

PITNEY BOWES INC /DE/  
Form 10-Q  
May 02, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2014

OR

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

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

Commission file number: 1-3579

PITNEY BOWES INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

As of April 23, 2014, 202,640,173 shares of common stock, par value \$1 per share, of the registrant were outstanding.

PITNEY BOWES INC.  
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## PART I. FINANCIAL INFORMATION

## Item 1: Financial Statements

## PITNEY BOWES INC.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited; in thousands, except per share data)

|  | Three Months Ended March |            |
|--|--------------------------|------------|
|  | 31,                      |            |
|  | 2014                     | 2013       |
| Revenue:   |                          |            |
| Equipment sales  | \$ 189,056               | \$ 196,767 |
| Supplies   | 79,517                   | 73,218     |
| Software   | 91,555                   | 87,012     |
| Rentals  | 123,579                  | 129,114    |
| Financing  | 110,050                  | 113,887    |
| Support services   | 158,252                  | 162,589    |
| Business services  | 185,488                  | 146,776    |
| Total revenue  | 937,497                  | 909,363    |
| Costs and expenses:  |                          |            |
| Cost of equipment sales  | 82,534                   | 94,543     |
| Cost of supplies   | 24,154                   | 22,846     |
| Cost of software   | 30,164                   | 24,791     |
| Cost of rentals  | 25,444                   | 26,398     |
| Financing interest expense   | 19,653                   | 19,019     |
| Cost of support services   | 98,981                   | 102,529    |
| Cost of business services  | 128,936                  | 102,355    |
| Selling, general and administrative                                      | 351,375                  | 351,654    |
| Research and development   | 26,192                   | 29,251     |
| Restructuring charges  | 9,841                    | —          |
| Interest expense, net  | 24,064                   | 28,991     |
| Other expense  | 61,657                   | 25,121     |
| Total costs and expenses   | 882,995                  | 827,498    |
| Income from continuing operations before income taxes                    | 54,502                   | 81,865     |
| Provision for income taxes   | 8,036                    | 17,795     |
| Income from continuing operations  | 46,466                   | 64,070     |
| Income from discontinued operations, net of tax                          | 2,801                    | 8,030      |
| Net income   | 49,267                   | 72,100     |
| Less: Preferred stock dividends attributable to noncontrolling interests | 4,594                    | 4,594      |
| Net income attributable to Pitney Bowes Inc.                             | \$ 44,673                | \$ 67,506  |
| Amounts attributable to common stockholders:                             |                          |            |
| Net income from continuing operations                                    | \$ 41,872                | \$ 59,476  |
| Income from discontinued operations, net of tax                          | 2,801                    | 8,030      |
| Net income attributable to Pitney Bowes Inc.                             | \$ 44,673                | \$ 67,506  |
| Basic earnings per share attributable to common stockholders:            |                          |            |
| Continuing operations  | \$ 0.21                  | \$ 0.30    |
| Discontinued operations  | 0.01                     | 0.04       |
| Net income attributable to Pitney Bowes Inc.                             | \$ 0.22                  | \$ 0.34    |
| Diluted earnings per share attributable to common stockholders:          |                          |            |

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|  |        |        |
|--|--------|--------|
| Continuing operations                                    | \$0.21 | \$0.29 |
| Discontinued operations                                  | 0.01   | 0.04   |
| Net income attributable to Pitney Bowes Inc.             | \$0.22 | \$0.33 |
| See Notes to Condensed Consolidated Financial Statements |        |        |

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

|   | Three Months Ended<br>Three Months Ended<br>March 31, |           |
|---|---|-----------|
|   | 2014  | 2013      |
| Net income  | \$49,267  | \$72,100  |
| Less: Preferred stock dividends attributable to noncontrolling interests                          | 4,594   | 4,594     |
| Net income attributable to Pitney Bowes Inc.  | 44,673  | 67,506    |
| Other comprehensive income (loss), net of tax:  |   |           |
| Net unrealized gain on cash flow hedges, net of tax of \$238 and \$344, respectively              | 373   | 538       |
| Net unrealized gain on investment securities, net of tax of \$1,204 and \$175, respectively       | 2,059   | 274       |
| Amortization of pension and postretirement costs, net of tax of \$3,641 and \$6,139, respectively | 6,142   | 10,631    |
| Foreign currency translations   | (7,351  | ) (42,204 |
| Other comprehensive income (loss)   | 1,223   | (30,761   |
| Comprehensive income attributable to Pitney Bowes Inc.  | \$45,896  | \$36,745  |

See Notes to Condensed Consolidated Financial Statements

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

|  | March 31,<br>2014 | December 31,<br>2013 |
|--|-------------------|----------------------|
| <b>ASSETS</b>  |                   |                      |
| Current assets:  |                   |                      |
| Cash and cash equivalents  | \$903,342         | \$907,806            |
| Short-term investments   | 27,060            | 31,128               |
| Accounts receivable (net of allowance of \$13,900 and \$13,419, respectively)          | 430,249           | 469,800              |
| Finance receivables (net of allowance of \$23,607 and \$24,340, respectively)          | 1,071,576         | 1,102,921            |
| Inventories  | 100,956           | 103,580              |
| Current income taxes   | 30,006            | 28,934               |
| Other current assets and prepayments   | 125,065           | 147,067              |
| Assets held for sale   | 127,038           | 46,976               |
| Total current assets   | 2,815,292         | 2,838,212            |
| Property, plant and equipment, net   | 237,901           | 245,171              |
| Rental property and equipment, net   | 219,512           | 226,146              |
| Finance receivables (net of allowance of \$12,014 and \$12,609, respectively)          | 874,839           | 962,363              |
| Investment in leveraged leases   | 33,690            | 34,410               |
| Goodwill   | 1,726,596         | 1,734,871            |
| Intangible assets, net   | 110,878           | 120,387              |
| Non-current income taxes   | 69,008            | 73,751               |
| Other assets   | 543,620           | 537,397              |
| Total assets   | \$6,631,336       | \$6,772,708          |
| <b>LIABILITIES, NONCONTROLLING INTERESTS AND STOCKHOLDERS' EQUITY</b>                  |                   |                      |
| Current liabilities:   |                   |                      |
| Accounts payable and accrued liabilities   | \$1,484,250       | \$1,644,582          |
| Current income taxes   | 163,080           | 157,340              |
| Current portion of long-term debt  | 274,879           | —                    |
| Advance billings   | 466,410           | 425,833              |
| Liabilities related to assets held for sale  | 1,116             | —                    |
| Total current liabilities  | 2,389,735         | 2,227,755            |
| Deferred taxes on income   | 58,975            | 60,667               |
| Tax uncertainties and other income tax liabilities                                     | 187,423           | 186,452              |
| Long-term debt   | 3,066,690         | 3,346,295            |
| Other non-current liabilities  | 442,365           | 466,766              |
| Total liabilities  | 6,145,188         | 6,287,935            |
| Noncontrolling interests (Preferred stockholders' equity in subsidiaries)              | 296,370           | 296,370              |
| Commitments and contingencies (See Note 14)  |                   |                      |
| Stockholders' equity:  |                   |                      |
| Cumulative preferred stock, \$50 par value, 4% convertible                             | 1                 | 4                    |
| Cumulative preference stock, no par value, \$2.12 convertible                          | 563               | 591                  |
| Common stock, \$1 par value (480,000,000 shares authorized; 323,337,912 shares issued) | 323,338           | 323,338              |
| Additional paid-in capital   | 170,038           | 196,977              |
| Retained earnings  | 4,705,475         | 4,698,791            |
| Accumulated other comprehensive loss   | (573,333)         | (574,556)            |

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|  |              |              |
|--|--------------|--------------|
| Treasury stock, at cost (120,699,367 and 121,255,390 shares, respectively) | (4,436,304 ) | (4,456,742 ) |
| Total stockholders' equity   | 189,778      | 188,403      |
| Total liabilities, noncontrolling interests and stockholders' equity       | \$6,631,336  | \$6,772,708  |

See Notes to Condensed Consolidated Financial Statements

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

|   | Three Months Ended March |              |
|---|--------------------------|--------------|
|   | 31,                      |              |
|   | 2014                     | 2013         |
| Cash flows from operating activities:   |                          |              |
| Net income before attribution of noncontrolling interests   | \$49,267                 | \$72,100     |
| Restructuring payments  | (18,937                  | ) (16,275 )  |
| Adjustments to reconcile net income to net cash provided by operating activities:                   |                          |              |
| Loss on disposal of businesses  | 539                      | —            |
| Proceeds from settlement of derivative instruments  | —                        | 4,838        |
| Depreciation and amortization   | 44,595                   | 57,227       |
| Stock-based compensation  | 3,886                    | 3,704        |
| Restructuring charges and asset impairments   | 9,841                    | —            |
| Changes in operating assets and liabilities:  |                          |              |
| Decrease in accounts receivable   | 40,135                   | 71,401       |
| Decrease in finance receivables   | 52,857                   | 76,628       |
| (Increase) decrease in inventories  | (447                     | ) 8,807      |
| Increase in other current assets and prepayments  | (4,020                   | ) (4,396 )   |
| Decrease in accounts payable and accrued liabilities  | (114,327                 | ) (169,292 ) |
| Increase (decrease) in current and non-current income taxes   | 5,494                    | (11,472 )    |
| Increase in advance billings  | 36,523                   | 23,101       |
| Increase in other operating capital, net  | 210                      | 15,789       |
| Net cash provided by operating activities   | 105,616                  | 132,160      |
| Cash flows from investing activities:   |                          |              |
| Short-term and other investments  | (12,650                  | ) 2,143      |
| Capital expenditures  | (30,143                  | ) (38,839 )  |
| Net investment in external financing  | (597                     | ) (506 )     |
| Net payments related to sale of businesses  | (539                     | ) —          |
| Reserve account deposits  | (15,159                  | ) (27,327 )  |
| Net cash used in investing activities   | (59,088                  | ) (64,529 )  |
| Cash flows from financing activities:   |                          |              |
| Proceeds from the issuance of debt, net of fees and discounts of \$7,475 and \$13,387, respectively | 492,525                  | 411,613      |
| Principal payments of long-term debt  | (499,850                 | ) (404,637 ) |
| Proceeds from the issuance of common stock under employee stock-based compensation plans            | 3,099                    | 1,876        |
| Purchase of subsidiary shares from noncontrolling interest  | (7,718                   | ) —          |
| Dividends paid to stockholders  | (37,975                  | ) (75,347 )  |
| Net cash used in financing activities   | (49,919                  | ) (66,495 )  |
| Effect of exchange rate changes on cash and cash equivalents  | (1,073                   | ) (4,748 )   |
| Decrease in cash and cash equivalents   | (4,464                   | ) (3,612 )   |
| Cash and cash equivalents at beginning of period  | 907,806                  | 913,276      |
| Cash and cash equivalents at end of period  | \$903,342                | \$909,664    |
| Cash interest paid  |                          |              |
|   | \$74,374                 | \$72,650     |
| Cash income tax payments, net of refunds  |                          |              |
|   | \$5,649                  | \$36,871     |

See Notes to Condensed Consolidated Financial Statements

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PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

1. Description of Business and Basis of Presentation

Pitney Bowes Inc. and its subsidiaries (we, us, our or the company) is a global provider of technology solutions helping small, mid-sized and large firms connect to customers to facilitate and simplify commerce, build loyalty and grow revenue. We deliver our solutions on open platforms to best organize, analyze and apply public and proprietary data to two-way customer communications. We offer solutions for direct mail, transactional mail, customer engagement management and analytics and ecommerce parcel management, along with digital channel messaging for the Web, email and mobile applications. We conduct our business activities in five reporting segments. See Note 2 for information regarding our reportable segments.

