

PITNEY BOWES INC /DE/
Form 10-Q
August 02, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
 QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission file number: 1-3579
PITNEY BOWES INC.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

As of July 28, 2017, 186,681,977 shares of common stock, par value \$1 per share, of the registrant were outstanding.

PITNEY BOWES INC.
INDEX

Page
Number

Part I - Financial Information:

Item 1: Financial Statements (Unaudited)

Condensed Consolidated Statements of Income for the Three and Six Months Ended June 30, 2017 and 2016 3

Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2017 and 2016 4

Condensed Consolidated Balance Sheets at June 30, 2017 and December 31, 2016 5

Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2017 and 2016 6

Notes to Condensed Consolidated Financial Statements 7

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations 27

Item 3: Quantitative and Qualitative Disclosures about Market Risk 39

Item 4: Controls and Procedures 39

Part II - Other Information:

Item 1: Legal Proceedings 40

Item 1A: Risk Factors 40

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds 40

Item 6: Exhibits 42

Signatures 43

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 | | Six Months Ended | |
|---|--------------------|------------|------------------|------------|
| | June 30, | | June 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Revenue: | | | | |
| Equipment sales | \$ 158,625 | \$ 152,641 | \$ 321,599 | \$ 312,002 |
| Supplies | 63,228 | 65,274 | 130,046 | 137,325 |
| Software | 86,664 | 90,615 | 164,531 | 168,673 |
| Rentals | 95,999 | 102,869 | 195,869 | 206,959 |
| Financing | 83,653 | 91,609 | 169,398 | 189,032 |
| Support services | 115,299 | 131,418 | 234,146 | 259,678 |
| Business services | 217,903 | 201,460 | 442,422 | 406,806 |
| Total revenue | 821,371 | 835,886 | 1,658,011 | 1,680,475 |
| Costs and expenses: | | | | |
| Cost of equipment sales | 77,189 | 78,055 | 146,751 | 149,594 |
| Cost of supplies | 19,909 | 19,624 | 41,380 | 40,314 |
| Cost of software | 24,795 | 26,983 | 50,103 | 53,798 |
| Cost of rentals | 21,576 | 18,415 | 42,238 | 38,910 |
| Financing interest expense | 12,843 | 13,495 | 25,817 | 28,410 |
| Cost of support services | 73,190 | 74,742 | 146,544 | 149,991 |
| Cost of business services | 153,063 | 140,830 | 303,906 | 276,368 |
| Selling, general and administrative | 297,468 | 289,116 | 603,771 | 615,998 |
| Research and development | 32,958 | 34,513 | 64,814 | 61,081 |
| Restructuring charges and asset impairments, net | 26,927 | 26,076 | 29,009 | 33,009 |
| Interest expense, net | 27,600 | 20,799 | 53,276 | 40,100 |
| Total costs and expenses | 767,518 | 742,648 | 1,507,609 | 1,487,573 |
| Income before income taxes | 53,853 | 93,238 | 150,402 | 192,902 |
| Provision for income taxes | 4,952 | 33,394 | 36,368 | 70,418 |
| Income from continuing operations | 48,901 | 59,844 | 114,034 | 122,484 |
| Loss from discontinued operations, net of tax | — | (1,660) | — | (1,660) |
| Net income | 48,901 | 58,184 | 114,034 | 120,824 |
| Less: Preferred stock dividends attributable to noncontrolling interests | — | 4,594 | — | 9,188 |
| Net income attributable to Pitney Bowes Inc. | \$ 48,901 | \$ 53,590 | \$ 114,034 | \$ 111,636 |
| Amounts attributable to common stockholders: | | | | |
| Net income from continuing operations | \$ 48,901 | \$ 55,250 | \$ 114,034 | \$ 113,296 |
| Loss from discontinued operations, net of tax | — | (1,660) | — | (1,660) |
| Net income attributable to Pitney Bowes Inc. | \$ 48,901 | \$ 53,590 | \$ 114,034 | \$ 111,636 |
| Basic earnings per share attributable to common stockholders ⁽¹⁾ : | | | | |
| Continuing operations | \$ 0.26 | \$ 0.29 | \$ 0.61 | \$ 0.60 |
| Discontinued operations | — | (0.01) | — | (0.01) |
| Net income attributable to Pitney Bowes Inc. | \$ 0.26 | \$ 0.29 | \$ 0.61 | \$ 0.59 |
| Diluted earnings per share attributable to common stockholders ⁽¹⁾ : | | | | |
| Continuing operations | \$ 0.26 | \$ 0.29 | \$ 0.61 | \$ 0.59 |

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| | | | | | | |
|--|----------|----------|---|---------|---------|---|
| Discontinued operations | — | (0.01 |) | — | (0.01 |) |
| Net income attributable to Pitney Bowes Inc. | \$0.26 | \$0.28 | | \$0.61 | \$0.59 | |
| Dividends declared per share of common stock | \$0.1875 | \$0.1875 | | \$0.375 | \$0.375 | |

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

See Notes to Condensed Consolidated Financial Statements

3

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|----------|------------------------------|-----------|
| | 2017 | 2016 | 2017 | 2016 |
| Net income | \$48,901 | \$58,184 | \$114,034 | \$120,824 |
| Less: Preferred stock dividends attributable to noncontrolling interests | — | 4,594 | — | 9,188 |
| Net income attributable to Pitney Bowes Inc. | 48,901 | 53,590 | 114,034 | 111,636 |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translations | 46,791 | (9,520) | 66,706 | 30,325 |
| Net unrealized (loss) gain on cash flow hedges, net of tax of \$(120), \$281, \$235 and \$264, respectively | (196) | 450 | 383 | 422 |
| Net unrealized gain on investment securities, net of tax of \$758, \$1,415, \$1,102 and \$3,443, respectively | 1,291 | 2,409 | 1,876 | 5,863 |
| Adjustments to pension and postretirement plans, net of tax of \$(304) and \$(777) for the six months ended June 30, 2017 and 2016, respectively. | — | — | (1,482) | (1,230) |
| Amortization of pension and postretirement costs, net of tax of \$3,442, \$4,122, \$6,956 and \$7,921, respectively | 6,624 | 6,080 | 13,335 | 12,828 |
| Other comprehensive income (loss), net of tax | 54,510 | (581) | 80,818 | 48,208 |
| Comprehensive income attributable to Pitney Bowes Inc. | \$103,411 | \$53,009 | \$194,852 | \$159,844 |

See Notes to Condensed Consolidated Financial Statements

4

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

| | June 30, 2017 | December 31, 2016 |
|--|------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$840,564 | \$764,522 |
| Short-term investments | 164,716 | 38,448 |
| Accounts receivable (net of allowance of \$14,709 and \$14,372, respectively) | 389,262 | 455,527 |
| Short-term finance receivables (net of allowance of \$14,491 and \$13,323, respectively) | 857,764 | 893,950 |
| Inventories | 121,478 | 92,726 |
| Current income taxes | 28,732 | 11,373 |
| Other current assets and prepayments | 89,061 | 68,637 |
| Total current assets | 2,491,577 | 2,325,183 |
| Property, plant and equipment, net | 327,140 | 314,603 |
| Rental property and equipment, net | 182,997 | 188,054 |
| Long-term finance receivables (net of allowance of \$5,121 and \$7,177, respectively) | 662,384 | 673,207 |
| Goodwill | 1,604,320 | 1,571,335 |
| Intangible assets, net | 152,019 | 165,172 |
| Noncurrent income taxes | 75,105 | 74,806 |
| Other assets | 541,806 | 524,773 |
| Total assets | \$6,037,348 | \$5,837,133 |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$1,339,287 | \$1,378,822 |
| Current income taxes | 17,349 | 34,434 |
| Current portion of long-term debt | 985,291 | 614,485 |
| Advance billings | 291,180 | 299,878 |
| Total current liabilities | 2,633,107 | 2,327,619 |
| Deferred taxes on income | 214,287 | 204,289 |
| Tax uncertainties and other income tax liabilities | 51,112 | 61,276 |
| Long-term debt | 2,543,476 | 2,750,405 |
| Other noncurrent liabilities | 565,993 | 597,204 |
| Total liabilities | 6,007,975 | 5,940,793 |
| Commitments and contingencies (See Note 12) | | |
| Stockholders' equity (deficit): | | |
| Cumulative preferred stock, \$50 par value, 4% convertible | 1 | 1 |
| Cumulative preference stock, no par value, \$2.12 convertible | 463 | 483 |
| Common stock, \$1 par value (480,000,000 shares authorized; 323,337,912 shares issued) | 323,338 | 323,338 |
| Additional paid-in capital | 131,691 | 148,125 |
| Retained earnings | 5,152,241 | 5,107,734 |
| Accumulated other comprehensive loss | (859,315) | (940,133) |
| Treasury stock, at cost (136,967,821 and 137,669,194 shares, respectively) | (4,719,046) | (4,743,208) |
| Total Pitney Bowes Inc. stockholders' equity (deficit) | 29,373 | (103,660) |

| | | |
|--|-------------|-------------|
| Total liabilities and stockholders' equity (deficit) | \$6,037,348 | \$5,837,133 |
|--|-------------|-------------|

See Notes to Condensed Consolidated Financial Statements

5

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

| | Six Months Ended June 30, | |
|---|------------------------------|------------|
| | 2017 | 2016 |
| Cash flows from operating activities: | | |
| Net income | \$ 114,034 | \$ 120,824 |
| Restructuring payments | (19,016) | (33,866) |
| Special pension plan contributions | — | (36,731) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Loss on disposal of businesses | — | 2,099 |
| Gain on sale of technology | (6,085) | — |
| Depreciation and amortization | 88,160 | 89,538 |
| Gain on debt forgiveness | — | (10,000) |
| Stock-based compensation | 12,531 | 9,511 |
| Restructuring charges and asset impairments, net | 29,009 | 33,009 |
| Changes in operating assets and liabilities, net of acquisitions/divestitures: | | |
| Decrease in accounts receivable | 78,279 | 46,828 |
| Decrease in finance receivables | 77,877 | 73,496 |
| Increase in inventories | (26,812) | (22,601) |
| (Increase) decrease in other current assets and prepayments | (18,850) | 7,206 |
| Decrease in accounts payable and accrued liabilities | (71,783) | (75,042) |
| Decrease in current and noncurrent income taxes | (40,774) | (10,801) |
| Decrease in advance billings | (20,218) | (45,410) |
| Other, net | (11,705) | 10,524 |
| Net cash provided by operating activities | 184,647 | 158,584 |
| Cash flows from investing activities: | | |
| Purchases of available-for-sale securities | (70,405) | (77,185) |
| Proceeds from sales/maturities of available-for-sale securities | 61,913 | 84,854 |
| Net change in short-term and other investments | (131,303) | 55,702 |
| Capital expenditures | (76,621) | (71,359) |
| Proceeds from sale of buildings | — | 17,671 |
| Acquisition of businesses, net of cash acquired | (7,889) | (13,417) |
| Divestiture of businesses, net of cash transferred | — | (3,039) |
| Change in reserve account deposits | 2,514 | (7,143) |
| Other investing activities | (3,000) | (4,480) |
| Net cash used in investing activities | (224,791) | (18,396) |
| Cash flows from financing activities: | | |
| Proceeds from the issuance of long-term debt | 395,772 | 300,000 |
| Principal payments of long-term debt | (229,323) | (370,952) |
| Net change in short-term borrowings | — | 229,875 |
| Dividends paid to stockholders | (69,527) | (70,979) |
| Common stock repurchases | — | (194,776) |
| Dividends paid to noncontrolling interests | — | (9,188) |
| Other financing activities | (5,551) | (4,997) |
| Net cash provided by (used in) financing activities | 91,371 | (121,017) |
| Effect of exchange rate changes on cash and cash equivalents | 24,815 | 4,355 |

