

PITNEY BOWES INC /DE/  
Form 10-Q  
November 06, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q  
 QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended September 30, 2015  
OR  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number: 1-3579  
PITNEY BOWES INC.  
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

As of November 3, 2015, 197,050,227 shares of common stock, par value \$1 per share, of the registrant were outstanding.

PITNEY BOWES INC.  
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## PART I. FINANCIAL INFORMATION

## Item 1: Financial Statements

## PITNEY BOWES INC.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited; in thousands, except per share data)

|   | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|---|-------------------------------------|------------|------------------------------------|------------|
|   | 2015                                | 2014       | 2015                               | 2014       |
| Revenue:  |                                     |            |                                    |            |
| Equipment sales   | \$ 163,857                          | \$ 177,458 | \$ 495,328                         | \$ 558,032 |
| Supplies  | 71,174                              | 72,548     | 215,178                            | 228,349    |
| Software  | 97,700                              | 112,271    | 283,241                            | 312,891    |
| Rentals   | 108,420                             | 119,047    | 333,729                            | 365,069    |
| Financing   | 99,925                              | 107,835    | 306,992                            | 325,529    |
| Support services  | 136,820                             | 154,321    | 415,615                            | 470,763    |
| Business services   | 191,645                             | 198,164    | 591,030                            | 576,958    |
| Total revenue   | 869,541                             | 941,644    | 2,641,113                          | 2,837,591  |
| Costs and expenses:   |                                     |            |                                    |            |
| Cost of equipment sales   | 78,650                              | 90,984     | 232,706                            | 262,336    |
| Cost of supplies  | 21,629                              | 22,470     | 65,912                             | 70,129     |
| Cost of software  | 27,219                              | 29,775     | 85,584                             | 93,423     |
| Cost of rentals   | 21,423                              | 23,636     | 63,127                             | 74,273     |
| Financing interest expense  | 17,533                              | 19,667     | 54,171                             | 59,733     |
| Cost of support services  | 79,747                              | 92,500     | 244,853                            | 288,203    |
| Cost of business services   | 130,004                             | 142,512    | 405,559                            | 406,472    |
| Selling, general and administrative   | 309,211                             | 341,738    | 939,318                            | 1,031,497  |
| Research and development  | 29,153                              | 26,060     | 83,693                             | 80,901     |
| Restructuring charges and asset impairments, net                              | 36                                  | 4,526      | 14,305                             | 22,666     |
| Interest expense, net   | 20,165                              | 22,158     | 65,200                             | 67,704     |
| Other (income) expense, net   | (1,781)                             | (15,919)   | (94,916)                           | 45,738     |
| Total costs and expenses  | 732,989                             | 800,107    | 2,159,512                          | 2,503,075  |
| Income from continuing operations before income taxes                         | 136,552                             | 141,537    | 481,601                            | 334,516    |
| Provision for income taxes  | 42,676                              | 25,310     | 145,574                            | 79,681     |
| Income from continuing operations   | 93,876                              | 116,227    | 336,027                            | 254,835    |
| Income (loss) from discontinued operations, net of tax                        | —                                   | 20,655     | (582)                              | 30,173     |
| Net income  | 93,876                              | 136,882    | 335,445                            | 285,008    |
| Less: Preferred stock dividends attributable to noncontrolling interests      | 4,594                               | 4,593      | 13,781                             | 13,781     |
| Net income attributable to Pitney Bowes Inc.                                  | \$ 89,282                           | \$ 132,289 | \$ 321,664                         | \$ 271,227 |
| Amounts attributable to common stockholders:                                  |                                     |            |                                    |            |
| Net income from continuing operations   | \$ 89,282                           | \$ 111,634 | \$ 322,246                         | \$ 241,054 |
| Income (loss) from discontinued operations, net of tax                        | —                                   | 20,655     | (582)                              | 30,173     |
| Net income attributable to Pitney Bowes Inc.                                  | \$ 89,282                           | \$ 132,289 | \$ 321,664                         | \$ 271,227 |
| Basic earnings per share attributable to common stockholders <sup>(1)</sup> : |                                     |            |                                    |            |
| Continuing operations   | \$ 0.45                             | \$ 0.55    | \$ 1.60                            | \$ 1.19    |
| Discontinued operations   | —                                   | 0.10       | —                                  | 0.15       |

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|   |          |          |          |          |
|---|----------|----------|----------|----------|
| Net income attributable to Pitney Bowes Inc.                                    | \$0.45   | \$0.65   | \$1.60   | \$1.34   |
| Diluted earnings per share attributable to common stockholders <sup>(1)</sup> : |          |          |          |          |
| Continuing operations   | \$0.44   | \$0.55   | \$1.60   | \$1.18   |
| Discontinued operations   | —        | 0.10     | —        | 0.15     |
| Net income attributable to Pitney Bowes Inc.                                    | \$0.44   | \$0.65   | \$1.59   | \$1.33   |
| Dividends declared per share of common stock                                    | \$0.1875 | \$0.1875 | \$0.5625 | \$0.5625 |

(1) The sum of earnings per share amounts may not equal the totals due to rounding.  
See Notes to Condensed Consolidated Financial Statements

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

|   | Three Months Ended |           | Nine Months Ended |           |
|---|--------------------|-----------|-------------------|-----------|
|   | September 30,      |           | September 30,     |           |
|   | 2015               | 2014      | 2015              | 2014      |
| Net income  | \$93,876           | \$136,882 | \$335,445         | \$285,008 |
| Less: Preferred stock dividends attributable to noncontrolling interests  | 4,594              | 4,593     | 13,781            | 13,781    |
| Net income attributable to Pitney Bowes Inc.  | 89,282             | 132,289   | 321,664           | 271,227   |
| Other comprehensive income (loss), net of tax:  |                    |           |                   |           |
| Foreign currency translations   | (17,131 )          | (61,809 ) | (76,153 )         | (64,011 ) |
| Net unrealized gain on cash flow hedges, net of tax of \$79, \$420, \$219 and \$925, respectively                     | 119                | 658       | 335               | 1,448     |
| Net unrealized gain (loss) on investment securities, net of tax of \$721, \$(546), \$(142) and \$1,908, respectively  | 1,231              | (933 )    | (242 )            | 3,262     |
| Amortization of pension and postretirement costs, net of tax of \$4,219, \$3,355, \$12,001 and \$10,609, respectively | 7,435              | 6,694     | 21,364            | 19,116    |
| Other comprehensive loss, net of tax  | (8,346 )           | (55,390 ) | (54,696 )         | (40,185 ) |
| Comprehensive income attributable to Pitney Bowes Inc.  | \$80,936           | \$76,899  | \$266,968         | \$231,042 |

See Notes to Condensed Consolidated Financial Statements

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

|  | September 30,<br>2015 | December 31,<br>2014 |
|--|-----------------------|----------------------|
| <b>ASSETS</b>  |                       |                      |
| Current assets:  |                       |                      |
| Cash and cash equivalents  | \$715,976             | \$1,079,145          |
| Short-term investments   | 34,318                | 32,121               |
| Accounts receivable (net of allowance of \$12,680 and \$10,742, respectively)            | 399,124               | 437,275              |
| Short-term finance receivables (net of allowance of \$16,143 and \$19,108, respectively) | 940,624               | 1,000,304            |
| Inventories  | 103,195               | 84,827               |
| Current income taxes   | 33,057                | 40,542               |
| Other current assets and prepayments   | 71,454                | 57,173               |
| Assets held for sale   | —                     | 52,271               |
| Total current assets   | 2,297,748             | 2,783,658            |
| Property, plant and equipment, net   | 317,005               | 285,091              |
| Rental property and equipment, net   | 188,485               | 200,380              |
| Long-term finance receivables (net of allowance of \$6,551 and \$9,002, respectively)    | 768,139               | 819,721              |
| Goodwill   | 1,753,888             | 1,672,721            |
| Intangible assets, net   | 192,318               | 82,173               |
| Non-current income taxes   | 70,731                | 96,377               |
| Other assets   | 553,467               | 569,110              |
| Total assets   | \$6,141,781           | \$6,509,231          |
| <b>LIABILITIES, NONCONTROLLING INTERESTS AND STOCKHOLDERS' EQUITY</b>                    |                       |                      |
| Current liabilities:   |                       |                      |
| Accounts payable and accrued liabilities   | \$1,379,337           | \$1,572,971          |
| Current income taxes   | 79,689                | 90,167               |
| Current portion of long-term debt and notes payable                                      | 521,091               | 324,879              |
| Advance billings   | 353,467               | 386,846              |
| Total current liabilities  | 2,333,584             | 2,374,863            |
| Deferred taxes on income   | 131,416               | 64,839               |
| Tax uncertainties and other income tax liabilities                                       | 94,822                | 86,127               |
| Long-term debt   | 2,471,055             | 2,927,127            |
| Other non-current liabilities  | 672,507               | 682,646              |
| Total liabilities  | 5,703,384             | 6,135,602            |
| Noncontrolling interests (Preferred stockholders' equity in subsidiaries)                | 296,370               | 296,370              |
| Commitments and contingencies (See Note 15)  |                       |                      |
| Stockholders' equity:  |                       |                      |
| Cumulative preferred stock, \$50 par value, 4% convertible                               | 1                     | 1                    |
| Cumulative preference stock, no par value, \$2.12 convertible                            | 519                   | 548                  |
| Common stock, \$1 par value (480,000,000 shares authorized; 323,337,912 shares issued)   | 323,338               | 323,338              |
| Additional paid-in capital   | 156,195               | 178,852              |
| Retained earnings  | 5,106,214             | 4,897,708            |

