

PITNEY BOWES INC /DE/  
Form 10-Q  
November 07, 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 September 30, 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.)

3001 Summer Street, Stamford, Connecticut 06926  
(Address of principal executive offices) (Zip Code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer 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 October 29, 2014, 200,989,991 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 (LOSS)

(Unaudited; in thousands, except per share data)

|  | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|--|-------------------------------------|------------|------------------------------------|------------|
|  | 2014                                | 2013       | 2014                               | 2013       |
| Revenue:   |                                     |            |                                    |            |
| Equipment sales  | \$ 177,458                          | \$ 197,044 | \$ 558,032                         | \$ 619,035 |
| Supplies   | 72,548                              | 68,692     | 228,349                            | 213,185    |
| Software   | 112,271                             | 98,164     | 312,891                            | 285,658    |
| Rentals  | 119,047                             | 125,918    | 365,069                            | 384,436    |
| Financing  | 107,835                             | 111,032    | 325,529                            | 337,739    |
| Support services   | 154,321                             | 159,508    | 470,763                            | 482,400    |
| Business services  | 198,164                             | 160,131    | 576,958                            | 458,061    |
| Total revenue  | 941,644                             | 920,489    | 2,837,591                          | 2,780,514  |
| Costs and expenses:  |                                     |            |                                    |            |
| Cost of equipment sales  | 90,984                              | 88,945     | 262,336                            | 295,567    |
| Cost of supplies   | 22,470                              | 21,444     | 70,129                             | 66,536     |
| Cost of software   | 29,775                              | 29,698     | 93,423                             | 80,093     |
| Cost of rentals  | 23,636                              | 24,434     | 74,273                             | 75,946     |
| Financing interest expense   | 19,667                              | 19,468     | 59,733                             | 57,438     |
| Cost of support services   | 92,500                              | 98,425     | 288,203                            | 300,291    |
| Cost of business services  | 142,512                             | 112,447    | 406,472                            | 322,970    |
| Selling, general and administrative                                      | 341,738                             | 352,299    | 1,031,497                          | 1,057,876  |
| Research and development   | 26,060                              | 24,769     | 80,901                             | 81,351     |
| Restructuring charges and asset impairments                              | 4,526                               | 34,909     | 22,666                             | 53,940     |
| Interest expense, net  | 22,158                              | 26,051     | 67,704                             | 85,087     |
| Other (income) expense   | (15,919)                            | ) —        | 45,738                             | 25,121     |
| Total costs and expenses   | 800,107                             | 832,889    | 2,503,075                          | 2,502,216  |
| Income from continuing operations before income taxes                    | 141,537                             | 87,600     | 334,516                            | 278,298    |
| Provision for income taxes   | 25,310                              | 10,032     | 79,681                             | 52,045     |
| Income from continuing operations  | 116,227                             | 77,568     | 254,835                            | 226,253    |
| Income (loss) from discontinued operations, net of tax                   | 20,655                              | (78,501)   | ) 30,173                           | (159,725)  |
| Net income (loss)  | 136,882                             | (933)      | ) 285,008                          | 66,528     |
| Less: Preferred stock dividends attributable to noncontrolling interests | 4,593                               | 4,594      | 13,781                             | 13,782     |
| Net income (loss) attributable to Pitney Bowes Inc.                      | \$ 132,289                          | \$ (5,527) | ) \$ 271,227                       | \$ 52,746  |
| Amounts attributable to common stockholders:                             |                                     |            |                                    |            |
| Net income from continuing operations                                    | \$ 111,634                          | \$ 72,974  | \$ 241,054                         | \$ 212,471 |
| Income (loss) from discontinued operations, net of tax                   | 20,655                              | (78,501)   | ) 30,173                           | (159,725)  |
| Net income (loss) attributable to Pitney Bowes Inc.                      | \$ 132,289                          | \$ (5,527) | ) \$ 271,227                       | \$ 52,746  |
| Basic earnings per share attributable to common stockholders:            |                                     |            |                                    |            |
| Continuing operations  | \$0.55                              | \$0.36     | \$ 1.19                            | \$1.05     |
| Discontinued operations  | 0.10                                | (0.39)     | ) 0.15                             | (0.79)     |

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|   |          |          |          |        |
|---|----------|----------|----------|--------|
| Net income (loss) attributable to Pitney Bowes Inc.             | \$0.65   | \$(0.03  | ) \$1.34 | \$0.26 |
| Diluted earnings per share attributable to common stockholders: |          |          |          |        |
| Continuing operations   | \$0.55   | \$0.36   | \$1.18   | \$1.05 |
| Discontinued operations   | 0.10     | (0.39    | ) 0.15   | (0.79  |
| Net income (loss) attributable to Pitney Bowes Inc.             | \$0.65   | \$(0.03  | ) \$1.33 | \$0.26 |
| Dividends declared per share of common stock                    | \$0.1875 | \$0.1875 | \$0.5625 | \$0.75 |

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 |          | Nine Months Ended |            |
|--|--------------------|----------|-------------------|------------|
|  | September 30,      |          | September 30,     |            |
|  | 2014               | 2013     | 2014              | 2013       |
| Net income (loss)  | \$136,882          | \$(933)  | ) \$285,008       | \$66,528   |
| Less: Preferred stock dividends attributable to noncontrolling interests   | 4,593              | 4,594    | 13,781            | 13,782     |
| Net income (loss) attributable to Pitney Bowes Inc.  | 132,289            | (5,527)  | ) 271,227         | 52,746     |
| Other comprehensive (loss) income, net of tax:   |                    |          |                   |            |
| Net unrealized gain on cash flow hedges, net of tax of \$420, \$41, \$925 and \$615, respectively                        | 658                | 62       | 1,448             | 962        |
| Net unrealized (loss) gain on investment securities, net of tax of \$(546), \$(142), \$1,908 and \$(2,984), respectively | (933)              | ) (222)  | ) 3,262           | (4,667)    |
| Amortization of pension and postretirement costs, net of tax of \$3,355, \$4,347, \$10,609 and \$15,613, respectively    | 6,694              | 7,950    | 19,116            | 28,943     |
| Foreign currency translations  | (61,809)           | ) 19,140 | (64,011)          | ) (40,618) |
| Other comprehensive (loss) income  | (55,390)           | ) 26,930 | (40,185)          | ) (15,380) |
| Comprehensive income attributable to Pitney Bowes Inc.   | \$76,899           | \$21,403 | \$231,042         | \$37,366   |

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)

|  | September 30,<br>2014 | December 31,<br>2013 |
|--|-----------------------|----------------------|
| <b>ASSETS</b>  |                       |                      |
| Current assets:  |                       |                      |
| Cash and cash equivalents  | \$923,676             | \$907,806            |
| Short-term investments   | 35,348                | 31,128               |
| Accounts receivable (net of allowance of \$13,651 and \$13,149, respectively)          | 399,051               | 469,800              |
| Finance receivables (net of allowance of \$21,914 and \$24,340, respectively)          | 1,018,242             | 1,102,921            |
| Inventories  | 94,879                | 103,580              |
| Current income taxes   | 29,815                | 28,934               |
| Other current assets and prepayments   | 135,973               | 147,067              |
| Assets held for sale   | 55,118                | 46,976               |
| Total current assets   | 2,692,102             | 2,838,212            |
| Property, plant and equipment, net   | 266,520               | 245,171              |
| Rental property and equipment, net   | 206,394               | 226,146              |
| Finance receivables (net of allowance of \$9,323 and \$12,609, respectively)           | 830,589               | 962,363              |
| Investment in leveraged leases   | 32,465                | 34,410               |
| Goodwill   | 1,694,987             | 1,734,871            |
| Intangible assets, net   | 91,797                | 120,387              |
| Non-current income taxes   | 65,092                | 73,751               |
| Other assets   | 544,091               | 537,397              |
| Total assets   | \$6,424,037           | \$6,772,708          |
| <b>LIABILITIES, NONCONTROLLING INTERESTS AND STOCKHOLDERS' EQUITY</b>                  |                       |                      |
| Current liabilities:   |                       |                      |
| Accounts payable and accrued liabilities   | \$1,428,690           | \$1,644,582          |
| Current income taxes   | 153,809               | 157,340              |
| Current portion of long-term debt  | 274,879               | —                    |
| Advance billings   | 399,016               | 425,833              |
| Total current liabilities  | 2,256,394             | 2,227,755            |
| Deferred taxes on income   | 57,830                | 39,701               |
| Tax uncertainties and other income tax liabilities                                     | 148,119               | 190,645              |
| Long-term debt   | 2,962,997             | 3,346,295            |
| Other non-current liabilities  | 423,981               | 466,766              |
| Total liabilities  | 5,849,321             | 6,271,162            |
| Noncontrolling interests (Preferred stockholders' equity in subsidiaries)              | 296,370               | 296,370              |
| Commitments and contingencies (See Note 10)  |                       |                      |
| Stockholders' equity:  |                       |                      |
| Cumulative preferred stock, \$50 par value, 4% convertible                             | 1                     | 4                    |
| Cumulative preference stock, no par value, \$2.12 convertible                          | 559                   | 591                  |
| Common stock, \$1 par value (480,000,000 shares authorized; 323,337,912 shares issued) | 323,338               | 323,338              |
| Additional paid-in capital   | 174,783               | 196,977              |
| Retained earnings  | 4,872,875             | 4,715,564            |
| Accumulated other comprehensive loss   | (614,741 )            | (574,556 )           |
| Treasury stock, at cost (122,349,213 and 121,255,390 shares, respectively)             | (4,478,469 )          | (4,456,742 )         |

|  |             |             |
|--|-------------|-------------|
| Total stockholders' equity   | 278,346     | 205,176     |
| Total liabilities, noncontrolling interests and stockholders' equity | \$6,424,037 | \$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)