We have prepared the accompanying unaudited Condensed Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In addition, the December 31, 2013 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, 2014.

As of March 31, 2014, we were actively pursuing the sale of our Canadian Document Imaging Solutions (DIS) business, which consists of hardware (copiers and printers), document management software solutions and the related lease portfolio. The revenues and expenses directly related to the DIS business were classified as discontinued operations in the unaudited Condensed Consolidated Statements of Income for all periods presented. The cash flows from discontinued operations are not separately stated or classified in the accompanying unaudited Condensed Consolidated Statements of Cash Flows. See Note 4 and Note 17 for additional information.

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, 2013 (the 2013 Annual Report).

Changes in Segment Presentation

As a result of certain organizational changes designed to realign our business units to reflect the clients served and how we review, analyze, measure and manage our operations, we have revised our business segment reporting. We have recast historical segment results to conform to our current segment presentation and to exclude discontinued operations. See Note 2 for additional information.

Revision of Prior Period Amounts

During the third quarter of 2013, we determined that certain revenue previously reported as rentals revenue included a service component and should have been classified as support services revenue. Accordingly, the unaudited Condensed Consolidated Statement of Income for the three months ended March 31, 2013 has been revised to reflect the correct classification, resulting in a decrease in rentals revenue and corresponding increase in support services revenue of \$5 million. Also during the third quarter of 2013, we determined that certain research and development costs should have been classified as cost of software. Accordingly, the unaudited Condensed Consolidated Statement of Income for the three months ended March 31, 2013 has been revised to reflect the correct classification, resulting in a decrease in research and development expenses and a corresponding increase in cost of software of \$4 million. These revisions did not impact previously reported total revenue, total costs and expenses, net income or earnings per share amounts and the effect of these revisions was not material to any of our previously issued financial statements. Previously issued financial statements will be revised to reflect these reclassification adjustments in future filings.

New Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. These changes, when adopted, will impact the disposals that will qualify for discontinued operations treatment in the future. We intend to adopt the new standard when it becomes effective on January 1, 2015.

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## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

## 2. Segment Information

During 2013, we sold certain businesses and realigned our segment reporting to reflect the clients served, the solutions we offer, and how we manage, review, analyze and measure our operations. During the first quarter of 2014, we reclassified our shipping solutions operations from the Small & Medium Business Solutions segment group to the Digital Commerce Solutions segment. Additionally, the DIS business, originally included in the North America Mailing segment was classified as a discontinued operation. Historical segment results have been recast to conform to our current segment presentation and to exclude discontinued operations. The principal products and services of each of our reporting segments are as follows:

## Small &amp; Medium Business Solutions:

North America Mailing: Includes the revenue and related expenses from the sale, rental and financing of mailing equipment and supplies for small and medium size businesses to efficiently create mail and evidence postage in the U.S. and Canada.

International Mailing: Includes the revenue and related expenses from the sale, rental and financing of mailing equipment and supplies for small and medium size businesses to efficiently create mail and evidence postage in areas outside North America.

## Enterprise Business Solutions:

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

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

## Digital Commerce Solutions:

Digital Commerce Solutions: Includes the worldwide revenue and related expenses from (i) the sale and support services of non-equipment-based mailing, customer engagement, geocoding and location intelligence software; (ii) our shipping and cross-border ecommerce solutions; (iii) direct marketing services for targeted clients; and (iv) our digital mail delivery service offering.

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, which 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 an analysis of our operating performance and underlying trends of the businesses. Segment EBIT may not be indicative of our overall consolidated performance and therefore, should be read in conjunction with our consolidated results of operations.

Revenue and EBIT by business segment is presented below.

|                                   | Revenues                 |           |
|-----------------------------------|--------------------------|-----------|
|                                   | Three Months Ended March |           |
|                                   | 31,                      |           |
|                                   | 2014                     | 2013      |
| North America Mailing             | \$381,027                | \$388,836 |
| International Mailing             | 153,268                  | 152,976   |
| Small & Medium Business Solutions | 534,295                  | 541,812   |
| Production Mail                   | 105,216                  | 109,453   |

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|                               |           |           |
|-------------------------------|-----------|-----------|
| Presort Services              | 116,491   | 110,900   |
| Enterprise Business Solutions | 221,707   | 220,353   |
| Digital Commerce Solutions    | 181,495   | 147,198   |
| Total revenue                 | \$937,497 | \$909,363 |

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## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

|   | EBIT                     |            |
|---|--------------------------|------------|
|   | Three Months Ended March |            |
|   | 2014                     | 2013       |
| North America Mailing                                 | \$ 160,338               | \$ 148,458 |
| International Mailing                                 | 24,819                   | 17,390     |
| Small & Medium Business Solutions                     | 185,157                  | 165,848    |
| Production Mail                                       | 7,737                    | 7,832      |
| Presort Services                                      | 23,896                   | 23,488     |
| Enterprise Business Solutions                         | 31,633                   | 31,320     |
| Digital Commerce Solutions                            | 9,531                    | (279 )     |
| Total EBIT  | 226,321                  | 196,889    |
| Reconciling items:                                    |                          |            |
| Interest, net <sup>(1)</sup>                          | (43,717 )                | (48,010 )  |
| Unallocated corporate expenses                        | (56,604 )                | (41,893 )  |
| Restructuring charges                                 | (9,841 )                 | —          |
| Other expense   | (61,657 )                | (25,121 )  |
| Income from continuing operations before income taxes | \$54,502                 | \$81,865   |

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

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

## 3. Finance Assets

## Finance Receivables

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

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

Finance receivables at March 31, 2014 and December 31, 2013 consisted of the following:

|  | March 31, 2014    |               |              |
|--|-------------------|---------------|--------------|
|  | North<br>America  | International | Total        |
| Sales-type lease receivables                   |                   |               |              |
| Gross finance receivables                      | \$ 1,340,592      | \$ 450,071    | \$ 1,790,663 |
| Unguaranteed residual values                   | 113,423           | 21,584        | 135,007      |
| Unearned income                                | (280,590 )        | (101,170 )    | (381,760 )   |
| Allowance for credit losses                    | (12,907 )         | (9,779 )      | (22,686 )    |
| Net investment in sales-type lease receivables | 1,160,518         | 360,706       | 1,521,224    |
| Loan receivables                               |                   |               |              |
| Loan receivables                               | 387,394           | 50,732        | 438,126      |
| Allowance for credit losses                    | (10,994 )         | (1,941 )      | (12,935 )    |
| Net investment in loan receivables             | 376,400           | 48,791        | 425,191      |
| Net investment in finance receivables          | \$ 1,536,918      | \$ 409,497    | \$ 1,946,415 |
|  |                   |               |              |
|  | December 31, 2013 |               |              |
|  | North<br>America  | International | Total        |
| Sales-type lease receivables                   |                   |               |              |
| Gross finance receivables                      | \$ 1,456,420      | \$ 456,759    | \$ 1,913,179 |
| Unguaranteed residual values                   | 121,339           | 21,553        | 142,892      |
| Unearned income                                | (299,396 )        | (101,311 )    | (400,707 )   |
| Allowance for credit losses                    | (14,165 )         | (9,703 )      | (23,868 )    |
| Net investment in sales-type lease receivables | 1,264,198         | 367,298       | 1,631,496    |
| Loan receivables                               |                   |               |              |
| Loan receivables                               | 397,815           | 49,054        | 446,869      |
| Allowance for credit losses                    | (11,165 )         | (1,916 )      | (13,081 )    |
| Net investment in loan receivables             | 386,650           | 47,138        | 433,788      |
| Net investment in finance receivables          | \$ 1,650,848      | \$ 414,436    | \$ 2,065,284 |

## Allowance for Credit Losses and Aging of Receivables

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

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



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

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Activity in the allowance for credit losses for the three months ended March 31, 2014 and 2013 was as follows:

|                            | Sales-type Lease Receivables |               | Loan Receivables |               | Total    |
|----------------------------|------------------------------|---------------|------------------|---------------|----------|
|                            | North America                | International | North America    | International |          |
| Balance at January 1, 2014 | \$14,165                     | \$9,703       | \$11,165         | \$1,916       | \$36,949 |
| Amounts charged to expense | 1,052                        | 169           | 2,492            | 361           | 4,074    |
| Accounts written off       | (2,310)                      | (93)          | (2,663)          | (336)         | (5,402)  |
| Balance at March 31, 2014  | \$12,907                     | \$9,779       | \$10,994         | \$1,941       | \$35,621 |

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

## Aging of Receivables

The aging of gross finance receivables at March 31, 2014 and December 31, 2013 was as follows:

|                            | Sales-type Lease Receivables |               | Loan Receivables |               | Total       |
|----------------------------|------------------------------|---------------|------------------|---------------|-------------|
|                            | North America                | International | North America    | International |             |
| March 31, 2014             |                              |               |                  |               |             |
| < 31 days                  | \$1,272,429                  | \$413,892     | \$369,365        | \$48,540      | \$2,104,226 |
| > 30 days and < 61 days    | 26,751                       | 11,198        | 9,836            | 1,177         | 48,962      |
| > 60 days and < 91 days    | 20,887                       | 11,440        | 3,500            | 536           | 36,363      |
| > 90 days and < 121 days   | 6,642                        | 4,089         | 2,040            | 183           | 12,954      |
| > 120 days                 | 13,883                       | 9,452         | 2,653            | 296           | 26,284      |
| Total                      | \$1,340,592                  | \$450,071     | \$387,394        | \$50,732      | \$2,228,789 |
| Past due amounts > 90 days |                              |               |                  |               |             |
| Still accruing interest    | \$6,642                      | \$4,089       | \$—              | \$—           | \$10,731    |
| Not accruing interest      | 13,883                       | 9,452         | 4,693            | 479           | 28,507      |
| Total                      | \$20,525                     | \$13,541      | \$4,693          | \$479         | \$39,238    |

