PITNEY BOWES INC /DE/
Form 10-Q
August 08, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________________ to ________________
Commission file number: 1-3579
PITNEY BOWES INC.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

As of July 28, 2016, 185,589,844 shares of common stock, par value $1 per share, of the registrant were outstanding.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Revenue: | | | | |
| Equipment sales | $152,641 | $165,507 | $312,002 | $331,471 |
| Supplies | 65,274 | 70,636 | 137,325 | 144,004 |
| Software | 90,615 | 99,184 | 168,673 | 185,541 |
| Rentals | 102,869 | 111,312 | 206,959 | 225,309 |
| Financing | 91,609 | 101,437 | 189,032 | 207,067 |
| Support services | 131,418 | 139,237 | 259,678 | 278,795 |
| Business services | 201,460 | 193,578 | 406,806 | 399,385 |
| Total revenue | 835,886 | 880,891 | 1,680,475 | 1,771,572 |
| Costs and expenses: | | | | |
| Cost of equipment sales | 78,055 | 79,043 | 149,594 | 154,056 |
| Cost of supplies | 19,624 | 21,624 | 40,314 | 44,283 |
| Cost of software | 26,983 | 28,501 | 53,798 | 58,365 |
| Cost of rentals | 18,415 | 21,003 | 38,910 | 41,704 |
| Financing interest expense | 13,495 | 17,868 | 28,410 | 36,638 |
| Cost of support services | 74,742 | 81,507 | 149,991 | 165,106 |
| Cost of business services | 140,830 | 135,636 | 276,368 | 275,555 |
| Selling, general and administrative | 288,580 | 315,578 | 615,462 | 630,107 |
| Research and development | 34,513 | 28,492 | 61,081 | 54,540 |
| Restructuring charges and asset impairments, net | 26,076 | 14,350 | 33,009 | 14,269 |
| Interest expense, net | 20,799 | 20,971 | 40,100 | 45,035 |
| Other expense (income), net | 536 | (93,135) | 536 | (93,135) |
| Total costs and expenses | 742,648 | 671,438 | 1,487,573 | 1,426,523 |
| Income from continuing operations before income taxes | 93,238 | 209,453 | 192,902 | 345,049 |
| Provision for income taxes | 33,394 | 52,351 | 70,418 | 102,898 |
| Income from continuing operations | 59,844 | 157,102 | 122,484 | 242,151 |
| Loss from discontinued operations, net of tax | (1,660) | (739) | (1,660) | (582) |
| Net income | 58,184 | 156,363 | 120,824 | 241,569 |
| Less: Preferred stock dividends attributable to noncontrolling interests | 4,594 | 4,593 | 9,188 | 9,187 |
| Net income attributable to Pitney Bowes Inc. | $53,590 | $151,770 | $111,636 | $232,382 |
| Amounts attributable to common stockholders: | | | | |
| Net income from continuing operations | $55,250 | $152,509 | $113,296 | $232,964 |
| Loss from discontinued operations, net of tax | (1,660) | (739) | (1,660) | (582) |
| Net income attributable to Pitney Bowes Inc. | $53,590 | $151,770 | $111,636 | $232,382 |
| Basic earnings per share attributable to common stockholders: | | | | |
| Continuing operations | $0.29 | $0.76 | $0.60 | $1.16 |
| Discontinued operations | (0.01) | — | (0.01) | — |
| Net income attributable to Pitney Bowes Inc. | $0.29 | $0.75 | $0.59 | $1.15 |
| Diluted earnings per share attributable to common stockholders: | | | | |

| | | | | |
|---|---|---|---|---|
| Continuing operations | $0.29 | $0.75 | $0.59 | $1.15 |
| Discontinued operations | (0.01 ) | — | (0.01 ) | — |
| Net income attributable to Pitney Bowes Inc. | $0.28 | $0.75 | $0.59 | $1.15 |
| Dividends declared per share of common stock | $0.1875 | $0.1875 | $0.3750 | $0.3750 |

See Notes to Condensed Consolidated Financial Statements

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Net income | $58,184 | $156,363 | $120,824 | $241,569 |
| Less: Preferred stock dividends attributable to noncontrolling interests | 4,594 | 4,593 | 9,188 | 9,187 |
| Net income attributable to Pitney Bowes Inc. | 53,590 | 151,770 | 111,636 | 232,382 |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translations | (9,520) | 13,157 | 30,325 | (59,022) |
| Net unrealized gain (loss) on cash flow hedges, net of tax of $281, $(201), $264 and $140, respectively | 450 | (333) | 422 | 216 |
| Net unrealized gain (loss) on investment securities, net of tax of $1,415, $(1,877), $3,443 and $(863), respectively | 2,409 | (3,203) | 5,863 | (1,473) |
| Adjustments to pension and postretirement plans, net of tax of $(777) for the six months ended June 30, 2016 | — | — | (1,230) | — |
| Amortization of pension and postretirement costs, net of tax of $4,122, $3,614, $7,921 and $7,781, respectively | 6,080 | 6,520 | 12,828 | 13,929 |
| Other comprehensive (loss) income, net of tax | (581) | 16,141 | 48,208 | (46,350) |
| Comprehensive income attributable to Pitney Bowes Inc. | $53,009 | $167,911 | $159,844 | $186,032 |

See Notes to Condensed Consolidated Financial Statements

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

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $675,972 | $650,557 |
| Short-term investments | 74,809 | 117,021 |
| Accounts receivable (net of allowance of $11,202 and $9,997, respectively) | 431,580 | 476,583 |
| Short-term finance receivables (net of allowance of $13,714 and $15,480, respectively) | 918,974 | 918,383 |
| Inventories | 110,960 | 88,824 |
| Current income taxes | 12,186 | 6,584 |
| Other current assets and prepayments | 61,039 | 67,400 |
| Total current assets | 2,285,520 | 2,325,352 |
| Property, plant and equipment, net | 309,491 | 330,088 |
| Rental property and equipment, net | 172,269 | 177,515 |
| Long-term finance receivables (net of allowance of $5,031 and $6,210, respectively) | 693,589 | 760,657 |
| Goodwill | 1,752,714 | 1,745,957 |
| Intangible assets, net | 172,785 | 187,378 |
| Non-current income taxes | 66,942 | 70,294 |
| Other assets | 510,267 | 525,891 |
| Total assets | $5,963,577 | $6,123,132 |
| | | |
| LIABILITIES, NONCONTROLLING INTERESTS AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $1,345,653 | $1,448,321 |
| Current income taxes | 7,235 | 16,620 |
| Current portion of long-term debt and notes payable | 470,058 | 461,085 |
| Advance billings | 308,728 | 353,025 |
| Total current liabilities | 2,131,674 | 2,279,051 |
| Deferred taxes on income | 212,607 | 205,668 |
| Tax uncertainties and other income tax liabilities | 69,803 | 68,429 |
| Long-term debt | 2,623,764 | 2,489,583 |
| Other non-current liabilities | 550,546 | 605,310 |
| Total liabilities | 5,588,394 | 5,648,041 |
| | | |
| Commitments and contingencies (See Note 13) | | |
| Noncontrolling interests (Preferred stockholders' equity in subsidiaries) | 296,370 | 296,370 |
| | | |
| Stockholders' equity: | | |
| Cumulative preferred stock, $50 par value, 4% convertible | 1 | 1 |
| Cumulative preference stock, no par value, $2.12 convertible | 489 | 505 |
| Common stock, $1 par value (480,000,000 shares authorized; 323,337,912 shares issued) | 323,338 | 323,338 |
| Additional paid-in capital | 148,154 | 161,280 |
| Retained earnings | 5,196,194 | 5,155,537 |
| Accumulated other comprehensive loss | (840,427) | (888,635) |
| Treasury stock, at cost (137,762,931 and 127,816,704 shares, respectively) | (4,748,936) | (4,573,305) |

| | | |
|---|---|---|
| Total Pitney Bowes, Inc. stockholders’ equity | 78,813 | 178,721 |
| Total liabilities, noncontrolling interests and stockholders’ equity | $5,963,577 | $6,123,132 |

See Notes to Condensed Consolidated Financial Statements

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

| | Six Months Ended June 30, | |
|---|---|---|
| | 2016 | 2015 |
| Cash flows from operating activities: | | |
| Net income | $120,824 | $241,569 |
| Restructuring payments | (33,866) | (30,775) |
| Special pension plan contributions | (36,731) | — |
| Tax payments related to other investments | — | (26,375) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Loss (gain) on disposal of businesses | 2,099 | (107,548) |
| Depreciation and amortization | 89,538 | 85,153 |
| Gain on debt forgiveness | (10,000) | — |
| Stock-based compensation | 9,511 | 11,067 |
| Restructuring charges and asset impairments, net | 33,009 | 14,269 |
| Changes in operating assets and liabilities, net of acquisitions/divestitures: | | |
| Decrease in accounts receivable | 46,828 | 36,484 |
| Decrease in finance receivables | 73,496 | 74,092 |
| Increase in inventories | (22,601) | (17,414) |
| Decrease (Increase) in other current assets and prepayments | 7,206 | (15,984) |
| Decrease in accounts payable and accrued liabilities | (80,039) | (130,100) |
| (Decrease) Increase in current and non-current income taxes | (10,801) | 50,635 |
| (Decrease) Increase in advance billings | (45,410) | 15,850 |
| Other, net | 10,524 | 85 |
| Net cash provided by operating activities | 153,587 | 201,008 |
| Cash flows from investing activities: | | |
| Purchases of available-for-sale securities | (77,185) | (113,339) |
| Proceeds from sales/maturities of available-for-sale securities | 84,854 | 117,993 |
| Net proceeds from short-term and other investments | 57,591 | 8,130 |
| Capital expenditures | (71,359) | (89,612) |
| Proceeds from sale of buildings | 17,671 | 38,640 |
| Acquisition of businesses, net of cash acquired | (13,417) | (391,531) |
| Divestiture of businesses, net of cash transferred | (3,039) | 289,639 |
| Change in reserve account deposits | (7,143) | (21,464) |
| Other investing activities | (4,480) | 743 |
| Net cash used in investing activities | (16,507) | (160,801) |
| Cash flows from financing activities: | | |
| Proceeds from the issuance of long-term debt | 300,000 | 950 |
| Principal payments of long-term debt | (370,952) | (354,909) |
| Increase in short-term borrowings, net | 229,875 | 100,000 |
| Dividends paid to stockholders | (70,979) | (75,637) |
| Common stock repurchases | (194,776) | — |
| Dividends paid to noncontrolling interests | (9,188) | (9,188) |
| Other financing activities | — | 1,585 |
| Net cash used in financing activities | (116,020) | (337,199) |
| Effect of exchange rate changes on cash and cash equivalents | 4,355 | (28,903) |

| | | |
|---|---|---|
| Increase (Decrease) in cash and cash equivalents | 25,415 | (325,895 ) |
| Cash and cash equivalents at beginning of period | 650,557 | 1,054,118 |
| Cash and cash equivalents at end of period | $675,972 | $728,223 |
| Cash interest paid | $78,311 | $86,888 |
| Cash income tax payments, net of refunds | $84,225 | $75,939 |

See Notes to Condensed Consolidated Financial Statements

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

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

We have prepared the accompanying unaudited Condensed Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In addition, the December 31, 2015 Condensed Consolidated Balance Sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. In management's opinion, all adjustments, consisting only of normal recurring adjustments, considered necessary to fairly state our financial position, results of operations and cash flows for the periods presented have been included. Operating results for the periods presented are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2016.
These statements should be read in conjunction with the financial statements and notes thereto included in our Annual Report to Stockholders on Form 10-K for the year ended December 31, 2015 (2015 Annual Report).
In 2015, we determined that certain investments were classified as cash and cash equivalents and made reclassifications primarily between short-term investments and cash and cash equivalents. Accordingly, the Consolidated Statement of Cash Flows for the period ended June 30, 2015 has been revised to reduce beginning cash and cash equivalents by $25 million and ending cash and cash equivalents by $26 million and investments have been correspondingly increased.