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|  |             |   |             |   |
|--|-------------|---|-------------|---|
| Accumulated other comprehensive loss                                       | (900,852    | ) | (846,156    | ) |
| Treasury stock, at cost (126,300,691 and 122,309,948 shares, respectively) | (4,543,388  | ) | (4,477,032  | ) |
| Total stockholders' equity   | 142,027     |   | 77,259      |   |
| Total liabilities, noncontrolling interests and stockholders' equity       | \$6,141,781 |   | \$6,509,231 |   |

See Notes to Condensed Consolidated Financial Statements

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

|  | Nine Months Ended<br>September 30, |           |
|--|------------------------------------|-----------|
|  | 2015                               | 2014      |
| Cash flows from operating activities:  |                                    |           |
| Net income   | \$335,445                          | \$285,008 |
| Restructuring payments   | (46,056)                           | (42,151)  |
| Tax payments related to other investments  | (20,602)                           | (53,738)  |
| Adjustments to reconcile net income to net cash provided by operating activities:        |                                    |           |
| Gain on disposal of businesses   | (109,069)                          | (29,104)  |
| Depreciation and amortization  | 127,486                            | 143,360   |
| Stock-based compensation   | 14,921                             | 12,658    |
| Restructuring charges and asset impairments, net   | 14,305                             | 21,572    |
| Changes in operating assets and liabilities, net of acquisitions/divestitures:           |                                    |           |
| Decrease in accounts receivable  | 27,100                             | 68,140    |
| Decrease in finance receivables  | 92,684                             | 107,027   |
| (Increase) decrease in inventories   | (20,850)                           | 854       |
| Increase in other current assets and prepayments   | (16,854)                           | (30,914)  |
| Decrease in accounts payable and accrued liabilities                                     | (138,481)                          | (120,329) |
| Increase in current and non-current income taxes   | 68,894                             | 24,218    |
| Decrease in advance billings   | (535)                              | (15,793)  |
| Other, net   | 22,327                             | 26,624    |
| Net cash provided by operating activities  | 350,715                            | 397,432   |
| Cash flows from investing activities:  |                                    |           |
| Purchases of available-for-sale securities   | (142,563)                          | (644,396) |
| Proceeds from sales/maturities of available-for-sale securities                          | 149,436                            | 601,296   |
| Capital expenditures   | (129,643)                          | (121,270) |
| Proceeds from sale of former corporate world headquarters building                       | 38,640                             | —         |
| Acquisition of businesses, net of cash acquired  | (387,391)                          | —         |
| Divestiture of businesses, net of cash transferred                                       | 290,543                            | 101,179   |
| Change in reserve account deposits   | (25,630)                           | (15,919)  |
| Other investing activities   | 2,911                              | (2,539)   |
| Net cash used in investing activities  | (203,697)                          | (81,649)  |
| Cash flows from financing activities:  |                                    |           |
| Proceeds from the issuance of debt, net of fees and discounts of \$7,475 in 2014         | 950                                | 492,525   |
| Principal payments of long-term debt   | (404,952)                          | (599,850) |
| Increase in notes payable, net   | 150,000                            | —         |
| Dividends paid to stockholders   | (113,158)                          | (113,963) |
| Proceeds from the issuance of common stock under employee stock-based compensation plans | 4,531                              | 5,869     |
| Purchase of subsidiary shares from noncontrolling interest                               | —                                  | (7,718)   |
| Common stock repurchases   | (100,000)                          | (50,003)  |
| Dividends paid to noncontrolling interests   | (9,188)                            | (9,188)   |
| Net cash used in financing activities  | (471,817)                          | (282,328) |
| Effect of exchange rate changes on cash and cash equivalents                             | (38,370)                           | (17,585)  |
| (Decrease) increase in cash and cash equivalents   | (363,169)                          | 15,870    |

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|  |           |           |
|--|-----------|-----------|
| Cash and cash equivalents at beginning of period         | 1,079,145 | 907,806   |
| Cash and cash equivalents at end of period               | \$715,976 | \$923,676 |
| Cash interest paid                                       | \$146,838 | \$161,628 |
| Cash income tax payments, net of refunds                 | \$95,770  | \$116,682 |
| See Notes to Condensed Consolidated Financial Statements |           |           |

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PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

1. Description of Business and Basis of Presentation

Pitney Bowes Inc. and its subsidiaries (we, us, our or the Company) is a global technology company offering innovative products and solutions that enable commerce in the areas of customer information management, location intelligence, customer engagement, shipping and mailing, and global ecommerce.

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, 2014 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, 2015.

During the second quarter, we determined that at December 31, 2014, certain customer deposits within current liabilities should have been classified as a current asset and certain customer deposits within current liabilities should have been classified as a non-current liability. Accordingly, the Condensed Consolidated Balance Sheet at December 31, 2014 has been revised by increasing accounts receivable, accounts payable and accrued liabilities, and other non-current liabilities by \$23 million, \$14 million and \$9 million, respectively. This revision was not material to any of our previously issued financial statements. Previously issued financial statements will be revised to reflect this revision in future filings.

In the fourth quarter of 2014, we noted that certain purchases and sales of available-for-sale securities were reported net in our Condensed Consolidated Statements of Cash Flows. Accordingly, the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 has been revised by increasing purchases of available-for-sale securities and proceeds from sales/maturities of available-for-sale securities by \$422 million. This revision did not have any impact on the reported net cash flow from investing activities or overall change in cash in any of our previously issued financial statements.

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, 2014 (2014 Annual Report).

New Accounting Pronouncements

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. The ASU should be applied prospectively to measurement period adjustments that occur after the effective date. The ASU is effective for interim and annual periods beginning after December 15, 2015. Early adoption is permitted. We do not believe this standard will have a significant impact on our consolidated financial statements or 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 fiscal years beginning after December 15, 2016 and interim periods therein. Early adoption is permitted. We do not believe this standard will have a significant impact on our consolidated financial statements or disclosures.

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. This standard is effective for fiscal periods beginning after December 15, 2015. Early adoption is permitted. We are currently assessing the impact this standard will have on our consolidated financial statements and disclosures.

In April 2015, the FASB issued Accounting Standard Update (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

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

effective for fiscal periods beginning after December 15, 2015. Early adoption is permitted. We do not believe this standard will have a significant impact on our consolidated financial statements or disclosures.

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. The standard is effective for fiscal periods beginning after December 15, 2015. 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 assessing the impact this standard will have on our consolidated financial statements and disclosures.

## 2. Segment Information

As a result of the acquisition of Borderfree, Inc. (Borderfree) and the sale of Imagitas (see Note 3), we realigned our segment reporting to conform to the way we now manage our segments and recast prior period amounts to conform to the current year presentation. Our business continues to be organized around three distinct sets of solutions – Small and Medium Business (SMB) Solutions, Enterprise Business Solutions and Digital Commerce Solutions (DCS). Under the new segment reporting, there are no changes to SMB Solutions or Enterprise Business Solutions; however, within DCS, we now report Software Solutions and Global Ecommerce as reportable segments. The Other segment is comprised of our Marketing Services business, Imagitas, which was sold in May 2015. Imagitas was previously reported in DCS. The principal products and services of each of our reportable segments are as follows:

### Small & Medium Business Solutions:

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

**International Mailing:** Includes the revenue and related expenses from the sale, rental, financing and servicing of mailing equipment and supplies for small and medium businesses to efficiently create mail and evidence postage 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 sale 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 global ecommerce and shipping solutions.

