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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2013
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________________ to ________________
Commission file number: 1-3579
PITNEY BOWES INC.
(Exact name of registrant as specified in its charter)

Delaware	06-0495050
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1 Elmcroft Road, Stamford, Connecticut	06926-0700
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

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PART I. FINANCIAL INFORMATION
Item 1: Financial Statements

PITNEY BOWES INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited; in thousands, except per share data)

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

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

See Notes to Condensed Consolidated Financial Statements

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

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

See Notes to Condensed Consolidated Financial Statements

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

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

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

See Notes to Condensed Consolidated Financial Statements

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

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

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

See Notes to Condensed Consolidated Financial Statements

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

1. Description of Business and Basis of Presentation

Pitney Bowes Inc. and its subsidiaries (we, us, our or the company) is a global provider of software, hardware and services that enables and integrates both physical and digital communications. We offer a full suite of equipment, supplies, software, services and solutions for managing and integrating physical and digital communication channels. We conduct our business activities in seven reporting segments within two business groups: Small & Medium Business Solutions and Enterprise Business Solutions. See Note 13 for information regarding our reportable segments.

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In addition, the December 31, 2012 Condensed Consolidated Balance Sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. In management's opinion, all adjustments, consisting only of normal recurring adjustments, considered necessary to state fairly our financial position, results of operations and cash flows for the periods presented have been included. Operating results for the periods presented are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2013.

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

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

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

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

2. Inventories

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

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

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

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

3. Finance Assets
Finance Receivables
Finance receivables are comprised of sales-type lease receivables and unsecured revolving loan receivables. Sales-type lease receivables are generally due in monthly, quarterly or semi-annual installments over periods ranging from three to five years. Loan receivables arise primarily from financing services offered to our customers for postage and related supplies. Loan receivables are generally due each month; however, customers may rollover outstanding balances.
Finance receivables at March 31, 2013 and December 31, 2012 consisted of the following:

	March 31, 2013		
	North America	International	Total
Sales-type lease receivables			
Gross finance receivables	$1,527,074	$435,822	$1,962,896
Unguaranteed residual values	139,759	20,190	159,949
Unearned income	(307,448)	(98,744)	(406,192)
Allowance for credit losses	(15,572)	(7,767)	(23,339)
Net investment in sales-type lease receivables	1,343,813	349,501	1,693,314
Loan receivables			
Loan receivables	393,283	44,171	437,454
Allowance for credit losses	(11,829)	(1,812)	(13,641)
Net investment in loan receivables	381,454	42,359	423,813
Net investment in finance receivables	$1,725,267	$391,860	$2,117,127

	December 31, 2012		
	North America	International	Total
Sales-type lease receivables			
Gross finance receivables	$1,581,711	$461,510	$2,043,221
Unguaranteed residual values	148,664	21,025	169,689
Unearned income	(316,030)	(104,258)	(420,288)
Allowance for credit losses	(16,979)	(8,662)	(25,641)
Net investment in sales-type lease receivables	1,397,366	369,615	1,766,981
Loan receivables			
Loan receivables	414,960	47,293	462,253
Allowance for credit losses	(12,322)	(2,131)	(14,453)
Net investment in loan receivables	402,638	45,162	447,800
Net investment in finance receivables	$1,800,004	$414,777	$2,214,781

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

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

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

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

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

Aging of Receivables

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

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

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

Credit Quality

The extension of credit and management of credit lines to new and existing clients uses a combination of an automated credit score, where available, and a detailed manual review of the client’s financial condition and, when applicable, payment history. Once credit is granted, the payment performance of the client is managed through automated collections processes and is supplemented with direct follow up should an account become delinquent. We have robust automated collections and extensive portfolio management processes.