During the second quarter of 2016, we determined that certain amounts included in finance receivables and rental property and equipment should be classified in accounts receivable and other current assets and prepayments. Accordingly, the Consolidated Balance Sheet as of December 31, 2015 was revised to increase accounts receivable by $19 million, reduce short-term finance receivables by $17 million, increase prepaid and other current assets and prepayments by $3 million, reduce rental property and equipment by $3 million and reduce long-term finance receivables by $2 million.
New Accounting Pronouncements - Standards Adopted in 2016
In September 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2015-16, Business Combinations - Simplifying the Accounting for Measurement-Period Adjustments, which eliminates the requirement to restate prior period financial statements for measurement period adjustments. The new guidance requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. Consistent with existing guidance, the new guidance requires an acquirer to disclose the nature and amount of measurement period adjustments.
We adopted this standard as of January 1, 2016, and there was no impact to the financial statements.

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

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

In January 2015, the FASB issued ASU 2015-01, Income Statement - Extraordinary and Unusual Items, which removes the concept of extraordinary items, thereby eliminating the need for companies to assess transactions for extraordinary treatment. The standard retained the presentation and disclosure requirements for items that are unusual in nature and/or infrequent in occurrence. We adopted this standard as of January 1, 2016, and there was no impact to the financial statements.

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

New Accounting Pronouncements - Standards Not Yet Adopted
In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses. The ASU sets forth a “current expected credit loss” (CECL) model which requires the Company to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost and applies to some off-balance sheet credit exposures. This ASU is effective for interim and annual periods beginning after December 15, 2019. We are currently assessing the impact this standard will have on our consolidated financial statements and disclosures.

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

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

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

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

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

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

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

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

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

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

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

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

Revenue and EBIT by business segment is presented below:

| | Revenue | | | |
|---|---|---|---|---|
| | Three Months Ended June 30, | | Six Months Ended June 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| North America Mailing | $322,068 | $356,791 | $671,794 | $718,665 |
| International Mailing | 106,338 | 110,610 | 210,097 | 226,783 |
| Small & Medium Business Solutions | 428,406 | 467,401 | 881,891 | 945,448 |
| Production Mail | 95,874 | 97,731 | 183,299 | 197,234 |
| Presort Services | 115,765 | 113,922 | 243,161 | 235,453 |
| Enterprise Business Solutions | 211,639 | 211,653 | 426,460 | 432,687 |
| Software Solutions | 90,464 | 99,041 | 168,386 | 185,278 |
| Global Ecommerce | 105,377 | 77,966 | 203,738 | 153,352 |
| Digital Commerce Solutions | 195,841 | 177,007 | 372,124 | 338,630 |
| Other | — | 24,830 | — | 54,807 |
| Total revenue | $835,886 | $880,891 | $1,680,475 | $1,771,572 |

| | EBIT | | | |
|---|---|---|---|---|
| | Three Months Ended June 30, | | Six Months Ended June 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| North America Mailing | $142,227 | $159,392 | $298,142 | $323,057 |
| International Mailing | 12,781 | 14,122 | 24,632 | 25,846 |
| Small & Medium Business Solutions | 155,008 | 173,514 | 322,774 | 348,903 |
| Production Mail | 12,914 | 10,028 | 19,738 | 19,060 |
| Presort Services | 21,214 | 23,544 | 50,124 | $51,038 |
| Enterprise Business Solutions | 34,128 | 33,572 | 69,862 | 70,098 |
| Software Solutions | 10,151 | 16,158 | 7,579 | 20,291 |
| Global Ecommerce | 3,674 | 3,056 | 4,446 | 11,202 |
| Digital Commerce Solutions | 13,825 | 19,214 | 12,025 | 31,493 |
| Other | — | 5,611 | — | 10,569 |
| Total EBIT | 202,961 | 231,911 | 404,661 | 461,063 |
| Reconciling items: | | | | |
| Interest, net | (34,294) | (38,839) | (68,510) | (81,673) |
| Unallocated corporate expenses | (48,777) | (51,921) | (106,544) | (102,724) |
| Restructuring charges and asset impairments, net | (26,076) | (14,350) | (33,009) | (14,269) |
| Acquisition and disposition-related expenses | (40) | (10,483) | (3,160) | (10,483) |
| Other income (expense), net | (536) | 93,135 | (536) | 93,135 |
| Income from continuing operations before income taxes | 93,238 | 209,453 | 192,902 | 345,049 |
| Provision for income taxes | 33,394 | 52,351 | 70,418 | 102,898 |
| Loss from discontinued operations, net of tax | (1,660) | (739) | (1,660) | (582) |
| Net income | $58,184 | $156,363 | $120,824 | $241,569 |

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

3. Earnings per Share

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Numerator: | | | | |
| Amounts attributable to common stockholders: | | | | |
| Net income from continuing operations | $55,250 | $152,509 | $113,296 | $232,964 |
| Loss from discontinued operations, net of tax | (1,660 ) | (739 ) | (1,660 ) | (582 ) |
| Net income - Pitney Bowes Inc. (numerator for diluted EPS) | 53,590 | 151,770 | 111,636 | 232,382 |
| Less: Preference stock dividend | 9 | 10 | 19 | 21 |
| Income attributable to common stockholders (numerator for basic EPS) | $53,581 | $151,760 | $111,617 | $232,361 |
| Denominator: | | | | |
| Weighted-average shares used in basic EPS | 187,395 | 201,712 | 189,929 | 201,504 |
| Effect of dilutive shares: | | | | |
| Conversion of Preferred stock and Preference stock | 300 | 324 | 302 | 329 |
| Employee stock plans | 667 | 804 | 575 | 801 |
| Weighted-average shares used in diluted EPS | 188,362 | 202,840 | 190,806 | 202,634 |
| Basic earnings per share: | | | | |
| Continuing operations | $0.29 | $0.76 | $0.60 | $1.16 |
| Discontinued operations | (0.01 ) | — | (0.01 ) | — |
| Net income | $0.29 | $0.75 | $0.59 | $1.15 |
| Diluted earnings per share: | | | | |
| Continuing operations | $0.29 | $0.75 | $0.59 | $1.15 |
| Discontinued operations | (0.01 ) | — | (0.01 ) | — |
| Net income | $0.28 | $0.75 | $0.59 | $1.15 |
| Anti-dilutive shares not used in calculating diluted weighted-average shares: | 6,878 | 6,395 | 8,892 | 7,313 |

4. Inventories

Inventories are stated at the lower of cost or market. Cost is determined on the last-in, first-out (LIFO) basis for most U.S. inventories and on the first-in, first-out (FIFO) basis for most non-U.S. inventories. Inventories at June 30, 2016 and December 31, 2015 consisted of the following:

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Raw materials | $30,329 | $ 25,803 |
| Work in process | 9,270 | 6,408 |
| Supplies and service parts | 47,916 | 44,323 |
| Finished products | 35,773 | 24,618 |
| Inventory at FIFO cost | 123,288 | 101,152 |
| Excess of FIFO cost over LIFO cost | (12,328 ) | (12,328 ) |
| Total inventory, net | $110,960 | $ 88,824 |

PITNEY BOWES INC.
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## 5. Finance Assets

### Finance Receivables

Finance receivables are comprised of sales-type lease receivables and unsecured revolving loan receivables. Sales-type lease receivables are generally due in monthly, quarterly or semi-annual installments over periods ranging from three to five years. Loan receivables arise primarily from financing services offered to our customers for postage and supplies. Loan receivables are generally due each month; however, customers may rollover outstanding balances. Interest is recognized on loan receivables using the effective interest method and related annual fees are initially deferred and recognized ratably over the annual period covered. Customer acquisition costs are expensed as incurred.
During the second quarter of 2016, we determined that certain finance receivables included in our sales-type lease receivables portfolio with a net investment of $35 million at December 31, 2015 should be classified in our loan receivables portfolio. Accordingly, prior period amounts have been revised to reflect this change.
Finance receivables at June 30, 2016 and December 31, 2015 consisted of the following:

| | June 30, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| | North America | International | Total | North America | International | Total |
| Sales-type lease receivables | | | | | | |
| Gross finance receivables | $1,112,708 | $288,403 | $1,401,111 | $1,157,189 | $303,854 | $1,461,043 |
| Unguaranteed residual values | 94,283 | 14,917 | 109,200 | 100,000 | 15,709 | 115,709 |
| Unearned income | (228,767) | (66,963) | (295,730) | (247,854) | (68,965) | (316,819) |
| Allowance for credit losses | (5,846) | (2,697) | (8,543) | (6,606) | (3,542) | (10,148) |
| Net investment in sales-type lease receivables | 972,378 | 233,660 | 1,206,038 | 1,002,729 | 247,056 | 1,249,785 |
| Loan receivables | | | | | | |
| Loan receivables | 375,590 | 41,137 | 416,727 | 399,193 | 41,604 | 440,797 |
| Allowance for credit losses | (8,863) | (1,339) | (10,202) | (10,024) | (1,518) | (11,542) |
| Net investment in loan receivables | 366,727 | 39,798 | 406,525 | 389,169 | 40,086 | 429,255 |
| Net investment in finance receivables | $1,339,105 | $273,458 | $1,612,563 | $1,391,898 | $287,142 | $1,679,040 |

### Allowance for Credit Losses

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

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

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PITNEY BOWES INC.
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(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

Activity in the allowance for credit losses for the six months ended June 30, 2016 and 2015 was as follows:

| | Sales-type Lease Receivables | | Loan Receivables | | |
|---|---|---|---|---|---|
| | North America | International | North America | International | Total |
| Balance at January 1, 2016 | $6,735 | $ 3,542 | $9,896 | $ 1,518 | $21,691 |
| Amounts charged to expense | 1,895 | 186 | 2,765 | 390 | 5,236 |
| Write-offs and other | (2,784 ) | (1,031 ) | (3,798 ) | (569 ) | (8,182 ) |
| Balance at June 30, 2016 | $5,846 | $ 2,697 | $8,863 | $ 1,339 | $18,745 |

| | Sales-type Lease Receivables | | Loan Receivables | | |
|---|---|---|---|---|---|
| | North America | International | North America | International | Total |
| Balance at January 1, 2015 | $10,125 | $ 5,024 | $10,051 | $ 1,519 | $26,719 |
| Amounts charged to expense | 130 | (447 ) | 3,895 | 554 | 4,132 |
| Write-offs and other | (2,423 ) | (924 ) | (3,612 ) | (354 ) | (7,313 ) |
| Balance at June 30, 2015 | $7,832 | $ 3,653 | $10,334 | $ 1,719 | $23,538 |