We determine segment earnings before interest and taxes (EBIT) by deducting the related costs and expenses attributable to the segment from segment revenue. Segment EBIT excludes interest, taxes, general corporate expenses, restructuring charges and other items, which are not allocated to a particular business segment. Management uses segment EBIT to measure profitability and performance at the segment level. Management believes segment EBIT provides 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 data)

Revenue and EBIT by business segment is presented below:

|   | Revenue            |           |                   |             |
|---|--------------------|-----------|-------------------|-------------|
|   | Three Months Ended |           | Nine Months Ended |             |
|   | September 30,      |           | September 30,     |             |
|   | 2015               | 2014      | 2015              | 2014        |
| North America Mailing                                 | \$353,159          | \$363,285 | \$1,071,824       | \$1,115,507 |
| International Mailing                                 | 104,615            | 132,291   | 331,398           | 438,819     |
| Small & Medium Business Solutions                     | 457,774            | 495,576   | 1,403,222         | 1,554,326   |
| Production Mail                                       | 101,646            | 113,497   | 298,880           | 330,469     |
| Presort Services                                      | 115,912            | 111,434   | 351,365           | 339,205     |
| Enterprise Business Solutions                         | 217,558            | 224,931   | 650,245           | 669,674     |
| Software Solutions                                    | 97,638             | 112,006   | 282,916           | 312,200     |
| Global Ecommerce                                      | 96,571             | 71,870    | 249,923           | 204,399     |
| Digital Commerce Solutions                            | 194,209            | 183,876   | 532,839           | 516,599     |
| Other   | —                  | 37,261    | 54,807            | 96,992      |
| Total revenue   | \$869,541          | \$941,644 | \$2,641,113       | \$2,837,591 |
|   | EBIT               |           |                   |             |
|   | Three Months Ended |           | Nine Months Ended |             |
|   | September 30,      |           | September 30,     |             |
|   | 2015               | 2014      | 2015              | 2014        |
| North America Mailing                                 | \$159,319          | \$159,638 | \$482,376         | \$476,757   |
| International Mailing                                 | 10,739             | 16,079    | 36,585            | 67,347      |
| Small & Medium Business Solutions                     | 170,058            | 175,717   | 518,961           | 544,104     |
| Production Mail                                       | 12,401             | 9,570     | 31,461            | 27,865      |
| Presort Services                                      | 25,908             | 21,927    | 76,946            | 68,235      |
| Enterprise Business Solutions                         | 38,309             | 31,497    | 108,407           | 96,100      |
| Software Solutions                                    | 14,613             | 18,921    | 34,904            | 30,620      |
| Global Ecommerce                                      | (1,240)            | (676)     | 9,962             | 9,100       |
| Digital Commerce Solutions                            | 13,373             | 18,245    | 44,866            | 39,720      |
| Other   | —                  | 7,980     | 10,569            | 13,965      |
| Total EBIT  | 221,740            | 233,439   | 682,803           | 693,889     |
| Reconciling items:                                    |                    |           |                   |             |
| Interest, net   | (37,698)           | (41,825)  | (119,371)         | (127,437)   |
| Unallocated corporate expenses                        | (49,235)           | (61,470)  | (151,959)         | (163,532)   |
| Restructuring charges and asset impairments, net      | (36)               | (4,526)   | (14,305)          | (22,666)    |
| Acquisition-related compensation expense              | —                  | —         | (10,483)          | —           |
| Other income (expense), net                           | 1,781              | 15,919    | 94,916            | (45,738)    |
| Income from continuing operations before income taxes | \$136,552          | \$141,537 | \$481,601         | \$334,516   |

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

## 3. Business Combinations and Divestiture

## Business Combinations

## Borderfree

On June 10, 2015, we acquired 100% of the outstanding shares of Borderfree. Borderfree provides cross-border ecommerce solutions through a proprietary technology and services platform that enables retailers to transact with consumers around the world. Borderfree is reported within our Global Ecommerce segment (see Note 2). The purchase price was \$381 million, net of \$92 million of cash acquired. In addition, we also paid \$10 million for the accelerated vesting and settlement of Borderfree stock-based compensation awards and \$8 million of transaction costs. The \$10 million of expense related to Borderfree stock-based compensation awards was recognized as selling, general and administrative expenses and the \$8 million of transaction costs was recognized within other (income) expense, net in the Condensed Consolidated Statements of Income.

The preliminary allocation of the purchase price to the fair values of assets acquired and liabilities assumed was as follows:

|  |            |
|--|------------|
| Accounts receivable                            | \$ 13,860  |
| Fixed assets                                   | 7,329      |
| Goodwill                                       | 299,966    |
| Intangible assets                              | 137,500    |
| Accounts payable and other current liabilities | (35,693 )  |
| Deferred taxes, net                            | (40,836 )  |
| Other assets and liabilities, net              | (677 )     |
|  | \$ 381,449 |

Goodwill represents the excess of the purchase price over the fair values of assets acquired and liabilities assumed. Goodwill is primarily attributable to expected growth opportunities, synergies and other benefits that we believe will result from combining the operations of Borderfree with our operations. Goodwill is not deductible for tax purposes.

Intangible assets acquired consisted of the following:

|                        | Value      | Amortization<br>period |
|------------------------|------------|------------------------|
| Customer Relationships | \$ 116,200 | 10 years               |
| Developed Technology   | 12,600     | 5 years                |
| Trade Names            | 8,700      | 5 years                |
|                        | \$ 137,500 |                        |

The allocation of the purchase price to the fair values of assets acquired and liabilities assumed may be subject to further adjustments as we obtain additional information during the measurement period, which will not exceed 12 months from the acquisition date.

The results of operations of Borderfree are included in our consolidated results from the date of acquisition. Our consolidated operating results for the three and nine months ended September 30, 2015 include revenue of \$25 million and \$31 million, respectively. On a supplemental pro forma basis, had we acquired Borderfree on January 1, 2014, our revenues would have been \$47 million higher for the nine months ended September 30, 2015 and \$31 million and \$89 million higher for the three and nine months ended September 30, 2014, respectively. The impact on our earnings would not have been material.

Real Time Content, Inc.



On May 1, 2015, we acquired Real Time Content, Inc. (RTC) for \$6 million, net of cash acquired. RTC provides technology that enables clients to provide personalized interactive video communications to their customers. RTC is reported within our Software Solutions segment.

Divestiture

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.

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

## 4. Discontinued Operations and Assets Held For Sale

## Discontinued Operations

Loss from discontinued operations, net of tax for the nine months ended September 30, 2015 consisted of post-closing adjustments in connection with the sale of our Management Services business in 2014.

The table below shows selected financial information for discontinued operations for the three and nine months ended September 30, 2014:

|                                     | Three Months Ended September 30, 2014 |       |                                 |        |              |
|-------------------------------------|---------------------------------------|-------|---------------------------------|--------|--------------|
|                                     | PBMS                                  | IMS   | Nordic<br>furniture<br>business | DIS    | Total        |
| Revenue                             | \$—                                   | \$—   | \$—                             | \$—    | \$—          |
| Income from operations before taxes | \$(858                                | ) \$— | \$—                             | \$(297 | ) \$(1,155 ) |
| Gain (loss) on sale                 | 2,971                                 | —     | —                               | (19    | ) 2,952      |
| Income (loss) before taxes          | 2,113                                 | —     | —                               | (316   | ) 1,797      |
| Tax (benefit) provision             | (5,149                                | ) —   | —                               | 85     | (5,064 )     |
| Net income (loss)                   | \$7,262                               | \$—   | \$—                             | \$(401 | ) \$6,861    |
| Capital Services, net of tax        |                                       |       |                                 |        | 13,794       |
| Income from discontinued operations |                                       |       |                                 |        | \$20,655     |

|                                     | Nine Months Ended September 30, 2014 |         |                                 |          |          |
|-------------------------------------|--------------------------------------|---------|---------------------------------|----------|----------|
|                                     | PBMS                                 | IMS     | Nordic<br>furniture<br>business | DIS      | Total    |
| Revenue                             | \$—                                  | \$—     | \$—                             | \$19,858 | \$19,858 |
| (Loss) income before taxes          | \$(524                               | ) \$308 | \$345                           | \$3,132  | \$3,261  |
| Gain on sale                        | 3,101                                | 1,994   | —                               | 25,179   | 30,274   |
| Income before taxes                 | 2,577                                | 2,302   | 345                             | 28,311   | 33,535   |
| Tax (benefit) provision             | (4,953                               | ) 851   | 97                              | 21,161   | 17,156   |
| Net income                          | \$7,530                              | \$1,451 | \$248                           | \$7,150  | \$16,379 |
| Capital Services, net of tax        |                                      |         |                                 |          | 13,794   |
| Income from discontinued operations |                                      |         |                                 |          | \$30,173 |

## Assets Held for Sale

Assets held for sale at December 31, 2014 included the fair value of our former corporate headquarters building and the value of a lease portfolio. The lease portfolio was sold in January 2015 and the corporate headquarters building was sold in June 2015 (see Note 10 for further details).