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| | | |
|--|-----------|-----------|
| Increase in cash and cash equivalents | 76,042 | 23,526 |
| Cash and cash equivalents at beginning of period | 764,522 | 640,190 |
| Cash and cash equivalents at end of period | \$840,564 | \$663,716 |
| Cash interest paid | \$82,405 | \$78,311 |
| Cash income tax payments, net of refunds | \$78,649 | \$84,225 |

See Notes to Condensed Consolidated Financial Statements

6

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 provide innovative products and solutions for mailing, shipping and cross border ecommerce that enable the sending of packages globally and products and solutions for customer information management, location intelligence and customer engagement to help our clients market to their customer. Clients around the world rely on our products, solutions and services. For more information about us, our products, services and solutions, visit www.pb.com.

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

In the fourth quarter of 2016, we determined that certain investments were classified as cash and cash equivalents. Accordingly, the Condensed Consolidated Statement of Cash Flows for the period ended June 30, 2016 has been revised to reduce beginning cash and cash equivalents by \$10 million and ending cash and cash equivalents by \$12 million with a corresponding adjustment to net change in short-term and other investing activities.

New Accounting Pronouncements - Standards Adopted in 2017

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

In March 2016, the FASB issued ASU 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The standard includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. We retroactively adopted this ASU effective January 1, 2017. Accordingly, the Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2016 has been recast to increase both net cash provided by operating activities and net cash used in financing activities by \$5 million. In July 2015, the FASB issued ASU 2015-11, Inventory - Simplifying the Measurement of Inventory, which requires inventory to be measured at the lower of cost and net realizable value (estimated selling price less reasonably predictable costs of completion, disposal and transportation). Inventory measured using the last-in, first-out (LIFO) basis is not impacted by the new guidance. This standard became effective January 1, 2017 and there was no impact on our consolidated financial statements or disclosures.

New Accounting Pronouncements - Standards Not Yet Adopted

In May 2017, the FASB issued ASU 2017-09, Scope of Modification Accounting. The ASU provides guidance about which changes to terms and conditions of a share-based payment award require an entity to apply modification accounting. The standard is effective for interim and annual periods beginning after December 15, 2017 and would be applied prospectively to awards modified on or after the effective date. We do not expect the adoption of this standard will have any impact on our consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The ASU shortens the amortization period for certain callable debt securities held at a premium, requiring the premium to be amortized to the earliest call date. The standard will be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The standard is effective for interim and annual periods beginning after December 15, 2018 and early adoption is permitted. We are currently assessing the impact this standard will have on our consolidated financial statements.

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

In January 2017, the FASB issued ASU 2017-06 – Plan Accounting: Defined Benefit Pension Plans (Topic 960); Defined Contribution Pension Plans (Topic 962); Health and Welfare Benefit Plans (Topic 965): Employee Benefit Plan Master Trust Reporting. The ASU requires separate disclosure in the statement of net assets available for benefits and the statement of changes in net assets available for benefits of changes in any interests held in a Master Trust and other enhanced disclosures. The standard is effective for interim and annual periods beginning after December 15, 2018 and we are currently evaluating the impact of this standard on our consolidated financial statements.

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

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

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

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

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

In January 2016, the FASB issued ASU 2016-01, Financial Instruments—Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. This standard primarily affects the accounting for equity investments,

financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The standard is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. We are currently assessing the impact this standard will have on our consolidated financial statements and disclosures.

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

We have completed the majority of our assessment of all potential impacts of the standard. We do not expect a change in revenue recognition for the majority of our product and service offerings. However, we believe that the most likely changes will be in our Software

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Solutions segment related to the timing of software licenses and certain other ancillary revenue streams. In addition, we currently capitalize certain costs associated with the acquisition of new customers and recognize these costs over their expected revenue stream of eight years. Under the new standard, these costs will be expensed as incurred. Also, we have determined that certain sales commission plans will qualify for capitalization under the new standard. We plan to use the practical expedient that allows companies to expense costs to obtain a contract when the estimated amortization period is less than one year.

We are in the process of drafting our accounting policies and evaluating the new disclosure requirements and expect to complete our evaluation of the impacts of the accounting and disclosure requirements on our business processes, controls and systems by the end of the year.

2. Segment Information

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

Small & Medium Business Solutions:

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

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

Enterprise Business Solutions:

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

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

Digital Commerce Solutions:

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

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

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

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Revenue and EBIT by business segment is presented below:

| | Revenue | | | |
|--|-----------------------------|-----------|---------------------------|-------------|
| | Three Months Ended June 30, | | Six Months Ended June 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| North America Mailing | \$341,096 | \$343,218 | \$696,674 | \$714,671 |
| International Mailing | 95,322 | 107,581 | 188,380 | 212,567 |
| Small & Medium Business Solutions | 436,418 | 450,799 | 885,054 | 927,238 |
| Production Mail | 85,570 | 95,874 | 174,525 | 183,299 |
| Presort Services | 118,452 | 115,765 | 251,129 | 243,161 |
| Enterprise Business Solutions | 204,022 | 211,639 | 425,654 | 426,460 |
| Software Solutions | 86,425 | 90,464 | 164,645 | 168,386 |
| Global Ecommerce | 94,506 | 82,984 | 182,658 | 158,391 |
| Digital Commerce Solutions | 180,931 | 173,448 | 347,303 | 326,777 |
| Total revenue | \$821,371 | \$835,886 | \$1,658,011 | \$1,680,475 |
| | EBIT | | | |
| | Three Months Ended June 30, | | Six Months Ended June 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| North America Mailing | \$120,877 | \$146,897 | \$261,885 | \$307,728 |
| International Mailing | 13,969 | 12,468 | 27,238 | 23,644 |
| Small & Medium Business Solutions | 134,846 | 159,365 | 289,123 | 331,372 |
| Production Mail | 7,631 | 12,914 | 16,595 | 19,738 |
| Presort Services | 19,270 | 21,214 | 49,987 | 50,124 |
| Enterprise Business Solutions | 26,901 | 34,128 | 66,582 | 69,862 |
| Software Solutions | 7,555 | 10,151 | 10,304 | 7,579 |
| Global Ecommerce | (4,030) | (683) | (8,300) | (4,152) |
| Digital Commerce Solutions | 3,525 | 9,468 | 2,004 | 3,427 |
| Total segment EBIT | 165,272 | 202,961 | 357,709 | 404,661 |
| Reconciling items: | | | | |
| Interest, net | (40,443) | (34,294) | (79,093) | (68,510) |
| Unallocated corporate expenses | (50,134) | (48,777) | (105,290) | (106,544) |
| Restructuring charges and asset impairments, net | (26,927) | (26,076) | (29,009) | (33,009) |
| Gain from the sale of technology | 6,085 | — | 6,085 | — |
| Acquisition and disposition-related expenses | — | (576) | — | (3,696) |
| Income before income taxes | 53,853 | 93,238 | 150,402 | 192,902 |
| Provision for income taxes | 4,952 | 33,394 | 36,368 | 70,418 |
| Loss from discontinued operations, net of tax | — | (1,660) | — | (1,660) |
| Net income | \$48,901 | \$58,184 | \$114,034 | \$120,824 |

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|----------|------------------------------|-----------|
| | 2017 | 2016 | 2017 | 2016 |
| Numerator: | | | | |
| Amounts attributable to common stockholders: | | | | |
| Net income from continuing operations | \$48,901 | \$55,250 | \$114,034 | \$113,296 |
| Loss from discontinued operations, net of tax | — | (1,660) | — | (1,660) |
| Net income attributable to Pitney Bowes Inc. (numerator for diluted EPS) | 48,901 | 53,590 | 114,034 | \$111,636 |
| Less: Preference stock dividend | 10 | 9 | 19 | 19 |
| Income attributable to common stockholders (numerator for basic EPS) | \$48,891 | \$53,581 | \$114,015 | \$111,617 |
| Denominator: | | | | |
| Weighted-average shares used in basic EPS | 186,333 | 187,395 | 186,136 | 189,929 |
| Effect of dilutive shares: | | | | |
| Conversion of Preferred stock and Preference stock | 288 | 300 | 290 | 302 |
| Employee stock plans | 756 | 667 | 519 | 575 |
| Weighted-average shares used in diluted EPS | 187,377 | 188,362 | 186,945 | 190,806 |
| Basic earnings per share: | | | | |
| Continuing operations | \$0.26 | \$0.29 | \$0.61 | \$0.60 |
| Discontinued operations | — | (0.01) | — | (0.01) |
| Net Income | \$0.26 | \$0.29 | \$0.61 | \$0.59 |
| Diluted earnings per share: | | | | |
| Continuing operations | \$0.26 | \$0.29 | \$0.61 | \$0.59 |
| Discontinued operations | — | (0.01) | — | (0.01) |
| Net Income | \$0.26 | \$0.28 | \$0.61 | \$0.59 |
| Anti-dilutive shares not used in calculating diluted weighted-average shares | 9,916 | 6,878 | 11,379 | 8,892 |

4. Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined on the last-in, first-out (LIFO) basis for most U.S. inventories and the first-in, first-out (FIFO) basis for most non-U.S. inventories. Inventories at June 30, 2017 and December 31, 2016 consisted of the following:

| | June 30, | December 31, |
|------------------------------------|-----------|--------------|
| | 2017 | 2016 |
| Raw materials | \$38,322 | \$ 28,541 |
| Work in process | 10,541 | 6,498 |
| Supplies and service parts | 53,265 | 45,152 |
| Finished products | 31,493 | 24,678 |
| Inventory at FIFO cost | 133,621 | 104,869 |
| Excess of FIFO cost over LIFO cost | (12,143) | (12,143) |
| Total inventory, net | \$121,478 | \$ 92,726 |