Aging of Receivables
The aging of gross finance receivables at June 30, 2016 and December 31, 2015 was as follows:

| | June 30, 2016 | | | | |
|---|---|---|---|---|---|
| | Sales-type Lease Receivables | | Loan Receivables | | |
| | North America | International | North America | International | Total |
| 1 - 90 days | $1,072,727 | $ 282,986 | $370,080 | $ 40,603 | $1,766,396 |
| > 90 days | 39,981 | 5,417 | 5,510 | 534 | 51,442 |
| Total | $1,112,708 | $ 288,403 | $375,590 | $ 41,137 | $1,817,838 |
| Past due amounts > 90 days | | | | | |
| Still accruing interest | $16,996 | $ 1,780 | $— | $ — | $18,776 |
| Not accruing interest | 22,985 | 3,637 | 5,510 | 534 | 32,666 |
| Total | $39,981 | $ 5,417 | $5,510 | $ 534 | $51,442 |

| | December 31, 2015 | | | | |
|---|---|---|---|---|---|
| | Sales-type Lease Receivables | | Loan Receivables | | |
| | North America | International | North America | International | Total |
| 1 - 90 days | $1,138,031 | $ 298,772 | $395,573 | $ 41,117 | $1,873,493 |
| > 90 days | 19,158 | 5,082 | 3,620 | 487 | 28,347 |
| Total | $1,157,189 | $ 303,854 | $399,193 | $ 41,604 | $1,901,840 |
| Past due amounts > 90 days | | | | | |
| Still accruing interest | $5,041 | $ 1,617 | $— | $ — | $6,658 |
| Not accruing interest | 14,117 | 3,465 | 3,620 | 487 | 21,689 |

| | | | | | |
|---|---|---|---|---|---|
| Total | $19,158 | $ 5,082 | $3,620 | $ 487 | $28,347 |

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

Credit Quality

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

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

The table below shows the North America portfolio at June 30, 2016 and December 31, 2015 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.

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Sales-type lease receivables | | |
| Low | $878,526 | $ 886,198 |
| Medium | 192,616 | 192,645 |
| High | 21,171 | 37,573 |
| Not Scored | 20,395 | 40,773 |
| Total | $1,112,708 | $ 1,157,189 |
| Loan receivables | | |
| Low | $278,787 | $ 295,725 |
| Medium | 76,479 | 85,671 |
| High | 7,011 | 10,810 |
| Not Scored | 13,313 | 6,987 |
| Total | $375,590 | $ 399,193 |

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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6. Acquisitions, Divestitures, Intangible Assets and Goodwill
Acquisitions
In June 2015, we acquired 100% of the outstanding shares of Borderfree, Inc. ("Borderfree"). The results of operations of Borderfree are included in our consolidated results from the date of acquisition. During the second quarter of 2016, as a result of obtaining new information about facts and circumstances that existed as of the acquisition date, we recorded an increase of $2 million to accounts payable and accrued expenses acquired in the Borderfree acquisition and a corresponding increase to goodwill. Our consolidated operating results for the three and six months ended June 30, 2016 include revenue of $29 million and $54 million, respectively from Borderfree operations. On a supplemental pro forma basis, had we acquired Borderfree on January 1, 2015, our revenues would have been $22 million and $47 million higher, respectively for the three and six months ended June 30, 2015. The impact on our earnings would not have been material.

On January 12, 2016, we acquired Enroute for $14 million in cash plus potential additional payments during the periods 2017-2019 based on the achievement of revenue targets during the periods 2016-2018. Enroute is a software-as-a-service enterprise retail and fulfillment solutions company and is reported within our Global Ecommerce segment.

On July 1, 2016, we acquired Maponics for $24 million. Maponics provides comprehensive boundary information and geospatial data that support location-based services and analytics and will be reported within our Software Solutions segment.
Divestitures
On May 29, 2015, we sold Imagitas, for net proceeds of $292 million and recognized a pre-tax gain of $111 million which was reported within other (income) expense, net in the Condensed Consolidated Statements of Income.
Intangible Assets
Intangible assets consisted of the following:

| | June 30, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Customer relationships | $442,466 | $(289,881) | $152,585 | $437,459 | $(272,353) | $165,106 |
| Software & technology | 149,636 | (136,860) | 12,776 | 149,591 | (135,198) | 14,393 |
| Trademarks & other | 35,727 | (28,303) | 7,424 | 35,314 | (27,435) | 7,879 |
| Total intangible assets | $627,829 | $(455,044) | $172,785 | $622,364 | $(434,986) | $187,378 |

Amortization expense was $11 million and $8 million for the three months ended June 30, 2016 and 2015, respectively and $21 million and $16 million, for the six months ended June 30, 2016 and 2015, respectively.
Future amortization expense for intangible assets as of June 30, 2016 was as follows:

| | |
|---|---|
| Remaining for year ending December 31, 2016 | $17,732 |
| Year ending December 31, 2017 | 28,135 |
| Year ending December 31, 2018 | 25,595 |
| Year ending December 31, 2019 | 22,463 |
| Year ending December 31, 2020 | 17,720 |
| Thereafter | 61,140 |
| Total | $172,785 |

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.

PITNEY BOWES INC.
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Goodwill
The changes in the carrying value of goodwill for the six months ended June 30, 2016 were as follows:

| | December 31, 2015 | Acquisitions | Foreign currency translation | June 30, 2016 |
|---|---|---|---|---|
| North America Mailing | $ 296,053 | $ — | $ 2,753 | $ 298,806 |
| International Mailing | 148,351 | — | 3,419 | 151,770 |
| Small & Medium Business Solutions | 444,404 | — | 6,172 | 450,576 |
| Production Mail | 105,757 | — | (1,291) | 104,466 |
| Presort Services | 196,890 | — | — | 196,890 |
| Enterprise Business Solutions | 302,647 | — | (1,291) | 301,356 |
| Software Solutions | 674,976 | — | (7,545) | 667,431 |
| Global Ecommerce | 323,930 | 9,421 | — | 333,351 |
| Digital Commerce Solutions | 998,906 | 9,421 | (7,545) | 1,000,782 |
| Total goodwill | $ 1,745,957 | $ 9,421 | $ (2,664) | $ 1,752,714 |

PITNEY BOWES INC.
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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.

The following tables show, by level within the fair value hierarchy, our financial assets and liabilities that are accounted for at fair value on a recurring basis at June 30, 2016 and December 31, 2015. 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.

| | June 30, 2016 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Investment securities | | | | |
| Money market funds / commercial paper | $32,156 | $76,624 | $ — | $108,780 |
| Equity securities | — | 22,656 | — | 22,656 |
| Commingled fixed income securities | — | 24,207 | — | 24,207 |
| Debt securities - U.S. and foreign governments, agencies and municipalities | 116,798 | 12,414 | — | 129,212 |
| Debt securities - corporate | — | 66,103 | — | 66,103 |
| Mortgage-backed / asset-backed securities | — | 165,951 | — | 165,951 |
| Derivatives | | | | |
| Foreign exchange contracts | — | 3,237 | — | 3,237 |
| Total assets | $148,954 | $371,192 | $ — | $520,146 |
| Liabilities: | | | | |
| Derivatives | | | | |
| Foreign exchange contracts | $— | $(2,933) | $ — | $(2,933) |
| Total liabilities | $— | $(2,933) | $ — | $(2,933) |

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| | December 31, 2015 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Investment securities | | | | |
| Money market funds / commercial paper | $41,215 | $292,412 | $ — | $333,627 |
| Equity securities | — | 24,538 | — | 24,538 |
| Commingled fixed income securities | — | 22,571 | — | 22,571 |
| Debt securities - U.S. and foreign governments, agencies and municipalities | 102,235 | 12,566 | — | 114,801 |
| Debt securities - corporate | — | 62,884 | — | 62,884 |
| Mortgage-backed / asset-backed securities | — | 178,234 | — | 178,234 |
| Derivatives | | | | |
| Foreign exchange contracts | — | 1,716 | — | 1,716 |
| Total assets | $143,450 | $594,921 | $ — | $738,371 |
| Liabilities: | | | | |
| Derivatives | | | | |
| Foreign exchange contracts | $— | $(5,387) | $ — | $(5,387) |
| Total liabilities | $— | $(5,387) | $ — | $(5,387) |

Investment Securities

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

- Money Market Funds / Commercial Paper: Money market funds typically invest in government securities, certificates of deposit, commercial paper and other highly liquid, low risk securities. Money market funds are principally used for overnight deposits and are classified as Level 1 when unadjusted quoted prices in active markets are available and as Level 2 when they are not actively traded on an exchange. Direct investments in commercial paper are not listed on an exchange in an active market and are classified as Level 2.
- Equity Securities: Equity securities are comprised of mutual funds investing in U.S. and foreign common stock. These mutual funds are classified as Level 2 as they are not separately listed on an exchange.
- Commingled Fixed Income Securities: Mutual funds that invest in a variety of fixed income securities including securities of the U.S. government and its agencies, corporate debt, mortgage-backed securities and asset-backed securities. The value of the funds is based on the market value of the underlying investments owned by each fund, minus its liabilities, divided by the number of shares outstanding, as reported by the fund manager. These commingled funds are not listed on an exchange in an active market and are classified as Level 2.
- Debt Securities – U.S. and Foreign Governments, Agencies and Municipalities: Debt securities are classified as Level 1 where active, high volume trades for identical securities exist. Valuation adjustments are not applied to these securities. Debt securities valued using quoted market prices for similar securities or benchmarking model derived prices to quoted market prices and trade data for identical or comparable securities are classified as Level 2.
- Debt Securities – Corporate: Corporate debt securities are valued using recently executed transactions, market price quotations where observable, or bond spreads. The spread data used are for the same maturity as the security. These securities are classified as Level 2.
- Mortgage-Backed Securities / Asset-Backed Securities: These securities are valued based on external pricing indices. When external index pricing is not observable, these securities are valued based on external price/spread data. These securities are classified as Level 2.