|   | Nine Months Ended<br>September 30, |           |
|---|------------------------------------|-----------|
|   | 2014                               | 2013      |
| Cash flows from operating activities:   |                                    |           |
| Net income  | \$285,008                          | \$66,528  |
| Restructuring payments  | (42,151)                           | (41,353)  |
| Tax payments related to other investments   | (53,738)                           | —         |
| Adjustments to reconcile net income to net cash provided by operating activities:                   |                                    |           |
| (Gain) loss on disposal of businesses   | (29,104)                           | 35,315    |
| Proceeds from settlement of derivative instruments  | —                                  | 4,838     |
| Depreciation and amortization   | 143,360                            | 167,377   |
| Stock-based compensation  | 12,658                             | 12,061    |
| Restructuring charges and asset impairments   | 21,572                             | 55,771    |
| Goodwill impairment   | —                                  | 101,415   |
| Changes in operating assets and liabilities:  |                                    |           |
| Decrease in accounts receivable   | 68,140                             | 111,549   |
| Decrease in finance receivables   | 107,027                            | 128,812   |
| Decrease in inventories   | 854                                | 36,967    |
| Increase in other current assets and prepayments  | (30,914)                           | (13,588)  |
| Decrease in accounts payable and accrued liabilities  | (120,329)                          | (192,373) |
| Increase in current and non-current income taxes  | 24,218                             | 11,861    |
| Decrease in advance billings  | (15,793)                           | (23,179)  |
| Other, net  | 26,624                             | 31,559    |
| Net cash provided by operating activities   | 397,432                            | 493,560   |
| Cash flows from investing activities:   |                                    |           |
| Purchases of available-for-sale securities  | (218,157)                          | (262,794) |
| Proceeds from sales/maturities of available-for-sale securities                                     | 175,057                            | 258,104   |
| Capital expenditures  | (121,270)                          | (103,392) |
| Net proceeds from the sale of businesses  | 101,179                            | 2,627     |
| Change in reserve account deposits  | (15,919)                           | (16,962)  |
| Other investing activities  | (2,539)                            | 5,243     |
| Net cash used in investing activities   | (81,649)                           | (117,174) |
| 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  | (599,850)                          | (779,637) |
| Proceeds from the issuance of common stock under employee stock-based compensation plans            | 5,869                              | 6,499     |
| Purchase of subsidiary shares from noncontrolling interest  | (7,718)                            | —         |
| Stock repurchases   | (50,003)                           | —         |
| Dividends paid to stockholders  | (113,963)                          | (150,955) |
| Dividends paid to noncontrolling interests  | (9,188)                            | (9,188)   |
| Net cash used in financing activities   | (282,328)                          | (521,668) |
| Effect of exchange rate changes on cash and cash equivalents  | (17,585)                           | (8,358)   |
| Increase (decrease) in cash and cash equivalents  | 15,870                             | (153,640) |

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|  |           |           |
|--|-----------|-----------|
| Cash and cash equivalents at beginning of period | 907,806   | 913,276   |
| Cash and cash equivalents at end of period       | \$923,676 | \$759,636 |
| Cash interest paid                               | \$161,628 | \$162,938 |
| Cash income tax payments, net of refunds         | \$116,682 | \$110,396 |

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 reportable 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.

In April 2014, Pitney Bowes of Canada Ltd. (PB Canada), a wholly owned subsidiary, completed the sale of its Document Imaging Solutions (DIS) business, which consisted of hardware (copiers and printers) and document management software solutions to Konica Minolta Business Solutions (Canada) Ltd. (Konica Minolta) and the related lease portfolio to a business equipment leasing services provider in two separate transactions. The operating results for DIS, originally included as part of the North America Mailing segment, have been classified as discontinued operations for all periods presented. The cash flows from discontinued operations are not separately stated or reclassified in the accompanying unaudited Condensed Consolidated Statements of Cash Flows.

These statements should be read in conjunction with the financial statements and notes thereto included in our Current Report on Form 8-K filed on September 15, 2014.

New Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-15, Presentation of Financial Statements — Going Concern: Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. This standard requires management to evaluate the entity's ability to continue as a going concern for 12 months following the issuance of the financial statements and provide related footnote disclosures. This standard is effective for annual reporting periods beginning after December 15, 2016, and interim periods thereafter. Early adoption is permitted. We do not believe this standard will have a significant impact on our consolidated financial statements or disclosures.

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers. The new standard requires companies to recognize revenue for the transfer of goods and services to customers in amounts that reflect the consideration the company expects to receive in exchange for those goods and services. The new standard will also result in enhanced disclosures about revenue. This standard is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, and can be adopted either retrospectively or as a cumulative-effect adjustment. Early adoption is prohibited. We are assessing the impact the adoption of this standard will have on our consolidated financial statements and disclosures.

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 the related

disclosure requirements. The standard is effective on January 1, 2015, but early adoption is permitted for disposals or classifications of assets held for sale that have not been reported in financial statements previously issued or available for issuance. We elected to adopt this standard effective April 1, 2014. The adoption of this standard did not have a significant impact on our unaudited 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)

2. Segment Information

In 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. Prior year segment reporting has been recast to conform to our current segment presentation. The principal products and services of each of our reportable segments are as follows:

Small & Medium Business Solutions:

North America Mailing: Includes the revenue and related expenses from the sale, rental, financing and servicing of mailing equipment and supplies for small and medium sized 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, financing and servicing of mailing equipment and supplies for small and medium sized 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 production mail inserting and sortation equipment, high-speed production print systems, supplies and related support services to large enterprise clients to process inbound and outbound mail.

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

Digital Commerce Solutions:

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

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 should be read in conjunction with our consolidated results of operations.

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Revenue and EBIT by business segment is presented below.

|   | Revenue            |               | Nine Months Ended |               |
|---|--------------------|---------------|-------------------|---------------|
|   | Three Months Ended |               | September 30,     |               |
|   | September 30,      | September 30, | September 30,     | September 30, |
|   | 2014               | 2013          | 2014              | 2013          |
| North America Mailing                                 | \$363,285          | \$381,685     | \$1,115,507       | \$1,162,718   |
| International Mailing                                 | 132,291            | 141,332       | 438,819           | 444,665       |
| Small & Medium Business Solutions                     | 495,576            | 523,017       | 1,554,326         | 1,607,383     |
| Production Mail                                       | 113,497            | 116,477       | 330,469           | 360,352       |
| Presort Services                                      | 111,434            | 105,093       | 339,205           | 322,954       |
| Enterprise Business Solutions                         | 224,931            | 221,570       | 669,674           | 683,306       |
| Digital Commerce Solutions                            | 221,137            | 175,902       | 613,591           | 489,825       |
| Total revenue   | \$941,644          | \$920,489     | \$2,837,591       | \$2,780,514   |
|   | EBIT               |               | Nine Months Ended |               |
|   | Three Months Ended |               | September 30,     |               |
|   | September 30,      | September 30, | September 30,     | September 30, |
|   | 2014               | 2013          | 2014              | 2013          |
| North America Mailing                                 | \$159,638          | \$158,692     | \$476,757         | \$464,668     |
| International Mailing                                 | 16,079             | 15,627        | 67,347            | 53,092        |
| Small & Medium Business Solutions                     | 175,717            | 174,319       | 544,104           | 517,760       |
| Production Mail                                       | 9,570              | 10,620        | 27,865            | 34,239        |
| Presort Services                                      | 21,927             | 20,398        | 68,235            | 65,132        |
| Enterprise Business Solutions                         | 31,497             | 31,018        | 96,100            | 99,371        |
| Digital Commerce Solutions                            | 24,534             | 12,885        | 51,994            | 27,969        |
| Total EBIT  | 231,748            | 218,222       | 692,198           | 645,100       |
| Reconciling items:                                    |                    |               |                   |               |
| Interest, net   | (41,825 )          | (45,519 )     | (127,437 )        | (142,525 )    |
| Unallocated corporate expenses                        | (59,779 )          | (50,194 )     | (161,841 )        | (145,216 )    |
| Restructuring charges and asset impairments           | (4,526 )           | (34,909 )     | (22,666 )         | (53,940 )     |
| Other income (expense)                                | 15,919             | —             | (45,738 )         | (25,121 )     |
| Income from continuing operations before income taxes | \$141,537          | \$87,600      | \$334,516         | \$278,298     |

## 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. Interest is recognized on loan receivables using the effective interest method and related annual fees are initially deferred and recognized ratably over the annual period covered. Customer acquisition costs are expensed as incurred.

Finance receivables at September 30, 2014 and December 31, 2013 consisted of the following:

|  | September 30, 2014 |               |              |
|--|--------------------|---------------|--------------|
|  | North<br>America   | International | Total        |
| Sales-type lease receivables                   |                    |               |              |
| Gross finance receivables                      | \$ 1,291,312       | \$ 385,037    | \$ 1,676,349 |
| Unguaranteed residual values                   | 106,940            | 19,324        | 126,264      |
| Unearned income                                | (272,035 )         | (87,954 )     | (359,989 )   |
| Allowance for credit losses                    | (12,906 )          | (5,486 )      | (18,392 )    |
| Net investment in sales-type lease receivables | 1,113,311          | 310,921       | 1,424,232    |
| Loan receivables                               |                    |               |              |
| Loan receivables                               | 385,919            | 51,525        | 437,444      |
| Allowance for credit losses                    | (10,944 )          | (1,901 )      | (12,845 )    |
| Net investment in loan receivables             | 374,975            | 49,624        | 424,599      |
| Net investment in finance receivables          | \$ 1,488,286       | \$ 360,545    | \$ 1,848,831 |
|  |                    |               |              |
|  | 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 |

Finance receivables with a net investment of \$62 million were included in the sale of DIS in April 2014.

## 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

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## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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.