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

|                            | December 31, 2013            |               |                  |               |              |
|----------------------------|------------------------------|---------------|------------------|---------------|--------------|
|                            | Sales-type Lease Receivables |               | Loan Receivables |               |              |
|                            | North America                | International | North America    | International | Total        |
| < 31 days                  | \$ 1,383,253                 | \$ 425,923    | \$ 379,502       | \$ 42,573     | \$ 2,231,251 |
| > 30 days and < 61 days    | 32,102                       | 11,760        | 10,464           | 4,391         | 58,717       |
| > 60 days and < 91 days    | 20,830                       | 5,724         | 3,330            | 1,363         | 31,247       |
| > 90 days and < 121 days   | 6,413                        | 3,979         | 1,809            | 311           | 12,512       |
| > 120 days                 | 13,822                       | 9,373         | 2,710            | 416           | 26,321       |
| Total                      | \$ 1,456,420                 | \$ 456,759    | \$ 397,815       | \$ 49,054     | \$ 2,360,048 |
| Past due amounts > 90 days |                              |               |                  |               |              |
| Still accruing interest    | \$ 6,413                     | \$ 3,979      | \$ —             | \$ —          | \$ 10,392    |
| Not accruing interest      | 13,822                       | 9,373         | 4,519            | 727           | 28,441       |
| Total                      | \$ 20,235                    | \$ 13,352     | \$ 4,519         | \$ 727        | \$ 38,833    |

## Credit Quality

In extending and managing credit lines to new and existing clients, we use 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 portfolios because the cost to do so is prohibitive, it is a localized process and there is no single credit score model that covers all countries.

The table below shows the North America portfolio at March 31, 2014 and December 31, 2013 by relative risk class (low, medium, high) based on the relative scores of the accounts within each class. The relative scores are determined based on a number of factors, including the company type, ownership structure, payment history and financial information. A fourth class is shown for accounts that are not scored. Absence of a score is not indicative of the credit quality of the account. The degree of risk, as defined by the third party, refers to the relative risk that an account in the next 12 month period may become delinquent.

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

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

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

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

|                              | March 31,<br>2014 | December 31,<br>2013 |
|------------------------------|-------------------|----------------------|
| Sales-type lease receivables |                   |                      |
| Low                          | \$1,024,369       | \$1,081,853          |
| Medium                       | 205,935           | 244,379              |
| High                         | 46,768            | 51,851               |
| Not Scored                   | 63,520            | 78,337               |
| Total                        | \$1,340,592       | \$1,456,420          |
| Loan receivables             |                   |                      |
| Low                          | \$272,234         | \$279,607            |
| Medium                       | 89,219            | 95,524               |
| High                         | 10,663            | 11,511               |
| Not Scored                   | 15,278            | 11,173               |
| Total                        | \$387,394         | \$397,815            |

## Troubled Debt

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

## Leveraged Leases

Our investment in leveraged lease assets at March 31, 2014 and December 31, 2013 consisted of the following:

|  | March 31,<br>2014 | December 31,<br>2013 |
|--|-------------------|----------------------|
| Rental receivables                               | \$56,317          | \$61,721             |
| Unguaranteed residual values                     | 12,729            | 13,235               |
| Principal and interest on non-recourse loans     | (31,061)          | (35,449)             |
| Unearned income                                  | (4,295)           | (5,097)              |
| Investment in leveraged leases                   | 33,690            | 34,410               |
| Less: deferred taxes related to leveraged leases | (13,769)          | (15,078)             |
| Net investment in leveraged leases               | \$19,921          | \$19,332             |

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

## 4. Discontinued Operations and Assets Held For Sale

Discontinued operations includes the worldwide Management Services business (PBMS), International Mailing Services business (IMS) and Nordic furniture business, which were sold during 2013 and DIS, which was classified as discontinued operations at March 31, 2014 and subsequently sold in April 2014 (see Notes 1 and 17). The following tables show selected financial information included in discontinued operations:

|  | Three Months Ended March 31, 2014 |            |                                 |          |           |
|--|-----------------------------------|------------|---------------------------------|----------|-----------|
|  | PBMS                              | IMS        | Nordic<br>furniture<br>business | DIS      | Total     |
| Revenue                                    | \$—                               | \$—        | \$—                             | \$16,291 | \$16,291  |
| (Loss) income from operations before taxes | \$(246 )                          | \$308      | \$345                           | \$2,411  | \$2,818   |
| Gain on sale                               | 130                               | 1,163      | —                               | —        | 1,293     |
| (Loss) income before taxes                 | (116 )                            | 1,471      | 345                             | 2,411    | 4,111     |
| Tax (benefit) provision                    | (21 )                             | 529        | 97                              | 705      | 1,310     |
| (Loss) income from discontinued operations | \$(95 )                           | \$942      | \$248                           | \$1,706  | \$2,801   |
|  | Three Months Ended March 31, 2013 |            |                                 |          |           |
|  | PBMS                              | IMS        | Nordic<br>furniture<br>business | DIS      | Total     |
| Revenue                                    | \$225,256                         | \$20,068   | \$12,689                        | \$19,650 | \$277,663 |
| Income (loss) from operations before taxes | \$16,054                          | \$(1,600 ) | \$119                           | \$3,671  | \$18,244  |
| Loss on sale                               | —                                 | (1,650 )   | —                               | —        | (1,650 )  |
| Income (loss) before taxes                 | 16,054                            | (3,250 )   | 119                             | 3,671    | 16,594    |
| Tax provision (benefit)                    | 8,746                             | (1,189 )   | 33                              | 974      | 8,564     |
| Income (loss) from discontinued operations | \$7,308                           | \$(2,061 ) | \$86                            | \$2,697  | \$8,030   |

Assets and related liabilities held for sale at March 31, 2014 are shown in the table below.

|   | March 31,<br>2014 | December 31,<br>2013 |
|---|-------------------|----------------------|
| Finance receivables, current                | \$12,241          | \$—                  |
| Inventories and other assets                | 3,334             | —                    |
| Total current assets                        | 15,575            | —                    |
| Property, plant and equipment, net          | 48,341            | 46,976               |
| Rental property and equipment, net          | 3,537             | —                    |
| Finance receivables, noncurrent             | 49,458            | —                    |
| Goodwill                                    | 9,353             | —                    |
| Intangible assets, net                      | 774               | —                    |
| Assets held for sale                        | \$127,038         | \$46,976             |
| Advance billings                            | \$1,116           | \$—                  |
| Liabilities related to assets held for sale | \$1,116           | \$—                  |



## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

## 5. Fair Value Measurements and Derivative Instruments

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

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

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

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

The following tables show, by level within the fair value hierarchy, our financial assets and liabilities that are accounted for at fair value on a recurring basis at March 31, 2014 and December 31, 2013. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect their placement within the fair value hierarchy.

|   | March 31, 2014 |           |         |           |
|---|----------------|-----------|---------|-----------|
|   | Level 1        | Level 2   | Level 3 | Total     |
| Assets:   |                |           |         |           |
| Investment securities   |                |           |         |           |
| Money market funds / commercial paper                                       | \$344,007      | \$192,136 | \$—     | \$536,143 |
| Equity securities   | —              | 26,685    | —       | 26,685    |
| Commingled fixed income securities  | —              | 24,903    | —       | 24,903    |
| Debt securities - U.S. and foreign governments, agencies and municipalities | 132,246        | 18,250    | —       | 150,496   |
| Debt securities - corporate   | —              | 46,293    | —       | 46,293    |
| Mortgage-backed / asset-backed securities                                   | —              | 141,267   | —       | 141,267   |
| Derivatives   |                |           |         |           |
| Foreign exchange contracts  | —              | 921       | —       | 921       |
| Total assets  | \$476,253      | \$450,455 | \$—     | \$926,708 |
| Liabilities:  |                |           |         |           |
| Derivatives   |                |           |         |           |
| Foreign exchange contracts  | \$—            | \$(1,940) | ) \$—   | \$(1,940) |
| Total liabilities   | \$—            | \$(1,940) | ) \$—   | \$(1,940) |

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

|   | December 31, 2013 |           |         | Total       |
|---|-------------------|-----------|---------|-------------|
|   | Level 1           | Level 2   | Level 3 |             |
| Assets:   |                   |           |         |             |
| Investment securities   |                   |           |         |             |
| Money market funds / commercial paper                                       | \$403,706         | \$224,440 | \$—     | \$628,146   |
| Equity securities   | —                 | 26,536    | —       | 26,536      |
| Commingled fixed income securities  | —                 | 24,695    | —       | 24,695      |
| Debt securities - U.S. and foreign governments, agencies and municipalities | 122,783           | 17,653    | —       | 140,436     |
| Debt securities - corporate   | —                 | 38,264    | —       | 38,264      |
| Mortgage-backed / asset-backed securities                                   | —                 | 164,598   | —       | 164,598     |
| Derivatives   |                   |           |         |             |
| Foreign exchange contracts  | —                 | 1,358     | —       | 1,358       |
| Total assets  | \$526,489         | \$497,544 | \$—     | \$1,024,033 |
| Liabilities:  |                   |           |         |             |
| Investment securities   |                   |           |         |             |
| Mortgage-backed securities  | \$—               | \$(4,445) | \$—     | \$(4,445)   |
| Derivatives   |                   |           |         |             |
| Foreign exchange contracts  | —                 | (3,009)   | —       | (3,009)     |
| Total liabilities   | \$—               | \$(7,454) | \$—     | \$(7,454)   |

## 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 highly liquid and low-risk securities, including government securities, certificates of deposit and commercial paper. Money market funds are principally used for overnight deposits and are classified as Level 1 when unadjusted quoted prices in active markets are available and as Level 2 when they are not actively traded on an exchange. Direct investments in commercial paper are not listed on an exchange in an active market and are classified as Level 2.