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

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Available-For-Sale Securities
Certain 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 loss (AOCL).
Available-for-sale securities at June 30, 2016 and December 31, 2015 consisted of the following:

| | June 30, 2016 | | | |
|---|---|---|---|---|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Estimated fair value |
| U.S. and foreign governments, agencies and municipalities | $124,694 | $ 4,776 | $ (258) | $129,212 |
| Corporate notes and bonds | 63,394 | 2,787 | (78) | 66,103 |
| Commingled fixed income securities | 1,550 | 24 | — | 1,574 |
| Mortgage-backed / asset-backed securities | 163,084 | 3,699 | (832) | 165,951 |
| Total | $352,722 | $ 11,286 | $ (1,168) | $362,840 |
| | December 31, 2015 | | | |
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Estimated fair value |
| U.S. and foreign governments, agencies and municipalities | $114,265 | $ 1,804 | $ (1,268) | $114,801 |
| Corporate notes and bonds | 63,140 | 823 | (1,079) | 62,884 |
| Mortgage-backed / asset-backed securities | 177,821 | 1,901 | (1,488) | 178,234 |
| Total | $355,226 | $ 4,528 | $ (3,835) | $355,919 |

At June 30, 2016, investment securities that were in a loss position for 12 or more continuous months had aggregate unrealized holding losses of $1 million and an estimated fair value of $16 million, and investment securities that were in a loss position for less than 12 continuous months had aggregate unrealized holding losses of $1 million and an estimated fair value of $74 million.

At December 31, 2015, investment securities that were in a loss position for 12 or more continuous months had aggregate unrealized holding losses of $2 million and an estimated fair value of $36 million, and investment securities that were in a loss position for less than 12 continuous months had aggregate unrealized holding losses of $2 million and an estimated fair value of $146 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 June 30, 2016 were as follows:

| | Amortized cost | Estimated fair value |
|---|---|---|
| Within 1 year | $65,899 | $65,988 |
| After 1 year through 5 years | 68,381 | 70,249 |
| After 5 years through 10 years | 55,584 | 57,985 |
| After 10 years | 162,858 | 168,618 |

| | | |
|---|---|---|
| Total | $ 352,722 | $ 362,840 |

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

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

Derivative Instruments

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

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

The fair value of derivative instruments at June 30, 2016 and December 31, 2015 was as follows:

| Designation of Derivatives | Balance Sheet Location | June 30, 2016 | December 31, 2015 |
|---|---|---|---|
| Derivatives designated as hedging instruments | | | |
| Foreign exchange contracts | Other current assets and prepayments | $397 | $ 217 |
| | Accounts payable and accrued liabilities: | (706 ) | (208 ) |
| Derivatives not designated as hedging instruments | | | |
| Foreign exchange contracts | Other current assets and prepayments | 2,840 | 1,499 |
| | Accounts payable and accrued liabilities: | (2,227 ) | (5,179 ) |
| | Total derivative assets | $3,237 | $ 1,716 |
| | Total derivative liabilities | (2,933 ) | (5,387 ) |
| | Total net derivative asset (liabilities) | $304 | $ (3,671 ) |

Foreign Exchange Contracts

We enter into foreign exchange contracts to mitigate the currency risk associated with the anticipated purchase of inventory between affiliates and from third parties. These contracts are designated as cash flow hedges. The effective portion of the gain or loss on cash flow hedges is included in AOCL in the period that the change in fair value occurs and is reclassified to earnings in the period that the hedged item is recorded in earnings. At June 30, 2016 and December 31, 2015, we had outstanding contracts associated with these anticipated transactions with notional amounts of $16 million and $13 million, respectively.

The amounts included in AOCL at June 30, 2016 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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The following represents the results of cash flow hedging relationships for the three and six months ended June 30, 2016 and 2015:

| | Three Months Ended June 30, | | | | |
|---|---|---|---|---|---|
| | Derivative Gain (Loss) Recognized in AOCL (Effective Portion) | | Location of Gain (Loss) (Effective Portion) | Gain (Loss) Reclassified from AOCL to Earnings (Effective Portion) | |
| Derivative Instrument | 2016 | 2015 | | 2016 | 2015 |
| Foreign exchange contracts | $437 | $(418) | Revenue | $(353) | $432 |
| | | | Cost of sales | 145 | 190 |
| | | | | $(208) | $622 |

| | Six Months Ended June 30, | | | | |
|---|---|---|---|---|---|
| | Derivative Gain (Loss) Recognized in AOCL (Effective Portion) | | Location of Gain (Loss) (Effective Portion) | Gain (Loss) Reclassified from AOCL to Earnings (Effective Portion) | |
| Derivative Instrument | 2016 | 2015 | | 2016 | 2015 |
| Foreign exchange contracts | $45 | $755 | Revenue | $(733) | $828 |
| | | | Cost of sales | 370 | 585 |
| | | | | $(363) | $1,413 |

We also enter into foreign exchange contracts to minimize the impact of exchange rate fluctuations on short-term intercompany loans and related interest that are denominated in a foreign currency. The revaluation of the intercompany loans and interest and the mark-to-market adjustment on the derivatives are both recorded in earnings. All outstanding contracts at June 30, 2016 mature within 12 months.
The following represents the results of our non-designated derivative instruments for the three and six months ended June 30, 2016 and 2015:

| | | Three Months Ended June 30, Derivative Gain (Loss) Recognized in Earnings | |
|---|---|---|---|
| Derivatives Instrument | Location of Derivative Gain (Loss) | 2016 | 2015 |
| Foreign exchange contracts | Selling, general and administrative expense | $4,580 | $(4,131) |

| | | Six Months Ended June 30, Derivative Gain (Loss) Recognized in Earnings | |
|---|---|---|---|
| Derivatives Instrument | Location of Derivative Gain (Loss) | 2016 | 2015 |
| Foreign exchange contracts | Selling, general and administrative expense | $(1,397) | $(3,577) |

Credit-Risk-Related Contingent Features

Certain derivative instruments contain credit-risk-related contingent features that would require us to post collateral based on a combination of our long-term senior unsecured debt ratings and the net fair value of our derivatives. At June 30, 2016, the maximum amount of collateral that we would have been required to post had the credit-risk-related contingent features been triggered was $1 million.

Fair Value of Financial Instruments

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

The fair value of our debt is estimated based on recently executed transactions and market price quotations. These inputs used to determine the fair value of our debt were classified as Level 2 in the fair value hierarchy. The carrying value and estimated fair value of our debt at June 30, 2016 and December 31, 2015 were as follows:

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Carrying value excluding unamortized debt issuance costs | $3,113,973 | $ 2,968,997 |
| Fair value | $3,266,103 | $ 3,102,890 |

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

## 8. Restructuring Charges and Asset Impairments

### Restructuring charges

The table below shows the activity in our restructuring reserves for the six months ended June 30, 2016 and 2015:

| | Severance and benefits costs | Other exit costs | Total |
|---|---|---|---|
| Balance at January 1, 2016 | $43,700 | $3,722 | $47,422 |
| Expenses, net | 21,399 | 1,322 | 22,721 |
| Cash payments | (30,969) | (2,897) | (33,866) |
| Balance at June 30, 2016 | $34,130 | $2,147 | $36,277 |
| | | | |
| Balance at January 1, 2015 | $81,836 | $8,343 | $90,179 |
| Expenses, net | 9,258 | (198) | 9,060 |
| Cash payments | (28,271) | (2,504) | (30,775) |
| Balance at June 30, 2015 | $62,823 | $5,641 | $68,464 |

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

### Asset impairments

During the second quarter of 2016, we sold a facility for $18 million and recorded a pre-tax loss on the sale of $5 million. Additionally, we recorded other asset impairment charges of $3 million relating to a building. During the second quarter of 2015, we sold our world headquarters building for $39 million and recorded a pre-tax loss of $5 million. The losses were recognized in restructuring charges and asset impairments, net in the Condensed Consolidated Statements of Income for the three and six months ended June 30, 2016 and 2015.

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

9. Debt

At June 30, 2016 and December 31, 2015, total debt consisted of the following:

| | Interest rate | June 30, 2016 | December 31, 2015 |
|---|---|---|---|
| Commercial paper | 1.12% | $319,875 | $ 90,000 |
| Notes due January 2016 | 4.75% | — | 370,914 |
| Notes due September 2017 | 5.75% | 385,109 | 385,109 |
| Notes due March 2018 | 5.6% | 250,000 | 250,000 |
| Notes due May 2018 | 4.75% | 350,000 | 350,000 |
| Notes due March 2019 | 6.25% | 300,000 | 300,000 |
| Notes due March 2024 | 4.625% | 500,000 | 500,000 |
| Notes due January 2037 | 5.25% | 115,041 | 115,041 |
| Notes due March 2043 | 6.7% | 425,000 | 425,000 |
| Term loans | Variable | 450,000 | 150,000 |
| Other debt | | 5,788 | 15,758 |
| Principal amount | | 3,100,813 | 2,951,822 |
| Less: unamortized discount and debt issuance costs | | 24,709 | 23,617 |
| Plus: unamortized interest rate swap proceeds | | 17,718 | 22,463 |
| Total debt | | 3,093,822 | 2,950,668 |
| Less: current portion long-term debt and notes payable | | 470,058 | 461,085 |
| Long-term debt | | $2,623,764 | $ 2,489,583 |

In January 2016, we borrowed $300 million under a term loan and used the proceeds to repay a portion of the $371 million, 4.75% notes due January 15, 2016. The remaining portion of the loan was repaid using cash from operations. The new term loan bears interest at the applicable Eurodollar Rate plus 1.25% and matures in December 2020. The applicable Eurodollar Rate at June 30, 2016 was .63%.

In October 2014, we received a loan from the State of Connecticut Department of Economic and Community Development (CDECD). The loan consisted of a $15 million development loan and $1 million jobs-training grant that was subject to certain conditions being met. We satisfied the conditions related to the $1 million jobs-training grant during 2015. The loan agreement provided that $10 million of the loan would be forgiven if we satisfied certain employment obligations. In March 2016, we satisfied all criteria to receive the $10 million of loan forgiveness and, as a result, recorded the loan forgiveness as reductions of long-term debt and selling, general and administrative expenses.

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

10. Pensions and Other Benefit Programs
The components of net periodic benefit cost (income) were as follows:

| | Defined Benefit Pension Plans | | | | Nonpension Postretirement Benefit Plans | |
|---|---|---|---|---|---|---|
| | United States | | Foreign | | | |
| | Three Months Ended June 30, | | Three Months Ended June 30, | | Three Months Ended June 30, | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Service cost | $22 | $38 | $546 | $555 | $521 | $640 |
| Interest cost | 18,072 | 18,305 | 5,746 | 6,122 | 1,847 | 2,151 |
| Expected return on plan assets | (25,370) | (25,958) | (8,581) | (8,935) | — | — |
| Amortization of transition credit | — | — | (2) | (3) | — | — |
| Amortization of prior service (credit) cost | (15) | 2 | (18) | (16) | 74 | 74 |
| Amortization of net actuarial loss | 6,851 | 7,007 | 1,373 | 1,509 | 447 | 1,562 |
| Settlement [1] | 690 | — | — | — | — | — |
| Net periodic benefit cost (income) | $250 | $(606) | $(936) | $(768) | $2,889 | $4,427 |

| | Defined Benefit Pension Plans | | | | Nonpension Postretirement Benefit Plans | |
|---|---|---|---|---|---|---|
| | United States | | Foreign | | | |
| | Six Months Ended June 30, | | Six Months Ended June 30, | | Six Months Ended June 30, | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Service cost | $54 | $76 | $1,073 | $1,120 | $1,022 | $1,319 |
| Interest cost | 36,902 | 37,164 | 11,407 | 12,185 | 3,983 | 4,526 |
| Expected return on plan assets | (50,959) | (52,002) | (17,053) | (17,774) | — | — |
| Amortization of transition credit | — | — | (4) | (5) | — | — |
| Amortization of prior service (credit) cost | (30) | 4 | (35) | (33) | 148 | 148 |
| Amortization of net actuarial loss | 13,557 | 14,655 | 2,716 | 2,989 | 1,807 | 3,953 |
| Settlement [1] | 1,788 | — | — | — | — | — |
| Net periodic benefit cost (income) | $1,312 | $(103) | $(1,896) | $(1,518) | $6,960 | $9,946 |

(1) Included in restructuring charges, net in the Condensed Consolidated Statements of Income.
Through June 30, 2016 and June 30, 2015, contributions to our U.S. pension plans were $7 million and $4 million, respectively, and contributions to our foreign plans were $39 million and $11 million, respectively. Nonpension postretirement benefit plan contributions were $8 million and $11 million through June 30, 2016 and June 30, 2015, respectively.