Activity in the allowance for credit losses for the nine months ended September 30, 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    | 3,232                        | 35            | 7,759            | 1,366         | 12,392   |
| Write-offs and other          | (4,491)                      | (4,252)       | (7,980)          | (1,381)       | (18,104) |
| Balance at September 30, 2014 | \$12,906                     | \$5,486       | \$10,944         | \$1,901       | \$31,237 |

|                               | 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    | 4,617                        | 2,031         | 7,265            | 793           | 14,706   |
| Write-offs and other          | (6,270)                      | (2,870)       | (8,089)          | (1,075)       | (18,304) |
| Balance at September 30, 2013 | \$15,326                     | \$7,823       | \$11,498         | \$1,849       | \$36,496 |

## Aging of Receivables

The aging of gross finance receivables at September 30, 2014 and December 31, 2013 was as follows:

|                            | September 30, 2014           |               | September 30, 2014 |               | Total       |
|----------------------------|------------------------------|---------------|--------------------|---------------|-------------|
|                            | Sales-type Lease Receivables |               | Loan Receivables   |               |             |
|                            | North America                | International | North America      | International |             |
| 1 - 30 days                | \$1,226,023                  | \$362,131     | \$369,148          | \$49,688      | \$2,006,990 |
| 31 - 60 days               | 25,851                       | 6,045         | 9,079              | 1,077         | 42,052      |
| 61 - 90 days               | 16,857                       | 4,866         | 3,410              | 425           | 25,558      |
| > 90 days                  | 22,581                       | 11,995        | 4,282              | 335           | 39,193      |
| Total                      | \$1,291,312                  | \$385,037     | \$385,919          | \$51,525      | \$2,113,793 |
| Past due amounts > 90 days |                              |               |                    |               |             |
| Still accruing interest    | \$5,541                      | \$3,501       | \$—                | \$—           | \$9,042     |
| Not accruing interest      | 17,040                       | 8,494         | 4,282              | 335           | 30,151      |
| Total                      | \$22,581                     | \$11,995      | \$4,282            | \$335         | \$39,193    |

## 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 |               | Total       |
|                            | North America                | International | North America    | International |             |
| 1 - 30 days                | \$1,383,253                  | \$425,923     | \$379,502        | \$42,573      |             |
| 31 - 60 days               | 32,102                       | 11,760        | 10,464           | 4,391         | 58,717      |
| 61 - 90 days               | 20,830                       | 5,724         | 3,330            | 1,363         | 31,247      |
| > 90 days                  | 20,235                       | 13,352        | 4,519            | 727           | 38,833      |
| 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 portfolio 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 September 30, 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)

|                              | September 30,<br>2014 | December 31,<br>2013 |
|------------------------------|-----------------------|----------------------|
| Sales-type lease receivables |                       |                      |
| Low                          | \$976,711             | \$1,081,853          |
| Medium                       | 212,695               | 244,379              |
| High                         | 45,206                | 51,851               |
| Not Scored                   | 56,700                | 78,337               |
| Total                        | \$1,291,312           | \$1,456,420          |
| Loan receivables             |                       |                      |
| Low                          | \$267,394             | \$279,607            |
| Medium                       | 92,497                | 95,524               |
| High                         | 11,565                | 11,511               |
| Not Scored                   | 14,463                | 11,173               |
| Total                        | \$385,919             | \$397,815            |

## Leveraged Leases

Our investment in leveraged lease assets at September 30, 2014 and December 31, 2013 consisted of the following:

|  | September 30,<br>2014 | December 31,<br>2013 |
|--|-----------------------|----------------------|
| Rental receivables                               | \$50,544              | \$61,721             |
| Unguaranteed residual values                     | 12,561                | 13,235               |
| Principal and interest on non-recourse loans     | (27,658               | ) (35,449            |
| Unearned income                                  | (2,982                | ) (5,097             |
| Investment in leveraged leases                   | 32,465                | 34,410               |
| Less: deferred taxes related to leveraged leases | (12,621               | ) (15,078            |
| Net investment in leveraged leases               | \$19,844              | \$19,332             |

## 4. Inventories

Inventories consisted of the following:

|                                    | September 30,<br>2014 | December 31,<br>2013 |
|------------------------------------|-----------------------|----------------------|
| Raw materials and work in process  | \$41,338              | \$33,920             |
| Supplies and service parts         | 37,472                | 48,165               |
| Finished products                  | 31,037                | 38,515               |
| Inventory at FIFO cost             | 109,847               | 120,600              |
| Excess of FIFO cost over LIFO cost | (14,968               | ) (17,020            |
| Total inventory, net               | \$94,879              | \$103,580            |

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

## 5. Discontinued Operations and Assets Held For Sale

## 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 sold in April 2014. The following tables show selected financial information for discontinued operations:

## Three Months Ended September 30, 2014

|                                     | PBMS     | IMS | Nordic<br>furniture<br>business | DIS      | Total      |
|-------------------------------------|----------|-----|---------------------------------|----------|------------|
| Revenue                             | \$—      | \$— | \$—                             | \$—      | \$—        |
| Loss from operations before taxes   | \$(858 ) | \$— | \$—                             | \$(297 ) | \$(1,155 ) |
| Gain (loss) on sale                 | 2,971    | —   | —                               | (19 )    | 2,952      |
| Income (loss) before taxes          | 2,113    | —   | —                               | (316 )   | 1,797      |
| Tax (benefit) provision             | (5,149 ) | —   | —                               | 85       | (5,064 )   |
| Net income (loss)                   | \$7,262  | \$— | \$—                             | \$(401 ) | \$6,861    |
| Capital Services, net of tax        |          |     |                                 |          | 13,794     |
| Income from discontinued operations |          |     |                                 |          | \$20,655   |

## Three Months Ended September 30, 2013

|  | PBMS        | IMS        | Nordic<br>furniture<br>business | DIS      | Total       |
|--|-------------|------------|---------------------------------|----------|-------------|
| Revenue                                    | \$194,511   | \$4        | \$12,014                        | \$18,297 | \$224,826   |
| (Loss) income from operations before taxes | \$(14,438 ) | \$(1,072 ) | \$(4,381 )                      | \$5,041  | \$(14,850 ) |
| Gain on sale                               | 13,269      | 1,196      | 4,465                           | —        | 18,930      |
| (Loss) income before taxes                 | (1,169 )    | 124        | 84                              | 5,041    | 4,080       |
| Tax provision (benefit)                    | 81,084      | 168        | (9 )                            | 1,338    | 82,581      |
| (Loss) income from discontinued operations | \$(82,253 ) | \$(44 )    | \$93                            | \$3,703  | \$(78,501 ) |

## Nine Months Ended September 30, 2014

|  | PBMS     | IMS     | Nordic<br>furniture<br>business | DIS      | Total    |
|--|----------|---------|---------------------------------|----------|----------|
| Revenue                                    | \$—      | \$—     | \$—                             | \$19,858 | \$19,858 |
| (Loss) income from operations before taxes | \$(524 ) | \$308   | \$345                           | \$3,132  | \$3,261  |
| Gain on sale                               | 3,101    | 1,994   | —                               | 25,179   | 30,274   |
| Income before taxes                        | 2,577    | 2,302   | 345                             | 28,311   | 33,535   |
| Tax (benefit) provision                    | (4,953 ) | 851     | 97                              | 21,161   | 17,156   |
| Net income                                 | \$7,530  | \$1,451 | \$248                           | \$7,150  | \$16,379 |
| Capital Services, net of tax               |          |         |                                 |          | 13,794   |
| Income from discontinued operations        |          |         |                                 |          | \$30,173 |

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

|  | Nine Months Ended September 30, 2013 |           |                                 |          |             |
|--|--------------------------------------|-----------|---------------------------------|----------|-------------|
|  | PBMS                                 | IMS       | Nordic<br>furniture<br>business | DIS      | Total       |
| Revenue                                    | \$639,237                            | \$23,036  | \$37,785                        | \$57,702 | \$757,760   |
| (Loss) income before taxes                 | \$(116,018)                          | \$(3,050) | \$(4,859)                       | \$13,129 | \$(110,798) |
| Gain (loss) on sale                        | 13,269                               | (2,717)   | 4,465                           | —        | 15,017      |
| (Loss) income before taxes                 | (102,749)                            | (5,767)   | (394)                           | 13,129   | (95,781)    |
| Tax provision (benefit)                    | 61,679                               | (1,076)   | (144)                           | 3,485    | 63,944      |
| (Loss) income from discontinued operations | \$(164,428)                          | \$(4,691) | \$(250)                         | \$9,644  | \$(159,725) |

During the quarter, we recognized tax benefits of \$14 million related to tax planning initiatives associated with our Capital Services business sold in 2006.

The loss before income taxes for the nine months ended September 30, 2013 for PBMS includes goodwill impairment charges of \$100 million and asset impairment charges of \$15 million. The inputs used to determine the fair value of the long-lived assets and goodwill were classified as Level 3 in the fair value hierarchy.

**Assets Held for Sale**

Assets held for sale at September 30, 2014 and December 31, 2013 include the carrying value of our corporate headquarters building and surrounding land, which we expect to sell by the end of the year. Assets held for sale at September 30, 2014 also includes the value of a lease portfolio.

**6. Intangible Assets and Goodwill****Intangible Assets**

Intangible assets consisted of the following:

|                          | September 30, 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   | \$342,136                   | \$(260,478)                 | \$81,658                  | \$354,373                   | \$(251,388)                 | \$102,985                 |
| Supplier relationships   | 29,000                      | (27,188)                    | 1,812                     | 29,000                      | (25,013)                    | 3,987                     |
| Software & technology    | 164,557                     | (156,920)                   | 7,637                     | 167,009                     | (155,009)                   | 12,000                    |
| Trademarks & trade names | 33,523                      | (32,839)                    | 684                       | 35,366                      | (33,985)                    | 1,381                     |
| Non-compete agreements   | 7,216                       | (7,210)                     | 6                         | 7,407                       | (7,373)                     | 34                        |
| Total intangible assets  | \$576,432                   | \$(484,635)                 | \$91,797                  | \$593,155                   | \$(472,768)                 | \$120,387                 |

Amortization expense for intangible assets was \$9 million and \$8 million for the three months ended September 30, 2014 and 2013, respectively, and \$26 million for each of the nine months ended September 30, 2014 and 2013.



## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Future amortization expense for intangible assets as of September 30, 2014 was as follows:

|   |          |
|---|----------|
| Remaining for year ending December 31, 2014 | \$8,219  |
| Year ending December 31, 2015               | 29,357   |
| Year ending December 31, 2016               | 22,278   |
| Year ending December 31, 2017               | 11,134   |
| Year ending December 31, 2018               | 8,494    |
| Thereafter                                  | 12,315   |
| Total                                       | \$91,797 |

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 during the first quarter of 2014. 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 nine months ended September 30, 2014 were as follows:

|                                   | Gross value<br>before<br>accumulated<br>impairment<br>(1) | Accumulated<br>impairment | December 31,<br>2013 | Other (2)   | September 30,<br>2014 |
|-----------------------------------|---|---------------------------|----------------------|-------------|-----------------------|
| North America Mailing             | \$ 326,665  | \$ —                      | \$ 326,665           | \$(11,737 ) | \$ 314,928            |
| International Mailing             | 182,261   | —                         | 182,261              | (11,136 )   | 171,125               |
| Small & Medium Business Solutions | 508,926   | —                         | 508,926              | (22,873 )   | 486,053               |
| Production Mail                   | 118,060   | —                         | 118,060              | (4,430 )    | 113,630               |
| Presort Services                  | 195,140   | —                         | 195,140              | —           | 195,140               |
| Enterprise Business Solutions     | 313,200   | —                         | 313,200              | (4,430 )    | 308,770               |
| Digital Commerce Solutions        | 903,392   | —                         | 903,392              | (3,228 )    | 900,164               |
| Discontinued operations           | 9,353   | —                         | 9,353                | (9,353 )    | —                     |
| Balance at September 30, 2014     | \$ 1,734,871  | \$ —                      | \$ 1,734,871         | \$(39,884 ) | \$ 1,694,987          |

(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 and the sale of DIS.