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

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

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

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

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





## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Available-for-sale securities at March 31, 2014 and December 31, 2013 consisted of the following:

|   | March 31, 2014    |                              |                               |                         |
|---|-------------------|------------------------------|-------------------------------|-------------------------|
|   | Amortized<br>cost | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses | Estimated<br>fair value |
| Debt securities - U.S. and foreign governments, agencies and municipalities | \$ 129,856        | \$ 1,422                     | \$(1,797)                     | ) \$ 129,481            |
| Debt securities - corporate   | 45,410            | 1,198                        | (314)                         | ) 46,294                |
| Mortgage-backed / asset-backed securities                                   | 141,482           | 1,754                        | (1,969)                       | ) 141,267               |
| Total   | \$ 316,748        | \$ 4,374                     | \$(4,080)                     | ) \$ 317,042            |
|   | December 31, 2013 |                              |                               |                         |
|   | Amortized<br>cost | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses | Estimated<br>fair value |
| Debt securities - U.S. and foreign governments, agencies and municipalities | \$ 121,803        | \$ 999                       | \$(3,372)                     | ) \$ 119,430            |
| Debt securities - corporate   | 37,901            | 935                          | (572)                         | ) 38,264                |
| Mortgage-backed / asset-backed securities                                   | 165,664           | 1,570                        | (2,636)                       | ) 164,598               |
| Total   | \$ 325,368        | \$ 3,504                     | \$(6,580)                     | ) \$ 322,292            |

Scheduled maturities of investment securities at March 31, 2014 were as follows:

|                                | Amortized<br>cost | Estimated<br>fair value |
|--------------------------------|-------------------|-------------------------|
| Within 1 year                  | \$ 26,473         | \$ 26,539               |
| After 1 year through 5 years   | 58,545            | 59,152                  |
| After 5 years through 10 years | 87,268            | 87,343                  |
| After 10 years                 | 144,462           | 144,008                 |
| Total                          | \$ 316,748        | \$ 317,042              |

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

## Derivative Instruments

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

intended use of the derivative, the resulting designation, and the effectiveness of the instrument in offsetting the risk exposure it is designed to hedge.

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

The fair value of derivative instruments at March 31, 2014 and December 31, 2013 was as follows:

| Designation of Derivatives                        | Balance Sheet Location                    | March 31,<br>2014 | December 31,<br>2013 |
|---|---|-------------------|----------------------|
| Derivatives designated as hedging instruments     | Other current assets and prepayments:     |                   |                      |
|   | Foreign exchange contracts                | \$408             | \$546                |
|   | Accounts payable and accrued liabilities: |                   |                      |
|   | Foreign exchange contracts                | (284              | ) (526 )             |
| Derivatives not designated as hedging instruments | Other current assets and prepayments:     |                   |                      |
|   | Foreign exchange contracts                | 513               | 812                  |
|   | Accounts payable and accrued liabilities: |                   |                      |
|   | Foreign exchange contracts                | (1,656            | ) (2,483 )           |
|   | Total derivative assets                   | \$921             | \$1,358              |
|   | Total derivative liabilities              | (1,940            | ) (3,009 )           |
|   | Total net derivative liabilities          | \$(1,019          | ) \$(1,651 )         |

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

#### Interest Rate Swaps

Derivatives designated as fair value hedges include interest rate swaps related to fixed rate debt. Changes in the fair value of both the derivative and item being hedged are recognized in earnings. There were no interest rate swaps in effect during the first quarter of 2014. During the first quarter of 2013, we had outstanding interest rate swaps with an aggregate notional value of \$450 million. The following represents the results of fair value hedging relationships for the three months ended March 31, 2014 and 2013:

| Derivative Instrument | Location of Gain (Loss) | Three Months Ended March 31,              |         |   |            |
|-----------------------|-------------------------|---|---------|---|------------|
|                       |                         | Derivative Gain<br>Recognized in Earnings |         | Hedged Item Expense<br>Recognized in Earnings |            |
|                       |                         | 2014                                      | 2013    | 2014  | 2013       |
| Interest rate swaps   | Interest expense        | \$—                                       | \$1,993 | \$—   | \$(5,484 ) |

#### Foreign Exchange Contracts

We enter into foreign currency exchange contracts to mitigate the currency risk associated with the anticipated purchase of inventory between affiliates and from third parties. These contracts are designated as cash flow hedges. The effective portion of the gain or loss on cash flow hedges is included in AOCI in the period that the change in fair value occurs and is reclassified to earnings in the period that the hedged item is recorded in earnings. At March 31, 2014 and December 31, 2013, we had outstanding contracts associated with these anticipated transactions with a notional amount of \$28 million and \$26 million, respectively. All outstanding contracts at March 31, 2014 mature by the end of the year.

The amounts included in AOCI at March 31, 2014 will be recognized in earnings within the next 12 months. No amount of ineffectiveness was recorded in earnings for these designated cash flow hedges.



## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The following represents the results of cash flow hedging relationships for the three months ended March 31, 2014 and 2013:

| Derivative Instrument      | Three Months Ended March 31,  |         | Location of Gain (Loss)<br>(Effective Portion) | Gain (Loss) Reclassified<br>from AOCI to Earnings<br>(Effective Portion) |          |
|----------------------------|---|---------|--|--|----------|
|                            | Derivative Gain (Loss)<br>Recognized in AOCI<br>(Effective Portion) |         |  | 2014   | 2013     |
|                            | 2014  | 2013    |  |  |          |
| Foreign exchange contracts | \$(69   | ) \$630 | Revenue  | \$(234   | ) \$(382 |
|                            |   |         | Cost of sales                                  | 199  | 126      |
|                            |   |         |  | \$(35  | ) \$(256 |

We also enter into foreign exchange contracts to minimize the impact of exchange rate fluctuations on short-term intercompany loans and related interest that are denominated in a foreign currency. The revaluation of the intercompany loans and interest and the mark-to-market adjustment on the derivatives are both recorded in earnings. All outstanding contracts at March 31, 2014 mature by the end of the year.

The following represents the results of our non-designated derivative instruments for the three months ended March 31, 2014 and 2013:

| Derivatives Instrument     | Location of Derivative Gain (Loss)          | Three Months Ended March 31, |            |
|----------------------------|---|------------------------------|------------|
|                            |   | 2014                         | 2013       |
| Foreign exchange contracts | Selling, general and administrative expense | \$(682                       | ) \$(4,351 |

## Credit-Risk-Related Contingent Features

Certain derivative instruments contain credit-risk-related contingent features that would require us to post collateral based on a combination of our long-term senior unsecured debt ratings and the net fair value of our derivatives. At March 31, 2014, we were not required to post any collateral. The maximum amount of collateral that we would have been required to post at March 31, 2014, had the credit-risk-related contingent features been triggered, was \$1 million.

## Fair Value of Financial Instruments

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

The fair value of our debt is estimated based on recently executed transactions and market price quotations. These inputs are classified as Level 2 in the fair value hierarchy. The carrying value and estimated fair value of our debt at March 31, 2014 and December 31, 2013 was as follows:

|                | March 31, 2014 | December 31, 2013 |
|----------------|----------------|-------------------|
| Carrying value | \$3,341,569    | \$3,346,295       |
| Fair value     | \$3,537,878    | \$3,539,022       |

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

## 6. Restructuring Charges

Activity in our restructuring reserves for the three months ended March 31, 2014 was as follows:

|                            | Severance<br>and benefits<br>costs | Pension and<br>Retiree<br>Medical | Other exit<br>costs | Total     |
|----------------------------|------------------------------------|-----------------------------------|---------------------|-----------|
| Balance at January 1, 2014 | \$58,558                           | \$—                               | \$8,014             | \$66,572  |
| Expenses, net              | 6,188                              | 2,550                             | 1,103               | 9,841     |
| Cash payments              | (16,600 )                          | —                                 | (2,337 )            | (18,937 ) |
| Non-cash charges           | —                                  | (2,550 )                          | —                   | (2,550 )  |
| Balance at March 31, 2014  | \$48,146                           | \$—                               | \$6,780             | \$54,926  |

## 7. Inventories

Inventories consisted of the following:

|                                    | March 31,<br>2014 | December 31,<br>2013 |
|------------------------------------|-------------------|----------------------|
| Raw materials and work in process  | \$34,084          | \$33,920             |
| Supplies and service parts         | 44,284            | 48,165               |
| Finished products                  | 38,652            | 38,515               |
| Inventory at FIFO cost             | 117,020           | 120,600              |
| Excess of FIFO cost over LIFO cost | (16,064 )         | (17,020 )            |
| Total inventory, net               | \$100,956         | \$103,580            |

## 8. Intangible Assets and Goodwill

## Intangible assets

Intangible assets consisted of the following:

|                          | March 31, 2014              |                             |                           | December 31, 2013           |                             |                           |
|--------------------------|-----------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|---------------------------|
|                          | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount |
| Customer relationships   | \$350,929                   | \$(254,937 )                | \$95,992                  | \$354,373                   | \$(251,388 )                | \$102,985                 |
| Supplier relationships   | 29,000                      | (25,738 )                   | 3,262                     | 29,000                      | (25,013 )                   | 3,987                     |
| Software & technology    | 167,276                     | (156,796 )                  | 10,480                    | 167,009                     | (155,009 )                  | 12,000                    |
| Trademarks & trade names | 34,378                      | (33,264 )                   | 1,114                     | 35,366                      | (33,985 )                   | 1,381                     |
| Non-compete agreements   | 7,448                       | (7,418 )                    | 30                        | 7,407                       | (7,373 )                    | 34                        |
| Total intangible assets  | \$589,031                   | \$(478,153 )                | \$110,878                 | \$593,155                   | \$(472,768 )                | \$120,387                 |

Amortization expense for intangible assets was \$6 million and \$9 million for the three months ended March 31, 2014 and 2013, respectively.