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

11. Income Taxes

The effective tax rate for the three months ended June 30, 2016 and 2015 was 35.8% and 25.0%, respectively, and the effective tax rate for the six month ended June 30, 2016 and 2015 was 36.5% and 29.8%, respectively. The effective tax rate for the six months ended June 30, 2016 and 2015 each include a $3 million charge from the write-off of deferred tax assets associated with the expiration of out-of-the-money vested stock options and the vesting of restricted stock units previously granted to our employees. The effective tax rate for the three and six months ended June 30, 2015 also includes a $20 million benefit resulting from the disposition of Imagitas.

As is the case with other large corporations, our tax returns are examined each year by tax authorities in the U.S. and other global taxing jurisdictions in which we have operations. The IRS examinations of our consolidated U.S. income tax returns for tax years prior to 2012 are closed to audit. Additionally, various post-2006 U.S. state and local tax returns are subject to examination. In Canada, the examination of our tax filings prior to 2011 are closed to audit, except for the pending application of legal principles to specific issues arising in earlier years. Other significant jurisdictions in which we have, or have recently completed, tax examinations include France, closed through the end of 2012, Germany closed through the end of 2011 and except for an item under appeal, the U.K. is closed through the end of 2011. We have other less significant tax fillings currently subject to examination.

12. Noncontrolling Interests (Preferred Stockholders' Equity in Subsidiaries)

Pitney Bowes International Holdings, Inc. (PBIH), a subsidiary of the Company, has 300,000 shares of outstanding perpetual voting preferred stock valued at $300 million held by certain institutional investors (PBIH Preferred Stock). The holders of PBIH 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 PBIH Preferred Stock is entitled to cumulative dividends at a rate of 6.125% through April 30, 2016. Commencing October 30, 2016, the PBIH Preferred Stock is redeemable, in whole or in part, at the option of PBIH. If the PBIH 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 June 30, 2016 or December 31, 2015.

13. Commitments and Contingencies

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

14. Stockholders' Equity

Changes in stockholders' equity for the six months ended June 30, 2016 and 2015 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, 2016 | $ 1 | $ 505 | $323,338 | $161,280 | $5,155,537 | $ (888,635 ) | $(4,573,305) | $178,721 |
| Net income | — | — | — | — | 111,636 | — | — | 111,636 |
| | — | — | — | — | — | 48,208 | — | 48,208 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Other comprehensive income | | | | | | | | |
| Dividends paid | — | — | — | — | (70,979) | — | — | (70,979) |
| Issuance of common stock | — | — | — | (22,592) | — | — | 18,809 | (3,783) |
| Conversion to common stock | — | (16) | — | (320) | — | — | 336 | — |
| Stock-based compensation expense | — | — | — | 9,786 | — | — | — | 9,786 |
| Repurchase of common stock | — | — | — | — | — | — | (194,776) | (194,776) |
| Balance at June 30, 2016 | $ 1 | $ 489 | $ 323,338 | $ 148,154 | $ 5,196,194 | $ (840,427) | $ (4,748,936) | $ 78,813 |

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

| | Preferred stock | Preference stock | Common stock | Additional paid-in capital | Retained earnings | Accumulated other comprehensive loss | Treasury stock | Total equity |
|---|---|---|---|---|---|---|---|---|
| Balance at January 1, 2015 | $ 1 | $ 548 | $323,338 | $178,852 | $4,897,708 | $ (846,156 ) | $(4,477,032) | $77,259 |
| Net income | — | — | — | — | 232,382 | — | — | 232,382 |
| Other comprehensive loss | — | — | — | — | — | (46,350 ) | — | (46,350 ) |
| Dividends paid | — | — | — | — | (75,648 ) | — | — | (75,648 ) |
| Issuance of common stock | — | — | — | (34,005 ) | — | — | 26,659 | (7,346 ) |
| Conversion to common stock | — | (26 ) | — | (543 ) | — | — | 569 | — |
| Stock-based compensation expense | — | — | — | 11,067 | — | — | — | 11,067 |
| Balance at June 30, 2015 | $ 1 | $ 522 | $323,338 | $155,371 | $5,054,442 | $ (892,506 ) | $(4,449,804) | $191,364 |

15. Accumulated Other Comprehensive Loss

Reclassifications out of AOCL for the three and six months ended June 30, 2016 and 2015 were as follows:

| | Amount Reclassified from AOCL (a) | | | |
|---|---|---|---|---|
| | Three Months Ended June 30, | | Six Months Ended June 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Gains (losses) on cash flow hedges | | | | |
| Revenue | $(353 ) | $(432 ) | $(733 ) | $(828 ) |
| Cost of sales | 145 | (190 ) | 370 | (585 ) |
| Interest expense, net | (507 ) | (507 ) | (1,014 ) | (1,014 ) |
| Total before tax | (715 ) | (1,129 ) | (1,377 ) | (2,427 ) |
| Benefit from income tax | 277 | 436 | 535 | 938 |
| Net of tax | $(438 ) | $(693 ) | $(842 ) | $(1,489 ) |
| | | | | |
| Gains (losses) on available for sale securities | | | | |
| Interest expense, net | $(19 ) | $(18 ) | $(1 ) | $(42 ) |
| Benefit from income tax | 7 | 7 | — | 16 |
| Net of tax | $(12 ) | $(11 ) | $(1 ) | $(26 ) |
| | | | | |
| Pension and Postretirement Benefit Plans (b) | | | | |
| Transition credit | $2 | $3 | $4 | $5 |
| Prior service costs | (41 ) | (61 ) | (83 ) | (120 ) |
| Actuarial losses | (9,361 ) | (10,056) | (19,868 ) | (21,595 ) |
| Total before tax | (9,400 ) | (10,114) | (19,947 ) | (21,710 ) |
| Benefit from income tax | 4,122 | 3,614 | 7,919 | 7,781 |
| Net of tax | $(5,278) | $(6,500) | $(12,028) | $(13,929) |

(a) Amounts in parentheses indicate reductions to income and increases to other comprehensive income (loss).

(b) Reclassified from accumulated other comprehensive loss into selling, general and administrative expenses. These amounts are included in the computation of net periodic costs (see Note 10 for additional details).

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

Changes in AOCL for the six months ended June 30, 2016 and 2015 were as follows:

| | Cash flow hedges | Available for sale securities | Pension and postretirement benefit plans | Foreign currency adjustments | Total |
|---|---|---|---|---|---|
| Balance at January 1, 2016 | $(3,912) | $ 536 | $ (738,768) | $(146,491) | $(888,635) |
| Other comprehensive (loss) income before reclassifications (a) | (420) | 5,862 | (430) | 30,325 | 35,337 |
| Reclassifications into earnings (a), (b) | 842 | 1 | 12,028 | — | 12,871 |
| Net other comprehensive income | 422 | 5,863 | 11,598 | 30,325 | 48,208 |
| Balance at June 30, 2016 | $(3,490) | $ 6,399 | $ (727,170) | $(116,166) | $(840,427) |

| | Cash flow hedges | Available for sale securities | Pension and postretirement benefit plans | Foreign currency adjustments | Total |
|---|---|---|---|---|---|
| Balance at January 1, 2015 | $(4,689) | $ 2,966 | $ (786,079) | $(58,354) | $(846,156) |
| Other comprehensive loss before reclassifications (a) | (1,273) | (1,499) | — | (59,022) | (61,794) |
| Reclassifications into earnings (a), (b) | 1,489 | 26 | 13,929 | — | 15,444 |
| Net other comprehensive income (loss) | 216 | (1,473) | 13,929 | (59,022) | (46,350) |
| Balance at June 30, 2015 | $(4,473) | $ 1,493 | $ (772,150) | $(117,376) | $(892,506) |

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

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

Forward-Looking Statements

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

- declining physical mail volumes
- competitive factors, including pricing pressures, technological developments and introduction of new products and services by competitors
- our success in developing new products and services, including digital-based products and services, obtaining regulatory approval if required, and the market’s acceptance of these new products and services
- our ability to successfully implement and transition to a new Enterprise Resource Planning (ERP) system without significant disruption to existing operations
- the success of our investment in rebranding the company, including advertising, to build market awareness and create new demand for our businesses
- changes in postal or banking regulations
- macroeconomic factors, including global and regional business conditions that adversely impact customer demand, access to capital markets at reasonable costs, changes in interest rates, foreign currency exchange rates and fuel prices
- the continued availability and security of key information systems and the cost to comply with information security requirements and privacy laws
- third-party suppliers' ability to provide product components, assemblies or inventories
- our success at managing the relationships with our outsource providers, including the costs of outsourcing functions and operations not central to our business
- the loss of some of our larger clients in the Global Ecommerce segment
- integrating newly acquired businesses including operations and product and service offerings
- intellectual property infringement claims
- our success at managing customer credit risk
- significant changes in pension, health care and retiree medical costs
- income tax adjustments or other regulatory levies for prior audit years and changes in tax laws, rulings or regulations
- a disruption of our businesses due to changes in international or national political conditions, including the use of the mail for transmitting harmful biological agents or other terrorist attacks
- acts of nature

Overview

During 2016, we continued to execute on our strategic priorities to stabilize and reinvent our mail business, drive operational excellence and grow our business through digital commerce. During the first quarter, we acquired a software-as-a-service enterprise retail and fulfillment solutions company and exited certain geographic markets as part of our initiative to simplify our geographic footprint and launched a new advertising campaign.

During the second quarter, we launched our Pitney Bowes Commerce Cloud that will help our clients identify customers, locate new sales opportunities, communicate with their existing and prospective customers, power shipping globally and manage payments for mailing and shipping.