## 7. Fair Value Measurements and Derivative Instruments

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

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

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

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

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## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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 September 30, 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 its placement within the fair value hierarchy.

|   | September 30, 2014 |           |         | Total       |
|---|--------------------|-----------|---------|-------------|
|   | Level 1            | Level 2   | Level 3 |             |
| Assets:   |                    |           |         |             |
| Investment securities   |                    |           |         |             |
| Money market funds / commercial paper                                       | \$238,103          | \$220,814 | \$—     | \$458,917   |
| Equity securities   | —                  | 26,419    | —       | 26,419      |
| Commingled fixed income securities  | —                  | 23,853    | —       | 23,853      |
| Debt securities - U.S. and foreign governments, agencies and municipalities | 112,511            | 21,781    | —       | 134,292     |
| Debt securities - corporate   | —                  | 65,813    | —       | 65,813      |
| Mortgage-backed / asset-backed securities                                   | —                  | 150,974   | —       | 150,974     |
| Derivatives   |                    |           |         |             |
| Foreign exchange contracts  | —                  | 3,090     | —       | 3,090       |
| Total assets  | \$350,614          | \$512,744 | \$—     | \$863,358   |
| Liabilities:  |                    |           |         |             |
| Derivatives   |                    |           |         |             |
| Foreign exchange contracts  | \$—                | \$(377)   | ) \$—   | \$(377)     |
| Total liabilities   | \$—                | \$(377)   | ) \$—   | \$(377)     |
|   | December 31, 2013  |           |         |             |
|   | Level 1            | Level 2   | Level 3 | Total       |
| 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)   |



PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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.

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).

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Available-for-sale securities at September 30, 2014 and December 31, 2013 consisted of the following:

|   | September 30, 2014 |                        |                         |                      |
|---|--------------------|------------------------|-------------------------|----------------------|
|   | Amortized cost     | Gross unrealized gains | Gross unrealized losses | Estimated fair value |
| Debt securities - U.S. and foreign governments, agencies and municipalities | \$133,573          | \$1,813                | \$(1,094)               | \$134,292            |
| Debt securities - corporate   | 64,761             | 1,354                  | (302)                   | 65,813               |
| Mortgage-backed / asset-backed securities                                   | 150,363            | 1,942                  | (1,331)                 | 150,974              |
| Total   | \$348,697          | \$5,109                | \$(2,727)               | \$351,079            |
|   | December 31, 2013  |                        |                         |                      |
|   | Amortized cost     | Gross unrealized gains | Gross unrealized losses | Estimated 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            |

Investment securities that were in a loss position for 12 or more continuous months at September 30, 2014 had aggregate unrealized holding losses of \$2 million and an estimated fair value of \$48 million. Investment securities that were in a loss position for less than 12 continuous months at September 30, 2014 had aggregate unrealized holding losses of \$1 million and an estimated fair value of \$85 million.

Investment securities that were in a loss position for 12 or more continuous months at December 31, 2013 had aggregate unrealized holding losses of \$1 million and an estimated fair value of \$19 million. Investment securities that were in a loss position for less than 12 continuous months at December 31, 2013 had aggregate unrealized holding losses of \$6 million and an estimated fair value of \$182 million.

We have not recognized an other-than-temporary impairment on any of the investment securities in an unrealized loss position because we do not intend to sell these securities, it is more likely than not that we will not be required to sell these securities before recovery of the unrealized losses and we expect to receive the contractual principal and interest on these investment securities.

Scheduled maturities of available-for-sale securities at September 30, 2014 were as follows:

|                                | Amortized cost | Estimated fair value |
|--------------------------------|----------------|----------------------|
| Within 1 year                  | \$41,708       | \$41,807             |
| After 1 year through 5 years   | 72,219         | 72,921               |
| After 5 years through 10 years | 78,486         | 78,919               |
| After 10 years                 | 156,284        | 157,432              |
| Total                          | \$348,697      | \$351,079            |

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

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## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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.

The valuation of foreign exchange derivatives is based on the market approach using observable market inputs, such as forward rates. 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 September 30, 2014 and December 31, 2013 was as follows:

| Designation of Derivatives                        | Balance Sheet Location                    | September 30,<br>2014 | December 31,<br>2013 |
|---|---|-----------------------|----------------------|
| Derivatives designated as hedging instruments     | Other current assets and prepayments:     |                       |                      |
|   | Foreign exchange contracts                | \$ 871                | \$ 546               |
|   | Accounts payable and accrued liabilities: |                       |                      |
|   | Foreign exchange contracts                | —                     | (526 )               |
| Derivatives not designated as hedging instruments | Other current assets and prepayments:     |                       |                      |
|   | Foreign exchange contracts                | 2,219                 | 812                  |
|   | Accounts payable and accrued liabilities: |                       |                      |
|   | Foreign exchange contracts                | (377 )                | (2,483 )             |
|   | Total derivative assets                   | \$3,090               | \$1,358              |
|   | Total derivative liabilities              | (377 )                | (3,009 )             |
|   | Total net derivative liabilities          | \$2,713               | \$(1,651 )           |

## 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 2014. The following represents the results of fair value hedging relationships for the three and nine months ended September 30, 2013:

| Derivative Instrument | Location of Gain<br>(Loss) | Derivative Gain (Loss)<br>Recognized in Earnings |   | Hedged Item Expense<br>Recognized in Earnings  |   |
|-----------------------|----------------------------|--|---|--|---|
|                       |                            | Three Months<br>Ended<br>September 30,<br>2013   | Nine Months<br>Ended<br>September 30,<br>2013 | Three Months<br>Ended<br>September 30,<br>2013 | Nine Months<br>Ended<br>September 30,<br>2013 |
| Interest rate swaps   | Interest expense           | \$863  | \$3,631                                       | \$(2,742 )                                     | \$(10,969 )                                   |

## 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 September 30, 2014 and December 31, 2013, we had outstanding contracts associated with these anticipated transactions with a notional amount of \$21 million and \$26 million, respectively. All outstanding contracts at

September 30, 2014 mature within 12 months.

The amounts included in AOCI at September 30, 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.

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## 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 and nine months ended September 30, 2014 and 2013:

| Derivative Instrument      | Three Months Ended September 30,                                    |         | 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 | \$959   | \$(343) | Revenue  | \$429  | \$(169) |
|                            |   |         | Cost of sales                                  | (42)   | 108     |
|                            |   |         |  | \$387  | \$(61)  |
|                            |   |         |  |  |         |
| Derivative Instrument      | Nine Months Ended September 30,                                     |         | 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 | \$1,465   | \$457   | Revenue  | \$1,009  | \$(922) |
|                            |   |         | Cost of sales                                  | (394)  | 520     |
|                            |   |         |  | \$615  | \$(402) |

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 September 30, 2014 mature by the end of the year.

The following represents the results of our non-designated derivative instruments for the three and nine months ended September 30, 2014 and 2013:

| Derivatives Instrument     | Location of Derivative<br>Gain (Loss)       | Derivative Gain (Loss) Recognized in Earnings |           |                                    |            |
|----------------------------|---|---|-----------|------------------------------------|------------|
|                            |   | Three Months Ended<br>September 30,           |           | Nine Months Ended<br>September 30, |            |
|                            |   | 2014  | 2013      | 2014                               | 2013       |
| Foreign exchange contracts | Selling, general and administrative expense | \$3,131                                       | \$(6,798) | \$(173)                            | \$(12,793) |

## 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 September 30, 2014, we were not required to post any collateral and the maximum amount of collateral that we would have been required to post had the credit-risk-related contingent features been triggered was not significant.

## Fair Value of Financial Instruments

Our financial instruments include cash and cash equivalents, investment securities, accounts receivable, loan receivables, derivative instruments, accounts payable and debt. The carrying value for cash and cash equivalents, accounts receivable, loans receivable, and accounts payable approximate fair value because of the short maturity of these instruments. The fair value of our debt is estimated based on recently executed transactions and market price



quotations. These inputs are classified as Level 2 in the fair value hierarchy. The carrying value and estimated fair value of our debt at September 30, 2014 and December 31, 2013 was as follows:

|                | September 30,<br>2014 | December 31,<br>2013 |
|----------------|-----------------------|----------------------|
| Carrying value | \$3,237,876           | \$3,346,295          |
| Fair value     | \$3,435,197           | \$3,539,022          |

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

## 8. Restructuring Charges and Asset Impairments

Activity in our restructuring reserves for the nine months ended September 30, 2014 and 2013 was as follows:

|                               | Severance<br>and benefits<br>costs | Pension and<br>retiree<br>medical | Other exit<br>costs | Asset<br>impairments | Total     |
|-------------------------------|------------------------------------|-----------------------------------|---------------------|----------------------|-----------|
| Balance at January 1, 2014    | \$58,558                           | \$—                               | 8,014               | \$—                  | \$66,572  |
| Expenses, net <sup>(1)</sup>  | 14,083                             | 2,180                             | 4,435               | 874                  | 21,572    |
| Cash payments                 | (35,984 )                          | —                                 | (6,167 )            | —                    | (42,151 ) |
| Non-cash charges              | —                                  | (2,180 )                          | —                   | (874 )               | (3,054 )  |
| Balance at September 30, 2014 | \$36,657                           | \$—                               | \$6,282             | \$—                  | \$42,939  |

|                               | Severance<br>and benefits<br>costs | Pension and<br>retiree<br>medical | Other exit<br>costs | Asset<br>impairments | Total     |
|-------------------------------|------------------------------------|-----------------------------------|---------------------|----------------------|-----------|
| Balance at January 1, 2013    | \$62,540                           | \$—                               | 5,218               | \$—                  | \$67,758  |
| Expenses, net <sup>(1)</sup>  | 25,705                             | 1,964                             | 1,528               | 26,574               | 55,771    |
| Cash payments                 | (38,125 )                          | —                                 | (3,228 )            | —                    | (41,353 ) |
| Non-cash charges              | —                                  | (1,964 )                          | —                   | (26,574 )            | (28,538 ) |
| Balance at September 30, 2013 | \$50,120                           | \$—                               | \$3,518             | \$—                  | \$53,638  |

(1) Includes net restructuring charges for both continuing and discontinued operations.