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

## 5. Earnings per Share

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

|   | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|---|-------------------------------------|-----------|------------------------------------|-----------|
|   | 2015                                | 2014      | 2015                               | 2014      |
| Numerator:  |                                     |           |                                    |           |
| Net income from continuing operations   | \$89,282                            | \$111,634 | \$322,246                          | \$241,054 |
| Income (loss) from discontinued operations, net of tax                        | —                                   | 20,655    | (582                               | ) 30,173  |
| Net income - Pitney Bowes Inc. (numerator for diluted EPS)                    | 89,282                              | 132,289   | 321,664                            | 271,227   |
| Less: Preference stock dividend   | 10                                  | 11        | 31                                 | 33        |
| Income attributable to common stockholders (numerator for basic EPS)          | \$89,272                            | \$132,278 | \$321,633                          | \$271,194 |
| Denominator:  |                                     |           |                                    |           |
| Weighted-average shares used in basic EPS                                     | 199,874                             | 202,057   | 200,825                            | 202,288   |
| Effect of dilutive shares:  |                                     |           |                                    |           |
| Conversion of Preferred stock and Preference stock                            | 318                                 | 343       | 326                                | 347       |
| Employee stock plans  | 825                                 | 1,569     | 734                                | 1,325     |
| Weighted-average shares used in diluted EPS                                   | 201,017                             | 203,969   | 201,885                            | 203,960   |
| Basic earnings per share (1):   |                                     |           |                                    |           |
| Continuing operations   | \$0.45                              | \$0.55    | \$1.60                             | \$1.19    |
| Discontinued operations   | —                                   | 0.10      | —                                  | 0.15      |
| Net income  | \$0.45                              | \$0.65    | \$1.60                             | \$1.34    |
| Diluted earnings per share (1):   |                                     |           |                                    |           |
| Continuing operations   | \$0.44                              | \$0.55    | \$1.60                             | \$1.18    |
| Discontinued operations   | —                                   | 0.10      | —                                  | 0.15      |
| Net income  | \$0.44                              | \$0.65    | \$1.59                             | \$1.33    |
| Anti-dilutive shares not used in calculating diluted weighted-average shares: | 7,934                               | 6,009     | 8,609                              | 7,394     |

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

## 6. 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 September 30, 2015 and December 31, 2014 consisted of the following:

|                                    | September 30,<br>2015 | December 31,<br>2014 |
|------------------------------------|-----------------------|----------------------|
| Raw materials and work in process  | \$40,410              | \$37,175             |
| Supplies and service parts         | 45,950                | 33,760               |
| Finished products                  | 30,191                | 26,992               |
| Inventory at FIFO cost             | 116,551               | 97,927               |
| Excess of FIFO cost over LIFO cost | (13,356               | ) (13,100            |
| Total inventory, net               | \$103,195             | \$84,827             |



## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

## 7. Finance Assets

## Finance Receivables

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

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

Finance receivables at September 30, 2015 and December 31, 2014 consisted of the following:

|  | September 30, 2015 |               |             | December 31, 2014 |               |             |
|--|--------------------|---------------|-------------|-------------------|---------------|-------------|
|  | North America      | International | Total       | North America     | International | Total       |
| Sales-type lease receivables                   |                    |               |             |                   |               |             |
| Gross finance receivables                      | \$1,219,242        | \$318,369     | \$1,537,611 | \$1,286,624       | \$366,669     | \$1,653,293 |
| Unguaranteed residual values                   | 100,210            | 16,319        | 116,529     | 105,205           | 18,291        | 123,496     |
| Unearned income                                | (255,747 )         | (70,496 )     | (326,243 )  | (270,196 )        | (83,110 )     | (353,306 )  |
| Allowance for credit losses                    | (7,531 )           | (3,660 )      | (11,191 )   | (10,281 )         | (5,129 )      | (15,410 )   |
| Net investment in sales-type lease receivables | 1,056,174          | 260,532       | 1,316,706   | 1,111,352         | 296,721       | 1,408,073   |
| Loan receivables                               |                    |               |             |                   |               |             |
| Loan receivables                               | 355,106            | 48,454        | 403,560     | 376,987           | 47,665        | 424,652     |
| Allowance for credit losses                    | (9,853 )           | (1,650 )      | (11,503 )   | (10,912 )         | (1,788 )      | (12,700 )   |
| Net investment in loan receivables             | 345,253            | 46,804        | 392,057     | 366,075           | 45,877        | 411,952     |
| Net investment in finance receivables          | \$1,401,427        | \$307,336     | \$1,708,763 | \$1,477,427       | \$342,598     | \$1,820,025 |

## Allowance for Credit Losses and Aging of Receivables

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

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

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Activity in the allowance for credit losses for the nine months ended September 30, 2015 and 2014 was as follows:

|                               | Sales-type Lease Receivables |               | Loan Receivables |               | Total     |
|-------------------------------|------------------------------|---------------|------------------|---------------|-----------|
|                               | North America                | International | North America    | International |           |
| Balance at January 1, 2015    | \$ 10,281                    | \$ 5,129      | \$ 10,912        | \$ 1,788      | \$ 28,110 |
| Amounts charged to expense    | 802                          | 183           | 6,171            | 867           | 8,023     |
| Write-offs and other          | (3,552)                      | (1,652)       | (7,230)          | (1,005)       | (13,439)  |
| Balance at September 30, 2015 | \$ 7,531                     | \$ 3,660      | \$ 9,853         | \$ 1,650      | \$ 22,694 |

|                               | Sales-type Lease Receivables |               | Loan Receivables |               | Total     |
|-------------------------------|------------------------------|---------------|------------------|---------------|-----------|
|                               | North America                | International | North America    | International |           |
| Balance at January 1, 2014    | \$ 14,165                    | \$ 9,703      | \$ 11,165        | \$ 1,916      | \$ 36,949 |
| Amounts charged to expense    | 3,232                        | 35            | 7,759            | 1,366         | 12,392    |
| Write-offs and other          | (4,491)                      | (4,252)       | (7,980)          | (1,381)       | (18,104)  |
| Balance at September 30, 2014 | \$ 12,906                    | \$ 5,486      | \$ 10,944        | \$ 1,901      | \$ 31,237 |

## Aging of Receivables

The aging of gross finance receivables at September 30, 2015 and December 31, 2014 was as follows:

|                            | Sales-type Lease Receivables |               | Loan Receivables |               | Total        |
|----------------------------|------------------------------|---------------|------------------|---------------|--------------|
|                            | North America                | International | North America    | International |              |
| September 30, 2015         |                              |               |                  |               |              |
| 1 - 30 days                | \$ 1,153,935                 | \$ 301,527    | \$ 340,106       | \$ 46,409     | \$ 1,841,977 |
| 31 - 60 days               | 26,887                       | 5,635         | 8,565            | 1,167         | 42,254       |
| 61 - 90 days               | 19,165                       | 3,543         | 2,978            | 370           | 26,056       |
| > 90 days                  | 19,255                       | 7,664         | 3,457            | 508           | 30,884       |
| Total                      | \$ 1,219,242                 | \$ 318,369    | \$ 355,106       | \$ 48,454     | \$ 1,941,171 |
| Past due amounts > 90 days |                              |               |                  |               |              |
| Still accruing interest    | \$ 5,356                     | \$ 2,258      | \$ —             | \$ —          | \$ 7,614     |
| Not accruing interest      | 13,899                       | 5,406         | 3,457            | 508           | 23,270       |
| Total                      | \$ 19,255                    | \$ 7,664      | \$ 3,457         | \$ 508        | \$ 30,884    |

|                            | Sales-type Lease Receivables |               | Loan Receivables |               | Total        |
|----------------------------|------------------------------|---------------|------------------|---------------|--------------|
|                            | North America                | International | North America    | International |              |
| December 31, 2014          |                              |               |                  |               |              |
| 1 - 30 days                | \$ 1,217,623                 | \$ 347,236    | \$ 359,672       | \$ 45,678     | \$ 1,970,209 |
| 31 - 60 days               | 23,242                       | 6,207         | 9,245            | 1,201         | 39,895       |
| 61 - 90 days               | 24,198                       | 4,494         | 3,498            | 413           | 32,603       |
| > 90 days                  | 21,561                       | 8,732         | 4,572            | 373           | 35,238       |
| Total                      | \$ 1,286,624                 | \$ 366,669    | \$ 376,987       | \$ 47,665     | \$ 2,077,945 |
| Past due amounts > 90 days |                              |               |                  |               |              |
| Still accruing interest    | \$ 5,931                     | \$ 2,517      | \$ —             | \$ —          | \$ 8,448     |
| Not accruing interest      | 15,630                       | 6,215         | 4,572            | 373           | 26,790       |
| Total                      | \$ 21,561                    | \$ 8,732      | \$ 4,572         | \$ 373        | \$ 35,238    |



## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

## 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 September 30, 2015 and December 31, 2014 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.

|                              | September 30,<br>2015 | December 31,<br>2014 |
|------------------------------|-----------------------|----------------------|
| Sales-type lease receivables |                       |                      |
| Low                          | \$924,814             | \$936,979            |
| Medium                       | 207,186               | 230,799              |
| High                         | 39,595                | 45,202               |
| Not Scored                   | 47,647                | 73,644               |
| Total                        | \$1,219,242           | \$1,286,624          |
| Loan receivables             |                       |                      |
| Low                          | \$248,542             | \$259,436            |
| Medium                       | 85,716                | 96,243               |
| High                         | 10,445                | 10,913               |
| Not Scored                   | 10,403                | 10,395               |
| Total                        | \$355,106             | \$376,987            |



## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

## 8. Intangible Assets and Goodwill

## Intangible Assets

Intangible assets consisted of the following:

|                         | September 30, 2015    |                          |                     | December 31, 2014     |                          |                     |
|-------------------------|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
|                         | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Customer relationships  | \$433,475             | \$(265,371 )             | \$168,104           | \$337,438             | \$(263,121 )             | \$74,317            |
| Supplier relationships  | —                     | —                        | —                   | 29,000                | (27,913 )                | 1,087               |
| Software & technology   | 150,373               | (134,530 )               | 15,843              | 160,825               | (154,610 )               | 6,215               |
| Trademarks & other      | 35,548                | (27,177 )                | 8,371               | 33,079                | (32,525 )                | 554                 |
| Total intangible assets | \$619,396             | \$(427,078 )             | \$192,318           | \$560,342             | \$(478,169 )             | \$82,173            |

Amortization expense was \$11 million and \$9 million for the three months ended September 30, 2015 and 2014, respectively, and \$27 million and \$26 million, for the nine months ended September 30, 2015 and 2014, respectively.