Additionally, during the second quarter, we deployed our new enterprise business platform in the U.S. The platform changes how we manage sales opportunities, configure and price offerings for specific sales opportunities, calculate leases and bills, process transactions, deliver customer service and manage client relationships. We experienced temporary business impacts from the cut-over (platform cut-over), and estimate that revenue for the North America Mailing segment in the second quarter 2016 was adversely impacted by approximately 5% due to the platform cut-over. Lost daily sales activity and reduced productivity due to conversion and training during the cut-over period negatively impacted equipment sales and supplies revenue. The recurring revenue streams were impacted in part by lower financing related fees as a result of proactive waivers to compensate for delayed billing associated with the platform cut-over and client acclimation to new billing formats during this transition. We believe this contributed, in part, to a higher calculated finance receivable delinquency as our automated collection processes were not fully available during the platform cut-over. Despite the increase in gross finance receivables over 90 days, which we believe to be temporary, we saw an improvement in client credit quality, which supports the activity in our allowance for credit losses for the six months ended June 30, 2016 (see Note 5 to the Condensed Consolidated Financial Statements). We estimated the impact to equipment sales based on an analysis of average daily sales productivity for the last two quarters as compared to average daily sales productivity for the second quarter of 2016.

The U.S. dollar remained strong against other currencies during the first six months of 2016, which adversely affected our reported revenues and profitability, both from a translation perspective and a competitive perspective. The cost of our international competitors' products and solutions improved relative to products and solutions manufactured or sold from the U.S. The current strength of the U.S. dollar relative to other currencies also affected demand for U.S. goods sold to consumers in other countries through our global ecommerce operations.

Financial Highlights

Revenue - Second Quarter 2016 compared to Second Quarter 2015

Revenue for the second quarter of 2016 decreased 5% to $836 million compared to $881 million in the second quarter of 2015. Of this decrease, 1% is attributable to foreign currency translation and the exit of direct operations in Mexico, South Africa and five markets in Asia (Market Exits), which occurred during the first quarter of 2016 and fourth quarter of 2015.

- Equipment sales declined 8%, supplies revenue declined 8%, software declined 9%, rentals revenue declined 8%, financing revenue declined 10%, support services declined 6% and business services grew 4%.
- Small & Medium Business Solutions revenue decreased 8%. North America Mailing revenue was down 10%. We estimated that 5% of that decline was attributable to the disruption from the platform cut-over. International Mailing revenue was down 4% (flat excluding the impact of foreign currency translation and Market Exits).
- Enterprise Business Solutions revenue was flat. Production Mail revenue decreased 2% (increased 1% excluding the impact of Market Exits). Presort Services revenue increased 2%.
- Digital Commerce Solutions revenue increased 11%. Software Solutions revenue decreased 9% (decreased 7% excluding the impact of foreign currency translation) and Global Ecommerce revenue increased 35%.
- Revenue was negatively impacted by the absence of revenue from the 2015 sale of Imagitas.

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Revenue - First Six Months of 2016 compared to First Six Months of 2015

Revenue for the first six months of 2016 decreased 5% to $1,680 million compared to $1,772 million in the first six months of 2015. Of this decrease, 1% is attributable to foreign currency translation and 1% from Market Exits.

- Equipment sales declined 6%, supplies revenues declined 5%, software declined 9%, rentals revenue declined 8%, financing revenue declined 9%, support services declined 7% and business services increased 2%.
- Small & Medium Business Solutions revenue decreased 7%. North America Mailing revenue was down 7%. We estimated that 2% of the decline was attributable to the disruption from the platform cut-over. International Mailing revenue was down 7% (decreased 3% excluding foreign currency translation and Market Exists).
- Enterprise Business Solutions revenue decreased 1%. Production Mail revenue decreased 7% (decreased 4% excluding foreign currency translation and Market Exists). Presort Services revenue increased 3%.
- Digital Commerce Solutions revenue increased 10%. Software Solutions revenue decreased 9% (decreased 7% excluding foreign currency translation) and Global Ecommerce revenue increased 33%.
- Revenue was also negatively impacted by the 2015 sale of Imagitas.

Net Income

Net income and diluted earnings per share from continuing operations for the second quarter of 2016 were $55 million and $0.29, respectively, compared to $153 million and $0.75, respectively, in the second quarter of 2015. Net income and diluted earnings per share from continuing operations for the first six months of 2016 were $113 million and $0.59, respectively, compared to $233 million and $1.15, respectively, for the first six months of 2015. The decreases were driven primarily by:

- A $111 million pre-tax gain from the sale of Imagitas in the second quarter of 2015 (see Note 6 to the Condensed Consolidated Financial Statements);
- The decline in revenue; and
- Higher restructuring and asset impairment charges, net.

Cash Flows

Cash and cash equivalents increased $25 million during the first six months of 2016. In the first six months of 2016 we:

- Generated cash from operations of $154 million;
- Increased net borrowings by $159 million;
- Acquired Enroute for $14 million;
- Paid dividends of $71 million to our common stockholders; and
- Spent $195 million repurchasing our common stock.

Outlook

During 2016, we continued to experience the effects of a strong U.S. dollar. A continuing strong U.S. dollar for the remainder of the year could adversely affect our reported revenues and profitability, both from a translation perspective and a competitive perspective, as the cost of international competitors' products and solutions improves relative to our products and solutions sold from the U.S. A strong dollar could also continue to affect demand for U.S. goods sold to consumers in other countries through our global ecommerce operations. We continue to expand and globalize our cross-border ecommerce business which diversifies the business and mitigates foreign currency risk. We currently have an outbound offering from the United Kingdom and announced that we will be adding an outbound offering from Australia in the third quarter of 2016 and will continue to consider outbound opportunities from other countries.

During the remainder of 2016, we will continue to invest in the implementation of our new enterprise business platform. We anticipate continued benefits from our restructuring actions, synergies from acquisitions, benefits from our go-to-market strategy in major markets and from the implementation of the new enterprise business platform. We continue to make refinements and enhancements to the enterprise business platform, and expect to improve automation of manual processes and add new functionality. We will continue to introduce new products and solutions across all of our businesses.

As of June 30, 2016, we had remaining authorization to repurchase up to $24 million of our common stock and expect to utilize the remaining authorization by the end of 2016.

Within SMB Solutions, we anticipate the introduction of new solutions and services, including the Pitney Bowes Commerce Cloud, including SaaS-based solutions that leverage our physical and digital capabilities, and mobile, global and ecommerce technologies to help further stabilize revenue. Internationally, the implementation of our go-to-market strategy is now complete in our major markets and, as a result, we anticipate further stabilizing trends in those markets.

Within Enterprise Business Solutions, we anticipate continued revenue and profitability growth in Presort Services due to client expansion and higher processed mail volumes; however, we expect that Production Mail revenue growth will be challenged by changes in the overall market and declining services revenue.

Within DCS, we anticipate future increased demand in Software Solutions due to expansion of our global software alliance and partner strategy through global and regional systems integrators, improved sales efficiencies, new industry-specific solutions and the transition and training of a new sales group within the organization. We anticipate continued growth in our ecommerce business through larger transaction volume with our existing marketplace sites (sites where multiple sellers sell) and individual retail clients, as well as through new client acquisition and expanded service offerings.

RESULTS OF OPERATIONS

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

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | % change | 2016 | 2015 | % change |
| Equipment sales | $152,641 | $165,507 | (8 )% | $312,002 | $331,471 | (6 )% |
| Supplies | 65,274 | 70,636 | (8 )% | 137,325 | 144,004 | (5 )% |
| Software | 90,615 | 99,184 | (9 )% | 168,673 | 185,541 | (9 )% |
| Rentals | 102,869 | 111,312 | (8 )% | 206,959 | 225,309 | (8 )% |
| Financing | 91,609 | 101,437 | (10 )% | 189,032 | 207,067 | (9 )% |
| Support services | 131,418 | 139,237 | (6 )% | 259,678 | 278,795 | (7 )% |
| Business services | 201,460 | 193,578 | 4 % | 406,806 | 399,385 | 2 % |
| Total revenue | $835,886 | $880,891 | (5 )% | $1,680,475 | $1,771,572 | (5 )% |

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Percentage of Revenue | | | | Percentage of Revenue | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Cost of equipment sales | $78,055 | $79,043 | 51.1% | 47.8% | $149,594 | $154,056 | 47.9% | 46.5% |
| Cost of supplies | 19,624 | 21,624 | 30.1% | 30.6% | 40,314 | 44,283 | 29.4% | 30.8% |
| Cost of software | 26,983 | 28,501 | 29.8% | 28.7% | 53,798 | 58,365 | 31.9% | 31.5% |
| Cost of rentals | 18,415 | 21,003 | 17.9% | 18.9% | 38,910 | 41,704 | 18.8% | 18.5% |
| Financing interest expense | 13,495 | 17,868 | 14.7% | 17.6% | 28,410 | 36,638 | 15.0% | 17.7% |
| Cost of support services | 74,742 | 81,507 | 56.9% | 58.5% | 149,991 | 165,106 | 57.8% | 59.2% |
| Cost of business services | 140,830 | 135,636 | 69.9% | 70.1% | 276,368 | 275,555 | 67.9% | 69.0% |
| Total cost of revenue | $372,144 | $385,182 | 44.5% | 43.7% | $737,385 | $775,707 | 43.9% | 43.8% |

Revenue and Cost of Revenues - 2016 compared to 2015

Equipment sales

Equipment sales revenue decreased 8% in the quarter. Excluding unfavorable impacts from Market Exits of 2%, revenue decreased 6% primarily due to 9% from lower mailing equipment sales in North America, which were hindered by the initial disruption from the platform cut-over. Partially offsetting this decrease, were a 2% increase from higher sales in our international mailing equipment business and 2% increase in installations of our production mail equipment primarily in North America.

Equipment sales revenue decreased 6% in the first six months of 2016. Excluding unfavorable impacts from foreign currency translation of 1% and Market Exits of 2%, revenue decreased 3% primarily due from lower mailing equipment sales in North America, which were hindered by the initial disruption from the platform cut-over, and a decrease in international sales primarily in the U.K and Nordics.

Cost of equipment sales as a percentage of equipment sales increased to 51.1% in the quarter and 47.9% in the first six months of 2016 primarily due to lower equipment sales and product mix.

Supplies

Supplies revenue decreased 8% in the quarter. Excluding unfavorable impacts from foreign currency translation of 1% and Market Exits of 1%, revenue decreased 6% primarily due to:

- 4% from lower supplies sales in our North America mailing business in part due to the platform cut-over; and
- 2% from lower supplies sales in our production mail business.

Supplies revenue decreased 5% in the first six months of 2016. Excluding unfavorable impacts from foreign currency translation of 1% and Market Exits of 1%, revenue decreased 3% primarily due to:

- 1% from lower supplies sales in our North America mailing business in part due to the platform cut-over; and
- 1% from lower supplies sales in our production mail business.

Cost of supplies as a percentage of supplies revenue improved to 30.1% in the quarter and 29.4% in the first six months of 2016 primarily due to a greater mix of higher margin core supplies sales.