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The future amortization expense for intangible assets as of March 31, 2014 was as follows:

|  |           |
|--|-----------|
| Remaining for year ended December 31, 2014 | \$25,170  |
| Year ending December 31, 2015              | 30,124    |
| Year ending December 31, 2016              | 22,870    |
| Year ending December 31, 2017              | 11,392    |
| Year ending December 31, 2018              | 8,610     |
| Thereafter                                 | 12,712    |
| Total                                      | \$110,878 |

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

As a result of the reclassification of our shipping solutions operations from the Small & Medium Business Solutions segment group to the Digital Commerce Solutions segment, we reallocated goodwill on a relative fair value basis and performed the required goodwill impairment test. Based on the results of the impairment tests, we determined that the estimated fair values of the affected reporting units exceeded the carrying values. The changes in the carrying value of goodwill for the three months ended March 31, 2014 were as follows:

|                                      | Gross value<br>before<br>accumulated<br>impairment<br>(1) | Accumulated<br>impairment | December 31,<br>2013 | Other (2) | March 31,<br>2014 |
|--------------------------------------|---|---------------------------|----------------------|-----------|-------------------|
| North America Mailing                | \$ 326,665  | \$ —                      | \$ 326,665           | \$(627 )  | \$ 326,038        |
| International Mailing                | 182,261   | —                         | 182,261              | 864       | 183,125           |
| Small & Medium Business Solutions    | 508,926   | —                         | 508,926              | 237       | 509,163           |
| Production Mail                      | 118,060   | —                         | 118,060              | 143       | 118,203           |
| Presort Services                     | 195,140   | —                         | 195,140              | —         | 195,140           |
| Enterprise Business Solutions        | 313,200   | —                         | 313,200              | 143       | 313,343           |
| Digital Commerce Solutions           | 903,392   | —                         | 903,392              | 698       | 904,090           |
| Discontinued operations              | 9,353   | —                         | 9,353                | —         | 9,353             |
| Total                                | \$ 1,734,871  | \$ —                      | \$ 1,734,871         | \$1,078   | 1,735,949         |
| Reclassified to Assets held for sale |   |                           |                      |           | (9,353 )          |
| Balance at March 31, 2014            |   |                           |                      |           | \$ 1,726,596      |

(1) Includes the reallocation of certain goodwill from the Small & Medium Business Solutions segment group to the Digital Commerce Solutions segment and discontinued operations.

(2) Primarily represents the impact of foreign currency translation.

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

9. Debt

Debt consisted of the following:

|                       | March 31,<br>2014 | December 31,<br>2013 |
|-----------------------|-------------------|----------------------|
| Term loans            | \$230,000         | \$230,000            |
| 5.0% notes due 2015   | 274,879           | 274,879              |
| 4.75% notes due 2016  | 370,914           | 370,914              |
| 5.75% notes due 2017  | 385,109           | 500,000              |
| 5.60% notes due 2018  | 250,000           | 250,000              |
| 4.75% notes due 2018  | 350,000           | 350,000              |
| 6.25% notes due 2019  | 300,000           | 300,000              |
| 5.25% notes due 2022  | 110,000           | 110,000              |
| 4.625% notes due 2024 | 500,000           | —                    |
| 5.25% notes due 2037  | 115,041           | 500,000              |
| 6.70% notes due 2043  | 425,000           | 425,000              |
| Other                 | 30,626            | 35,502               |
| Total long-term debt  | 3,341,569         | 3,346,295            |
| Current portion       | 274,879           | —                    |
| Long-term debt        | \$3,066,690       | \$3,346,295          |

During the first quarter, we completed a cash tender offer (the Tender Offer) for a portion of the 5.75% Notes due 2017 and the 5.25% Notes due 2037 (the Subject Notes). Holders who validly tendered their notes received the principal amount of the notes tendered, all accrued and unpaid interest and a premium amount. An aggregate \$500 million of the Subject Notes were tendered. We incurred expenses of \$62 million, consisting of the call premium, the write-off of unamortized costs and bank transaction fees. These expenses are included in other expense in the unaudited Condensed Consolidated Statements of Income.

During the first quarter, we issued \$500 million of 4.625% fixed rate 10-year notes. Interest is payable on March 15 and September 15 of each year, commencing September 15, 2014. The notes mature in March 2024, but may be redeemed, at any time, in whole or in part, at our option. If the notes are redeemed prior to December 15, 2023, the redemption price will be equal to the sum of 100% of the principal amount, accrued and unpaid interest and a make-whole payment. Net proceeds from the issuance of the notes were \$493 million. The net proceeds were used to fund the Tender Offer.

On April 22, 2014, we repaid \$100 million of the outstanding Term Loans.

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

There were no commercial paper borrowings during the quarter.



## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

## 10. Noncontrolling Interests (Preferred Stockholders' Equity in Subsidiaries)

Pitney Bowes International Holdings, Inc. (PBIH), a subsidiary, has 300,000 shares, or \$300 million, of outstanding perpetual voting preferred stock (the Preferred Stock) held by certain institutional investors. The holders of the Preferred Stock are entitled as a group to 25% of the combined voting power of all classes of capital stock of PBIH. All outstanding common stock of PBIH, representing the remaining 75% of the combined voting power of all classes of capital stock, is owned directly or indirectly by the company. The Preferred Stock is entitled to cumulative dividends at a rate of 6.125% through 2016 after which it becomes callable and, if it remains outstanding, will yield a dividend that increases by 50% every six months thereafter. No dividends were in arrears at March 31, 2014 or December 31, 2013. There was no change in the carrying value of noncontrolling interests during the period ended March 31, 2014 or the year ended December 31, 2013.

## 11. Stockholders' Equity

Changes in stockholders' equity for the three months ended March 31, 2014 and 2013 were as follows:

|  | Preferred<br>stock | Preference<br>stock | Common<br>stock | Additional<br>paid-in<br>capital | Retained<br>earnings | Accumulated<br>other<br>comprehensivestock<br>loss | Treasury<br>stock | Total<br>equity |
|--|--------------------|---------------------|-----------------|----------------------------------|----------------------|--|-------------------|-----------------|
| Balance at January 1, 2014                                 | \$4                | \$ 591              | \$323,338       | \$ 196,977                       | \$4,698,791          | \$ (574,556 )                                      | \$(4,456,742)     | \$188,403       |
| Net income   | —                  | —                   | —               | —                                | 44,673               | —  | —                 | 44,673          |
| Other comprehensive income                                 | —                  | —                   | —               | —                                | —                    | 1,223  | —                 | 1,223           |
| Cash dividends   |                    |                     |                 |                                  |                      |  |                   |                 |
| Common   | —                  | —                   | —               | —                                | (37,975 )            | —  | —                 | (37,975 )       |
| Preference   | —                  | —                   | —               | —                                | (14 )                | —  | —                 | (14 )           |
| Issuances of common stock                                  | —                  | —                   | —               | (22,655 )                        | —                    | —  | 19,757            | (2,898 )        |
| Conversions to common stock                                | (3 )               | (28 )               | —               | (650 )                           | —                    | —  | 681               | —               |
| Stock-based compensation expense                           | —                  | —                   | —               | 3,886                            | —                    | —  | —                 | 3,886           |
| Purchase of subsidiary shares from noncontrolling interest | —                  | —                   | —               | (7,520 )                         | —                    | —  | —                 | (7,520 )        |
| Balance at March 31, 2014                                  | \$1                | \$ 563              | \$323,338       | \$ 170,038                       | \$4,705,475          | \$ (573,333 )                                      | \$(4,436,304)     | \$189,778       |
|  | Preferred<br>stock | Preference<br>stock | Common<br>stock | Additional<br>paid-in<br>capital | Retained<br>earnings | Accumulated<br>other<br>comprehensivestock<br>loss | Treasury<br>stock | Total<br>equity |
| Balance at January 1, 2013                                 | \$4                | \$ 648              | \$323,338       | \$223,847                        | \$4,744,802          | \$ (681,213 )                                      | \$(4,500,795)     | \$110,631       |

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|                                  |     |        |           |           |             |               |               |           |
|----------------------------------|-----|--------|-----------|-----------|-------------|---------------|---------------|-----------|
| Net income                       | —   | —      | —         | —         | 67,506      | —             | —             | 67,506    |
| Other comprehensive loss         | —   | —      | —         | —         | —           | (30,761 )     | —             | (30,761 ) |
| Cash dividends                   |     |        |           |           |             |               |               |           |
| Common                           | —   | —      | —         | —         | (75,334 )   | —             | —             | (75,334 ) |
| Preference                       | —   | —      | —         | —         | (13 )       | —             | —             | (13 )     |
| Issuances of common stock        | —   | —      | —         | (24,097 ) | —           | —             | 21,551        | (2,546 )  |
| Stock-based compensation expense | —   | —      | —         | 3,704     | —           | —             | —             | 3,704     |
| Balance at March 31, 2013        | \$4 | \$ 648 | \$323,338 | \$203,454 | \$4,736,961 | \$ (711,974 ) | \$(4,479,244) | \$73,187  |

Our Board of Directors declared dividends on our common stock of \$0.1875 per share for the three months ended March 31, 2014 and \$0.375 per share for the three months ended March 31, 2013.

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

## 12. Accumulated Other Comprehensive Loss

Reclassifications out of accumulated other comprehensive loss for the three months ended March 31, 2014 and 2013 was as follows:

|  | Amount Reclassified from<br>AOCI (a)    |              |
|--|---|--------------|
|  | Three Months Ended March<br>31,<br>2014 | 2013         |
| Losses on cash flow hedges                         |   |              |
| Revenue  | \$ (234 )                               | \$ (382 )    |
| Cost of sales                                      | 199                                     | 126          |
| Interest expense                                   | (507 )                                  | (507 )       |
| Total before tax                                   | (542 )                                  | (763 )       |
| Tax benefit  | 210                                     | 297          |
| Net of tax   | \$ (332 )                               | \$ (466 )    |
| Unrealized losses on available for sale securities |   |              |
| Interest income                                    | \$ (347 )                               | \$ (2,612 )  |
| Tax benefit  | 128                                     | 966          |
| Net of tax   | \$ (219 )                               | \$ (1,646 )  |
| Pension and Postretirement Benefit Plans (b)       |   |              |
| Transition credit                                  | \$2                                     | \$2          |
| Prior service costs                                | (27 )                                   | (198 )       |
| Actuarial losses                                   | (9,758 )                                | (16,574 )    |
| Total before tax                                   | (9,783 )                                | (16,770 )    |
| Tax benefit  | 3,641                                   | 6,139        |
| Net of tax   | \$ (6,142 )                             | \$ (10,631 ) |

(a) Amounts in parentheses indicate debits (reductions) to income.

(b) These items are included in the computation of net periodic costs of defined benefit pension plans and nonpension postretirement benefit plans (see Note 15 for additional details).