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

Restructuring charges and asset impairments for the three and nine months ended September 30, 2013 included a non-cash impairment charge of \$26 million to write-down the carrying value of our corporate headquarters building and certain surrounding parcels of land to their estimated fair value. During the third quarter of 2013, we entered into an agreement to sell the building and land and the estimated fair value was determined based on the selling price less the costs to sell. These inputs were classified as Level 3.

## 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:

|                       | September 30,<br>2014 | December 31,<br>2013 |
|-----------------------|-----------------------|----------------------|
| Term loans            | \$ 130,000            | \$ 230,000           |
| 5.00% 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                 | 26,933                | 35,502               |
| Total long-term debt  | 3,237,876             | 3,346,295            |
| Current portion       | 274,879               | —                    |
| Long-term debt        | \$ 2,962,997          | \$ 3,346,295         |

In the first quarter of 2014, 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.

Also in the first quarter of 2014, 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 and were used to fund the Tender Offer.

During the second quarter of 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.

## 10. 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)

## 11. 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 April 30, 2016. Commencing October 30, 2016, the Preferred Stock is redeemable, in whole or in part, at the option of PBIH. If the Preferred Stock is not redeemed in whole on October 30, 2016, the dividend rate increases 50% and will increase 50% every six months thereafter. No dividends were in arrears at September 30, 2014.

## 12. Stockholders' Equity

Changes in stockholders' equity for the nine months ended September 30, 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>comprehensiv<br>loss | Treasury<br>stock | Total<br>equity |
|--|--------------------|---------------------|-----------------|----------------------------------|----------------------|--|-------------------|-----------------|
| Balance at January 1, 2014                                 | \$4                | \$ 591              | \$323,338       | \$ 196,977                       | \$4,715,564          | \$ (574,556 )                                | \$(4,456,742)     | \$205,176       |
| Net income   | —                  | —                   | —               | —                                | 271,227              | —  | —                 | 271,227         |
| Other comprehensive loss                                   | —                  | —                   | —               | —                                | —                    | (40,185 )                                    | —                 | (40,185 )       |
| Cash dividends   |                    |                     |                 |                                  |                      |  |                   |                 |
| Common   | —                  | —                   | —               | —                                | (113,883 )           | —  | —                 | (113,883 )      |
| Preference   | —                  | —                   | —               | —                                | (33 )                | —  | —                 | (33 )           |
| Issuance of common stock                                   | —                  | —                   | —               | (26,591 )                        | —                    | —  | 27,500            | 909             |
| Conversion to common stock                                 | (3 )               | (32 )               | —               | (741 )                           | —                    | —  | 776               | —               |
| Stock-based compensation expense                           | —                  | —                   | —               | 12,658                           | —                    | —  | —                 | 12,658          |
| Purchase of subsidiary shares from noncontrolling interest | —                  | —                   | —               | (7,520 )                         | —                    | —  | —                 | (7,520 )        |
| Repurchase of common stock                                 | —                  | —                   | —               | —                                | —                    | —  | (50,003 )         | (50,003 )       |
| Balance at September 30, 2014                              | \$ 1               | \$ 559              | \$323,338       | \$ 174,783                       | \$4,872,875          | \$ (614,741 )                                | \$(4,478,469)     | \$278,346       |

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|  |      |        |            |            |              |               |                 |            |
|--|------|--------|------------|------------|--------------|---------------|-----------------|------------|
| Balance at January 1, 2013                 | \$ 4 | \$ 648 | \$ 323,338 | \$ 223,847 | \$ 4,744,802 | \$ (681,213 ) | \$ (4,500,795 ) | \$ 110,631 |
| Retained earnings adjustment (see Note 15) | —    | —      | —          | —          | 16,773       | —             | —               | 16,773     |
| Adjusted balance at January 1, 2013        | 4    | 648    | 323,338    | 223,847    | 4,761,575    | (681,213 )    | (4,500,795 )    | 127,404    |
| Net income                                 | —    | —      | —          | —          | 52,746       | —             | —               | 52,746     |
| Other comprehensive loss                   | —    | —      | —          | —          | —            | (15,380 )     | —               | (15,380 )  |
| Cash dividends                             |      |        |            |            |              |               |                 |            |
| Common                                     | —    | —      | —          | —          | (150,920 )   | —             | —               | (150,920 ) |
| Preference                                 | —    | —      | —          | —          | (35 )        | —             | —               | (35 )      |
| Issuance of common stock                   | —    | —      | —          | (33,412 )  | —            | —             | 35,546          | 2,134      |
| Conversion to common stock                 | —    | (40 )  | —          | (853 )     | —            | —             | 893             | —          |
| Stock-based compensation expense           | —    | —      | —          | 12,061     | —            | —             | —               | 12,061     |
| Balance at September 30, 2013              | \$ 4 | \$ 608 | \$ 323,338 | \$ 201,643 | \$ 4,663,366 | \$ (696,593 ) | \$ (4,464,356 ) | \$ 28,010  |

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

## 13. Accumulated Other Comprehensive Loss

Reclassifications out of accumulated other comprehensive loss for the three and nine months ended September 30, 2014 and 2013 were as follows:

|   | Amount Reclassified from AOCI (a)           |           |  |            |
|---|---|-----------|--|------------|
|   | Three Months Ended<br>September 30,<br>2014 |           | Nine Months Ended<br>September 30,<br>2014 |            |
|   |   | 2013      | 2014                                       | 2013       |
| Gains (losses) on cash flow hedges              |   |           |  |            |
| Revenue   | \$429                                       | \$(169)   | \$1,009                                    | \$(922)    |
| Cost of sales                                   | (42)  | 108       | (394)                                      | 520        |
| Interest expense                                | (507)                                       | (507)     | (1,521)                                    | (1,521)    |
| Total before tax                                | (120)                                       | (568)     | (906)                                      | (1,923)    |
| Tax benefit                                     | (47)  | (222)     | (350)                                      | (750)      |
| Net of tax                                      | \$(73)                                      | \$(346)   | \$(556)                                    | \$(1,173)  |
| Gains (losses) on available for sale securities |   |           |  |            |
| Interest income                                 | \$(249)                                     | \$1,640   | \$(1,101)                                  | \$(962)    |
| Tax (benefit) provision                         | (92)  | 607       | (406)                                      | (356)      |
| Net of tax                                      | \$(157)                                     | \$1,033   | \$(695)                                    | \$(606)    |
| Pension and Postretirement Benefit Plans (b)    |   |           |  |            |
| Transition credit                               | \$3   | \$2       | \$8  | \$6        |
| Prior service costs                             | (27)  | (163)     | (81)                                       | (524)      |
| Actuarial losses                                | (10,025)                                    | (12,136)  | (29,652)                                   | (44,038)   |
| Total before tax                                | (10,049)                                    | (12,297)  | (29,725)                                   | (44,556)   |
| Tax benefit                                     | (3,355)                                     | (4,347)   | (10,609)                                   | (15,613)   |
| Net of tax                                      | \$(6,694)                                   | \$(7,950) | \$(19,116)                                 | \$(28,943) |

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

(b) These items are included in the computation of net periodic costs of defined benefit pension plans and nonpension postretirement benefit plans (see Note 14 for additional details).

Changes in accumulated other comprehensive loss for the nine months ended September 30, 2014 and 2013 were as follows:

|  | Gains<br>(losses) on<br>cash flow<br>hedges | Gains<br>(losses) on<br>available for<br>sale<br>securities | Pension and<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) before reclassifications (a)                 | 892   | 2,567   | —  | (60,227)                     | (56,768)    |
| Amounts reclassified from accumulated other comprehensive income (a), (b), (c) | 556   | 695   | 19,116   | (3,784)                      | 16,583      |
| Net current period other comprehensive income (loss)                           | 1,448                                       | 3,262   | 19,116   | (64,011)                     | (40,185)    |

Balance at September 30, 2014                      \$(4,932    ) \$1,493                      \$(582,305    ) \$(28,997    ) \$(614,741    )



## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

|  | Gains<br>(losses) on<br>cash flow<br>hedges | Gains<br>(losses) on<br>available for<br>sale<br>securities | Pension and<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) before reclassifications (a)                 | (211 )                                      | (5,273 )  | —  | (36,805 )                    | (42,289 )     |
| Amounts reclassified from accumulated other comprehensive income (a), (b), (c) | 1,173                                       | 606   | 28,943   | (3,813 )                     | 26,909        |
| Net current period other comprehensive income (loss)                           | 962   | (4,667 )  | 28,943   | (40,618 )                    | (15,380 )     |
| Balance at September 30, 2013  | \$ (6,815 )                                 | \$ (154 )   | \$ (730,256 )                                  | \$ 40,632                    | \$ (696,593 ) |

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

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

(c) Foreign currency item represents the recognition of deferred translation upon the sale of businesses.