In 2015, we acquired certain intangible assets in connection with the acquisition of Borderfree (see Note 3). The change in supplier relationships is the result of the sale of Imagitas.

Future amortization expense for intangible assets as of September 30, 2015 was as follows:

|   |           |
|---|-----------|
| Remaining for year ending December 31, 2015 | \$10,520  |
| Year ending December 31, 2016               | 37,696    |
| Year ending December 31, 2017               | 26,857    |
| Year ending December 31, 2018               | 24,251    |
| Year ending December 31, 2019               | 21,193    |
| Thereafter                                  | 71,801    |
| Total                                       | \$192,318 |

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

## Goodwill

The changes in the carrying value of goodwill for the nine months ended September 30, 2015 were as follows:

|                                   | December 31, 2014 | Acquisitions | Divestiture  | Foreign currency translation | September 30, 2015 |
|-----------------------------------|-------------------|--------------|--------------|------------------------------|--------------------|
| North America Mailing             | \$309,448         | \$—          | \$—          | \$(10,241 )                  | \$299,207          |
| International Mailing             | 162,146           | —            | —            | (10,894 )                    | 151,252            |
| Small & Medium Business Solutions | 471,594           | —            | —            | (21,135 )                    | 450,459            |
| Production Mail                   | 110,837           | —            | —            | (3,621 )                     | 107,216            |
| Presort Services                  | 195,140           | —            | —            | —                            | 195,140            |
| Enterprise Business Solutions     | 305,977           | —            | —            | (3,621 )                     | 302,356            |
| Software Solutions                | 677,008           | 5,792        | —            | (5,603 )                     | 677,197            |
| Global Ecommerce                  | 23,910            | 299,966      | —            | —                            | 323,876            |
| Digital Commerce Solutions        | 700,918           | 305,758      | —            | (5,603 )                     | 1,001,073          |
| Other                             | 194,232           | —            | (194,232 )   | —                            | —                  |
| Total goodwill                    | \$1,672,721       | \$305,758    | \$(194,232 ) | \$(30,359 )                  | \$1,753,888        |



## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

## 9. 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 September 30, 2015 and December 31, 2014. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect its placement within the fair value hierarchy.

|  | September 30, 2015 |            |         |             |
|--|--------------------|------------|---------|-------------|
|  | Level 1            | Level 2    | Level 3 | Total       |
| Assets:  |                    |            |         |             |
| Investment securities                                |                    |            |         |             |
| Money market funds / commercial paper                | \$ 11,181          | \$ 289,062 | \$ —    | \$ 300,243  |
| Equity securities                                    | —                  | 23,376     | —       | 23,376      |
| Commingled fixed income securities                   | —                  | 22,668     | —       | 22,668      |
| U.S. Government, federal agencies and municipalities | 100,482            | 19,277     | —       | 119,759     |
| Corporate notes and bonds                            | —                  | 67,128     | —       | 67,128      |
| Mortgage-backed / asset-backed securities            | —                  | 169,601    | —       | 169,601     |
| Derivatives  |                    |            |         |             |
| Foreign exchange contracts                           | —                  | 2,056      | —       | 2,056       |
| Total assets   | \$ 111,663         | \$ 593,168 | \$ —    | \$ 704,831  |
| Liabilities:   |                    |            |         |             |
| Derivatives  |                    |            |         |             |
| Foreign exchange contracts                           | \$ —               | \$ (4,948  | ) \$ —  | \$ (4,948 ) |
| Total liabilities                                    | \$ —               | \$ (4,948  | ) \$ —  | \$ (4,948 ) |

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

|  | December 31, 2014 |           |         | Total       |
|--|-------------------|-----------|---------|-------------|
|  | Level 1           | Level 2   | Level 3 |             |
| Assets:  |                   |           |         |             |
| Investment securities                                |                   |           |         |             |
| Money market funds / commercial paper                | \$505,643         | \$193,986 | \$—     | \$699,629   |
| Equity securities                                    | —                 | 27,409    | —       | 27,409      |
| Commingled fixed income securities                   | —                 | 24,077    | —       | 24,077      |
| U.S. Government, federal agencies and municipalities | 113,974           | 24,006    | —       | 137,980     |
| Corporate notes and bonds                            | —                 | 67,448    | —       | 67,448      |
| Mortgage-backed / asset-backed securities            | —                 | 156,614   | —       | 156,614     |
| Derivatives  |                   |           |         |             |
| Foreign exchange contracts                           | —                 | 1,386     | —       | 1,386       |
| Total assets   | \$619,617         | \$494,926 | \$—     | \$1,114,543 |
| Liabilities:   |                   |           |         |             |
| Derivatives  |                   |           |         |             |
| Foreign exchange contracts                           | \$—               | \$(2,988) | \$—     | \$(2,988)   |
| Total liabilities                                    | \$—               | \$(2,988) | \$—     | \$(2,988)   |
| 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.

**U.S. Government, federal agencies and municipalities:** Securities are classified as Level 1 where active, high volume trades for identical securities exist. Valuation adjustments are not applied to these securities. 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.

**Corporate notes and bonds:** Corporate notes and bonds 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 / 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.

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

## 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 September 30, 2015 and December 31, 2014 consisted of the following:

|  | September 30, 2015 |                              |                               |                         |
|--|--------------------|------------------------------|-------------------------------|-------------------------|
|  | Amortized<br>cost  | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses | Estimated<br>fair value |
| U.S. Government, federal agencies and municipalities | \$ 118,152         | \$ 2,558                     | \$(951 )                      | \$ 119,759              |
| Corporate notes and bonds                            | 66,537             | 1,235                        | (644 )                        | 67,128                  |
| Mortgage-backed / asset-backed securities            | 167,509            | 2,916                        | (824 )                        | 169,601                 |
| Total  | \$ 352,198         | \$ 6,709                     | \$(2,419 )                    | \$ 356,488              |
|  | December 31, 2014  |                              |                               |                         |
|  | Amortized<br>cost  | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses | Estimated<br>fair value |
| U.S. Government, federal agencies and municipalities | \$ 135,839         | \$ 2,905                     | \$(764 )                      | \$ 137,980              |
| Corporate notes and bonds                            | 66,170             | 1,569                        | (291 )                        | 67,448                  |
| Mortgage-backed / asset-backed securities            | 155,330            | 2,362                        | (1,078 )                      | 156,614                 |
| Total  | \$ 357,339         | \$ 6,836                     | \$(2,133 )                    | \$ 362,042              |

At September 30, 2015, 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 \$35 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 \$145 million.

At December 31, 2014, 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 \$42 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 \$88 million.

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

Scheduled maturities of available-for-sale securities at September 30, 2015 were as follows:

|                                | Amortized<br>cost | Estimated<br>fair value |
|--------------------------------|-------------------|-------------------------|
| Within 1 year                  | \$ 51,583         | \$ 51,641               |
| After 1 year through 5 years   | 70,799            | 71,943                  |
| After 5 years through 10 years | 55,666            | 56,919                  |
| After 10 years                 | 174,150           | 175,985                 |
| Total                          | \$ 352,198        | \$ 356,488              |

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.

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.

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

## 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. As required by the fair value measurements guidance, 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 September 30, 2015 and December 31, 2014 was as follows:

| Designation of Derivatives                        | Balance Sheet Location                    | September 30,<br>2015 | December 31,<br>2014 |
|---|---|-----------------------|----------------------|
| Derivatives designated as hedging instruments     |   |                       |                      |
| Foreign exchange contracts                        | Other current assets and prepayments      | \$245                 | \$762                |
|   | Accounts payable and accrued liabilities: | (451                  | ) —                  |
| Derivatives not designated as hedging instruments |   |                       |                      |
| Foreign exchange contracts                        | Other current assets and prepayments      | 1,811                 | 624                  |
|   | Accounts payable and accrued liabilities: | (4,497                | ) (2,988 )           |
|   | Total derivative assets                   | \$2,056               | \$1,386              |
|   | Total derivative liabilities              | (4,948                | ) (2,988 )           |
|   | Total net derivative liabilities          | \$(2,892              | ) \$(1,602 )         |

## 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 September 30, 2015 and December 31, 2014, we had outstanding contracts associated with these anticipated transactions with notional amounts of \$20 million and \$18 million, respectively.