Changes in accumulated other comprehensive loss for the three months ended March 31, 2014 and 2013 were as follows:

|  | Gains (losses)<br>on cash flow<br>hedges | Unrealized<br>gains (losses)<br>on available<br>for sale<br>securities | Defined benefit<br>pension plans<br>and nonpension<br>postretirement<br>benefit plans | Foreign<br>currency<br>items | Total         |
|--|--|--|---|------------------------------|---------------|
| Balance at January 1, 2014   | \$ (6,380 )                              | \$ (1,769 )  | \$ (601,421 )   | \$ 35,014                    | \$ (574,556 ) |
| Other comprehensive income (loss)<br>before reclassifications (a)            | 41                                       | 1,840  | —   | (7,351 )                     | (5,470 )      |
| Amounts reclassified from accumulated<br>other comprehensive income (a), (b) | 332                                      | 219  | 6,142   | —                            | 6,693         |
|  | 373                                      | 2,059  | 6,142   | (7,351 )                     | 1,223         |

Net current period other comprehensive  
income

|                           |             |        |               |           |               |
|---------------------------|-------------|--------|---------------|-----------|---------------|
| Balance at March 31, 2014 | \$ (6,007 ) | \$ 290 | \$ (595,279 ) | \$ 27,663 | \$ (573,333 ) |
|---------------------------|-------------|--------|---------------|-----------|---------------|

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## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

|  | Gains (losses)<br>on cash flow<br>hedges | Unrealized<br>gains (losses)<br>on available<br>for sale<br>securities | Defined benefit<br>pension plans<br>and nonpension<br>postretirement<br>benefit plans | Foreign<br>currency<br>items | Total        |
|--|--|--|---|------------------------------|--------------|
| Balance at January 1, 2013   | \$(7,777 )                               | \$4,513  | \$(759,199 )  | \$81,250                     | \$(681,213 ) |
| Other comprehensive income (loss)<br>before reclassifications (a)            | 72                                       | (1,372 )   | —   | (42,204 )                    | (43,504 )    |
| Amounts reclassified from accumulated<br>other comprehensive income (a), (b) | 466                                      | 1,646  | 10,631  | —                            | 12,743       |
| Net current period other comprehensive<br>loss                               | 538                                      | 274  | 10,631  | (42,204 )                    | (30,761 )    |
| Balance at March 31, 2013  | \$(7,239 )                               | \$4,787  | \$(748,568 )  | \$39,046                     | \$(711,974 ) |

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

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

## 13. Income Taxes

The effective tax rate for the three months ended March 31, 2014 and 2013 was 14.7% and 21.7%, respectively. The effective tax rate for 2014 includes a benefit of \$6 million from the resolution of tax examinations and an incremental tax benefit associated with the early extinguishment of debt. The effective tax rate for 2013 includes tax benefits of \$4 million from the retroactive effect of 2013 U.S. tax legislation.

As is the case with other large corporations, our tax returns are examined each year by tax authorities in the U.S., other countries and local jurisdictions in which we have operations. Except for issues arising out of certain partnership investments, the IRS examinations of tax years prior to 2009 are closed to audit. Other than the pending application of legal principles to specific issues arising in earlier years, only post-2007 Canadian tax years are subject to examination. Other significant tax filings subject to examination include various post-2004 U.S. state and local, post-2007 German, and post-2011 French and U.K. tax filings. We have other less significant tax filings currently under examination or subject to examination.

In August 2012, the United States Court of Appeals for the Third Circuit overturned a prior Tax Court decision and ruled in favor of the IRS and adverse to the Historic Boardwalk Hall LLC, a partnership in which we had made an investment in the year 2000. In January 2014, the Tax Court entered an order to implement rulings of the Third Circuit. Under the terms of the partnership agreement, we are indemnified against any payments we may be required to make. However, the potential for a difference in the timing of payments which may be due to taxing authorities, and the timing of receipts due to us under the partnership agreement, may cause fluctuations in our cash flows in future periods. Further, if we do not recover under the indemnification provisions of the partnership agreement, the amount of tax and interest due as a result of this matter could be as much as \$100 million.

## 14. Commitments and Contingencies

In the ordinary course of business, we are routinely defendants in, or party to a number of pending and threatened legal actions. These may involve litigation by or against us relating to, among other things, contractual rights under vendor, insurance or other contracts; intellectual property or patent rights; equipment, service, payment or other disputes with customers; or disputes with employees. Some of these actions may be brought as a purported class action on behalf of a purported class of employees, customers or others. In 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.

In December 2013, we received a Civil Investigative Demand (CID) from the Department of Justice (DOJ) pursuant to the False Claims Act requesting documents and information relating to compliance with certain postal regulatory requirements in our Presort Services business. We had previously provided information to the DOJ in response to letter requests and continue to provide information in response to the CID and other requests from the DOJ. Given the current stage of this inquiry, we cannot provide an estimate of any possible losses or range of loss and we cannot yet predict the ultimate outcome of this matter or its impact, if any, on our business, financial condition or results of operations.

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

## 15. Pensions and Other Benefit Programs

## Defined Benefit Pension Plans

The components of net periodic benefit cost for defined benefit pension plans were as follows:

|                                    | Three Months Ended March 31, |           |          |          |
|------------------------------------|------------------------------|-----------|----------|----------|
|                                    | United States                |           | Foreign  |          |
|                                    | 2014                         | 2013      | 2014     | 2013     |
| Service cost                       | \$2,415                      | \$3,799   | \$908    | \$1,582  |
| Interest cost                      | 19,416                       | 18,371    | 7,169    | 6,823    |
| Expected return on plan assets     | (25,956 )                    | (27,086 ) | (9,825 ) | (8,166 ) |
| Amortization of transition credit  | —                            | —         | (2 )     | (2 )     |
| Amortization of prior service cost | 2                            | 129       | (15 )    | 28       |
| Amortization of net actuarial loss | 6,160                        | 11,037    | 2,076    | 3,176    |
| Curtailment                        | —                            | 814       | —        | —        |
| Net periodic benefit cost          | \$2,037                      | \$7,064   | \$311    | \$3,441  |

Through March 31, 2014, we contributed \$10 million to our U.S. pension plans and \$12 million to our foreign pension plans.

## Nonpension Postretirement Benefit Plans

The components of net periodic benefit cost for nonpension postretirement benefit plans were as follows:

|                                    | Three Months Ended March 31, |         |
|------------------------------------|------------------------------|---------|
|                                    | 2014                         | 2013    |
| Service cost                       | \$728                        | \$1,017 |
| Interest cost                      | 2,462                        | 2,514   |
| Amortization of prior service cost | 40                           | 41      |
| Amortization of net actuarial loss | 1,522                        | 2,361   |
| Net periodic benefit cost          | \$4,752                      | \$5,933 |

Contributions for benefit payments for our nonpension postretirement benefit plans were \$7 million and \$8 million for the three months ended March 31, 2014 and 2013, respectively.

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

## 16. Earnings per Share

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

|  | Three Months Ended March |          |
|--|--------------------------|----------|
|  | 31,<br>2014              | 2013     |
| Numerator:   |                          |          |
| Amounts attributable to common stockholders:   |                          |          |
| Net income from continuing operations  | \$41,872                 | \$59,476 |
| Income from discontinued operations  | 2,801                    | 8,030    |
| Net income - Pitney Bowes Inc. (numerator for diluted EPS)                                   | 44,673                   | 67,506   |
| Less: Preference stock dividend  | (14                      | ) (13    |
| Income attributable to common stockholders (numerator for basic EPS)                         | \$44,659                 | \$67,493 |
| Denominator (in thousands):  |                          |          |
| Weighted-average shares used in basic EPS  | 202,339                  | 201,148  |
| Effect of dilutive shares:   |                          |          |
| Preferred stock  | 1                        | 2        |
| Preference stock   | 351                      | 396      |
| Stock plans  | 1,194                    | 664      |
| Weighted-average shares used in diluted EPS  | 203,885                  | 202,210  |
| Basic earnings per share:  |                          |          |
| Continuing operations  | \$0.21                   | \$0.30   |
| Discontinued operations  | 0.01                     | 0.04     |
| Net income   | \$0.22                   | \$0.34   |
| Diluted earnings per share:  |                          |          |
| Continuing operations  | \$0.21                   | \$0.29   |
| Discontinued operations  | 0.01                     | 0.04     |
| Net income   | \$0.22                   | \$0.33   |
| Anti-dilutive shares not used in calculating diluted weighted-average shares (in thousands): | 9,411                    | 13,868   |

## 17. Subsequent Event

On April 15, 2014, we completed the sale of DIS to Konica Minolta Business Solutions (Canada) Ltd. (Konica Minolta) and a business equipment leasing services provider in two separate transactions. Pitney Bowes of Canada Ltd. (PB Canada) and Konica Minolta also entered into a strategic alliance whereby Konica Minolta will represent PB Canada's mailing business in certain territories in Canada. We do not expect this sale transaction to have a material impact on net income.



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

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

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements contained in this report and our Annual Report to Stockholders on Form 10-K for the year ended December 31, 2013 (2013 Annual Report). All table amounts are shown in thousands of dollars, unless otherwise noted.

Overview

First Quarter 2014 Results

For the first quarter of 2014, revenue increased 3% to \$937 million compared to \$909 million in the first quarter of 2013. This increase was driven primarily by growth from our ecommerce solutions for cross-border parcel delivery and double-digit software licensing growth. Also contributing to revenue growth in the quarter was a 9% increase in

supplies revenue primarily due to higher sales in North America due to improved marketing effectiveness from our go-to-market strategy, higher supply sales in our Production Mail operations from the growing base of production print equipment installations and certain pricing actions taken during the quarter. Offsetting these increases were a 4% decline in equipment sales primarily due to a decline in sales of large production printers due to a comparably strong prior year quarter, a decline of 4% and 3% in rentals and financing revenue, respectively, due to a decline in the number of installed meters worldwide and a 3% decline in support services revenue due to lower maintenance agreement revenue.

Net income from continuing operations attributable to common stockholders decreased to \$42 million, or \$0.21 per diluted share, in the first quarter of 2014 compared to \$59 million, or \$0.29 per diluted share, in the first quarter of 2013. This decrease resulted primarily

from the costs associated with the early extinguishment of debt (see Liquidity and Capital Resources) and restructuring charges taken during the period.

On April 15, 2014, Pitney Bowes of Canada Ltd. (PB Canada) completed the sale of its Document Imaging Solutions (DIS) business, which consisted of hardware (copiers and printers), document management software solutions and the related lease portfolio to Konica Minolta Business Solutions (Canada) Ltd. (Konica Minolta) and a business equipment leasing services provider in two separate transactions. PB Canada and Konica Minolta also entered into a strategic alliance whereby Konica Minolta will represent PB Canada's mailing business in certain territories in Canada. The sale is consistent with our overall strategic direction and will help us sharpen our focus on delivering our core products and solutions in Canada. The DIS business is reflected as a discontinued operation in the unaudited Condensed Consolidated Statements of Income for all periods presented.