## 14. Pensions and Other Benefit Programs

The components of net periodic benefit costs were as follows:

|   | Three Months Ended September 30, |           |          |          | Nonpension Postretirement Benefit Plans |          |
|---|----------------------------------|-----------|----------|----------|---|----------|
|   | Defined Benefit Pension Plans    |           |          |          |   |          |
|   | United States                    |           | Foreign  |          | 2014                                    | 2013     |
|   | 2014                             | 2013      | 2014     | 2013     |   |          |
| Service cost                                | \$ 1,241                         | \$ 3,597  | \$ 898   | \$ 968   | \$ 632                                  | \$ 935   |
| Interest cost                               | 19,415                           | 18,264    | 7,219    | 1,870    | 2,509                                   | 2,186    |
| Expected return on plan assets              | (25,956 )                        | (26,781 ) | (9,914 ) | (3,266 ) | —                                       | —        |
| Amortization of transition credit           | —                                | —         | (3 )     | (2 )     | —                                       | —        |
| Amortization of prior service cost (credit) | 2                                | 95        | (15 )    | 28       | 40                                      | 40       |
| Amortization of net actuarial loss          | 6,470                            | 7,690     | 2,093    | 2,873    | 1,462                                   | 1,573    |
| Settlement                                  | —                                | 145       | —        | —        | —                                       | —        |
| Special termination benefits                | —                                | —         | —        | 104      | —                                       | —        |
| Net periodic benefit cost                   | \$ 1,172                         | \$ 3,010  | \$ 278   | \$ 2,575 | \$ 4,643                                | \$ 4,734 |

|                                   | Nine Months Ended September 30, |           |           |           | Nonpension Postretirement Benefit Plans |          |
|-----------------------------------|---------------------------------|-----------|-----------|-----------|---|----------|
|                                   | Defined Benefit Pension Plans   |           |           |           |   |          |
|                                   | United States                   |           | Foreign   |           | 2014                                    | 2013     |
|                                   | 2014                            | 2013      | 2014      | 2013      |   |          |
| Service cost                      | \$ 5,679                        | \$ 10,890 | \$ 2,719  | \$ 5,280  | \$ 2,057                                | \$ 2,966 |
| Interest cost                     | 58,247                          | 55,169    | 21,664    | 25,246    | 7,451                                   | 7,210    |
| Expected return on plan assets    | (77,868 )                       | (80,908 ) | (29,719 ) | (31,187 ) | —                                       | —        |
| Amortization of transition credit | —                               | —         | (8 )      | (6 )      | —                                       | —        |

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|   |         |          |       |          |          |          |
|---|---------|----------|-------|----------|----------|----------|
| Amortization of prior service cost (credit) | 6       | 318      | (45   | ) 84     | 120      | 122      |
| Amortization of net actuarial loss          | 18,894  | 26,234   | 6,272 | 11,511   | 4,486    | 6,293    |
| Settlement                                  | —       | 1,561    | —     | —        | —        | —        |
| Special termination benefits                | —       | 548      | —     | 104      | —        | —        |
| Curtailement                                | —       | 814      | —     | —        | —        | —        |
| Net periodic benefit cost                   | \$4,958 | \$14,626 | \$883 | \$11,032 | \$14,114 | \$16,591 |

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PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Through September 30, 2014, contributions to our U.S. and foreign pension plans were \$15 million and \$14 million, respectively. Contributions to our U.S. and foreign pension plans through September 30, 2013, were \$9 million and \$10 million, respectively. Nonpension postretirement benefit plan contributions were \$17 million and \$21 million for the nine months ended September 30, 2014 and 2013, respectively.

15. Income Taxes

The effective tax rate for the three months ended September 30, 2014 and 2013 was 17.9% and 11.5%, respectively, and the effective tax rate for the nine months ended September 30, 2014 and 2013 was 23.8% and 18.7%, respectively. The effective tax rate for the three and nine months ended September 30, 2014 includes a benefit of \$16 million and \$22 million, respectively, from the resolution of tax examinations. The effective tax rate for the nine months ended September 30, 2014 also includes an incremental tax benefit associated with the early extinguishment of debt. The effective tax rate for the three and nine months ended September 30, 2013 includes tax benefits of \$13 million from an affiliate reorganization and \$4 million and \$11 million, respectively, related to tax planning initiatives. The effective tax rate for the nine months ended September 30, 2013 also includes benefits of \$5 million from the adjustment of non-U.S. tax accounts from prior periods and \$4 million from the retroactive effect of 2013 U.S. tax legislation.

During 2014, we determined that certain pre-2009 tax deductions associated with software development expenditures had not been deducted on our tax returns, the expenditures could be claimed on our current year return and our deferred tax liability was overstated. We assessed the materiality of this item on previously issued financial statements and concluded that it was not material to any annual or interim period. However, due to the impact of this error on the current year consolidated financial statements, the accompanying unaudited Condensed Consolidated Balance Sheet has been revised for the earliest period presented to increase opening retained earnings by \$17 million (see Note 12) and decrease our tax liabilities.

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 Internal Revenue Service examinations of tax years prior to 2011 are closed to audit. Other than the pending application of legal principles to specific issues arising in earlier years, only post-2008 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 Historic Boardwalk Hall LLC (HBH), 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. In August 2014, we entered into an indemnity agreement with our partner in the HBH investment releasing our respective claims against each other and agreeing to divest our investment in the partnership. The impact of this indemnity is recorded in other (income) expense in the Condensed Consolidated Statements of Income. During the quarter, we paid \$54 million in tax payments representing a portion of the tax and interest due as a result of the Third Circuit decision. We received \$60 million from our partner in the fourth quarter of 2014. Additional tax payments will be due, which we have accrued in our financial statements.

## 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<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|--|-------------------------------------|-----------|------------------------------------|-----------|
|  | 2014                                | 2013      | 2014                               | 2013      |
| Numerator:   |                                     |           |                                    |           |
| Amounts attributable to common stockholders:   |                                     |           |                                    |           |
| Net income from continuing operations  | \$111,634                           | \$72,974  | \$241,054                          | \$212,471 |
| Income (loss) from discontinued operations   | 20,655                              | (78,501)  | 30,173                             | (159,725) |
| Net income (loss) - Pitney Bowes Inc. (numerator for diluted EPS)                            | 132,289                             | (5,527)   | 271,227                            | 52,746    |
| Less: Preference stock dividend  | 11                                  | 12        | 33                                 | 35        |
| Income (loss) attributable to common stockholders (numerator for basic EPS)                  | \$132,278                           | \$(5,539) | \$271,194                          | \$52,711  |
| Denominator (in thousands):  |                                     |           |                                    |           |
| Weighted-average shares used in basic EPS  | 202,057                             | 201,827   | 202,288                            | 201,490   |
| Effect of dilutive shares:   |                                     |           |                                    |           |
| Preferred stock  | 1                                   | 2         | 1                                  | 2         |
| Preference stock   | 342                                 | 376       | 346                                | 386       |
| Stock plans  | 1,569                               | 935       | 1,325                              | 712       |
| Weighted-average shares used in diluted EPS  | 203,969                             | 203,140   | 203,960                            | 202,590   |
| Basic earnings per share:  |                                     |           |                                    |           |
| Continuing operations  | \$0.55                              | \$0.36    | \$1.19                             | \$1.05    |
| Discontinued operations  | 0.10                                | (0.39)    | 0.15                               | (0.79)    |
| Net income (loss)  | \$0.65                              | \$(0.03)  | \$1.34                             | \$0.26    |
| Diluted earnings per share:  |                                     |           |                                    |           |
| Continuing operations  | \$0.55                              | \$0.36    | \$1.18                             | \$1.05    |
| Discontinued operations  | 0.10                                | (0.39)    | 0.15                               | (0.79)    |
| Net income (loss)  | \$0.65                              | \$(0.03)  | \$1.33                             | \$0.26    |
| Anti-dilutive shares not used in calculating diluted weighted-average shares (in thousands): | 6,009                               | 12,503    | 7,394                              | 12,886    |

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
- our ability to successfully implement a new Enterprise Resource Planning (ERP) system and fully realize the related savings and efficiencies
- timely development and acceptance of new products and services
- successful entry into new markets
- success in gaining product approval in new markets where regulatory approval is required
- changes in postal or banking regulations
- interrupted use of key information systems
- third party suppliers' ability to provide product components, assemblies or inventories, services and software
- 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
- access to capital at a reasonable cost to continue to fund various discretionary priorities, including business investments, acquisitions and dividend payments
- 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 in our Current Report on Form 8-K filed on September 15, 2014. All table amounts are shown in thousands of dollars, unless otherwise noted.

Overview

Third Quarter 2014 Results

For the third quarter of 2014, revenue increased 2% to \$942 million compared to \$920 million in the third quarter of 2013. Business services revenue increased 24% due to continued growth from our cross-border parcel delivery solutions and software revenue increased 14% due to growth in licensing revenue. Supplies revenue increased 6%

primarily due to favorable pricing in the mailing business and the growing base of installed production print equipment. Offsetting these increases was a 10% decrease in equipment sales due to a decline in mailing equipment sales and the impact of transitioning to an inside sales channel. Rentals and financing revenue decreased 5% and 3%, respectively, primarily due to a declining installed meter base and related finance receivable portfolio.

Income from continuing operations increased to \$116 million in the third quarter of 2014 compared to \$78 million in the third quarter of 2013 primarily due to lower restructuring charges and asset impairments, lower selling, general and administrative expenses and an increase in other income, partially offset by a higher effective tax rate. Earnings per diluted share from continuing operations were \$0.55 for the third quarter of 2014 and \$0.36 for the third quarter of 2013.

Results for the quarter include the impact of our decision to exit non-core product lines in Norway and transition certain mailing and production mail businesses to a dealer sales network in six smaller European markets. These operations were not individually, or in the aggregate, material to our consolidated results, and were not accounted for as discontinued operations.

#### 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 improvement, due in part to the implementation of the "go-to-market" strategy in North America and Europe. Our go-to-market strategy provides clients broader access to products, services and solutions through direct sales, distributors and inside sales channels, including web-based and phone sales. In addition, certain postal agencies have implemented discounts for postage meter users, which has enhanced the value proposition of meter usage and helped further stabilize recurring stream revenues.

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. Within our Presort Services segment, we expect increasing revenue due to workshare improvements and new sales opportunities.

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.

In our Digital Commerce Solutions segment, we anticipate growth to be driven by a continued increase in demand for our ecommerce cross-border parcel management solutions, driven in part by an expanded customer base, as well as our location intelligence and customer 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 up to \$0.10 per diluted share. Through September 30, 2014, we have incurred incremental expenses of \$14 million, or \$0.05 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.