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

5. Finance Assets

Finance Receivables

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

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

Finance receivables at June 30, 2017 and December 31, 2016 consisted of the following:

| | June 30, 2017 | | | December 31, 2016 | | |
|--|---------------|---------------|-------------|-------------------|---------------|-------------|
| | North America | International | Total | North America | International | Total |
| Sales-type lease receivables | | | | | | |
| Gross finance receivables | \$1,061,888 | \$276,795 | \$1,338,683 | \$1,088,053 | \$273,262 | \$1,361,315 |
| Unguaranteed residual values | 82,581 | 14,083 | 96,664 | 90,190 | 13,655 | 103,845 |
| Unearned income | (221,083) | (61,768) | (282,851) | (223,908) | (60,458) | (284,366) |
| Allowance for credit losses | (8,456) | (2,496) | (10,952) | (8,247) | (2,647) | (10,894) |
| Net investment in sales-type lease receivables | 914,930 | 226,614 | 1,141,544 | 946,088 | 223,812 | 1,169,900 |
| Loan receivables | | | | | | |
| Loan receivables | 351,077 | 36,187 | 387,264 | 374,147 | 32,716 | 406,863 |
| Allowance for credit losses | (7,503) | (1,157) | (8,660) | (8,517) | (1,089) | (9,606) |
| Net investment in loan receivables | 343,574 | 35,030 | 378,604 | 365,630 | 31,627 | 397,257 |
| Net investment in finance receivables | \$1,258,504 | \$261,644 | \$1,520,148 | \$1,311,718 | \$255,439 | \$1,567,157 |

Allowance for Credit Losses

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

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

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Activity in the allowance for credit losses for the six months ended June 30, 2017 and 2016 was as follows:

| | Sales-type Lease Receivables | | Loan Receivables | | |
|----------------------------|---------------------------------|---------------|------------------|---------------|----------|
| | North America | International | North America | International | Total |
| Balance at January 1, 2017 | \$8,247 | \$ 2,647 | \$8,517 | \$ 1,089 | \$20,500 |
| Amounts charged to expense | 5,182 | 466 | 2,891 | 450 | 8,989 |
| Write-offs and other | (4,973) | (617) | (3,905) | (382) | (9,877) |
| Balance at June 30, 2017 | \$8,456 | \$ 2,496 | \$7,503 | \$ 1,157 | \$19,612 |

| | Sales-type Lease Receivables | | Loan Receivables | | |
|----------------------------|---------------------------------|---------------|------------------|---------------|----------|
| | North America | International | North America | International | Total |
| Balance at January 1, 2016 | \$6,606 | \$ 3,542 | \$10,024 | \$ 1,518 | \$21,690 |
| Amounts charged to expense | 1,895 | 186 | 2,765 | 390 | 5,236 |
| Write-offs and other | (2,784) | (1,031) | (3,798) | (569) | (8,182) |
| Balance at June 30, 2016 | \$5,717 | \$ 2,697 | \$8,991 | \$ 1,339 | \$18,744 |

Aging of Receivables

The aging of gross finance receivables at June 30, 2017 and December 31, 2016 was as follows:

| | June 30, 2017 Sales-type Lease Receivables | | Loan Receivables | | |
|----------------------------|--|---------------|------------------|---------------|-------------|
| | North America | International | North America | International | Total |
| 1 - 90 days | \$1,006,333 | \$ 271,713 | \$343,205 | \$ 36,044 | \$1,657,295 |
| > 90 days | 55,555 | 5,082 | 7,872 | 143 | 68,652 |
| Total | \$1,061,888 | \$ 276,795 | \$351,077 | \$ 36,187 | \$1,725,947 |
| Past due amounts > 90 days | | | | | |
| Still accruing interest | \$7,484 | \$ 1,578 | \$— | \$ — | \$9,062 |
| Not accruing interest | 48,071 | 3,504 | 7,872 | 143 | 59,590 |
| Total | \$55,555 | \$ 5,082 | \$7,872 | \$ 143 | \$68,652 |

As of June 30, 2017, we had North America sales-type lease receivables aged greater than 90 days with a contract value of \$56 million. As of August 1, 2017, we received payments with a contract value of approximately \$26 million related to these receivables.

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

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

13

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Credit Quality

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

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

The table below shows the North America portfolio at June 30, 2017 and December 31, 2016 by relative risk class based on the relative scores of the accounts within each class. The relative scores are determined based on a number of factors, including the company type, ownership structure, payment history and financial information. A fourth class is shown for accounts that are not scored. Absence of a score is not indicative of the credit quality of the account. The degree of risk (low, medium, high), as defined by the third party, refers to the relative risk that an account in the next 12 month period may become delinquent.

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

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

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

| | June 30, 2017 | December 31, 2016 |
|------------------------------|------------------|----------------------|
| Sales-type lease receivables | | |
| Low | \$837,486 | \$ 879,823 |
| Medium | 152,362 | 135,953 |
| High | 21,767 | 22,600 |
| Not Scored | 50,273 | 49,677 |
| Total | \$1,061,888 | \$ 1,088,053 |
| Loan receivables | | |
| Low | \$272,022 | \$ 296,598 |
| Medium | 55,493 | 53,647 |
| High | 6,672 | 7,216 |
| Not Scored | 16,890 | 16,686 |
| Total | \$351,077 | \$ 374,147 |

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

6. Intangible Assets and Goodwill

Intangible Assets

Intangible assets at June 30, 2017 and December 31, 2016 consisted of the following:

| | June 30, 2017 | | | December 31, 2016 | | |
|-------------------------|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Customer relationships | \$452,614 | \$(319,812) | \$132,802 | \$445,039 | \$(300,906) | \$144,133 |
| Software & technology | 152,589 | (139,947) | 12,642 | 150,037 | (136,508) | 13,529 |
| Trademarks & other | 36,981 | (30,406) | 6,575 | 36,212 | (28,702) | 7,510 |
| Total intangible assets | \$642,184 | \$(490,165) | \$152,019 | \$631,288 | \$(466,116) | \$165,172 |

Amortization expense was \$8 million and \$11 million for the three months ended June 30, 2017 and 2016, respectively and \$17 million and \$21 million for the six months ended June 30, 2017 and 2016, respectively.

Future amortization expense as of June 30, 2017 was as follows:

| | |
|---|-----------|
| Remaining for year ending December 31, 2017 | \$14,245 |
| Year ending December 31, 2018 | 27,632 |
| Year ending December 31, 2019 | 24,260 |
| Year ending December 31, 2020 | 19,126 |
| Year ending December 31, 2021 | 15,401 |
| Thereafter | 51,355 |
| Total | \$152,019 |

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

Goodwill

Changes in the carrying value of goodwill, by reporting segment, for the six months ended June 30, 2017 are shown in the table below. Prior year amounts have been recast for the change in reportable segments.

| | December 31, 2016 | Acquisitions | Foreign currency translation | June 30, 2017 |
|-----------------------------------|-------------------|--------------|------------------------------|---------------|
| North America Mailing | \$ 354,000 | \$ — | \$ 9,095 | \$363,095 |
| International Mailing | 145,566 | — | 8,085 | 153,651 |
| Small & Medium Business Solutions | 499,566 | — | 17,180 | 516,746 |
| Production Mail | 101,099 | — | 3,963 | 105,062 |
| Presort Services | 196,890 | 6,229 | — | 203,119 |
| Enterprise Business Solutions | 297,989 | 6,229 | 3,963 | 308,181 |
| Software Solutions | 501,591 | — | 5,613 | 507,204 |
| Global Ecommerce | 272,189 | — | — | 272,189 |
| Digital Commerce Solutions | 773,780 | — | 5,613 | 779,393 |
| Total goodwill | \$ 1,571,335 | \$ 6,229 | \$ 26,756 | \$1,604,320 |

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

7. Fair Value Measurements and Derivative Instruments

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

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

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

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

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect its placement within the fair value hierarchy. The following tables show, by level within the fair value hierarchy, our financial assets and liabilities that are accounted for at fair value on a recurring basis at June 30, 2017 and December 31, 2016.

| | June 30, 2017 | | | |
|---|---------------|-----------|---------|--------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Investment securities | | | | |
| Money market funds / commercial paper | \$169,023 | \$464,970 | \$ | —\$633,993 |
| Equity securities | — | 24,186 | — | 24,186 |
| Commingled fixed income securities | 1,560 | 21,871 | — | 23,431 |
| Debt securities - U.S. and foreign governments, agencies and municipalities | 115,852 | 16,646 | — | 132,498 |
| Debt securities - corporate | — | 77,352 | — | 77,352 |
| Mortgage-backed / asset-backed securities | — | 162,081 | — | 162,081 |
| Derivatives | | | | |
| Interest rate swap | — | 1,909 | — | 1,909 |
| Foreign exchange contracts | — | 298 | — | 298 |
| Total assets | \$286,435 | \$769,313 | \$ | —\$1,055,748 |
| Liabilities: | | | | |
| Derivatives | | | | |
| Foreign exchange contracts | \$— | \$(539) |) \$ | —\$(539) |
| Total liabilities | \$— | \$(539) |) \$ | —\$(539) |

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

Investment Securities

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

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

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

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

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

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

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

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

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Available-For-Sale Securities

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

Available-for-sale securities at June 30, 2017 and December 31, 2016 consisted of the following:

| | June 30, 2017 | | | |
|---|-------------------|------------------------------|-------------------------------|-------------------------|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Estimated fair value |
| U.S. and foreign governments, agencies and municipalities | \$ 124,051 | \$ 2,142 | \$ (1,092) | \$ 125,101 |
| Corporate notes and bonds | 75,876 | 1,779 | (303) | 77,352 |
| Commingled fixed income securities | 1,584 | — | (24) | 1,560 |
| Mortgage-backed / asset-backed securities | 161,676 | 1,776 | (1,371) | 162,081 |
| Total | \$ 363,187 | \$ 5,697 | \$ (2,790) | \$ 366,094 |
| | December 31, 2016 | | | |
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Estimated fair value |
| U.S. and foreign governments, agencies and municipalities | \$ 136,316 | \$ 1,571 | \$ (1,707) | \$ 136,180 |
| Corporate notes and bonds | 69,376 | 1,180 | (665) | 69,891 |
| Commingled fixed income securities | 1,568 | — | (32) | 1,536 |
| Mortgage-backed / asset-backed securities | 159,312 | 1,566 | (1,882) | 158,996 |
| Total | \$ 366,572 | \$ 4,317 | \$ (4,286) | \$ 366,603 |

At June 30, 2017, investment securities that were in a loss position for 12 or more continuous months had aggregate unrealized holding losses of less than \$1 million and an estimated fair value of \$24 million, and investment securities that were in a loss position for less than 12 continuous months had aggregate unrealized holding losses of \$2 million and an estimated fair value of \$132 million.

