by $25 million and ending cash and cash equivalents by $26 million and investments have been increased in these same periods.

New Accounting Pronouncements - Standards Adopted in 2016

In September 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2015-16, Business Combinations - Simplifying the Accounting for Measurement-Period Adjustments, which eliminates the requirement to restate prior period financial statements for measurement period adjustments. The new guidance requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. Consistent with existing guidance, the new guidance requires an acquirer to disclose the nature and amount of measurement period adjustments.

We adopted this standard as of January 1, 2016, and will apply when applicable.

In April 2015, the FASB issued ASU 2015-05, Intangibles - Goodwill and Other - Internal-Use Software, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement, which provides guidance on fees paid by an entity in a cloud computing arrangement and whether an arrangement includes a license to the underlying software. We adopted this standard as of January 1, 2016, and there was no impact to the financial statements.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. This standard is effective for fiscal periods beginning after December 15, 2015. We retrospectively adopted this ASU effective January 1, 2016. Accordingly, the Consolidated Balance Sheet at December 31, 2015, has been revised to reduce other assets and long-term debt by $18 million.

In January 2015, the FASB issued ASU 2015-01, Income Statement - Extraordinary and Unusual Items, which removes the concept of extraordinary items, thereby eliminating the need for companies to assess transactions for extraordinary treatment. The standard retained the presentation and disclosure requirements for items that are unusual in nature and/or infrequent in occurrence. We adopted this standard as of January 1, 2016, and will apply when applicable.

New Accounting Pronouncements - Standards Not Yet Adopted

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

PITNEY BOWES INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

In February 2016, the FASB issued ASU 2016-02, Leases. Lessees will need to recognize almost all leases on their balance sheet as a right-of-use asset and a lease liability. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines. Lessor accounting is similar to the current model, but updated to align with certain changes to the lessee model and the new revenue recognition standard. The standard will also result in enhanced disclosures. The ASU is effective for interim and annual periods beginning after December 15, 2018. The standard requires modified retrospective transition and early adoption is permitted. We are currently assessing the impact this standard will have on our consolidated financial statements and disclosures.

In March 2016, the FASB issued ASU 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The ASU includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. The ASU is effective for interim and annual periods beginning after December 15, 2016 and early adoption is permitted. We are currently assessing the impact this standard will have on our consolidated financial statements and disclosures.

In July 2015, the FASB issued ASU 2015-11, Inventory - Simplifying the Measurement of Inventory, which requires inventory to be measured at the lower of cost and net realizable value (estimated selling price less reasonably predictable costs of completion, disposal and transportation). Prior to this guidance, inventory was measured at the lower of cost or market (where market was defined as replacement cost, with a ceiling of net realizable value and a floor of net realizable value of inventory, less a normal profit margin). Inventory measured using LIFO is not impacted by the new guidance. The ASU is effective for interim and annual periods beginning after December 15, 2016 and early adoption is permitted. We do not believe this standard will have a significant impact on our consolidated financial statements or disclosures.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. The standard requires companies to recognize revenue for the transfer of goods and services to customers in amounts that reflect the consideration the company expects to receive in exchange for those goods and services. The standard will also result in enhanced disclosures about revenue. In July 2015, the FASB approved a one-year deferral of the effective date. This standard is now effective for fiscal periods beginning after December 15, 2017. The standard can be adopted either retrospectively or as a cumulative-effect adjustment. Companies are permitted to adopt the standard as early as the original public entity effective date (fiscal periods beginning after December 15, 2016). Early adoption prior to that date is prohibited. We are currently in the process of evaluating a sample of contracts with customers under the new standard and cannot currently estimate the financial statement impact of adoption. We have not decided on the transition method we will use to adopt the new standard. Areas of potential change include, but are not limited to: units of accounting; estimating and allocating variable consideration as well as changes in variable consideration and cumulative adjustments to revenue; determining standalone selling price of software; and capitalization of certain contract costs, including sales commissions. In addition, we continue to monitor additional changes, clarifications or interpretations being undertaken by the FASB.

PITNEY BOWES INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

2. Segment Information
The principal products and services of each of our reportable segments are as follows:

Small & Medium Business Solutions:
North America Mailing: Includes the revenue and related expenses from the sale, rental, financing and servicing of mailing equipment, software and supplies for small and medium businesses to efficiently create physical and digital mail and evidence postage for the sending of mail, flats and parcels in the U.S. and Canada.
International Mailing: Includes the revenue and related expenses from the sale, rental, financing and servicing of mailing equipment, software and supplies for small and medium businesses to efficiently create physical and digital mail and evidence postage for the sending of mail, flats and parcels in areas outside the U.S. and Canada.