Software

Software revenue decreased 9% in the quarter. Excluding unfavorable impacts from foreign currency translation of 2%, revenue decreased 7%, primarily due to:

- 7% from lower worldwide licensing revenue reflecting fewer large licensing deals; and
- 1% from lower data revenue.

Software revenue decreased 9% in the first six months of 2016. Excluding unfavorable impacts from foreign currency translation of 2%, revenue decreased 7%, primarily due to:

- 6% from lower worldwide licensing revenue reflecting fewer large licensing deals; and
- 1% from lower data revenue.

Cost of software as a percentage of software revenue increased to 29.8% for the quarter and 31.9% for the first six months of 2016 due to decline in higher margin licensing deals.

Rentals

Rentals revenue decreased 8% in both the quarter and the first six months of 2016. Excluding the unfavorable impacts of foreign exchange translation of 1%, revenue decreased 7% in the first six months of 2016. The decrease in both periods, is attributable to our worldwide mailing businesses and production mail business primarily due to the decline in the number of installed meters as well as a shift by certain customers to less-featured, lower cost machines.

Cost of rentals as a percentage of rentals revenue improved to 17.9% for the quarter and increased to 18.8% for the first six months of 2016 primarily due to product mix.

Financing

Financing revenue decreased 10% in the quarter and 9% in the first six months of 2016. Excluding unfavorable impacts from foreign currency translation of 1% in each period, revenue decreased 9% in the quarter and 8% in the first six months of the year primarily due to lower mailing equipment sales in prior periods, a declining lease portfolio and lower financing fees due to disruptions from the platform cut-over.

We allocate a portion of our total cost of borrowing to financing interest expense. In computing financing interest expense, we assume an 8:1 debt to equity leverage ratio (10:1 in 2015) and apply our overall effective interest rate to the average outstanding finance receivables.

Financing interest expense as a percentage of financing revenue decreased to 14.7% for the quarter and 15% for the first six months of 2016 due to lower average outstanding finance receivables, a decrease in the effective interest rate and the change in the debt to equity leverage ratio.

Support Services
Support services revenue decreased 6% in the quarter and excluding unfavorable impacts from Market Exits of 2%, revenue decreased 4%. Support services revenue decreased 7% in the first six months of 2016 and excluding unfavorable impacts from foreign currency translation of 1% and Market Exits of 1%, revenue decreased 5%. These decreases were primarily due to:

- 2% in the quarter and 3% in the first six months of 2016 from our worldwide mailing businesses driven by a lower number of mailing machines in service and a shift to less-featured, lower cost machines;
- 1% in both periods from our production mail business reflecting lower maintenance revenue on production mail equipment as some in-house mailers moved their mail processing to third-party service bureaus who service some of their own equipment; and
- 1% in both periods from lower shipping solutions services revenues in our Global Ecommerce business.

Cost of support services as a percentage of support services revenue improved to 56.9% for the quarter and 57.8% for the first six months of 2016 due to expense reductions and productivity initiatives.

Business Services
Business Services revenue increased 4% in the quarter and 2% in the first six months of 2016 primarily due to the growth in Ecommerce and Presort Services offset partially by the loss of revenue from Imagitas.
Cost of business services as a percentage of business services revenue improved to 69.9% for the quarter and to 67.9% for the first six months of 2016 primarily due to product mix and productivity initiatives.

Selling, general and administrative (SG&A)
SG&A expense decreased 9% in the quarter to $289 million primarily due to productivity initiatives, a favorable state sales tax adjustment and lower employee-related costs. Incremental marketing and enterprise business platform expenses offset this reduction.

SG&A expense decreased 2% in the first six months of 2016 to $615 million primarily due to productivity initiatives, a loan forgiveness related to a State of Connecticut development loan (see Note 9 to the Condensed Consolidated Financial Statements), a favorable state sales tax adjustment and lower employee-related costs. Partially offsetting these decreases were additional expenses for marketing and our new enterprise business platform and amortization expense related to the acquisition of Borderfree (see Note 6 to the Condensed Consolidated Financial Statements).

Income taxes
See Note 11 to the Condensed Consolidated Financial Statements.

Preferred stock dividends attributable to noncontrolling interests
See Note 12 to the Condensed Consolidated Financial Statements.

Business segment results - 2016 compared to 2015
The principal products and services of each of our reportable segments are as follows:

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

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

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

We determine EBIT by deducting from segment revenue the related costs and expenses attributable to the segment. Segment EBIT excludes interest, taxes, general corporate expenses and restructuring charges that are not allocated to a particular business segment. Management uses segment EBIT to measure profitability and performance at the segment level. Management believes segment EBIT provides a useful measure of our operating performance and underlying trends of the businesses. Segment EBIT may not be indicative of our overall consolidated performance and therefore, should be read in conjunction with our consolidated results of operations. See Note 2 to the Condensed Consolidated Financial Statements for a reconciliation of segment EBIT to net income.
Revenue and EBIT for the three and six months ended June 30, 2016 and 2015 by reportable segment are presented below:

| | Revenue<br>Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | % change | 2016 | 2015 | % change |
| North America Mailing | $322,068 | $356,791 | (10 )% | $671,794 | $718,665 | (7 )% |
| International Mailing | 106,338 | 110,610 | (4 )% | 210,097 | 226,783 | (7 )% |
| Small & Medium Business Solutions | 428,406 | 467,401 | (8 )% | 881,891 | 945,448 | (7 )% |
| Production Mail | 95,874 | 97,731 | (2 )% | 183,299 | 197,234 | (7 )% |
| Presort Services | 115,765 | 113,922 | 2 % | 243,161 | 235,453 | 3 % |
| Enterprise Business Solutions | 211,639 | 211,653 | — % | 426,460 | 432,687 | (1 )% |
| Software Solutions | 90,464 | 99,041 | (9 )% | 168,386 | 185,278 | (9 )% |
| Global Ecommerce | 105,377 | 77,966 | 35 % | 203,738 | 153,352 | 33 % |
| Digital Commerce Solutions | 195,841 | 177,007 | 11 % | 372,124 | 338,630 | 10 % |

| | | | | | | |
|---|---|---|---|---|---|---|
| Other | — | 24,830 | (100)% | — | 54,807 | (100)% |
| Total | $835,886 | $880,891 | (5 )% | $1,680,475 | $1,771,572 | (5 )% |

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| | EBIT | | | | | |
|---|---|---|---|---|---|---|
| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
| | 2016 | 2015 | % change | 2016 | 2015 | % change |
| North America Mailing | $142,227 | $159,392 | (11 )% | $298,142 | $323,057 | (8 )% |
| International Mailing | 12,781 | $14,122 | (9 )% | 24,632 | 25,846 | (5 )% |
| Small & Medium Business Solutions | 155,008 | 173,514 | (11 )% | 322,774 | 348,903 | (7 )% |
| Production Mail | 12,914 | $10,028 | 29 % | 19,738 | 19,060 | 4 % |
| Presort Services | 21,214 | $23,544 | (10 )% | 50,124 | 51,038 | (2 )% |
| Enterprise Business Solutions | 34,128 | 33,572 | 2 % | 69,862 | 70,098 | — % |
| Software Solutions | 10,151 | $16,158 | (37 )% | 7,579 | 20,291 | (63 )% |
| Global Ecommerce | 3,674 | $3,056 | 20 % | 4,446 | 11,202 | (60 )% |
| Digital Commerce Solutions | 13,825 | 19,214 | (28 )% | 12,025 | 31,493 | (62 )% |
| Other | — | $5,611 | (100)% | — | 10,569 | (100)% |
| Total | 202,961 | $231,911 | (12 )% | 404,661 | 461,063 | (12 )% |

Small & Medium Business Solutions

North America Mailing

North America Mailing revenue decreased 10% in the quarter. We estimated that 5% of the decline was attributable to the disruption from the platform cut-over. The decrease in revenue, including the estimated impact from disruption from the platform cut-over, is due to:

- 5% from lower sales of equipment and supplies;
- 3% from lower financing revenue primarily from declining equipment sales in prior periods; and
- 2% from lower rentals revenue, primarily reflecting continuing decline in installed meters and shift to lower cost less featured machines.

North America Mailing revenue decreased 7% in the first six months of 2016. Excluding unfavorable impacts from foreign currency translation of 1%, revenue decreased 6%. We estimated that 2% of the decline was attributable to the disruption from the platform cut-over. The decrease in revenue including the estimated impact from disruption from the platform cut-over is primarily due to:

- 2% from lower rentals revenue and 1% from lower support services revenue, primarily reflecting continuing decline in installed meters and shift to lower cost less featured machines;
- 2% from lower financing revenue primarily from declining equipment sales in prior periods; and
- 1% from lower sales of equipment.

EBIT decreased 11% in the quarter and 8% in the first six months of 2016 compared to the prior year, primarily due to lower revenue.

International Mailing

International Mailing revenue decreased 4% in the quarter. Excluding unfavorable impacts from foreign currency translation of 1% and Market Exits of 3%, revenue was essentially flat, primarily due to 1% each from lower rental, supplies and support services revenue, from a lower installed meter base. Partially offsetting these decreases, was a 2% increase from higher equipment sales, primarily in Europe, as disruption from go-to-market changes have subsided.

International Mailing revenue decreased 7% in the first six months of 2016. Excluding unfavorable impacts from foreign currency translation of 2% and Market Exits of 2%, revenue decreased 3%, primarily due to 1% each from lower rental, support services and supplies revenue, from a lower installed meter base.

EBIT decreased 9% in the quarter and 5% in the first six months of 2016, both primarily due to lower revenues and mix of equipment sales.

Enterprise Business Solutions
Production Mail
Production Mail revenue decreased 2% in the quarter. Excluding the unfavorable impacts from Market Exits of 3%, revenue increased 1%, primarily due to 4% from higher equipment sales primarily in the Americas reflecting higher sorter equipment installations. This increase was partially offset by 2% from lower supplies and support services revenue as a result of some in-house mailers shifting their mail processing to third-party outsourcers.

Production Mail revenue decreased 7% in the first six months of 2016. Excluding the unfavorable impacts from foreign currency translation of 1% and Market Exits of 3%, revenue decreased 3%, primarily due to:

- 2% from lower support services and supplies revenue as a result of some in-house mailers shifting their mail processing to third-party outsourcers; and
- 1% from lower equipment sales primarily resulting from lower installations of inserter equipment;

EBIT increased 29% in the quarter and 4% in the first six months of 2016, primarily due to service delivery cost management initiatives. Additionally, the first six months of 2016 was impacted by lower sales of high margin inserting equipment.

Presort Services
Presort Services revenue increased 2% in the quarter and 3% in the first six months of the year primarily due to:

- Higher volumes of first class mail processed; and
- Expansion into new markets.

The increase in first class mail processed in the quarter was partially offset by lower volumes of standard class mail processed.

Despite the increases in revenue, EBIT decreased 10% in the quarter and 2% in the first six months of 2016, primarily due to lower pricing as a result of a United States Postal Service rate change and increased mail processing costs related to higher labor costs.