#### Outlook

We continue to focus on three critical areas: stabilizing the mailing business, achieving operational excellence and driving growth in our Digital Commerce Solutions segment.

Within the Small & Medium Business Solutions group, we expect revenue and profit growth to continue to be challenged by the decline in physical mail volumes. However, we anticipate revenue and profit trends will show continued improvement in 2014, due in part to the "go-to-market" strategy implemented in North America and currently being rolled-out in Europe. Our go-to-market strategy provides our clients broader access to products and services through online and direct sales channels, broader solutions to serve the rapid growth in parcel shipments and a more agile workforce. In addition, postal agencies in North America recently announced discounts for postage meter users, which are anticipated to enhance the value proposition of meter usage in North America and further stabilize recurring stream revenues. Within our international mailing markets, the stabilization in meter population which began in 2013 is expected to continue in 2014, resulting in the continued improvement in recurring stream revenue trends.

Within the Enterprise Business Solutions group, we expect demand for our production mail inserter and sortation equipment and high-speed production print equipment to continue; however, we do not anticipate growth over the prior year due to significant sales of production printers during 2013. Within our Presort Services segment, we expect increasing revenue due to workshare improvements and new sales opportunities.

In our Digital Commerce Solutions segment, we anticipate growth to be driven by continued demand for our ecommerce cross-border parcel management solutions, as well as our location intelligence, customer data and engagement software solutions.

During the first quarter of 2014, we began work on the initial phases of a new global ERP system. The implementation of the ERP system will occur in stages and is anticipated to be a multi-year process. We will make a significant investment and incur incremental expenses over the course of the implementation of this system. In 2014, we anticipate these expenses could approximate \$0.10 per diluted share. The ERP system is expected to provide operating cost savings through the elimination of redundant systems and strategic efficiencies through the use of a standardized, integrated system.

Our growth initiatives continue to focus on leveraging our expertise in physical communications with our expanding capabilities in digital and hybrid communications and developing products, software, services and solutions that help our clients grow their businesses by more effectively communicating with their customers.

## RESULTS OF OPERATIONS

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

|                   | Revenue                      |            |          |
|-------------------|------------------------------|------------|----------|
|                   | Three Months Ended March 31, |            |          |
|                   | 2014                         | 2013       | % change |
| Equipment sales   | \$ 189,056                   | \$ 196,767 | (4 )%    |
| Supplies          | 79,517                       | 73,218     | 9 %      |
| Software          | 91,555                       | 87,012     | 5 %      |
| Rentals           | 123,579                      | 129,114    | (4 )%    |
| Financing         | 110,050                      | 113,887    | (3 )%    |
| Support services  | 158,252                      | 162,589    | (3 )%    |
| Business services | 185,488                      | 146,776    | 26 %     |
| Total revenue     | \$937,497                    | \$909,363  | 3 %      |

|                            | Cost of Revenue              |           |                       |        |
|----------------------------|------------------------------|-----------|-----------------------|--------|
|                            | Three Months Ended March 31, |           |                       |        |
|                            |                              |           | Percentage of Revenue |        |
|                            | 2014                         | 2013      | 2014                  | 2013   |
| Cost of equipment sales    | \$82,534                     | \$94,543  | 43.7 %                | 48.0 % |
| Cost of supplies           | 24,154                       | 22,846    | 30.4 %                | 31.2 % |
| Cost of software           | 30,164                       | 24,791    | 32.9 %                | 28.5 % |
| Cost of rentals            | 25,444                       | 26,398    | 20.6 %                | 20.4 % |
| Financing interest expense | 19,653                       | 19,019    | 17.9 %                | 16.7 % |
| Cost of support services   | 98,981                       | 102,529   | 62.5 %                | 63.1 % |
| Cost of business services  | 128,936                      | 102,355   | 69.5 %                | 69.7 % |
| Total cost of revenue      | \$409,866                    | \$392,481 | 43.7 %                | 43.2 % |

## Equipment sales

Equipment sales revenue decreased 4% to \$189 million in the quarter compared to the first quarter of 2013. This decrease was primarily driven by fewer sales of large production printers compared to the prior year due to an unusually strong prior year quarter. Cost of equipment sales as a percentage of revenue decreased to 43.7% in the quarter compared to 48.0% in the prior year quarter primarily due to fewer sales of production printers, which have a lower margin relative to other products.

## Supplies

Supplies revenue increased 9% to \$80 million in the quarter compared to the first quarter of 2013. The increase was primarily due to targeted outreach to customers and sales effectiveness in connection with our go-to-market strategy, increased supply sales due to the growing base of production print equipment installations, the stabilization of meter population trends in our international markets and certain pricing actions taken during the quarter. Cost of supplies as a percentage of revenue for the quarter was 30.4% compared to 31.2% in the prior year quarter primarily due to improved margins on supplies sales.

## Software

Software revenue increased 5% to \$92 million in the quarter compared to the prior year quarter primarily due to higher licensing revenue. Cost of software as a percentage of revenue increased to 32.9% in the quarter compared with 28.5% in the prior year quarter primarily due to investments in the specialization of the software sales channel.



#### Rentals

Rentals revenue decreased 4% to \$124 million in the quarter compared to the prior year quarter, primarily due to lower mail volumes and fewer meters in service. Cost of rentals as a percentage of revenue for the quarter was 20.6%, consistent with 20.4% in the prior year quarter.

#### Financing

Financing revenue decreased 3% to \$110 million in the quarter compared to the prior year quarter primarily due to lower equipment sales in prior periods. Financing interest expense as a percentage of revenue for the quarter increased to 17.9% compared to 16.7% in the prior year period due to higher effective interest rates. In computing our financing interest expense, which represents our cost of borrowing associated with the generation of financing revenue, we assume a 10:1 leveraging ratio of debt to equity and apply our overall effective interest rate to the average outstanding finance receivables.

#### Support Services

Support services revenue decreased 3% in the quarter to \$158 million compared to the first quarter of 2013, primarily due to a decline in equipment maintenance revenue resulting from fewer mailing machines in service. Cost of support services as a percentage of revenue for the quarter improved to 62.5% compared to 63.1% in the prior year quarter primarily due to margin improvement in our Production Mail segment from expense reductions.

#### Business Services

Business services revenue increased 26% in the quarter to \$185 million compared to the first quarter of 2013. This increase was driven by higher revenue from our ecommerce solutions for cross-border parcel delivery as demand continues to grow and higher revenue in our Presort Services operations due to improved qualification for postal rate discounts. Cost of business services as a percentage of revenue for the quarter was 69.5% compared to 69.7% in the prior year quarter.

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

SG&A expense for the quarter was \$351 million, which was flat compared to the first quarter of 2013. However, as a percentage of revenue, SG&A expense for the first quarter of 2014 improved to 37.5% compared to 38.7% in the first quarter of 2013 and also included expenses of \$5 million related to the new ERP implementation. This improvement was primarily due to cost stabilization as a result of our focus on operational excellence and the benefits of productivity initiatives, including the go-to-market initiative.

#### Restructuring charges

Restructuring charges, net for the three months ended March 31, 2014 were \$10 million. There were no restructuring charges recognized in the three months ended March 31, 2013. See Note 6 to the unaudited Condensed Consolidated Financial Statements.

#### Other expense

Other expense of \$62 million and \$25 million for the three months ended March 31, 2014 and 2013, respectively, consists of the costs associated with the early redemption of debt. See Liquidity and Capital Resources - Financings and Capitalization for a detailed discussion.

#### Income taxes

See Note 13 to the unaudited Condensed Consolidated Financial Statements.

#### Discontinued operations

Discontinued operations includes the worldwide Management Services business (PBMS), International Mailing Services business (IMS) and Nordic furniture business, which were sold during 2013 and DIS, which was classified as a discontinued operation at March 31, 2014 and subsequently sold in April 2014. The operations of DIS exclude certain corporate and indirect business expenses, primarily service, sales and infrastructure support expenses, which

were historically allocated to this business. The costs previously allocated to DIS and excluded from discontinued operations were \$3 million and \$4 million for the quarters ended March 31, 2014 and 2013, respectively. In addition, in computing interest expense related to DIS, we assumed a 10:1 leverage ratio of debt to equity and applied the overall effective interest rate to the DIS average outstanding finance receivables. Also see Note 4 to the unaudited Condensed Consolidated Financial Statements.

Preferred stock dividends of subsidiaries attributable to noncontrolling interests  
See Note 10 to the unaudited Condensed Consolidated Financial Statements.

#### Business segment results

During 2013, we sold certain businesses and realigned our segment reporting to reflect the clients served, the solutions we offer, and how we manage, review, analyze and measure our operations. During the first quarter of 2014, we reclassified our shipping solutions operations from the Small & Medium Business Solutions segment group to the Digital Commerce Solutions segment. Also during the first quarter of 2014, the DIS business, originally included in the North America Mailing segment, was classified as a discontinued operation. Historical segment results have been recast to conform to our current segment presentation and to exclude discontinued operations. The principal products and services of each of our reporting segments are as follows:

##### Small & Medium Business Solutions:

**North America Mailing:** Includes the revenue and related expenses from the sale, rental and financing of mailing equipment and supplies for small and medium size businesses to efficiently create mail and evidence postage in the U.S. and Canada.

**International Mailing:** Includes the revenue and related expenses from the sale, rental and financing of mailing equipment and supplies for small and medium size businesses to efficiently create mail and evidence postage in areas outside North America.

##### Enterprise Business Solutions:

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

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

##### Digital Commerce Solutions:

Digital Commerce Solutions: Includes the worldwide revenue and related expenses from (i) the sale and support services of non-equipment-based mailing, customer engagement, geocoding and location intelligence software; (ii) our shipping and cross-border ecommerce solutions; (iii) direct marketing services for targeted clients; and (iv) our digital mail delivery service offering.

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, which 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 an analysis of our operating performance and underlying trends of the businesses. Segment EBIT may not be indicative of our overall consolidated performance and therefore, should be read in conjunction with our consolidated results of operations. Refer to Note 2 to the unaudited Condensed Consolidated Financial Statements for a reconciliation of segment EBIT to income from continuing operations before income taxes.