The amounts included in AOCL at September 30, 2015 will be recognized in earnings within the next 12 months. No amount of ineffectiveness was recorded in earnings for these designated cash flow hedges.

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The following represents the results of cash flow hedging relationships for the three and nine months ended September 30, 2015 and 2014:

| Derivative Instrument      | Three Months Ended September 30,                                    |         | Location of Gain (Loss)<br>(Effective Portion) | Gain (Loss) Reclassified<br>from AOCL to Earnings<br>(Effective Portion) |         |
|----------------------------|---|---------|--|--|---------|
|                            | Derivative Gain (Loss)<br>Recognized in AOCL<br>(Effective Portion) |         |  | 2015   | 2014    |
|                            | 2015  | 2014    |  |  |         |
| Foreign exchange contracts | \$(140  | ) \$959 | Revenue  | \$211  | \$429   |
|                            |   |         | Cost of sales                                  | (41  | ) (42   |
|                            |   |         |  | \$170  | \$387   |
| Derivative Instrument      | Nine Months Ended September 30,                                     |         | Location of Gain (Loss)<br>(Effective Portion) | Gain (Loss) Reclassified<br>from AOCL to Earnings<br>(Effective Portion) |         |
|                            | Derivative Gain (Loss)<br>Recognized in AOCL<br>(Effective Portion) |         |  | 2015   | 2014    |
|                            | 2015  | 2014    |  |  |         |
| Foreign exchange contracts | \$614   | \$1,465 | Revenue  | \$1,039  | \$1,009 |
|                            |   |         | Cost of sales                                  | 544  | (394    |
|                            |   |         |  | \$1,583  | \$615   |

We also enter into foreign exchange contracts to minimize the impact of exchange rate fluctuations on short-term intercompany loans and related interest that are denominated in a foreign currency. The revaluation of the intercompany loans and interest and the mark-to-market adjustment on the derivatives are both recorded in earnings. All outstanding contracts at September 30, 2015 mature within 12 months.

The following represents the results of our non-designated derivative instruments for the three and nine months ended September 30, 2015 and 2014:

| Derivatives Instrument     | Location of Derivative Gain (Loss)          | Three Months Ended September 30,<br>Derivative Gain (Loss) Recognized in<br>Earnings |          |
|----------------------------|---|--|----------|
|                            |   | 2015   | 2014     |
| Foreign exchange contracts | Selling, general and administrative expense | \$2,138  | \$3,131  |
| Derivatives Instrument     | Location of Derivative Gain (Loss)          | Nine Months Ended September 30,<br>Derivative Gain (Loss) Recognized in<br>Earnings  |          |
|                            |   | 2015   | 2014     |
| Foreign exchange contracts | Selling, general and administrative expense | \$(1,437   | ) \$(173 |

## Credit-Risk-Related Contingent Features

Certain derivative instruments contain credit-risk-related contingent features that would require us to post collateral based on a combination of our long-term senior unsecured debt ratings and the net fair value of our derivatives. At September 30, 2015, the maximum amount of collateral that we would have been required to post had the credit-risk-related contingent features been triggered was \$5 million.





## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

## 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 September 30, 2015 and December 31, 2014 were as follows:

|                | September 30,<br>2015 | December 31,<br>2014 |
|----------------|-----------------------|----------------------|
| Carrying value | \$2,992,146           | \$3,252,006          |
| Fair value     | \$3,136,917           | \$3,440,383          |

## 10. Restructuring Charges and Asset Impairment

## Restructuring charges

The tables below show the activity in restructuring reserves for our Operational Excellence plan, implemented in 2014, and our other plans for the nine months ended September 30, 2015 and 2014 and includes amounts for both continuing operations and discontinued operations.

|                               | Severance<br>and<br>benefits<br>costs | Other exit<br>costs | Total     |
|-------------------------------|---------------------------------------|---------------------|-----------|
| <b>Operational Excellence</b> |                                       |                     |           |
| Balance at January 1, 2015    | \$78,105                              | \$8,154             | \$86,259  |
| Expenses, net <sup>(1)</sup>  | 9,961                                 | (1,183 )            | 8,778     |
| Cash payments                 | (40,547 )                             | (3,210 )            | (43,757 ) |
| Balance at September 30, 2015 | \$47,519                              | \$3,761             | \$51,280  |
| Balance at January 1, 2014    | \$42,427                              | \$7,622             | \$50,049  |
| Expenses, net <sup>(1)</sup>  | 22,534                                | 4,436               | 26,970    |
| Cash payments                 | (32,896 )                             | (6,106 )            | (39,002 ) |
| Balance at September 30, 2014 | \$32,065                              | \$5,952             | \$38,017  |
| <b>Other Plans</b>            |                                       |                     |           |
| Balance at January 1, 2015    | \$3,731                               | \$189               | \$3,920   |
| Expenses, net                 | (765 )                                | —                   | (765 )    |
| Cash payments                 | (2,161 )                              | (138 )              | (2,299 )  |
| Balance at September 30, 2015 | \$805                                 | \$51                | \$856     |
| Balance at January 1, 2014    | \$16,131                              | \$392               | \$16,523  |
| Expenses, net                 | (8,452 )                              | —                   | (8,452 )  |
| Cash payments                 | (2,996 )                              | (153 )              | (3,149 )  |
| Balance at September 30, 2014 | \$4,683                               | \$239               | \$4,922   |

(1) See Note 12 for additional restructuring charge.

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## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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 impairment

During the second quarter of 2015, we sold our world headquarters building for \$39 million and recorded a loss on the sale of \$5 million. The loss was recognized in restructuring charges and asset impairments, net in the Condensed Consolidated Statements of Income for the nine months ended September 30, 2015.

## 11. Debt

At September 30, 2015 and December 31, 2014, total debt consisted of the following:

|   | Interest rate | September 30,<br>2015 | December 31,<br>2014 |
|---|---------------|-----------------------|----------------------|
| Commercial paper                              | 0.54%         | \$ 150,000            | \$—                  |
| Notes due March 2015                          | 5.0%          | —                     | 274,879              |
| Notes due January 2016                        | 4.75%         | 370,914               | 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 November 2022                       | 5.25%         | 110,000               | 110,000              |
| 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      | —                     | 130,000              |
| Other debt                                    |               | 16,877                | 16,000               |
| Principal amount                              |               | 2,972,941             | 3,226,943            |
| Less: unamortized discount                    |               | 5,605                 | 6,653                |
| Plus: unamortized interest rate swap proceeds |               | 24,810                | 31,716               |
| Total debt                                    |               | 2,992,146             | 3,252,006            |
| Less: current portion long-term debt          |               | 371,091               | 324,879              |
| Less: Commercial paper                        |               | 150,000               | —                    |
| Long-term debt                                |               | \$2,471,055           | \$2,927,127          |

Through the nine months ended September 30, 2015, we repaid the \$275 million, 5.0% notes that matured in March and the \$130 million term loans.

In October 2015, we announced that we will redeem the \$110 million, 5.25% Notes in November 2015. These notes were scheduled to mature in November 2022.

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

## 12. 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<br>September 30,     |         |
|   | Three Months Ended<br>September 30,<br>2015 | 2014      | Three Months Ended<br>September 30,<br>2015 | 2014     |   |         |
| Service cost                                | \$38  | \$1,241   | \$557                                       | \$898    | \$530                                   | \$632   |
| Interest cost                               | 18,581                                      | 19,415    | 6,099                                       | 7,219    | 2,086                                   | 2,509   |
| Expected return on plan assets              | (26,002 )                                   | (25,956 ) | (8,912 )                                    | (9,914 ) | —                                       | —       |
| Amortization of transition credit           | —   | —         | (2 )  | (3 )     | —                                       | —       |
| Amortization of prior service cost (credit) | 2   | 2         | (16 )                                       | (15 )    | 74                                      | 40      |
| Amortization of net actuarial loss          | 7,327                                       | 6,470     | 1,482                                       | 2,093    | 1,704                                   | 1,462   |
| Settlement / curtailment <sup>(1)</sup>     | 1,083                                       | —         | —   | —        | —                                       | —       |
| Net periodic benefit (income) cost          | \$1,029                                     | \$1,172   | \$(792 )                                    | \$278    | \$4,394                                 | \$4,643 |

|   | Defined Benefit Pension Plans              |           |  |           | Nonpension Postretirement Benefit Plans |          |
|---|--|-----------|--|-----------|---|----------|
|   | United States                              |           | Foreign                                    |           | Nine Months Ended<br>September 30,      |          |
|   | Nine Months Ended<br>September 30,<br>2015 | 2014      | Nine Months Ended<br>September 30,<br>2015 | 2014      |   |          |
| Service cost                                | \$114                                      | \$5,679   | \$1,677                                    | \$2,719   | \$1,849                                 | \$2,057  |
| Interest cost                               | 55,745                                     | 58,247    | 18,284                                     | 21,664    | 6,612                                   | 7,451    |
| Expected return on plan assets              | (78,004 )                                  | (77,868 ) | (26,686 )                                  | (29,719 ) | —                                       | —        |
| Amortization of transition credit           | —  | —         | (7 )                                       | (8 )      | —                                       | —        |
| Amortization of prior service cost (credit) | 6  | 6         | (49 )                                      | (45 )     | 222                                     | 120      |
| Amortization of net actuarial loss          | 21,982                                     | 18,894    | 4,471                                      | 6,272     | 5,657                                   | 4,486    |
| Settlement / curtailment <sup>(1)</sup>     | 1,083                                      | 3,371     | —  | —         | —                                       | —        |
| Net periodic benefit (income) cost          | \$926                                      | \$8,329   | \$(2,310 )                                 | \$883     | \$14,340                                | \$14,114 |