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

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

Scheduled maturities of available-for-sale securities at June 30, 2017 were as follows:

| | Amortized cost | Estimated fair value |
|--------------------------------|-------------------|-------------------------|
| Within 1 year | \$ 24,079 | \$ 24,146 |
| After 1 year through 5 years | 116,356 | 116,910 |
| After 5 years through 10 years | 65,193 | 65,864 |

| | | |
|----------------|-----------|-----------|
| After 10 years | 157,559 | 159,174 |
| Total | \$363,187 | \$366,094 |

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

18

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

Derivative Instruments

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

Foreign Exchange Contracts

We enter into foreign exchange contracts to mitigate the currency risk associated with the anticipated purchase of inventory between affiliates and from third parties. These contracts are designated as cash flow hedges. The effective portion of the gain or loss on cash flow hedges is included in AOCI in the period that the change in fair value occurs and is reclassified to earnings in the period that the hedged item is recorded in earnings. At June 30, 2017 and December 31, 2016, we had outstanding contracts associated with these anticipated transactions with notional amounts of \$9 million and \$13 million, respectively.

The valuation of foreign exchange derivatives is based on the market approach using observable market inputs, such as foreign currency spot and forward rates and yield curves. We have not seen a material change in the creditworthiness of those banks acting as derivative counterparties.

Interest Rate Swap

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

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

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The fair value of derivative instruments at June 30, 2017 and December 31, 2016 was as follows:

| Designation of Derivatives | Balance Sheet Location | June 30, December 31, | |
|---|--|-----------------------|-------------|
| | | 2017 | 2016 |
| Derivatives designated as hedging instruments | | | |
| Foreign exchange contracts | Other current assets and prepayments | \$50 | \$ 487 |
| | Accounts payable and accrued liabilities | (401) | (136) |
| Interest rate swap | Other assets | 1,909 | 1,588 |
| Derivatives not designated as hedging instruments | | | |
| Foreign exchange contracts | Other current assets and prepayments | 248 | 150 |
| | Accounts payable and accrued liabilities | (138) | (3,581) |
| | Total derivative assets | \$2,207 | \$ 2,225 |
| | Total derivative liabilities | (539) | (3,717) |
| | Total net derivative asset (liabilities) | \$1,668 | \$ (1,492) |

The majority of the amounts included in AOCI at June 30, 2017 will be recognized in earnings within the next 12 months. No amount of ineffectiveness was recorded in earnings for these designated cash flow hedges.

The following represents the results of cash flow hedging relationships for the three and six months ended June 30, 2017 and 2016:

| Derivative Instrument | Three Months Ended June 30, | | Location of Gain (Loss) (Effective Portion) | Gain (Loss) Reclassified from AOCI to Earnings (Effective Portion) | |
|----------------------------|--|-------|--|---|---------|
| | Derivative Gain (Loss) Recognized in AOCI (Effective Portion) | | | | |
| | 2017 | 2016 | | 2017 | 2016 |
| Foreign exchange contracts | \$(599) | \$437 | Revenue | \$34 | (353) |
| | | | Cost of sales | 36 | 145 |
| Interest rate swap | (147) | — | Interest Expense | — | — |
| | \$(746) | \$437 | | \$70 | \$(208) |

| Derivative Instrument | Six Months Ended June 30, | | Location of Gain (Loss) (Effective Portion) | Gain (Loss) Reclassified from AOCL to Earnings (Effective Portion) | |
|----------------------------|--|------|--|---|---------|
| | Derivative Gain (Loss) Recognized in AOCL (Effective Portion) | | | | |
| | 2017 | 2016 | | 2017 | 2016 |
| Foreign exchange contracts | \$(549) | \$45 | Revenue | \$6 | \$(733) |
| | | | Cost of sales | 148 | 370 |
| Interest rate swap | 321 | — | Interest Expense | — | — |

\$(228) \$45

\$154 \$(363)

We also enter into foreign exchange contracts to minimize the impact of exchange rate fluctuations on short-term intercompany loans and related interest that are denominated in a foreign currency. The revaluation of the intercompany loans and interest and the mark-to-market adjustment on the derivatives are both recorded in earnings. All outstanding contracts at June 30, 2017 mature within 12 months.

20

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The following represents the results of our non-designated derivative instruments for the three and six months ended June 30, 2017 and 2016:

| Derivatives Instrument | Location of Derivative Gain (Loss) | Three Months Ended June 30, Derivative Gain (Loss) Recognized in Earnings | |
|----------------------------|---|---|---------|
| | | 2017 | 2016 |
| Foreign exchange contracts | Selling, general and administrative expense | \$789 | \$4,580 |

| Derivatives Instrument | Location of Derivative Gain (Loss) | Six Months Ended June 30, Derivative Gain (Loss) Recognized in Earnings | |
|----------------------------|---|---|-----------|
| | | 2017 | 2016 |
| Foreign exchange contracts | Selling, general and administrative expense | \$(1,061) | \$(1,397) |

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 June 30, 2017, we did not post any collateral and the maximum amount of collateral that we would have been required to post had the credit-risk-related contingent features been triggered was not significant.

Fair Value of Financial Instruments

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

The fair value of our debt is estimated based on recently executed transactions and market price quotations. The inputs used to determine the fair value of our debt were classified as Level 2 in the fair value hierarchy. The carrying value and estimated fair value of our debt at June 30, 2017 and December 31, 2016 were as follows:

| | June 30, 2017 | December 31, 2016 |
|----------------|------------------|----------------------|
| Carrying value | \$3,528,767 | \$ 3,364,890 |
| Fair value | \$3,616,922 | \$ 3,412,581 |

8. Restructuring Charges and Asset Impairments

Restructuring Charges

Activity in our restructuring reserves for the six months ended June 30, 2017 and 2016 was as follows:

| | Severance and benefits costs | Other exit costs | Total |
|----------------------------|---------------------------------------|------------------------|----------|
| Balance at January 1, 2017 | \$28,376 | \$281 | \$28,657 |
| Expenses, net | 23,859 | 1,560 | 25,419 |

| | | | |
|----------------------------|-----------|----------|-----------|
| Cash payments | (18,519) | (497) | (19,016) |
| Balance at June 30, 2017 | \$33,716 | \$1,344 | \$35,060 |
| Balance at January 1, 2016 | \$43,700 | \$3,722 | \$47,422 |
| Expenses, net | 21,399 | 1,322 | 22,721 |
| Cash payments | (30,969) | (2,897) | (33,866) |
| Balance at June 30, 2016 | \$34,130 | \$2,147 | \$36,277 |

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

Asset Impairments

During the six months ended June 30, 2017, we recorded asset impairment charges of \$4 million. During the second quarter of 2016, we sold a facility for \$18 million and recorded a pre-tax loss on the sale of \$5 million. Additionally, we recorded other asset impairment charges of \$3 million relating to a building.

9. Debt

Total debt at June 30, 2017 and December 31, 2016 consisted of the following:

| | Interest rate | June 30, 2017 | December 31, 2016 |
|--|---------------|------------------|----------------------|
| Notes due September 2017 | 5.75% | \$385,109 | \$385,109 |
| Notes due March 2018 | 5.6% | 250,000 | 250,000 |
| Notes due May 2018 | 4.75% | 350,000 | 350,000 |
| Notes due March 2019 | 6.25% | 300,000 | 300,000 |
| Notes due October 2021 | 3.375% | 600,000 | 600,000 |
| Notes due May 2022 | 3.875% | 400,000 | — |
| Notes due March 2024 | 4.625% | 500,000 | 500,000 |
| Notes due January 2037 | 5.25% | 35,841 | 115,041 |
| Notes due March 2043 | 6.7% | 425,000 | 425,000 |
| Term loans | Variable | 300,000 | 450,000 |
| Other debt | | 5,552 | 5,677 |
| Principal amount | | 3,551,502 | 3,380,827 |
| Less: unamortized debt discount and issuance costs | | 30,630 | 28,796 |
| Plus: unamortized interest rate swap proceeds | | 7,895 | 12,859 |
| Total debt | | 3,528,767 | 3,364,890 |
| Less: current portion long-term debt | | 985,291 | 614,485 |
| Long-term debt | | \$2,543,476 | \$2,750,405 |

In May 2017, we issued \$400 million of 3.875% fixed rate notes. Interest is payable semi-annually, commencing November 15, 2017 and is subject to adjustment from time to time if either Moody's or S&P (or a substitute ratings agency) downgrades (or downgrades and subsequently upgrades) the credit rating assigned to the notes. The notes mature in May 2022, but may be redeemed, at our option, in whole or in part, at any time or from time to time at par plus accrued, unpaid interest and a make-whole amount, if any. The proceeds were used to repay the \$150 million term loan due in June 2017 and the remainder, together with cash on hand and other financing options, will be used to repay a portion of the \$385 million notes due September 2017.

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

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

10. Pensions and Other Benefit Programs

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

| | Defined Benefit Pension Plans | | | | Nonpension Postretirement Benefit Plans | |
|---|-------------------------------|----------|--------------|---------|---|----------|
| | United States | | Foreign | | Three Months Ended | |
| | Three Months | | Three Months | | | |
| | Ended | Ended | Ended | Ended | June 30, | June 30, |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Service cost | \$34 | \$22 | \$559 | \$546 | \$434 | \$521 |
| Interest cost | 17,121 | 18,072 | 4,640 | 5,746 | 1,770 | 1,847 |
| Expected return on plan assets | (24,369) | (25,370) | (7,961) | (8,581) | — | — |
| Amortization of transition credit | — | — | (2) | (2) | — | — |
| Amortization of prior service (credit) cost | (15) | (15) | (17) | (18) | 74 | 74 |
| Amortization of net actuarial loss | 7,229 | 6,851 | 1,892 | 1,373 | 905 | 447 |
| Settlement ⁽¹⁾ | — | 690 | — | — | — | — |
| Net periodic benefit cost (income) | \$— | \$250 | \$(889) | \$(936) | \$3,183 | \$2,889 |

| | Defined Benefit Pension Plans | | | | Nonpension Postretirement Benefit Plans | |
|---|-------------------------------|----------|------------|-----------|---|----------|
| | United States | | Foreign | | Six Months Ended | |
| | Six Months | | Six Months | | | |
| | Ended | Ended | Ended | Ended | June 30, | June 30, |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Service cost | \$64 | \$54 | \$1,101 | \$1,073 | \$853 | \$1,022 |
| Interest cost | 34,366 | 36,902 | 9,184 | 11,407 | 3,541 | \$3,983 |
| Expected return on plan assets | (48,917) | (50,959) | (15,742) | (17,053) | — | — |
| Amortization of transition credit | — | — | (4) | (4) | — | — |
| Amortization of prior service (credit) cost | (30) | (30) | (35) | (35) | 148 | 148 |
| Amortization of net actuarial loss | 14,497 | 13,557 | 3,926 | 2,716 | 1,789 | 1,807 |
| Settlement ⁽¹⁾ | — | 1,788 | — | — | — | — |
| Net periodic benefit cost (income) | \$(20) | \$1,312 | \$(1,570) | \$(1,896) | \$6,331 | \$6,960 |

(1) Included in restructuring charges and asset impairments, net in the Condensed Consolidated Statements of Income. Through June 30, 2017 and 2016, contributions to our U.S. pension plans were \$3 million and \$7 million, respectively, and contributions to our foreign plans were \$10 million and \$39 million, respectively. Nonpension postretirement benefit plan contributions were \$9 million and \$8 million through June 30, 2017 and June 30, 2016, respectively.