Revenue and EBIT for reportable segments is presented below.

|                                   | Revenue                      |           |          |
|-----------------------------------|------------------------------|-----------|----------|
|                                   | Three Months Ended March 31, |           |          |
|                                   | 2014                         | 2013      | % change |
| North America Mailing             | \$381,027                    | \$388,836 | (2 )%    |
| International Mailing             | 153,268                      | 152,976   | — %      |
| Small & Medium Business Solutions | 534,295                      | 541,812   | (1 )%    |
| Production Mail                   | 105,216                      | 109,453   | (4 )%    |
| Presort Services                  | 116,491                      | 110,900   | 5 %      |
| Enterprise Business Solutions     | 221,707                      | 220,353   | 1 %      |
| Digital Commerce Solutions        | 181,495                      | 147,198   | 23 %     |
| Total                             | \$937,497                    | \$909,363 | 3 %      |
|                                   | EBIT                         |           |          |
|                                   | Three Months Ended March 31, |           |          |
|                                   | 2014                         | 2013      | % change |
| North America Mailing             | \$160,338                    | \$148,458 | 8 %      |
| International Mailing             | 24,819                       | 17,390    | 43 %     |
| Small & Medium Business Solutions | 185,157                      | 165,848   | 12 %     |
| Production Mail                   | 7,737                        | 7,832     | (1 )%    |
| Presort Services                  | 23,896                       | 23,488    | 2 %      |
| Enterprise Business Solutions     | 31,633                       | 31,320    | 1 %      |
| Digital Commerce Solutions        | 9,531                        | (279 )    | NM       |
| Total                             | \$226,321                    | \$196,889 | 15 %     |

Small & Medium Business Solutions (SMB) revenue decreased 1% to \$534 million for the quarter compared to the prior year quarter while EBIT increased 12% to \$185 million for the quarter compared to the prior year quarter. Foreign currency translation had a less than 1% impact on total SMB revenue and EBIT.

#### North America Mailing

Revenue for the North America Mailing segment in the quarter decreased 2% to \$381 million compared to the prior year quarter. Recurring revenues, comprised of supplies, rentals and financing revenue, declined 2% in the quarter. Rentals revenue and financing revenue continued to decline due to fewer meters in service and declining equipment sales in prior periods; however, these declines were partially offset by higher supply sales due to targeted outreach to customers and sales effectiveness in connection with our go-to-market strategy and certain pricing actions taken during the quarter. Equipment sales decreased 1% in the quarter as lower sales in Canada more than offset a 2% increase in U.S. equipment sales, which benefited from our go-to-market sales strategy.

EBIT increased 8% to \$160 million in the quarter compared to the prior year quarter despite the decline in revenue due to the benefits of our go-to-market sales strategy and ongoing cost reduction and cost control initiatives. Our go-to-market sales strategy was designed to improve the sales process and reduce costs by providing our clients broader access to products and services through online and direct sales channels.

#### International Mailing

Revenue for the International Mailing segment in the quarter of \$153 million was flat compared to the prior year quarter. Recurring stream revenues were flat in the quarter compared to the prior year quarter. Within recurring revenues, rentals revenue declined 7% in the quarter primarily due to a migration from the rental of equipment to the financing of equipment in France and supplies revenue increased 5% in the quarter primarily driven by higher sales in the U.K. and Germany due to stabilization in meter population.

EBIT increased 43% to \$25 million in the quarter compared to the prior year quarter primarily due to ongoing cost reduction and cost control initiatives.

#### Enterprise Business Solutions

Enterprise Business Solutions revenue for the quarter increased 1% to \$222 million compared to the prior year quarter and EBIT increased 1% to \$32 million for the quarter compared to the prior year quarter. Foreign currency translation had a less than 1% impact on total Enterprise Business Solutions revenue and EBIT.

#### Production Mail

Revenue for the Production Mail segment in the quarter decreased 4% to \$105 million compared to the prior year quarter. Equipment sales decreased 9% in the quarter, primarily due to fewer installations of production printers as installations in the prior year quarter were unusually strong as a result of significant installations for certain enterprise customers. Supplies revenue for the quarter increased 51%, and accounted for a 2% growth in total Production Mail revenue, due to the growing base of installed production printers and inserting equipment.

EBIT for the quarter decreased 1% to \$8 million compared to the prior year quarter primarily due to the decline in revenue; however, EBIT margin improved due to fewer sales of production printers, which have a lower margin relative to other products.

#### Presort Services

Revenue for the Presort Services segment increased 5% to \$116 million compared to the prior year quarter primarily due to higher volumes of First Class mail processed and improved qualification for postal rate discounts.

EBIT for the quarter increased 2% to \$24 million primarily due to the increase in revenue, but was adversely impacted by the costs associated with the consolidation of two processing facilities.

#### Digital Commerce Solutions

#### Digital Commerce Solutions

Revenue for the Digital Commerce Solutions segment increased 23% in the quarter to \$181 million compared to the prior year quarter primarily due to growth in our ecommerce cross-border parcel delivery solution and higher software licensing revenue. EBIT for the quarter increased \$10 million from the prior year quarter primarily due to the increase in revenue and provided operating leverage to partially offset the continued investments in ecommerce technology and infrastructure and the specialization of the software sales channel.

## LIQUIDITY AND CAPITAL RESOURCES

We believe that existing cash and investments, cash generated from operations and borrowing capacity under our commercial paper program are currently sufficient to support our cash needs, including discretionary uses such as capital investments, dividends and share repurchases. Cash and cash equivalents and short-term investments were \$930 million at March 31, 2014 and \$939 million at December 31, 2013.

### Cash Flow Summary

Net cash provided by operating activities for the three months ended March 31, 2014 was \$106 million compared to \$132 million for the three months ended March 31, 2013. The decrease in cash flow from operations was driven by cash payments for debt extinguishment, lower income and working capital changes partially offset by lower tax payments.

Net cash used in investing activities for the three months ended March 31, 2014 was \$59 million compared to \$65 million for the three months ended March 31, 2013. Cash flow from investing activities in 2014 benefited from lower capital expenditures and withdrawals from reserve deposit accounts, partially offset by the timing of investment maturities.

Net cash used in financing activities for the three months ended March 31, 2014 was \$50 million compared to \$66 million for the three months ended March 31, 2013. During the first quarter of 2014, we received cash proceeds of \$493 million from the issuance of debt and repaid \$500 million of existing debt. During the first quarter of 2013, we received cash proceeds of \$412 million from the issuance of debt and repaid \$405 million of existing debt. See Financings and Capitalization section below for further details.

### Financings and Capitalization

We are a Well-Known Seasoned Issuer with the SEC, which allows us to issue debt securities, preferred stock, preference stock, common stock, purchase contracts, depositary shares, warrants and units in an expedited fashion. We have a commercial paper program that is an important source of liquidity for us and a committed credit facility of \$1.0 billion to support our commercial paper issuances. The credit facility expires in April 2016. We have not drawn upon the credit facility. There were no commercial paper issuances during the quarter.

During the first quarter of 2014, we completed a cash tender offer (the 2014 Tender Offer) for a portion of the 5.75% Notes due 2017 and the 5.25% Notes due 2037 (the Subject Notes). Holders who validly tendered their notes received the principal amount, all accrued and unpaid interest and a premium amount. An aggregate \$500 million of the Subject Notes were tendered. We incurred expenses of \$62 million, consisting of the call premium, the write-off of unamortized costs and bank transaction fees. These expenses were recognized as other expense in the unaudited Condensed Consolidated Statements of Income.

During the first quarter of 2014, we also issued \$500 million of 4.625% fixed rate 10-year notes. Interest is payable on March 15 and September 15 of each year, commencing September 15, 2014. The notes mature in March 2024, but may be redeemed, at any time, in whole or in part, at our option. If the notes are redeemed prior to December 15, 2023, the redemption price will be equal to the sum of 100% of the principal amount, accrued and unpaid interest and a make-whole payment. Net proceeds from the issuance of the notes were \$493 million. The net proceeds were used to fund the 2014 Tender Offer.

On April 22, 2014, we repaid \$100 million of the outstanding Term Loans.

During the first quarter of 2013, we completed a cash tender offer (the 2013 Tender Offer) for a portion of the 4.875% Notes due 2014, 5.0% Notes due 2015, and 4.75% Notes due 2016. Holders who validly tendered their notes received the principal amount, all accrued and unpaid interest and a premium amount. An aggregate \$405 million of these notes were tendered. We received \$5 million from the unwind of certain interest rate swaps and incurred expenses of \$25 million, consisting primarily of the premium payment. This loss was recognized as other expense in the unaudited Condensed Consolidated Statements of Income.

Also in the first quarter of 2013, we issued \$425 million of 30-year notes with a fixed-rate of 6.7%. Interest is payable quarterly commencing in June 2013. The notes mature in 2043, but may be redeemed, at our option, in whole or in

part, at any time on or after March 7, 2018 at a redemption price equal to 100% of the principal amount, plus accrued and unpaid interest. The net proceeds of \$412 million were used to fund the repurchase of notes under the 2013 Tender Offer.

Cash and cash equivalents held by our foreign subsidiaries were \$448 million at March 31, 2014 and \$392 million at December 31, 2013. Cash and cash equivalents held by our foreign subsidiaries are generally used to support the liquidity needs of these subsidiaries. Most of these amounts could be repatriated to the U.S. but would be subject to additional taxes. Repatriation of some foreign balances is restricted by local laws.

We paid dividends to our common stockholders in the amount of \$38 million (\$0.1875 per share) for the three months ended March 31, 2014 and \$75 million (\$0.375 per share) for the three months ended March 31, 2013. Each quarter, our Board of Directors considers our

recent and projected earnings and other capital needs and priorities in deciding whether to approve the amount and payment of a dividend. There are no material restrictions on our ability to declare dividends.

#### Regulatory Matters

There have been no significant changes to the regulatory matters disclosed in our 2013 Annual Report.

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

There were no material changes to the disclosures made in the 2013 Annual Report regarding this matter.

#### Item 4: Controls and Procedures

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

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

## PART II. OTHER INFORMATION

## Item 1: Legal Proceedings

There were no material changes to the disclosures made in the 2013 Annual Report.

## Item 1A: Risk Factors

There were no material changes to the risk factors identified in the 2013 Annual Report.

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

## Repurchases of Equity Securities

We periodically repurchase shares of our common stock to manage the dilution created by shares issued under employee stock plans and for other purposes in the open market. As of March 31, 2014, we have remaining authorization to repurchase up to \$50 million of our common stock. There were no share repurchases during the quarter ended March 31, 2014.

## Item 6: Exhibits

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

Signatures

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

PITNEY BOWES INC.

Date: May 2, 2014

/s/ Michael Monahan

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

/s/ Steven J. Green

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

## Exhibit Index

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| 101.PRE        | XBRL Taxonomy Presentation Linkbase Document   |                                      |