Enterprise Business Solutions:
Production Mail: Includes the worldwide revenue and related expenses from the sale of production mail inserting and sortation equipment, high-speed production print systems, supplies and related support services to large enterprise clients to process inbound and outbound mail.
Presort Services: Includes revenue and related expenses from presort mail services for our large enterprise clients to qualify large mail volumes for postal worksharing discounts.

Digital Commerce Solutions:
Software Solutions: Includes the worldwide revenue and related expenses from the licensing of non-equipment-based mailing, customer information management, location intelligence and customer engagement solutions and related support services.
Global Ecommerce: Includes the worldwide revenue and related expenses from shipping solutions and cross-border ecommerce.

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

PITNEY BOWES INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

Revenue and EBIT by business segment is presented below:

	Revenue Three Months Ended March 31,	
	2016	2015
North America Mailing	$349,726	$361,874
International Mailing	103,759	116,173
Small & Medium Business Solutions	453,485	478,047
Production Mail	87,425	99,503
Presort Services	127,396	121,531
Enterprise Business Solutions	214,821	221,034
Software Solutions	77,922	86,237
Global Ecommerce	98,361	75,386
Digital Commerce Solutions	176,283	161,623
Other	—	29,977
Total revenue	$844,589	$890,681

	EBIT Three Months Ended March 31,	
	2016	2015
North America Mailing	$155,915	$163,665
International Mailing	11,851	11,724
Small & Medium Business Solutions	167,766	175,389
Production Mail	6,824	9,032
Presort Services	28,910	27,494
Enterprise Business Solutions	35,734	36,526
Software Solutions	(2,572)	4,133
Global Ecommerce	772	8,146
Digital Commerce Solutions	(1,800)	12,279
Other	—	4,958
Total EBIT	201,700	229,152
Reconciling items:		
Interest, net	(34,216)	(42,834)
Unallocated corporate expenses	(57,767)	(50,803)
Restructuring charges, net	(6,933)	81
Acquisition and disposition-related expenses	(3,120)	—
Income from continuing operations before income taxes	$99,664	$135,596

PITNEY BOWES INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

3. Earnings per Share

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

	Three Months Ended March 31,	
	2016	2015
Numerator:		
Net income from continuing operations	$58,046	$80,455
Income from discontinued operations, net of tax	—	157
Net income - Pitney Bowes Inc. (numerator for diluted EPS)	58,046	80,612
Less: Preference stock dividend	10	11
Income attributable to common stockholders (numerator for basic EPS)	$58,036	$80,601
Denominator:		
Weighted-average shares used in basic EPS	192,241	201,337
Effect of dilutive shares:		
Conversion of Preferred stock and Preference stock	304	334
Employee stock plans	636	1,008
Weighted-average shares used in diluted EPS	193,181	202,679
Basic earnings per share:		
Continuing operations	$0.30	$0.40
Discontinued operations	—	—
Net income	$0.30	$0.40
Diluted earnings per share:		
Continuing operations	$0.30	$0.40
Discontinued operations	—	—
Net income	$0.30	$0.40
Anti-dilutive shares not used in calculating diluted weighted-average shares:	8,870	7,779

4. Inventories

Inventories are stated at the lower of cost or market. Cost is determined on the last-in, first-out (LIFO) basis for most U.S. inventories and on the first-in, first-out (FIFO) basis for most non-U.S. inventories. Inventories at March 31, 2016 and December 31, 2015 consisted of the following:

	March 31, 2016	December 31, 2015
Raw materials	$29,173	$ 25,803
Work in process	12,304	6,408
Supplies and service parts	44,592	44,323
Finished products	26,612	24,618
Inventory at FIFO cost	112,681	101,152
Excess of FIFO cost over LIFO cost	(12,328)	(12,328)
Total inventory, net	$100,353	$ 88,824

PITNEY BOWES INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

5. Finance Assets
Finance Receivables
Finance receivables are comprised of sales-type lease receivables and unsecured revolving loan receivables. Sales-type lease receivables are generally due in monthly, quarterly or semi-annual installments over periods ranging from three to five years. Loan receivables arise primarily from financing services offered to our customers for postage and supplies. Loan receivables are generally due each month; however, customers may rollover outstanding balances. Interest is recognized on loan receivables using the effective interest method and related annual fees are initially deferred and recognized ratably over the annual period covered. Customer acquisition costs are expensed as incurred.
Finance receivables at March 31, 2016 and December 31, 2015 consisted of the following:

March 31, 2016			December 31, 2015	
North America	International	Total	North America	International