## RESULTS OF OPERATIONS

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

|                   | Revenue                          |           |          |                                 |             |          |  |
|-------------------|----------------------------------|-----------|----------|---------------------------------|-------------|----------|--|
|                   | Three Months Ended September 30, |           |          | Nine Months Ended September 30, |             |          |  |
|                   | 2014                             | 2013      | % change | 2014                            | 2013        | % change |  |
| Equipment sales   | \$177,458                        | \$197,044 | (10 )%   | \$558,032                       | \$619,035   | (10 )%   |  |
| Supplies          | 72,548                           | 68,692    | 6 %      | 228,349                         | 213,185     | 7 %      |  |
| Software          | 112,271                          | 98,164    | 14 %     | 312,891                         | 285,658     | 10 %     |  |
| Rentals           | 119,047                          | 125,918   | (5 )%    | 365,069                         | 384,436     | (5 )%    |  |
| Financing         | 107,835                          | 111,032   | (3 )%    | 325,529                         | 337,739     | (4 )%    |  |
| Support services  | 154,321                          | 159,508   | (3 )%    | 470,763                         | 482,400     | (2 )%    |  |
| Business services | 198,164                          | 160,131   | 24 %     | 576,958                         | 458,061     | 26 %     |  |
| Total revenue     | \$941,644                        | \$920,489 | 2 %      | \$2,837,591                     | \$2,780,514 | 2 %      |  |

|                            | Cost of Revenue                  |           |                       |        |             |                                 |                       |        |  |  |
|----------------------------|----------------------------------|-----------|-----------------------|--------|-------------|---------------------------------|-----------------------|--------|--|--|
|                            | Three Months Ended September 30, |           |                       |        |             | Nine Months Ended September 30, |                       |        |  |  |
|                            |                                  |           | Percentage of Revenue |        |             |                                 | Percentage of Revenue |        |  |  |
|                            | 2014                             | 2013      | 2014                  | 2013   | 2014        | 2013                            | 2014                  | 2013   |  |  |
| Cost of equipment sales    | \$90,984                         | \$88,945  | 51.3 %                | 45.1 % | \$262,336   | \$295,567                       | 47.0 %                | 47.7 % |  |  |
| Cost of supplies           | 22,470                           | 21,444    | 31.0 %                | 31.2 % | 70,129      | 66,536                          | 30.7 %                | 31.2 % |  |  |
| Cost of software           | 29,775                           | 29,698    | 26.5 %                | 30.3 % | 93,423      | 80,093                          | 29.9 %                | 28.0 % |  |  |
| Cost of rentals            | 23,636                           | 24,434    | 19.9 %                | 19.4 % | 74,273      | 75,946                          | 20.3 %                | 19.8 % |  |  |
| Financing interest expense | 19,667                           | 19,468    | 18.2 %                | 17.5 % | 59,733      | 57,438                          | 18.3 %                | 17.0 % |  |  |
| Cost of support services   | 92,500                           | 98,425    | 59.9 %                | 61.7 % | 288,203     | 300,291                         | 61.2 %                | 62.2 % |  |  |
| Cost of business services  | 142,512                          | 112,447   | 71.9 %                | 70.2 % | 406,472     | 322,970                         | 70.5 %                | 70.5 % |  |  |
| Total cost of revenue      | \$421,544                        | \$394,861 | 44.8 %                | 42.9 % | \$1,254,569 | \$1,198,841                     | 44.2 %                | 43.1 % |  |  |

## Equipment sales

Equipment sales revenue decreased 10% in the quarter to \$177 million compared to the prior year period. Mailing equipment sales in North America declined 10% due to the timing of sales and the continuing transition to an inside sales organization and reassignment of accounts and resources. Mailing equipment sales internationally declined 13% primarily due to the exit of non-core product lines in Norway, the transition of certain smaller European businesses to a dealer network and lower sales in France. Also in the quarter, Production Mail equipment sales declined 7% primarily due to fewer installations of inserting and production print equipment in Asia-Pacific. Cost of equipment sales as a percentage of revenue increased to 51.3% compared to 45.1% in the prior year period primarily due to the sale of higher margin inserters in the prior year period.

Equipment sales revenue decreased 10% in the year-to-date period to \$558 million compared to the prior year period. This decrease was driven by a 19% decrease in sales of Production Mail equipment due to strong sales in 2013 of large inserting and production print equipment and a 6% decrease in mailing equipment sales due to the transition to an inside sales organization and reassignment of accounts and resources in North America, the exit of non-core product lines in Norway, the transition of certain smaller European businesses to a dealer network and lower sales in France. Cost of equipment sales as a percentage of revenue decreased to 47.0% compared to 47.7% in the prior year



period, primarily due to the decline in sales of production printers, which have a lower margin relative to other products.

#### Supplies

Supplies revenue increased 6% in the quarter to \$73 million and 7% in the year-to-date period to \$228 million, compared to the same periods in 2013. These increases were primarily due to targeted outreach to customers, favorable pricing and the growing base of production print equipment. Cost of supplies as a percentage of revenue for the quarter and year-to-date periods decreased to 31.0% and 30.7%,

respectively, compared to the prior year periods, primarily due to improved margins on supplies sales from favorable pricing and expense reductions resulting from the transition to an inside sales organization.

#### Software

Software revenue increased 14% in the quarter to \$112 million and 10% in the year-to-date period to \$313 million, compared to the same periods in 2013, primarily due to higher licensing revenue in North America and Europe. Cost of software as a percentage of revenue for the quarter decreased to 26.5% compared to 30.3% in the prior year quarter primarily due to the increase in revenue. For the year-to-date period, cost of software as a percentage of revenue increased to 29.9% compared to 28.0% in the prior year period, primarily due to investments in the specialization of the software sales channel and higher production costs.

#### Rentals

Rentals revenue decreased 5% in the quarter to \$119 million and 5% in the year-to-date period to \$365 million, compared to the same periods in 2013, primarily due to a decline in the number of installed meters in North America. Cost of rentals as a percentage of revenue for the quarter and year-to-date periods increased over the prior year periods primarily due to a higher proportion of fixed costs as a percentage of revenue.

#### Financing

Financing revenue decreased 3% in the quarter to \$108 million and 4% in the year-to-date period to \$326 million, compared to the same periods in 2013, primarily due to a declining finance receivable portfolio. Financing interest expense as a percentage of revenue for the quarter and year-to-date periods increased to 18.2% and 18.3%, respectively, compared to the prior year periods, 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 \$154 million and 2% in the year-to-date period to \$471 million, compared to the same periods in 2013. In North America Mailing, support services revenue declined 5% in the quarter and year-to-date periods, primarily due to a decline in equipment maintenance revenue resulting from fewer mailing machines in service. In International Mailing, support service revenue declined 12% in the quarter and 3% in the year-to-date period primarily due to the exit of non-core product lines in Norway, the transition of certain smaller European businesses to a dealer network and declines in France. Cost of support services as a percentage of revenue for the quarter and year-to-date periods decreased to 59.9% and 61.2%, respectively, compared to the prior year periods, primarily due to continued focus on expense reductions and productivity initiatives.

#### Business Services

Business services revenue increased 24% in the quarter to \$198 million and 26% in the year-to-date period to \$577 million, compared to the same periods in 2013. These increases were driven by volume growth in our cross-border parcel delivery solutions, higher revenue in our Presort Services operations due to improved qualification for postal rate discounts and higher revenue from marketing services due to new business development. Cost of business services as a percentage of revenue for the quarter increased to 71.9% and was flat at 70.5%, for the year-to-date period, compared to the prior year periods. The increase in the quarter was primarily due to an increase in infrastructure support costs and a reduction in certain ecommerce customer pricing.

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

SG&A expense decreased 3% in the quarter to \$342 million and 2% in the year-to-date period to \$1,031 million, compared to the same periods in 2013, primarily due to lower employee-related costs as a result of our focus on

operational excellence and the benefits of productivity initiatives. As a percentage of revenue, SG&A expense declined to 36.3% and 36.4% for the quarter and year-to-date periods, respectively, compared to 38.3% and 38.0% for the prior year quarter and year-to-date periods, respectively. .

#### Restructuring charges and asset impairments

In 2013, we initiated actions designed to enhance our responsiveness to changing market conditions, further streamline our business operations, reduce our cost structure and create long-term flexibility to invest in growth. We anticipated that these primarily cash related actions would result in restructuring charges in the range of \$75 to \$125 million, which would be recognized as specific initiatives were approved and implemented, and result in annualized pre-tax benefits of \$100 to \$125 million, net of investments. We expect to reach this benefit run rate by 2015. Through September 30, 2014, aggregate restructuring charges of \$96 million have been recorded under this initiative. See Note 8 to the unaudited Condensed Consolidated Financial Statements.

#### Other (income) expense, net

We recorded an indemnity of \$16 million in connection with the agreement related to our partnership in Historic Boardwalk Hall LLC (see Note 15 to the unaudited Condensed Consolidated Financial Statements for further details). Current year-to-date other expense of \$46 million also includes \$62 million associated with the early redemption of debt. Other expense of \$25 million for the prior year-to-date period 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 15 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 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 for the nine months ended September 30, 2014, and \$4 million and \$12 million for the three and nine months ended September 30, 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 5 to the unaudited Condensed Consolidated Financial Statements.

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

See Note 11 to the unaudited Condensed Consolidated Financial Statements.

#### Business segment results

In 2014, we reclassified our shipping solutions operations from the Small & Medium Business Solutions segment group to the Digital Commerce Solutions segment and classified the DIS business, originally included in the North America Mailing segment, as discontinued operations. The principal products and services of each of our reportable segments are as follows:

##### Small & Medium Business Solutions:

**North America Mailing:** Includes the revenue and related expenses from the sale, rental, financing and servicing of mailing equipment and supplies for small and medium sized 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, financing and servicing of mailing equipment and supplies for small and medium sized 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 production mail inserting and sortation equipment, high-speed production print systems, supplies and related support services to large enterprise clients to process inbound and outbound mail.

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

##### Digital Commerce Solutions:

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

clients.