Digital Commerce Solutions
Software Solutions
Software Solutions revenue decreased 9% in the quarter. Excluding the unfavorable impacts from foreign currency translation of 2%, revenue decreased 7%, primarily due to:

- 7% from lower worldwide licensing revenue reflecting fewer large licensing deals; and
- 1% from lower data-related revenue.

Software Solutions revenue decreased 9% in the first six months of 2016. Excluding the unfavorable impacts from foreign currency translation of 2%, revenue decreased 7%, primarily due to:

- 6% from lower worldwide licensing revenue reflecting fewer large licensing deals; and
- 1% from lower data-related revenue.

EBIT decreased 37% for the quarter and 63% for the first six months of 2016 primarily due to lower high-margin licensing revenue. Additionally, the first six months of 2016 was impacted by higher selling and marketing costs.

Global Ecommerce
Global Ecommerce revenue increased 35% in the quarter. Excluding the unfavorable impacts from foreign currency translation of 1%, revenue increased 36%, primarily due to 40% from expansion of our U.S. and U.K. cross-border business and retail network, including the acquisition of Borderfree. Partially offsetting this increase, was a 4% decrease from a decline in domestic shipping solutions revenue.
Global Ecommerce revenue increased 33% in the first six months of 2016. Excluding the unfavorable impacts from foreign currency translation of 1%, revenue increased 34% primarily due to 40% from expansion of our U.S. and U.K. cross-border business and retail network, including the acquisition of Borderfree. This increase was partially offset by

a decrease of 4% related to the one-time recognition of deferred cross-border delivery fees in the first quarter of 2015 and a 2% decrease from a decline in domestic shipping solutions revenue .
EBIT increased 20% for the quarter primarily due to higher revenue. EBIT decreased 60% for the first six months of the year primarily due to $6 million of deferred cross-border delivery fees which were recognized in the first quarter of 2015, additional amortization from acquisitions, additional investments in the business and lower higher margin domestic shipping solutions revenue, partially offset by higher revenue.
Other
Other includes Imagitas, our Marketing Services business, which was sold in May 2015.

LIQUIDITY AND CAPITAL RESOURCES

We believe that existing cash and investments, cash generated from operations and borrowing capacity under our commercial paper program will be sufficient to support our current cash needs, including discretionary uses such as capital investments, dividends, strategic acquisitions and share repurchases. Cash and cash equivalents and short-term investments were $751 million at June 30, 2016 and $768 million at December 31, 2015. We continuously review our credit profile through published credit ratings and the credit default swap market. We also monitor the creditworthiness of those banks acting as derivative counterparties, depository banks or credit providers.

Cash and cash equivalents held by our foreign subsidiaries were $489 million at June 30, 2016 and $470 million at December 31, 2015. Cash and cash equivalents held by our foreign subsidiaries are generally used to support the liquidity needs of these subsidiaries. Most of these amounts could be repatriated to the U.S. but would be subject to additional taxes. Repatriation of some foreign balances is restricted by local laws.

Cash Flow Summary - First Quarter 2016 compared to First Quarter 2015

Changes in cash and cash equivalents for the six months ended June 30, 2016 and 2015 were as follows:

| | 2016 | 2015 | Change |
|---|---|---|---|
| Net cash provided by operating activities | $154 | $201 | $(47) |
| Net cash used in investing activities | (17) | (161) | 144 |
| Net cash used in financing activities | (116) | (337) | 221 |
| Effect of exchange rate changes on cash and cash equivalents | 4 | (29) | 33 |
| Change in cash and cash equivalents | $25 | $(326) | $351 |

Cash flows from operations decreased $47 million, primarily due to:

- Lower income
- Higher pension plan contributions primarily resulting from $37 million of contributions to the U.K. pension plan;
- Higher tax payments; and
- Payments associated with the launch of the enterprise business platform and new advertising campaign.

Partially offsetting the above uses of cash were lower employee-related and interest payments.

Cash flows used in investing activities was favorable by $144 million, primarily due to:

- The payment of $386 million to acquire Borderfree in 2015.
- Net proceeds of $65 million from the purchase and sale of investments in 2016 compared to $13 million in 2015.

Partially offsetting the lower use of cash was:

- Proceeds of $292 million from the sale of Imagitas in 2015; and
- Proceeds of $39 million from the sale of our former corporate headquarters building in 2015 compared to $18 million in 2016 for the sale of other buildings.

Cash flows used in financing activities was favorable by $221 million, primarily due to:

- Higher net borrowings of $413 million (we increased total debt by $159 million in 2016 compared to a net debt reduction of $254 million in 2015).
- Partially offset by $195 million for repurchases of our common stock in 2016.

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Financings and Capitalization
We are a "Well-Known Seasoned Issuer" within the meaning of Rule 405 under the Securities Act, which allows us to issue debt securities, preferred stock, preference stock, common stock, purchase contracts, 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 January 2020. We have not drawn upon the credit facility.
At June 30, 2016, there was $320 million of outstanding commercial paper borrowings with an effective interest rate of 1.12%. During the second quarter of 2016, the average daily amount of outstanding commercial paper borrowings was $328 million at a weighted-average interest rate of 1.07% and the maximum amount outstanding at any time during the quarter was $410 million. At June 30, 2015, there was $100 million of outstanding commercial paper borrowings at an effective interest rate of 0.49%.
In January 2016, we borrowed $300 million under a term loan and used the proceeds to repay a portion of the $371 million, 4.75% notes due January 15, 2016. The remaining portion of the loan was repaid using cash from operations. The new term loan bears interest at the applicable Eurodollar Rate plus 1.25% and matures in December 2020. The applicable Eurodollar Rate at June 30, 2016 was .63%.

In October 2014, we received a loan from the State of Connecticut Department of Economic and Community Development (CDECD). The loan consisted of a $15 million development loan and $1 million jobs-training grant that was subject to certain conditions being met. We satisfied the conditions related to the $1 million jobs-training grant during 2015. The loan agreement provided that $10 million of the loan would be forgiven if we satisfied certain employment obligations. In March 2016, we satisfied all criteria to receive the $10 million of loan forgiveness and, as a result, recorded the loan forgiveness as reductions of long-term debt and selling, general and administrative expenses. The loan forgiveness did not impact cash flow.

In October 2016, the $300 million of outstanding Preferred Stock of one of our subsidiaries is redeemable at our option. If we do not redeem the Preferred Stock, the dividend rate increases 50% and will increase 50% every six months thereafter. We are currently evaluating various alternatives to redeem or refinance the Preferred Stock. See Note 12 to the Condensed Consolidated Financial Statements.

Dividends and Share Repurchases
Through the six months ended June 30, 2016, we paid dividends to our stockholders of $71 million. Each quarter, our Board of Directors considers our recent and projected earnings and other capital needs and priorities in deciding whether to approve the payment, as well as the amount, of a dividend. There are no material restrictions on our ability to declare dividends.

In February 2016, we received an additional authorization to repurchase $150 million of outstanding stock. During 2016, we spent $195 million on the repurchase of our common shares. We expect to repurchase up to $215 million of our common stock during 2016.

Off-Balance Sheet Arrangements
At June 30, 2016, we had no off-balance sheet arrangements that have, or are reasonably likely to have, a material current or future effect on our financial condition, results of operations or liquidity. See Note 7 to the Condensed Consolidated Financial Statements for detailed information about our commitments and contingencies.

Regulatory Matters
There have been no significant changes to the regulatory matters disclosed in our 2015 Annual Report.

Item 3: Quantitative and Qualitative Disclosures about Market Risk
There were no material changes to the disclosures made in the 2015 Annual Report.
Item 4: Controls and Procedures
Disclosure controls and procedures are designed to reasonably assure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934, as amended (Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures are also designed to reasonably assure that such information is accumulated and communicated to management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate to allow timely decisions regarding required disclosure.
Under the direction of our CEO and CFO, we evaluated our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act) and internal control over financial reporting. Our CEO and CFO concluded that, as of the end of the period covered by this report, such disclosure controls and procedures were effective to ensure that information we are required to disclose in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Exchange Act. In addition, no changes in internal control over financial reporting occurred during the fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially affect, such internal control over financial reporting. It should be noted that any system of controls is based in part upon certain assumptions designed to obtain reasonable (and not absolute) assurance as to its effectiveness, and there can be no assurance that any design will succeed in achieving its stated goals. Notwithstanding this caution, the CEO and CFO have reasonable assurance that the disclosure controls and procedures were effective as of June 30, 2016.
We are implementing an Enterprise Resource Planning ("ERP") system on a worldwide basis, which is expected to improve the efficiency of our supply chain and financial transaction processes. The implementation is expected to occur in phases extending through 2017. The implementation of a worldwide ERP system will likely affect the processes that constitute our internal control over financial reporting and will require testing for effectiveness. During the second quarter of 2016, we implemented the ERP system in the U.S. after having implemented in Canada during the fourth quarter 2015.

## PART II. OTHER INFORMATION

### Item 1: Legal Proceedings

See Note 13 to the Condensed Consolidated Financial Statements.

### Item 1A: Risk Factors

There were no material changes to the risk factors identified in our 2015 Annual Report.

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

Repurchases of Equity Securities

We periodically repurchase shares of our common stock to manage the dilution created by shares issued under employee stock plans and for other purposes in the open market. In February 2016, we received authorization from the Board of Directors to repurchase an additional $150 million of our common stock. The following table provides information about our purchases of our common stock during the six months ended June 30, 2016:

| | Total Number of shares purchased | Average price paid per share | Total Number of shares purchased as part of publicly announced plans or programs | Approximate dollar value of shares that may be purchased under the plans or programs (in thousands) |
|---|---|---|---|---|
| Beginning balance | | | | $89,837 |
| April 1, 2016 - April 30, 2016 | 456,000 | $21.45 | 456,000 | $80,057 |
| May 1, 2016 - May 31, 2016 | 2,211,035 | $18.57 | 2,211,035 | $38,990 |
| June 1, 2016 - June 30, 2016 | 836,153 | $18.51 | 836,153 | $23,513 |
| | 3,503,188 | $18.93 | 3,503,188 | |

### Item 6: Exhibits

| Exhibit Number | Description | Exhibit Number in this Form 10-Q |
|---|---|---|
| 12 | Computation of ratio of earnings to fixed charges | 12 |
| 31.1 | Certification of Chief Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended | 31.1 |
| 31.2 | Certification of Chief Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended | 31.2 |
| 32.1 | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 | 32.1 |
| 32.2 | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 | 32.2 |
| 101.INS | XBRL Report Instance Document | |
| 101.SCH | XBRL Taxonomy Extension Schema Document | |
| 101.CAL | XBRL Taxonomy Calculation Linkbase Document | |
| 101.DEF | XBRL Taxonomy Definition Linkbase Document | |
| 101.LAB | XBRL Taxonomy Label Linkbase Document | |
| 101.PRE | XBRL Taxonomy Presentation Linkbase Document | |

Signatures

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

PITNEY BOWES INC.

Date: August 8, 2016

/s/ Michael Monahan

Michael Monahan
Executive Vice President, Chief Operating Officer 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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