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

11. Income Taxes

The effective tax rate for the three months ended June 30, 2017 and 2016 was 9.2% and 35.8%, respectively, and the effective tax rate for the six months ended June 30, 2017 and 2016 was 24.2% and 36.5%, respectively. The effective tax rate for the six months ended June 30, 2017 and 2016 includes a \$4 million and \$3 million charge, respectively, from the write-off of deferred tax assets associated with the expiration of out-of-the-money vested stock options and the vesting of restricted stock. The effective tax rate for the three and six months ended June 30, 2017 includes a \$10 million and \$14 million benefit, respectively, from the resolution of tax examinations.

As is the case with other large corporations, our tax returns are examined each year by tax authorities in the U.S. and other global taxing jurisdictions in which we have operations. As a result, it is reasonably possible that the amount of our unrecognized tax benefits will decrease in the next 12 months, and we expect this change could be up to 15% of our unrecognized tax benefits.

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

12. Commitments and Contingencies

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

13. Stockholders' Equity (Deficit)

Changes in stockholders' equity (deficit) for the six months ended June 30, 2017 and 2016 were as follows:

| | Preferred stock | Preferred stock | Common stock | Additional paid-in capital | Retained earnings | Accumulated other comprehensive loss | Treasury stock | Total equity (deficit) |
|----------------------------|-----------------|-----------------|--------------|----------------------------|-------------------|--------------------------------------|----------------|------------------------|
| Balance at January 1, 2017 | \$ 1 | \$ 483 | \$323,338 | \$148,125 | \$5,107,734 | \$ (940,133) | \$(4,743,208) | \$(103,660) |
| Net income | — | — | — | — | 114,034 | — | — | 114,034 |
| Other comprehensive income | — | — | — | — | — | 80,818 | — | 80,818 |
| Dividends paid | — | — | — | — | (69,527) | — | — | (69,527) |
| Issuance of common stock | — | — | — | (28,567) | — | — | 23,744 | (4,823) |
| Conversion to common stock | — | (20) | — | (398) | — | — | 418 | — |
| | — | — | — | 12,531 | — | — | — | 12,531 |

Stock-based
compensation expense
Balance at June 30,
2017

| | | | | | | | |
|------|--------|-----------|-----------|-------------|-------------|---------------|----------|
| \$ 1 | \$ 463 | \$323,338 | \$131,691 | \$5,152,241 | \$(859,315) | \$(4,719,046) | \$29,373 |
|------|--------|-----------|-----------|-------------|-------------|---------------|----------|

24

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

| | Preferred stock | Preference stock | Common stock | Additional paid-in capital | Retained earnings | Accumulated other comprehensive loss | Treasury stock | Total equity |
|----------------------------------|--------------------|---------------------|-----------------|----------------------------------|----------------------|---|-------------------|-----------------|
| Balance at January 1, 2016 | \$ 1 | \$ 505 | \$323,338 | \$161,280 | \$5,155,537 | \$(888,635) | \$(4,573,305) | \$178,721 |
| Net income | — | — | — | — | 111,636 | — | — | 111,636 |
| Other comprehensive loss | — | — | — | — | — | 48,208 | — | 48,208 |
| Dividends paid | — | — | — | — | (70,979) | — | — | (70,979) |
| Issuance of common stock | — | — | — | (22,592) | — | — | 18,809 | (3,783) |
| Conversion to common stock | — | (16) | — | (320) | — | — | 336 | — |
| Stock-based compensation expense | — | — | — | 9,786 | — | — | — | 9,786 |
| Repurchase of common stock | — | — | — | — | — | — | (194,776) | (194,776) |
| Balance at June 30, 2016 | \$ 1 | \$ 489 | \$323,338 | \$148,154 | \$5,196,194 | \$(840,427) | \$(4,748,936) | \$78,813 |

14. Accumulated Other Comprehensive Income (Loss)

Reclassifications out of AOCI for the three and six months ended June 30, 2017 and 2016 were as follows:

| | Amount Reclassified from AOCI (a) | | | |
|---|-----------------------------------|----------|--------------------------------|----------|
| | Three Months Ended June 30, 2017 | | Six Months Ended June 30, 2016 | |
| Gains (losses) on cash flow hedges | | | | |
| Revenue | \$34 | \$(353) | \$6 | \$(733) |
| Cost of sales | 36 | 145 | 148 | 370 |
| Interest expense, net | (507) | (507) | (1,014) | (1,014) |
| Total before tax | (437) | (715) | (860) | (1,377) |
| Benefit for income tax | 170 | 277 | 336 | 535 |
| Net of tax | \$(267) | \$(438) | \$(524) | \$(842) |
| Gains (losses) on available for sale securities | | | | |
| Interest expense, net | \$(117) | \$(19) | \$(226) | \$(1) |
| Benefit provision for income tax | 44 | 7 | 84 | — |
| Net of tax | \$(73) | \$(12) | \$(142) | \$(1) |
| Pension and Postretirement Benefit Plans (b) | | | | |
| Transition credit | \$2 | \$2 | \$4 | \$4 |
| Prior service costs | (42) | (41) | (83) | (83) |
| Actuarial losses | (10,026) | (9,361) | (20,212) | (19,868) |
| Total before tax | (10,066) | (9,400) | (20,291) | (19,947) |
| Benefit from income tax | 3,442 | 4,122 | 6,956 | 7,919 |

Net of tax \$(6,624) \$(5,278) \$(13,335) \$(12,028)

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

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Changes in AOCI for the six months ended June 30, 2017 and 2016 were as follows:

| | Cash flow hedges | Available for sale securities | Pension and postretirement benefit plans | Foreign currency adjustments | Total |
|--|------------------------|-------------------------------------|--|------------------------------------|-------------|
| Balance at January 1, 2017 | \$(1,485) | \$ 120 | \$(787,813) | \$(150,955) | \$(940,133) |
| Other comprehensive income (loss) before reclassifications (a) | (141) | 1,734 | (1,482) | 66,706 | 66,817 |
| Reclassifications into earnings (a), (b) | 524 | 142 | 13,335 | — | 14,001 |
| Net other comprehensive income | 383 | 1,876 | 11,853 | 66,706 | 80,818 |
| Balance at June 30, 2017 | \$(1,102) | \$ 1,996 | \$(775,960) | \$(84,249) | \$(859,315) |
| | Cash flow hedges | Available for sale securities | Pension and postretirement benefit plans | Foreign currency adjustments | Total |
| Balance at January 1, 2016 | \$(3,912) | \$ 536 | \$(738,768) | \$(146,491) | \$(888,635) |
| Other comprehensive (loss) income before reclassifications (a) | (420) | 5,862 | (430) | 30,325 | 35,337 |
| Reclassifications into earnings (a), (b) | 842 | 1 | 12,028 | — | 12,871 |
| Net other comprehensive (loss) income | 422 | 5,863 | 11,598 | 30,325 | 48,208 |
| Balance at June 30, 2016 | \$(3,490) | \$ 6,399 | \$(727,170) | \$(116,166) | \$(840,427) |

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

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

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

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

- declining physical mail volumes
- competitive factors, including pricing pressures; technological developments; the introduction of new products and services by competitors, and fuel prices
- our success in developing new products and services, including digital-based products and services, obtaining regulatory approval if required, and the market's acceptance of these new products and services
 - our ability to fully utilize the new enterprise business platform in North America and successfully implement it internationally without significant disruption to existing operations
- the continued availability and security of key information systems and the cost to comply with information security requirements and privacy laws
- a breach of security, including a cyberattack or other comparable event
- the success of our investment in rebranding the company to build market awareness and to create new demand for our products, services and solutions
- changes in postal or banking regulations
- the loss of some of our larger clients in the Global Ecommerce segment
- macroeconomic factors, including global and regional business conditions that adversely impact customer demand, foreign currency exchange rates, interest rates and labor conditions
- capital market disruptions or credit rating downgrades that adversely impact our ability to access capital markets at reasonable costs
- 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
- integrating newly acquired businesses, including operations and product and service offerings
- intellectual property infringement claims
- our success at managing customer credit risk
 - significant changes in pension, health care and retiree medical costs
- income tax adjustments or other regulatory levies for prior audit years and changes in tax laws, rulings or regulations
- a disruption of our businesses due to changes in international or national political conditions, including the use of the mail for transmitting harmful biological agents or other terrorist attacks
- acts of nature

Overview

During the first half of 2017, we continued to make progress against our strategic initiatives. We continued to invest in new product development in order to bring our digital capabilities to market and invest in marketing for brand awareness. These investments are to enable us to become more digital and web-enabled to better serve our clients.

In Small and Medium Business Solutions (SMB), new products and digital capabilities contributed to growth in equipment sales during the quarter in Mail Finishing, which includes the initial SendPro products we launched last year. We continued to grow our digital channel. SMB experienced higher marketing spending resulting from the SendPro campaign, as well as higher residual losses on leased equipment due to the timing of trade-up activity and higher bad debt and credit loss provisions.

In Enterprise Business Solutions (EBS), total equipment sales decreased due to lower sorter placements; however inserter sales increased. Our Presort Services business continues to expand its parcel sortation services.

In Digital Commerce Solutions (DCS) we continued to invest in bringing innovation to our customers. In Software Solutions, we continued to build the indirect channel as our partners invest and help build the pipeline for our products. This quarter, in Global Ecommerce, we enhanced our Shipping APIs with several new features, including adult signature, scan for enhancements and additional postage financing options. These improved capabilities are a result of close collaboration with our domestic shipping business clients to meet and support their needs. We also continued to invest in enabling our retailers to offer their goods on global marketplace sites, supporting retailers to generate consumer demand and expanding our cross-border offerings to additional outbound countries.

Financial Results Summary - Three Months Ended June 30:

| | 2017 | 2016 | Change |
|---|-----------|-----------|--------|
| Revenue | \$821,371 | \$835,886 | (2)% |
| Income from continuing operations | \$48,901 | \$59,844 | (18)% |
| Loss from discontinued operations, net of tax | \$— | \$(1,660) |)100 % |
| Net income | \$48,901 | \$58,184 | (16)% |
| Earnings per share from continuing operations - diluted | \$0.26 | \$0.29 | (8)% |

Revenue

Revenue declined 2% on a reported basis and was flat on a constant currency basis as the dollar strengthened year over year, particularly against the British Pound, and affected the translation of foreign sourced revenues.

The results reflect growth in business services revenue and equipment sales and declines in financing, support services, supplies, rentals and software revenue.