(1) Included in restructuring charges and asset impairments, net in the Condensed Consolidated Statements of Income. Through September 30, 2015 and September 30, 2014, contributions to our U.S. pension plans were \$6 million and \$15 million, respectively, and contributions to our foreign plans were \$12 million and \$14 million, respectively. Nonpension postretirement benefit plan contributions were \$16 million and \$17 million through September 30, 2015 and September 30, 2014, respectively.

## 13. Income Taxes

The effective tax rate for the three months ended September 30, 2015 and 2014 was 31.3% and 17.9%, respectively, and the effective tax rate for the nine months ended September 30, 2015 and 2014 was 30.2% and 23.8%, respectively. The effective tax rate for the nine months ended September 30, 2015 includes a \$20 million benefit resulting from the disposition of Imagitax. The effective tax rate for the nine months ended September 30, 2014

includes a benefit of \$22 million from the resolution of tax examinations.

As is the case with other large corporations, our tax returns are examined each year by tax authorities in the U.S., other countries and local jurisdictions in which we have operations. The Internal Revenue Service examinations of tax years prior to 2011 are closed to audit. Other than the pending application of legal principles to specific issues arising in earlier years, only post-2010 Canadian tax years are subject to examination. Other significant tax filings subject to examination include various post-2005 U.S. state and local, post-2011 German, and U.K., post-2012 French tax filings. We have other less significant tax filings currently under examination or subject to examination.

#### 14. 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 September 30, 2015 or December 31, 2014.

#### 15. 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.

We recently finalized the settlement with the Department of Justice relating to an investigation it had conducted regarding compliance with certain postal regulatory requirements in our Presort Services business without any admission of liability by the Company. There is no significant impact in the quarter as a result of this settlement.

#### 16. Stockholders' Equity

Changes in stockholders' equity for the nine months ended September 30, 2015 and 2014 were as follows:

|                                   | Preferred<br>stock | Preference<br>stock | Common<br>stock | Additional<br>paid-in<br>capital | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>loss | Treasury<br>stock | Total<br>equity |
|-----------------------------------|--------------------|---------------------|-----------------|----------------------------------|----------------------|---|-------------------|-----------------|
| Balance at January 1, 2015        | \$ 1               | \$ 548              | \$ 323,338      | \$ 178,852                       | \$ 4,897,708         | \$ (846,156 )                                 | \$ (4,477,032)    | \$ 77,259       |
| Net income                        | —                  | —                   | —               | —                                | 321,664              | —   | —                 | 321,664         |
| Other comprehensive loss          | —                  | —                   | —               | —                                | —                    | (54,696 )                                     | —                 | (54,696 )       |
| Dividends paid - Common stock     | —                  | —                   | —               | —                                | (113,127 )           | —   | —                 | (113,127 )      |
| Dividends paid - Preference stock | —                  | —                   | —               | —                                | (31 )                | —   | —                 | (31 )           |
| Issuance of common stock          | —                  | —                   | —               | (36,946 )                        | —                    | —   | 32,983            | (3,963 )        |
| Conversion to common stock        | —                  | (29 )               | —               | (632 )                           | —                    | —   | 661               | —               |

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|                                  |     |        |           |           |             |               |                |            |
|----------------------------------|-----|--------|-----------|-----------|-------------|---------------|----------------|------------|
| Stock-based compensation expense | —   | —      | —         | 14,921    | —           | —             | —              | 14,921     |
| Repurchase of common stock       | —   | —      | —         | —         | —           | —             | (100,000 )     | (100,000 ) |
| Balance at September 30, 2015    | \$1 | \$ 519 | \$323,338 | \$156,195 | \$5,106,214 | \$ (900,852 ) | \$ (4,543,388) | \$142,027  |

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

## 17. Accumulated Other Comprehensive Loss

Reclassifications out of AOCL for the three and nine months ended September 30, 2015 and 2014 were as follows:

|   | Amount Reclassified from AOCL (a)           |          |  |            |
|---|---|----------|--|------------|
|   | Three Months Ended<br>September 30,<br>2015 |          | Nine Months Ended<br>September 30,<br>2014 |            |
| Gains (losses) on cash flow hedges              |   |          |  |            |
| Revenue   | \$ 211                                      | \$ 429   | \$ 1,039                                   | \$ 1,009   |
| Cost of sales                                   | (41 )                                       | (42 )    | 544  | (394 )     |
| Interest expense, net                           | (507 )                                      | (507 )   | (1,521 )                                   | (1,521 )   |
| Total before tax                                | (337 )                                      | (120 )   | 62   | (906 )     |
| (Benefit) provision for income tax              | (132 )                                      | (47 )    | 15   | (350 )     |
| Net of tax                                      | \$(205 )                                    | \$(73 )  | \$ 47                                      | \$(556 )   |
| Gains (losses) on available for sale securities |   |          |  |            |
| Interest expense, net                           | \$ 1,085                                    | \$(249 ) | \$ 1,043                                   | \$(1,101 ) |
| Provision (benefit) for income tax              | 401   | (92 )    | 385  | (406 )     |



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|  |          |            |             |             |   |
|--|----------|------------|-------------|-------------|---|
| Net of tax                                   | \$684    | \$(157     | ) \$658     | \$(695      | ) |
| Pension and Postretirement Benefit Plans (b) |          |            |             |             |   |
| Transition credit                            | \$2      | \$3        | \$7         | \$8         |   |
| Prior service costs                          | (60      | ) (27      | ) (179      | ) (81       | ) |
| Actuarial losses                             | (11,596  | ) (10,025  | ) (33,193   | ) (29,652   | ) |
| Total before tax                             | (11,654  | ) (10,049  | ) (33,365   | ) (29,725   | ) |
| Benefit for income tax                       | (4,219   | ) (3,355   | ) (12,001   | ) (10,609   | ) |
| Net of tax                                   | \$(7,435 | ) \$(6,694 | ) \$(21,364 | ) \$(19,116 | ) |

(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 12 for additional details).

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Changes in AOCL for the nine months ended September 30, 2015 and 2014 were as follows:

|  | Cash flow<br>hedges | Available<br>for sale<br>securities | Pension and<br>postretirement<br>benefit plans | Foreign<br>currency<br>adjustments | Total        |
|--|---------------------|-------------------------------------|--|------------------------------------|--------------|
| Balance at January 1, 2015                                     | \$(4,689 )          | \$2,966                             | \$(786,079 )                                   | \$(58,354 )                        | \$(846,156 ) |
| Other comprehensive income (loss) before reclassifications (a) | 382                 | 416                                 | —  | (76,153 )                          | (75,355 )    |
| Reclassifications into earnings (a), (b)                       | (47 )               | (658 )                              | 21,364   | —                                  | 20,659       |
| Net other comprehensive income (loss)                          | 335                 | (242 )                              | 21,364   | (76,153 )                          | (54,696 )    |
| Balance at September 30, 2015                                  | \$(4,354 )          | \$2,724                             | \$(764,715 )                                   | \$(134,507 )                       | \$(900,852 ) |

|  | Cash flow<br>hedges | Available<br>for sale<br>securities | Pension and<br>postretirement<br>benefit plans | Foreign<br>currency<br>adjustments | Total        |
|--|---------------------|-------------------------------------|--|------------------------------------|--------------|
| Balance at January 1, 2014                                     | \$(6,380 )          | \$(1,769 )                          | \$(601,421 )                                   | \$35,014                           | \$(574,556 ) |
| Other comprehensive income (loss) before reclassifications (a) | 892                 | 2,567                               | —  | (60,227 )                          | (56,768 )    |
| Reclassifications into earnings (a), (b)                       | 556                 | 695                                 | 19,116   | (3,784 )                           | 16,583       |
| Net other comprehensive income (loss)                          | 1,448               | 3,262                               | 19,116   | (64,011 )                          | (40,185 )    |
| Balance at September 30, 2014                                  | \$(4,932 )          | \$1,493                             | \$(582,305 )                                   | \$(28,997 )                        | \$(614,741 ) |

(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, as amended (the Securities Act) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act) in this Form 10-Q may change based on various factors. These forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties and actual results could differ materially. Words such as "estimate", "target", "project", "plan", "believe", "expect", "assume", "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 and transitioning to more digital-based products and services and the market's acceptance of these new products and services
- the success of our investment in rebranding the Company to build the market awareness to create new demand for our businesses
- our ability to gain product approval in new markets where regulatory approval is required
- changes in postal or banking regulations
- the continued availability and security of key information systems
- our ability to successfully implement a new Enterprise Resource Planning (ERP) system without significant disruption to our existing operations
- our ability to realize the anticipated benefits or synergies of strategic acquisitions and divestitures and to successfully integrate the operations of acquired companies without significant disruption to our existing operations
- 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
- loss of some of our largest clients or business partners in our Digital Commerce Solutions group
- the cost to comply with current and any changes in information security requirements and privacy laws
- intellectual property infringement claims
- our success at managing customer credit risk
  - significant changes in pension, health care and retiree medical costs
- macroeconomic factors, including global and regional business conditions that adversely impact customer demand, access to capital markets at reasonable costs, changes in interest rates and foreign currency exchange rates
- 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

The following discussion and analysis should be read in conjunction with our condensed consolidated financial statements contained in this report and in our 2014 Annual Report. All table amounts are shown in thousands of dollars, unless otherwise noted.