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

The portfolio management processes ensure that our global strategy is executed, collection resources are allocated appropriately and enhanced tools and processes are implemented as needed.
We use a third party to score the majority of the North America portfolio on a quarterly basis using a commercial credit score. We do not use a third party to score our International portfolios because the cost to do so is prohibitive, it is a localized process and there is no single credit score model that covers all countries.
The table below shows the North America portfolio at March 31, 2013 and December 31, 2012 by relative risk class (low, medium, high) based on the relative scores of the accounts within each class. The relative scores are determined based on a number of factors, including the company type, ownership structure, payment history and financial information. A fourth class is shown for accounts that are not scored. Absence of a score is not indicative of the credit quality of the account. The degree of risk, as defined by the third party, refers to the relative risk that an account in the next 12 month period may become delinquent.

- Low risk accounts are companies with very good credit scores and are considered to approximate the top 30% of all commercial borrowers.
- Medium risk accounts are companies with average to good credit scores and are considered to approximate the middle 40% of all commercial borrowers.
- High risk accounts are companies with poor credit scores, are delinquent or are at risk of becoming delinquent and are considered to approximate the bottom 30% of all commercial borrowers.

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

Troubled Debt
We maintain a program for U.S. clients in our North America loan portfolio who are experiencing financial difficulties, but are able to make reduced payments over an extended period of time. Upon acceptance into the program, the client’s credit line is closed and interest accrual is suspended. There is generally no forgiveness of debt or reduction of balances owed. The balance of loans in this program, related loan loss allowance and write-offs are insignificant to the overall portfolio.
Leveraged Leases
Our investment in leveraged lease assets at March 31, 2013 and December 31, 2012 consisted of the following:

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

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

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

4. Intangible Assets and Goodwill
Intangible assets
Intangible assets at March 31, 2013 and December 31, 2012 consisted of the following:

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

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

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

Actual amortization expense may differ from the amounts above due to, among other things, fluctuations in foreign currency exchange rates, impairments, future acquisitions and accelerated amortization.
Goodwill
The changes in the carrying amount of goodwill, by reporting segment, for the three months ended March 31, 2013 were as follows:

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

(1) Primarily foreign currency translation adjustments.

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

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

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

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

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

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

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

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

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

6. Noncontrolling Interests (Preferred Stockholders’ Equity in Subsidiaries)
Pitney Bowes International Holdings, Inc. (PBIH), a subsidiary, has 300,000 shares, or $300 million, of outstanding perpetual voting preferred stock (the Preferred Stock) held by certain institutional investors. The holders of the Preferred Stock are entitled as a group to 25% of the combined voting power of all classes of capital stock of PBIH. All outstanding common stock of PBIH, representing the remaining 75% of the combined voting power of all classes of capital stock, is owned directly or indirectly by the company. The Preferred Stock is entitled to cumulative dividends at a rate of 6.125% through 2016 after which it becomes callable and, if it remains outstanding, will yield a dividend that increases by 50% every six months thereafter. No dividends were in arrears at March 31, 2013 or December 31, 2012. There was no change in the carrying value of noncontrolling interests during the period ended March 31, 2013 or the year ended December 31, 2012.
7. Income Taxes
The effective tax rate for the three months ended March 31, 2013 and 2012 was 27.1% and 9.6%, respectively. The effective tax rate for the three months ended March 31, 2013 includes tax benefits of $4 million from the retroactive effect of 2013 U.S. tax legislation. The effective tax rate for the three months ended March 31, 2012 includes tax benefits of $17 million from the sale of non-U.S. leveraged lease assets and $22 million from the resolution of tax examinations.

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

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

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

8. Stockholders' Equity

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

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

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

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

9. Accumulated Other Comprehensive Income

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

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

(a) Amounts are net of tax. Amounts in parentheses indicate debits to AOCI.
(b) See table below for additional details of these reclassifications.

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

AOCI Component	Amount Reclassified from AOCI (a)	Affected Statement of Income Line Item
Gains (losses) on cash flow hedges		
Foreign exchange contracts	$(382)	Revenue
Foreign exchange contracts	126	Cost of sales
Interest rate lock contracts	(507	