SMB revenue declined 3% as reported and 2% on a constant currency basis. North America Mailing revenue declined 1% driven by continued declines in recurring revenue streams, partially offset by growth in equipment sales. The growth in equipment sales reflects new product offerings, including the initial SendPro products launched last year and digital offerings. Equipment sales growth also benefited from a favorable comparison to the prior year, which was impacted by the enterprise business platform implementation in the second quarter of 2016. International Mailing revenue declined 11% as reported and 7% on a constant currency basis.

EBS revenue declined 4% as reported and 3% on a constant currency basis. Presort Services revenue grew 2% driven by higher standard mail volumes processed and higher revenue per piece in flats. Production Mail revenue declined 11% as reported and 10% on a constant currency basis driven by a decline in equipment sales and a continued decline in support services revenues as a result of the shift from in-house mail production to third party service bureaus who service their own equipment.

DCS revenue grew 4% as reported and 7% on a constant currency basis. Global Ecommerce revenue grew 14% as reported and 16% on a constant currency basis driven by growth in domestic shipping and the U.K. outbound marketplace. We continued to add retailers and invest in market-growth opportunities and innovation. Software Solutions revenue declined 4% as reported and 2% on a constant currency basis, as growth in data and maintenance were more than offset by a decline in license revenue. We continued to build our partner channels, which contributed to revenue.

Net Income

Net income declined 16% driven largely by a decline in our high-margin recurring revenue streams in our SMB group, increased spending in brand-related media campaigns and a favorable adjustment in the prior year related to state sales tax. These were partially offset by benefits from the new enterprise business platform, a lower tax rate and a gain from the sale of the technology for a mining industry application, used mostly in Australia, to a channel partner.

Financial Results Summary - Six Months Ended June 30:

| | 2017 | 2016 | Change |
|---|-------------|-------------|--------|
| Revenue | \$1,658,011 | \$1,680,475 | (1)% |
| Income from continuing operations | \$114,034 | \$122,484 | (7)% |
| Loss from discontinued operations, net of tax | \$— | \$(1,660) |)100 % |
| Net income | \$114,034 | \$120,824 | (6)% |
| Earnings per share from continuing operations - diluted | \$0.61 | \$0.59 | 4 % |
| Net Cash Provided by Operations | \$184,647 | \$158,584 | 16 % |

Revenue

Revenue declined 1% on a reported basis and was flat on a constant currency basis as the dollar strengthened year over year, particularly against the British Pound, and affected the translation of foreign sourced revenues.

The results reflect growth in business services revenue and equipment sales and declines in financing, support services, supplies and rentals revenue.

SMB revenue declined 5% as reported and 4% on a constant currency basis. North America Mailing revenue declined 3% driven by continued declines in recurring revenue streams, partially offset by growth in equipment sales. The equipment sales growth reflects new product offerings, including the initial SendPro products launched last year and digital offerings. Equipment sales growth also benefited from a favorable comparison to the prior year, which was impacted by the enterprise business platform implementation in the second quarter of 2016. International Mailing revenue declined 11% as reported and 7% on a constant currency basis.

EBS revenue was flat on both a reported and constant currency basis. Presort Services revenue grew 3% driven by higher standard mail volumes processed and higher revenue per piece in flats. Production Mail revenue declined 5% as reported and 3% on a constant currency basis driven by a continued decline in support services revenues as a result of the shift from in-house mail production to third party service bureaus who service their own equipment, and a decline in equipment sales.

DCS revenue grew 6% as reported and 9% on a constant currency basis. Global Ecommerce revenue grew 15% as reported and 18% on a constant currency basis driven by growth in domestic shipping and the UK outbound marketplace. We continued to invest in market-growth opportunities and innovation. Software Solutions revenue declined 2% as reported and was flat on a constant currency basis, as growth in data and maintenance was more than offset by a decline in license revenue.

Net Income

Net income declined 6% driven largely by a decline in high-margin recurring revenue streams in our SMB group, increased spending in brand-related media campaigns, higher research and development costs and favorable adjustments in the prior year related to state sales tax and forgiveness of a loan. These were partially offset by benefits from the new enterprise business platform, a lower tax rate and a gain from the sale of the technology for a mining industry application, used mostly in Australia, to a channel partner.

Cash Flows

Net cash provided by operations was \$185 million compared to \$159 million in the prior year. The timing of vendor payments and lower variable compensation payments in 2017 drove the increase. During the first six months of 2017, we used cash to:

- reduce debt by \$229 million;
- pay dividends of \$70 million to our common stockholders; and
- invest \$77 million in capital expenditures.

Outlook

We expect that the introduction of new products and digital capabilities, the implementation of our new enterprise business platform, continued marketing programs, restructuring actions and cost savings initiatives will provide long-term benefits. We are continuing to see a shift in our portfolio to higher growth and digital solutions, which have lower margins and will impact future financial performance. In the shorter term however, we expect that the normalization of variable compensation, higher marketing and increased spending on innovation will affect earnings in 2017 as compared to the prior year.

Within SMB Solutions, we anticipate that the introduction of new solutions and services, particularly those included in the Pitney Bowes Commerce Cloud, including our SendPro solution, will help grow revenue over the long-term. This year, we will launch the next generation of our SendPro family of products. This product leverages the latest cloud technology to securely deliver a digital multi-carrier platform that enables offices of all sizes to select the sending option for parcels, letters and flats, while also providing full tracking and delivering potential savings across carriers. This product provides greater value and convenience to users through apps, analytics and services on an open platform, which is available for third party developers to easily build upon. We also anticipate that service and rental margins will improve in the second half of the year driven by revenue growth in conjunction with productivity initiatives and as the cost of retiring aging meters stabilizes.

Within EBS, we continue to invest in growth-oriented products and solutions. We anticipate revenue and profitability growth in Presort Services due to network and parcel services expansion. Production Mail revenue growth has been challenged by consolidation and outsourcing and pricing pressures on services revenue and the timing of deals, but we expect revenue to be impacted to a lesser extent in the second half of 2017.

Within DCS, we are seeing progress in our build-out of our partner sales channel in Software Solutions by adding new regional systems integrators and location intelligence partners. This effort includes continued investment in expanding the indirect channel and training partner sales and technical resources. We anticipate continued financial investment in Global Ecommerce that will contribute to future growth from expansion of our existing marketplace sites (sites where multiple sellers provide their offerings), individual retail clients, new client acquisition and expanded service offerings. We also will continue to invest in our retail and ecommerce shipping business through our Shipping APIs. We continue to expand and globalize our cross-border ecommerce offerings by adding new retail clients in additional countries, which diversifies the business and helps to mitigate foreign currency risk.

RESULTS OF OPERATIONS

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

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|-------------------|-----------------------------|------------|-----------------------|----------------------------------|---------------------------|--------------|-----------------------|----------------------------------|
| | 2017 | 2016 | Actual % change | Constant Currency % change | 2017 | 2016 | Actual % change | Constant Currency % change |
| Equipment sales | \$ 158,625 | \$ 152,641 | 4 % | 5 % | \$ 321,599 | \$ 312,002 | 3 % | 4 % |
| Supplies | 63,228 | 65,274 | (3)% | (1)% | 130,046 | 137,325 | (5)% | (4)% |
| Software | 86,664 | 90,615 | (4)% | (2)% | 164,531 | 168,673 | (2)% | — % |
| Rentals | 95,999 | 102,869 | (7)% | (6)% | 195,869 | 206,959 | (5)% | (5)% |
| Financing | 83,653 | 91,609 | (9)% | (8)% | 169,398 | 189,032 | (10)% | (9)% |
| Support services | 115,299 | 131,418 | (12)% | (11)% | 234,146 | 259,678 | (10)% | (9)% |
| Business services | 217,903 | 201,460 | 8 % | 9 % | 442,422 | 406,806 | 9 % | 10 % |
| Total revenue | \$ 821,371 | \$ 835,886 | (2)% | — % | \$ 1,658,011 | \$ 1,680,475 | (1)% | — % |

| | Three Months Ended June 30, | | Percentage of Revenue | | Six Months Ended June 30, | | Percentage of Revenue | |
|----------------------------|-----------------------------|------------|--------------------------|--------|---------------------------|------------|--------------------------|--------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Cost of equipment sales | \$ 77,189 | \$ 78,055 | 48.7 % | 51.1 % | \$ 146,751 | \$ 149,594 | 45.6 % | 47.9 % |
| Cost of supplies | 19,909 | 19,624 | 31.5 % | 30.1 % | 41,380 | 40,314 | 31.8 % | 29.4 % |
| Cost of software | 24,795 | 26,983 | 28.6 % | 29.8 % | 50,103 | 53,798 | 30.5 % | 31.9 % |
| Cost of rentals | 21,576 | 18,415 | 22.5 % | 17.9 % | 42,238 | 38,910 | 21.6 % | 18.8 % |
| Financing interest expense | 12,843 | 13,495 | 15.4 % | 14.7 % | 25,817 | 28,410 | 15.2 % | 15.0 % |
| Cost of support services | 73,190 | 74,742 | 63.5 % | 56.9 % | 146,544 | 149,991 | 62.6 % | 57.8 % |
| Cost of business services | 153,063 | 140,830 | 70.2 % | 69.9 % | 303,906 | 276,368 | 68.7 % | 67.9 % |
| Total cost of revenue | \$ 382,565 | \$ 372,144 | 46.6 % | 44.5 % | \$ 756,739 | \$ 737,385 | 45.6 % | 43.9 % |

The discussion below refers to the change in revenue on a constant currency basis to exclude changes in foreign currency exchange rates on the change in revenue. We believe that the use of a constant currency revenue measure provides a better understanding of underlying revenue performance. Constant currency is calculated by converting our current period reported revenue at the prior year's exchange rates.

Revenue and Cost of Revenues - 2017 compared to 2016

Equipment sales

Equipment sales revenue increased 4% in the quarter. On a constant currency basis, equipment sales increased 5%, primarily due to:

12% from higher equipment sales in North America Mailing due to increased sales in Mail Finishing, which includes the initial SendPro products launched last year and, in part, reflecting a favorable comparison to prior year, which was affected by the enterprise business platform implementation in the second quarter of 2016; partially offset by 4% from lower sorter placements in Production Mail; and 2% from a decline in equipment sales in International Mailing.

Cost of equipment sales as a percentage of equipment sales decreased to 48.7% in the quarter, primarily due to improved equipment sales margins in International Mailing.

Equipment sales revenue increased 3% in the first six months of 2017. On a constant currency basis, equipment sales increased 4%, primarily due to:

7% from higher equipment sales in North America Mailing, reflecting a favorable comparison to prior year, which was impacted by the enterprise business platform implementation in the second quarter of 2016; partially offset by 2% from a decline in equipment sales in International Mailing.

Cost of equipment sales as a percentage of equipment sales decreased to 45.6% in the first six months of 2017 primarily due to improved equipment sales margins in International Mailing.

32

Supplies

Supplies revenue decreased 3% in the quarter. On a constant currency basis, supplies revenue decreased 1% primarily due to:

2% from lower supplies revenue in International Mailing; partially offset by

1% increase from North America Mailing primarily due to the impact of the enterprise business platform implementation in the second quarter of 2016.