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

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businesses. Segment EBIT may not be indicative of our overall consolidated performance and should be read in conjunction with our consolidated results of operations. See 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 September 30, |           |          | Nine Months Ended September 30, |             |          |
|                                   | 2014                             | 2013      | % change | 2014                            | 2013        | % change |
| North America Mailing             | \$363,285                        | \$381,685 | (5)%     | \$1,115,507                     | \$1,162,718 | (4)%     |
| International Mailing             | 132,291                          | 141,332   | (6)%     | 438,819                         | 444,665     | (1)%     |
| Small & Medium Business Solutions | 495,576                          | 523,017   | (5)%     | 1,554,326                       | 1,607,383   | (3)%     |
| Production Mail                   | 113,497                          | 116,477   | (3)%     | 330,469                         | 360,352     | (8)%     |
| Presort Services                  | 111,434                          | 105,093   | 6%       | 339,205                         | 322,954     | 5%       |
| Enterprise Business Solutions     | 224,931                          | 221,570   | 2%       | 669,674                         | 683,306     | (2)%     |
| Digital Commerce Solutions        | 221,137                          | 175,902   | 26%      | 613,591                         | 489,825     | 25%      |
| Total                             | \$941,644                        | \$920,489 | 2%       | \$2,837,591                     | \$2,780,514 | 2%       |
|                                   | EBIT                             |           |          |                                 |             |          |
|                                   | Three Months Ended September 30, |           |          | Nine Months Ended September 30, |             |          |
|                                   | 2014                             | 2013      | % change | 2014                            | 2013        | % change |
| North America Mailing             | \$159,638                        | \$158,692 | 1%       | \$476,757                       | \$464,668   | 3%       |
| International Mailing             | 16,079                           | 15,627    | 3%       | 67,347                          | 53,092      | 27%      |
| Small & Medium Business Solutions | 175,717                          | 174,319   | 1%       | 544,104                         | 517,760     | 5%       |
| Production Mail                   | 9,570                            | 10,620    | (10)%    | 27,865                          | 34,239      | (19)%    |
| Presort Services                  | 21,927                           | 20,398    | 7%       | 68,235                          | 65,132      | 5%       |
| Enterprise Business Solutions     | 31,497                           | 31,018    | 2%       | 96,100                          | 99,371      | (3)%     |
| Digital Commerce Solutions        | 24,534                           | 12,885    | 90%      | 51,994                          | 27,969      | 86%      |
| Total                             | \$231,748                        | \$218,222 | 6%       | \$692,198                       | \$645,100   | 7%       |

#### Small & Medium Business Solutions

Small & Medium Business Solutions revenue decreased 5% in the quarter to \$496 million and 3% in the year-to-date period to \$1,554 million, compared to the same periods in 2013. Segment EBIT in the quarter increased 1% to \$176 million and 5% in the year-to-date period to \$544 million, compared to the same periods in 2013. Foreign currency translation had a less than 1% impact on revenue and EBIT for the quarter and year-to-date periods.

#### North America Mailing

Revenue for the North America Mailing segment decreased 5% in the quarter to \$363 million and 4% in the year-to-date period to \$1,116 million, compared to the prior year periods. Equipment sales decreased 10% in the quarter and 7% in the year-to-date period due to the timing of sales and the continuing transition to an inside sales organization and reassignment of accounts and resources. Rentals revenue and support services revenue both declined 5% in the quarter and year-to-date periods due to the continuing decline in the number of installed meters in service, and financing revenue declined 3% in the quarter and 4% in the year-to-date period due to a declining finance receivable portfolio. These declines were partially offset by a 7% increase in supply sales in the quarter and year-to-date periods due to sales efficiencies and favorable pricing.

Despite the decline in revenue, EBIT increased 1% in the quarter to \$160 million and 3% in the year-to-date period to \$477 million, compared to the prior year periods, primarily due to cost savings from the transition to an inside sales organization and other ongoing cost reduction and cost control initiatives.

#### International Mailing

Revenue for the International Mailing segment decreased 6% in the quarter to \$132 million and 1% in the year-to-date period to \$439 million, compared to the prior year periods. Equipment sales declined 13% in the quarter and 4% in the year-to-date period and support services revenue declined 12% in the quarter and 3% in the year-to-date period, primarily due to the exit of non-core product lines in Norway, the transition of certain smaller European businesses to a dealer network and lower sales in France. Rentals revenue declined 2% in the quarter and 4% in the year-to-date period primarily due to declines in France. These declines were partially offset by an increase in supplies sales of 2% in the quarter and 3% in the year-to-date period due to the transition to an inside sales organization and targeted outreach to customers. Foreign currency translation had a 1% favorable impact on revenue in the quarter and 2% favorable impact on revenue for the year-to-date period.

Despite the decline in revenue, EBIT increased 3% in the quarter to \$16 million and 27% in the year-to-date period to \$67 million, compared to the prior year periods, primarily due to cost savings from the transition to an inside sales organization and other ongoing cost reduction and cost control initiatives. Foreign currency translation had a favorable impact on EBIT of 1% and 4% for the quarter and year-to-date period, respectively.

#### Enterprise Business Solutions

Enterprise Business Solutions revenue increased 2% in the quarter to \$225 million and decreased 2% in the year-to-date period to \$670 million, compared to the prior year periods, and EBIT increased 2% in the quarter to \$31 million and decreased 3% in the year-to-date period to \$96 million, compared to the prior year periods. Foreign currency translation had a less than 1% impact on revenue and EBIT for the quarter and year-to-date periods.

#### Production Mail

Revenue for the Production Mail segment decreased 3% in the quarter to \$113 million and 8% in the year-to-date period to \$330 million, compared to the prior year periods. The decrease in the quarter was primarily due to lower revenue in Asia-Pacific due to fewer installations of inserting and production print equipment. The year-to-date decrease was primarily driven by strong sales in the first half of 2013 of large inserting and production print equipment in North America. Slightly offsetting these decreases were higher supplies sales due to the growing base of production print equipment. EBIT decreased 10% in the quarter to \$10 million and 19% in the year-to-date period to \$28 million, compared to the prior year periods, primarily due to the decline in revenue and reduced margins due to product mix.

#### Presort Services

Revenue for the Presort Services segment increased 6% in the quarter to \$111 million and 5% in the year-to-date period to \$339 million, compared to the prior year periods, primarily due to improved qualification of First Class mail for postal rate discounts. EBIT increased 7% in the quarter to \$22 million and 5% in the year-to-date period to \$68 million, compared to the prior year periods primarily due to the increase in revenue and improved operational productivity. EBIT for the year-to-date period includes costs of \$2 million to consolidate two processing facilities.

#### Digital Commerce Solutions

##### Digital Commerce Solutions

Revenue for the Digital Commerce Solutions segment increased 26% in the quarter to \$221 million and 25% in the year-to-date period to \$614 million, compared to the prior year periods. Contributing to the revenue growth was higher revenue from our ecommerce cross-border parcel delivery solution due to increased volumes of packages shipped, higher software revenue due to an increase in the number and value of large licensing contracts that closed during the quarter, and higher revenue from our direct marketing and shipping services due to new business development. EBIT increased 90% in the quarter to \$25 million and 86% in the year-to-date period to \$52 million, compared to the prior year periods, primarily due to the increase in revenue and improved operating leverage which offset fixed costs and continued investments in ecommerce technology and infrastructure.

## 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 \$959 million at September 30, 2014 and \$939 million at December 31, 2013.

### Cash Flow Summary

Net cash provided by operating activities was \$397 million for the nine months ended September 30, 2014 compared to \$494 million for the nine months ended September 30, 2013. The reduction in cash flow from operations was primarily due to changes in working capital accounts and higher cash payments related to debt extinguishment. Collections of accounts and finance receivables were lower during the nine months ended September 30, 2014 than in the prior year mainly due to the declining finance receivable portfolio and the timing of collections. Changes in inventory also resulted in reduced cash flow during the nine months ended September 30, 2014 than in the prior year. During 2013, we implemented several cash management initiatives to improve working capital and cash flows from operations, including improving supply chain management. As a result, inventory purchases were significantly lower in the prior year as we reduced our inventory levels. The timing of payments for accounts payables and accrued liabilities partially offset these reductions in cash flow.

Net cash used in investing activities was \$82 million for the nine months ended September 30, 2014 compared to \$117 million for the nine months ended September 30, 2013. Cash flow from investing activities in 2014 benefited from proceeds of \$101 million from the sale of DIS and other businesses, but was partially offset by reduced cash flow of \$38 million from the timing of investment activity and higher capital expenditures of \$18 million, primarily due to the ongoing investments in a global ERP system.

Net cash used in financing activities was \$282 million for the nine months ended September 30, 2014 compared to \$522 million for the nine months ended September 30, 2013. Cash flow from financing activities in 2014 improved compared to 2013 due to lower cash outflows from debt activity and lower dividend payments. Cash outflows from debt activity were \$107 million compared to \$368 million in 2013 (see *Financings and Capitalization* below). Dividend payments were \$114 million (\$0.5625 per share) through September 30, 2014 compared to \$151 million (\$0.75 per share) through September 30, 2013. During 2014, we also spent \$50 million to repurchase our common stock compared to no share repurchases in 2013.

### 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 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 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.

During 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.

Also in 2014, we repaid \$100 million of the outstanding Term Loans.



In the prior year period, we redeemed \$375 million of 3.875% notes that matured in June 2013 and redeemed an aggregate \$405 million of the 4.875% Notes due 2014, 5.0% Notes due 2015, and 4.75% Notes due 2016 through a cash tender offer (the 2013 Tender Offer). We incurred expenses of \$25 million in connection with the 2013 Tender Offer, consisting primarily of premium payments. We also received \$5 million from the unwind of interest rate swaps. In addition, we issued \$425 million of 30-year notes with a fixed-rate of 6.7%. Net proceeds from the issuance were \$412 million and were used to fund the 2013 Tender Offer.

Cash and cash equivalents held by our foreign subsidiaries were \$589 million at September 30, 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.

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 Annual Report to Stockholders on Form 10-K for the year ended December 31, 2013.

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

There were no material changes to the disclosures made in the Annual Report to Stockholders on Form 10-K for the year ended December 31, 2013 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 our Annual Report to Stockholders on Form 10-K for the year ended December 31, 2013.

## Item 1A: Risk Factors

There were no material changes to the risk factors identified in our Annual Report to Stockholders on Form 10-K for the year ended December 31, 2013.

## 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. The following table summarizes our share repurchase activity during the third quarter of 2014. There were no share repurchases during the first six months of 2014.

|                   | Total number of<br>shares purchased | Average price<br>paid per share | Total number of<br>shares<br>purchased<br>as part of a<br>publicly<br>announced plan | Approximate<br>dollar value of<br>shares that may<br>yet be purchased<br>under the plan (in<br>thousands) |
|-------------------|-------------------------------------|---------------------------------|--|---|
| Beginning balance |                                     |                                 |  | \$50,000  |
| July 2014         | —                                   | —                               | —  | \$50,000  |
| August 2014       | 1,245,112                           | \$26.65                         | 1,245,112  | \$16,824  |
| September 2014    | 618,150                             | \$27.22                         | 618,150  | \$0   |
|                   | 1,863,262                           | \$26.84                         | 1,863,262  |   |

## Item 6: Exhibits

| Exhibit<br>Number | Description  | Status or incorporation by<br>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: November 7, 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   |                                      |