Cost of supplies as a percentage of supplies revenue increased to 31.5% in the quarter primarily due to higher mix of low margin products.

Supplies revenue decreased 5% in the first six months of 2017. On a constant currency basis, supplies revenue decreased 4% primarily due to:

3% from North America mailing primarily due to a decline in installed mailing equipment and postage volumes; and 1% from a decline in International Mailing revenue.

Cost of supplies as a percentage of supplies revenue increased to 31.8% in the first six months of 2017 due to higher mix of low margin products.

Software

Software revenue decreased 4% in the quarter. On a constant currency basis revenue decreased 2% primarily due to:

4% from lower licensing fees; partially offset by

2% from higher data revenue.

Cost of software as a percentage of software revenue decreased to 28.6% for the quarter primarily due to savings from cost reduction initiatives.

Software revenue decreased 2% in the first six months of 2017, but was flat on a constant currency basis. Cost of software as a percentage of software revenue decreased to 30.5% due to savings from cost reduction initiatives.

Rentals

Rentals revenue decreased 7% for the quarter and 6% on a constant currency basis, and 5% on an actual and constant currency basis, in the first six months of 2017 primarily due to a declining meter population. Cost of rentals as a percentage of rentals revenue increased to 22.5% for the quarter and 21.6% in the first six months of 2017 primarily due to higher scrapping costs associated with retiring aging meters.

Financing

Financing revenue decreased 9% in the quarter and 10% in the first six months of 2017. On a constant currency basis, financing revenue decreased 8% in the quarter and 9% in the first six months of 2017 primarily due to a declining portfolio and lower fees.

We allocate a portion of our total cost of borrowing to financing interest expense. In computing financing interest expense, we assume an 8:1 debt to equity leverage ratio and apply our overall effective interest rate to the average outstanding finance receivables. Financing interest expense as a percentage of financing revenue increased to 15.4% for the quarter and 15.2% in the first six months of 2017 primarily due to a higher effective interest rate.

Support Services

Support services revenue decreased 12% in the quarter. On a constant currency basis, support services revenue decreased 11% primarily due to:

9% from a decline in installed mailing equipment worldwide; and

2% from lower maintenance revenue on production mail equipment as some in-house mailers moved their mail processing to third-party service bureaus who service their own equipment.

Support services revenue decreased 10% in the first six months of 2017. On a constant currency basis, support services revenue decreased 9% primarily due to:

7% from a decline in installed mailing equipment worldwide; and

2% from lower maintenance revenue on production mail equipment as some in-house mailers moved their mail processing to third-party service bureaus who service their own equipment.

Cost of support services as a percentage of support services revenue increased to 63.5% for the quarter and 62.6% in the first six months of 2017 as support services margins were impacted by lower services revenue without corresponding cost reduction.

Business Services

Business services revenue increased 8% in the quarter. On a constant currency basis, business services revenue increased 9% primarily due to:

- 7% from growth in Global Ecommerce due to higher cross-border and retail volumes, particularly in the U.K.;
- 1% from higher revenue in Presort Services from higher volumes of mail processed; and
- 1% from higher revenue in North America Mailing.

Business services revenue increased 9% in the first six months of 2017. On a constant currency basis, business services revenue increased 10% primarily due to:

- 7% from growth in Global Ecommerce due to higher cross-border and retail volumes; and
- 2% from higher revenue in Presort Services from higher volumes of mail processed.

Cost of business services as a percentage of business services revenue increased to 70.2% in the quarter and 68.7% in the first six months of 2017 primarily due to higher costs in our Global Ecommerce segment as we invest in the business, as well as higher labor, freight and transportation costs in our Presort operations.

Selling, general and administrative (SG&A)

SG&A expense increased 3% to \$297 million in the quarter primarily due to higher marketing expenses of \$13 million, higher bad debt and credit loss provisions of \$4 million, \$5 million higher expenses for investments in growth opportunities in Global Ecommerce and a favorable state sales tax adjustment of \$5 million in 2016, partially offset by benefits of approximately \$16 million from productivity initiatives and a \$6 million pre-tax gain from the sale of technology for a mining industry application, used mostly in Australia, to a channel partner.

SG&A expense decreased 2% to \$604 million in the first six months of 2017 primarily due to approximately \$28 million of benefits from productivity initiatives and a \$6 million pre-tax gain from the sale of technology for a mining industry application, used mostly in Australia, to a channel partner, partially offset by \$10 million of higher marketing expenses and \$5 million of higher bad debt and credit loss provisions. Additionally, the first six months of 2016 included a \$10 million benefit associated with the forgiveness of a loan by the State of Connecticut and a \$5 million favorable state sales tax adjustment.

Research and development (R&D)

R&D expense decreased 5% to \$33 million in the quarter primarily due to project timing. R&D expense increased 6% to \$65 million for the first six months of 2017, primarily due to investments in Global Ecommerce and Software Solutions.

Income taxes

See Note 11 to the Condensed Consolidated Financial Statements.

Business segment results - 2017 compared to 2016

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

Small & Medium Business Solutions:

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

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

Enterprise Business Solutions:

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

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

Digital Commerce Solutions:

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

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

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

Revenue and EBIT for the three and six months ended June 30, 2017 and 2016 by reportable segment are presented below:

| | Revenue | | | | Six Months Ended June 30, | | | |
|-----------------------------------|-----------------------------|-----------|-----------------------|---------------------------|---------------------------|-----------|-----------------------|---------------------------|
| | Three Months Ended June 30, | | Actual % change | Constant Currency % | Six Months Ended June 30, | | Actual % change | Constant Currency % |
| 2017 | 2016 | 2017 | | | 2016 | | | |
| North America Mailing | \$341,096 | \$343,218 | (1)% | — % | \$696,674 | \$714,671 | (3)% | (3)% |
| International Mailing | 95,322 | 107,581 | (11)% | (7)% | 188,380 | 212,567 | (11)% | (7)% |
| Small & Medium Business Solutions | 436,418 | 450,799 | (3)% | (2)% | 885,054 | 927,238 | (5)% | (4)% |
| Production Mail | 85,570 | 95,874 | (11)% | (10)% | 174,525 | 183,299 | (5)% | (3)% |
| Presort Services | 118,452 | 115,765 | 2 % | 2 % | 251,129 | 243,161 | 3 % | 3 % |
| Enterprise Business Solutions | 204,022 | 211,639 | (4)% | (3)% | 425,654 | 426,460 | — % | — % |

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| | | | | | | | | |
|----------------------------|-----------|-----------|-------|-------|-------------|-------------|-------|------|
| Software Solutions | 86,425 | 90,464 | (4)% | (2)% | 164,645 | 168,386 | (2)% | — % |
| Global Ecommerce | 94,506 | 82,984 | 14 % | 16 % | 182,658 | 158,391 | 15 % | 18 % |
| Digital Commerce Solutions | 180,931 | 173,448 | 4 % | 7 % | 347,303 | 326,777 | 6 % | 9 % |
| Total | \$821,371 | \$835,886 | (2)% | — % | \$1,658,011 | \$1,680,475 | (1)% | — % |

35

| | EBIT Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|-----------------------------------|-------------------------------------|------------|-------------|---------------------------|------------|----------|
| | 2017 | 2016 | % change | 2017 | 2016 | % change |
| North America Mailing | \$ 120,877 | \$ 146,897 | (18)% | \$ 261,885 | \$ 307,728 | (15)% |
| International Mailing | 13,969 | 12,468 | 12 % | 27,238 | 23,644 | 15 % |
| Small & Medium Business Solutions | 134,846 | 159,365 | (15)% | 289,123 | 331,372 | (13)% |
| Production Mail | 7,631 | 12,914 | (41)% | 16,595 | 19,738 | (16)% |
| Presort Services | 19,270 | 21,214 | (9)% | 49,987 | 50,124 | — % |
| Enterprise Business Solutions | 26,901 | 34,128 | (21)% | 66,582 | 69,862 | (5)% |
| Software Solutions | 7,555 | 10,151 | (26)% | 10,304 | 7,579 | 36 % |
| Global Ecommerce | (4,030) | (683) | > (100)% | (8,300) | (4,152) | (100)% |
| Digital Commerce Solutions | 3,525 | 9,468 | (63)% | 2,004 | 3,427 | (42)% |
| Total | \$ 165,272 | \$ 202,961 | (19)% | \$ 357,709 | \$ 404,661 | (12)% |

Small & Medium Business Solutions

North America Mailing

North America Mailing revenue decreased 1% in the quarter and was flat on a constant currency basis. In the quarter, revenue was impacted:

- 5% from higher equipment sales due to increased sales in Mail Finishing, which includes the initial SendPro products launched last year and, in part, reflecting a favorable comparison to prior year, which was affected by the enterprise business platform implementation in the second quarter of 2016; partially offset by
- 4% from declines in rental and support services revenue due to a decline in installed mailing equipment and lower postage volumes; and
- 2% from lower financing revenue primarily due to a declining lease portfolio and lower fees.

North America Mailing revenue decreased 3% in the first six months of 2017, on both an actual and constant currency basis, primarily due to:

- 2% from lower financing revenue primarily due to a declining lease portfolio and lower fees; and
- 3% from declines in rentals and support services revenue due to a decline in installed mailing equipment and lower postage volumes; partially offset by
- 3% from higher equipment sales due to increased sales in Mail Finishing, which includes the initial SendPro products launched last year and, in part, reflecting a favorable comparison to prior year, which was affected by the enterprise business platform implementation in the second quarter of 2016.

EBIT decreased 18% in the quarter and 15% in the first six months of 2017, primarily due to the decline in higher margin recurring revenue streams. EBIT was also impacted by lower service margins, increased scrap costs, higher marketing expenses, higher residual losses on leased equipment due to the timing of trade-up activity and higher bad debt and credit loss provisions.

International Mailing

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

- 4% from lower equipment sales, particularly in the UK, France and Italy partially offset by growth in Japan; and
- 3% from declines in rental, financing and support services revenue resulting from a decline in installed mailing equipment and the lease portfolio.

International Mailing revenue decreased 11% in the first six months of 2017. On a constant currency basis, revenue decreased 7% primarily due to:

4% from lower equipment sales, primarily in the U.K., France, Germany and Italy, partially offset by growth in Japan;
and

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

EBIT increased 12% in the quarter and 15% in the first six months of 2017, primarily due to improved equipment sales margins and lower expenses.

36

Enterprise Business Solutions

Production Mail

Production Mail revenue decreased 11% in the quarter. On a constant currency basis, revenue decreased 10% primarily due to:

6% from lower equipment sales due primarily to lower sorter equipment placements, partially offset by higher inserter equipment sales; and

3% due to lower support services revenue as a result of some in-house mailers moved their mail processing to third-party outsourcers who service their own equipment.

Production Mail revenue decreased 5% in the first six months of 2017. On a constant currency basis, revenue decreased 3% primarily due to the decline in support services revenue as a result of some in-house mailers shifting their mail processing to third-party outsourcers who service their own equipment.

EBIT decreased 41% in the quarter and 16% in the first six months of 2017, primarily due to the decline in revenue in addition to higher sales of certain lower-margin inserter products.

Presort Services

Presort Services revenue increased 2% in the quarter, and 3% in the first six months of 2017, primarily due to higher volumes of Standard Class Mail processed and higher revenue per piece of mail related to flats. EBIT decreased 9% in the quarter, primarily due to higher labor, freight and transportation expenses. In addition, EBIT was impacted by the resolution of certain client billing disputes. EBIT was flat in the first six months of 2017 compared to the first six months of 2016.

Digital Commerce Solutions

Software Solutions

Software revenue decreased 4% in the quarter and 2% on a constant currency basis primarily due to:

4% from lower licensing fees; partially offset by

2% from higher data revenue.

EBIT decreased 26% in the quarter primarily due to the decline in license revenue.

Software revenue decreased 2% in first six months of 2017, but was flat on a constant currency basis as higher data revenue was offset by lower licensing revenue. EBIT increased 36% in the first six months of 2017 primarily due to savings from cost reduction initiatives.

Global Ecommerce

Global Ecommerce revenue increased 14% in the quarter. On a constant currency basis, revenue increased 16% primarily due to:

10% from higher domestic ecommerce shipping revenues;

5% from higher cross-border marketplace volumes, particularly in the U.K.; and

1% from higher retail volumes.

Global Ecommerce revenue increased 15% in the first six months of 2017. On a constant currency basis, revenue increased 18% primarily due to:

10% from higher domestic ecommerce shipping revenues;

5% from higher cross-border marketplace volumes, particularly in the U.K.; and

3% from higher retail volumes.

EBIT loss increased \$3 million to a loss of \$4 million in the quarter and increased \$4 million to a loss of \$8 million in the first six months of 2017 due to our continuing investment in future market growth opportunities, including shipping APIs and the expansion of our cross-border offerings to Australia.

LIQUIDITY AND CAPITAL RESOURCES

We believe that existing cash and investments, cash generated from operations and borrowing capacity under our commercial paper program will be sufficient to support our current cash needs, including discretionary uses such as capital investments, dividends, strategic acquisitions and share repurchases. Cash and cash equivalents and short-term investments were \$1,005 million at June 30, 2017 and \$803 million at December 31, 2016. We continuously review our credit profile through published credit ratings and the credit default swap market. We also monitor the creditworthiness of those banks acting as derivative counterparties, depository banks or credit providers.

Cash and cash equivalents held by our foreign subsidiaries were \$564 million at June 30, 2017 and \$475 million at December 31, 2016. Cash and cash equivalents held by our foreign subsidiaries are generally used to support the liquidity needs of these subsidiaries. Most of these amounts could be repatriated to the U.S. but would be subject to additional taxes. Repatriation of some foreign balances is restricted by local laws.

Cash Flow Summary

Changes in cash and cash equivalents for the six months ended June 30, 2017 and 2016 were as follows:

| | 2017 | 2016 | Change |
|--|------------|------------|-----------|
| Net cash provided by operating activities | \$184,647 | \$158,584 | \$26,063 |
| Net cash used in investing activities | (224,791) | (18,396) | (206,395) |
| Net cash provided by (used in) financing activities | 91,371 | (121,017) | 212,388 |
| Effect of exchange rate changes on cash and cash equivalents | 24,815 | 4,355 | 20,460 |
| Change in cash and cash equivalents | \$76,042 | \$23,526 | \$52,516 |

Cash from operations increased \$26 million, primarily due to:

- Lower variable compensation payments in 2017 attributable to 2016 performance;
- Timing of payments associated with payroll, and the launch of our enterprise business platform and advertising campaigns in 2016;
- Lower restructuring and tax payments; and
- A special U.K. pension contribution of \$37 million in 2016.

Cash flows used in investing activities increased \$206 million, primarily due to:

- Higher investment activities of \$203 million, primarily due to the investment of residual proceeds from the issuance of debt;
- A 2016 sale of a building for \$18 million;
- Higher capital expenditures of \$5 million; partially offset by
- Lower acquisition/divestiture spending of \$9 million; and an
- Increase in reserve deposits of \$10 million.

Cash flows provided by financing activities increased \$212 million, primarily due to:

- \$195 million of share repurchases in 2016; and
- \$9 million of dividends paid to non-controlling interests in 2016

Financings and Capitalization

We are a "Well-Known Seasoned Issuer" within the meaning of Rule 405 under the Securities Act, which allows us to issue debt securities, preferred stock, preference stock, common stock, purchase contracts, 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 billion to support our commercial paper issuances. During the second quarter of 2017, we extended the expiration of the credit facility to 2021 under the same terms and conditions. We have not drawn upon the credit facility.

At June 30, 2017 and December 31, 2016 there were no outstanding commercial paper borrowings. During the quarter, commercial paper borrowings averaged \$5 million at a weighted average interest rate of 1.6% and the

maximum amount of commercial paper outstanding at any point during the quarter was \$72 million. In May 2017, we issued \$400 million of 3.875% fixed rate notes. Interest is payable semi-annually, commencing November 15, 2017 and is subject to adjustment from time to time if either Moody's or S&P (or a substitute ratings agency) downgrades (or downgrades and subsequently upgrades) the credit rating assigned to the notes. The notes mature in May 2022, but may be redeemed, at our option, in whole or in part, at any time or from time to time at par plus accrued, unpaid interest and a make-whole amount, if any. The proceeds

38

were used to repay the \$150 million term loan due in June 2017 and the remainder, together with cash on hand and other financing options, will be used to repay a portion of the \$385 million notes due September 2017.

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

Dividends and Share Repurchases

During the six months ended June 30, 2017, we paid dividends to our stockholders of \$70 million. Each quarter, our Board of Directors considers our recent and projected earnings and other capital needs and priorities in deciding whether to approve the payment, as well as the amount, of a dividend. There are no material restrictions on our ability to declare dividends.

We did not repurchase any of our common shares during the quarter. We have a remaining board of directors authorization of \$21 million to repurchase shares.

Off-Balance Sheet Arrangements

At June 30, 2017, we had no off-balance sheet arrangements that have, or are reasonably likely to have, a material current or future effect on our financial condition, results of operations or liquidity.

Critical Accounting Estimates

Finance Receivables and Allowance for Credit Losses

Finance receivables are composed of sales-type lease receivables and unsecured revolving loan receivables. We provide an allowance for probable credit losses based on historical loss experience, the nature and volume of our portfolios, adverse situations that may affect a client's ability to pay, prevailing economic conditions and our ability to manage the collateral. At June 30, 2017 gross finance receivables aged greater than 90 days have grown since the implementation of our enterprise business platform in the second quarter of 2016. We believe the majority of the increased delinquency is administrative in nature and the result of a change in our billing format and process under our new enterprise business platform. The billing format under the platform is different and we are continuing to work with clients to reconcile amounts billed under the new format and thus such clients have not made payments. These accounts are considered delinquent in our analysis, but we continue to expect that payment in full will be received. The aging disclosed in Note 5 of the Condensed Consolidated Financial Statements represents full contract value while only a small portion (approximately 25%) has been billed and recognized in income as of June 30, 2017. As of June 30, 2017, we had North America sales-type lease receivables aged greater than 90 days with a contract value of \$56 million. As of August 1, 2017, we received payments with a contract value of approximately \$26 million related to these receivables.

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

Regulatory Matters

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

Item 3: Quantitative and Qualitative Disclosures about Market Risk

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

Item 4: Controls and Procedures

Disclosure controls and procedures are designed to reasonably assure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934, as amended (Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's

rules and forms. Disclosure controls and procedures are also designed to reasonably assure that such information is accumulated and communicated to management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate to allow timely decisions regarding required disclosure.

Under the direction of our CEO and CFO, we evaluated our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act) and internal control over financial reporting. Our CEO and CFO concluded that, as of the end of the period covered by this report, such disclosure controls and procedures were effective to ensure that information we are required to disclose in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Exchange Act. In addition, no changes in internal control over financial reporting occurred during the fiscal quarter covered by

this report that have materially affected, or are reasonably likely to materially affect, such internal control over financial reporting. It should be noted that any system of controls is based in part upon certain assumptions designed to obtain reasonable (and not absolute) assurance as to its effectiveness, and there can be no assurance that any design will succeed in achieving its stated goals. Notwithstanding this caution, the CEO and CFO have reasonable assurance that the disclosure controls and procedures were effective as of June 30, 2017.

PART II. OTHER INFORMATION

Item 1: Legal Proceedings

See Note 12 to the Condensed Consolidated Financial Statements.

Item 1A: Risk Factors

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

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

Repurchases of Equity Securities

We periodically repurchase shares of our common stock in the open market to manage the dilution created by shares issued under employee stock plans and for other purposes. The following table provides information about purchases of our common stock during the three months ended June 30, 2017:

| | Total Number of shares purchased | Average price paid per share | Total Number of shares purchased as part of publicly announced plans or programs | Approximate dollar value of shares that may be purchased under the plans or programs (in thousands) |
|--------------------------------|---|---------------------------------------|--|--|
| Beginning balance | | | | 21,022 |
| April 1, 2017 - April 30, 2017 | — | — | — | 21,022 |
| May 1, 2017 - May 31, 2017 | — | — | — | 21,022 |
| June 1, 2017 - June 30, 2017 | — | — | — | 21,022 |
| | — | — | — | |

Item 6: Exhibits

| Exhibit Number | Description | Exhibit Number in this Form 10-Q |
|----------------|---|----------------------------------|
| 4.1 | Officer's Certificate establishing the terms of the 3.875% Notes due 2022, dated May 5, 2017 (incorporated by reference to Exhibit 4.1 to Form 8-K filed May 9, 2017) | 4.1 |
| 4.2 | Specimen of 3.875% Notes due 2022 (incorporated by reference to exhibit 4.1 to Form 8-K filed May 9, 2017) | 4.2 |
| 12 | Computation of ratio of earnings to fixed charges | 12 |
| 31.1 | Certification of Chief Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended | 31.1 |
| 31.2 | Certification of Chief Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended | 31.2 |
| 32.1 | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 | 32.1 |
| 32.2 | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 | 32.2 |
| 101.INS | XBRL Report Instance Document | |
| 101.SCH | XBRL Taxonomy Extension Schema Document | |
| 101.CAL | XBRL Taxonomy Calculation Linkbase Document | |
| 101.DEF | XBRL Taxonomy Definition Linkbase Document | |
| 101.LAB | XBRL Taxonomy Label Linkbase Document | |
| 101.PRE | XBRL Taxonomy Presentation Linkbase Document | |

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: August 2, 2017

/s/ Stanley J. Sutula III

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

/s/ Steven J. Green

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

Exhibit Index

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