Overview

For the third quarter of 2015, revenue decreased 8% to \$870 million compared to \$942 million in the third quarter of 2014. Revenue for the quarter was negatively impacted by 4% due to foreign currency translation and less than 1%

from the exit of non-core product lines in Norway and the transition in certain European countries to a dealer network in the third quarter of 2014 (Divested Businesses).

In the quarter, equipment sales declined 8%, support services declined 11%, software declined 13% and rentals revenue declined 9%. Excluding the impacts of foreign currency, equipment sales declined 3%, primarily due to continued weakness in our international markets due to difficult economic circumstances and productivity disruptions caused by the implementation of our go-to-market strategy in France.

Support services and rentals revenue each declined 6% due to fewer mailing machines in service and a shift by customers to lower cost, less featured mailing machines. Support services revenue was also impacted by lower maintenance contracts 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. Software revenue declined 7% primarily due to a large North America licensing deal in the third quarter of 2014.

Net income and diluted earnings per share from continuing operations for the third quarter of 2015 were \$89 million and \$0.44, respectively, compared to \$112 million and \$0.55, respectively, in 2014. The decrease was driven primarily by the decline in revenue and a higher effective tax rate, partially offset by improving gross margins and lower selling, general and administrative expenses.

For the nine months ended September 30, 2015, we generated cash from operations of \$351 million, received proceeds of \$292 million from the sale of Imagitas and \$39 million from the sale of our former corporate headquarters building and issued \$150 million of commercial paper. We used cash of \$387 million to acquire Borderfree and RTC, repay debt of \$405 million, fund capital investments of \$130 million, pay dividends of \$122 million to our stockholders and noncontrolling interests and repurchase \$100 million of our common stock. At September 30, 2015, cash and cash equivalents were \$716 million compared to \$1,079 million at December 31, 2014.

As a result of the acquisition of Borderfree and the sale of Imagitas, we realigned our segment reporting. Our business continues to be organized around three distinct sets of solutions – Small and Medium Business (SMB) Solutions, Enterprise Business Solutions and Digital Commerce Solutions (DCS). There were no changes to SMB Solutions or Enterprise Business Solutions. Within DCS, we now report Software Solutions and Global Ecommerce as reportable segments. Imagitas, previously included in DCS, is now reported in Other.

SMB Solutions revenue declined 8% primarily due to declines in our international mailing operations due to difficult economic circumstances and productivity disruptions. Currency translation had a 5% unfavorable impact on Small and Medium Business Solutions revenue. In North America Mailing, revenue was down 2% primarily due to the continuing decline in installed meters and shift by customers to less-featured, lower cost machines; however, the decline was partially offset by higher equipment sales and supplies revenue due to new product introductions and productivity improvements. Enterprise Business Solutions revenue decreased 3%, primarily due to a 2% unfavorable impact from currency translation and lower service revenue in Production Mail partially offset by increased volumes in Presort Services. DCS revenue increased 6% in the quarter primarily due to the acquisition of Borderfree and shipments from our U.K. outbound cross-border service facility, partially offset by lower software licensing revenue due to the inclusion of a large licensing deal in the third quarter of 2014.

#### Outlook

The U.S. dollar remains strong against other currencies and continues to adversely affect our reported revenues and profitability, both from a translation perspective as well as a competitive perspective, as the cost of our international competitors' products and solutions improves relative to our products and solutions. The current strength of the dollar relative to other currencies is also affecting demand for U.S. goods sold to consumers in other countries through our global ecommerce operations.

Within SMB Solutions, the introduction of new solutions and services in North America is being well-received in the marketplace and we anticipate further stabilization in revenue. Internationally, the implementation of our go-to-market strategy is now complete in most of our major markets and we expect stabilizing trends in those markets. In France, we have been focused on the transition and training of a new sales organization, which is expected to improve productivity.

Within Enterprise Business Solutions, we expect continued revenue and profitability growth in Presort Services due to client expansion and higher processed mail volumes; however, we anticipate that Production Mail revenue growth will

continue to be challenged by the uncertain macroeconomic environment in Europe and declining services revenue.

Within DCS, we anticipate increased demand in Software Solutions due to new product introductions and improved sales efficiencies and revenue growth in Global Ecommerce from the Borderfree business and continued demand for our shipping solutions driven by new client acquisitions and expanded services provided to existing clients.

## RESULTS OF OPERATIONS

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

|                   | Three Months Ended September 30, |           |          | Nine Months Ended September 30, |             |          |
|-------------------|----------------------------------|-----------|----------|---------------------------------|-------------|----------|
|                   | 2015                             | 2014      | % change | 2015                            | 2014        | % change |
| Equipment sales   | \$163,857                        | \$177,458 | (8)%     | \$495,328                       | \$558,032   | (11)%    |
| Supplies          | 71,174                           | 72,548    | (2)%     | 215,178                         | 228,349     | (6)%     |
| Software          | 97,700                           | 112,271   | (13)%    | 283,241                         | 312,891     | (9)%     |
| Rentals           | 108,420                          | 119,047   | (9)%     | 333,729                         | 365,069     | (9)%     |
| Financing         | 99,925                           | 107,835   | (7)%     | 306,992                         | 325,529     | (6)%     |
| Support services  | 136,820                          | 154,321   | (11)%    | 415,615                         | 470,763     | (12)%    |
| Business services | 191,645                          | 198,164   | (3)%     | 591,030                         | 576,958     | 2%       |
| Total revenue     | \$869,541                        | \$941,644 | (8)%     | \$2,641,113                     | \$2,837,591 | (7)%     |

|                            | Three Months Ended September 30, |           |               |       | Nine Months Ended September 30, |             |               |       |      |      |
|----------------------------|----------------------------------|-----------|---------------|-------|---------------------------------|-------------|---------------|-------|------|------|
|                            |                                  |           | Percentage of |       |                                 |             | Percentage of |       |      |      |
|                            | 2015                             | 2014      | 2015          | 2014  | 2015                            | 2014        | 2015          | 2014  | 2015 | 2014 |
| Cost of equipment sales    | \$78,650                         | \$90,984  | 48.0%         | 51.3% | \$232,706                       | \$262,336   | 47.0%         | 47.0% |      |      |
| Cost of supplies           | 21,629                           | 22,470    | 30.4%         | 31.0% | 65,912                          | 70,129      | 30.6%         | 30.7% |      |      |
| Cost of software           | 27,219                           | 29,775    | 27.9%         | 26.5% | 85,584                          | 93,423      | 30.2%         | 29.9% |      |      |
| Cost of rentals            | 21,423                           | 23,636    | 19.8%         | 19.9% | 63,127                          | 74,273      | 18.9%         | 20.3% |      |      |
| Financing interest expense | 17,533                           | 19,667    | 17.5%         | 18.2% | 54,171                          | 59,733      | 17.6%         | 18.3% |      |      |
| Cost of support services   | 79,747                           | 92,500    | 58.3%         | 59.9% | 244,853                         | 288,203     | 58.9%         | 61.2% |      |      |
| Cost of business services  | 130,004                          | 142,512   | 67.8%         | 71.9% | 405,559                         | 406,472     | 68.6%         | 70.5% |      |      |
| Total cost of revenue      | \$376,205                        | \$421,544 | 43.3%         | 44.8% | \$1,151,912                     | \$1,254,569 | 43.6%         | 44.2% |      |      |

## Equipment sales

Equipment sales revenue decreased 8% in the quarter to \$164 million and 11% in the year-to-date period to \$495 million, compared to the prior year periods. Foreign currency translation adversely impacted equipment sales by 5% in the quarter and year-to-date period and the impact of Divested Businesses reduced equipment sales by less than 1% in the quarter and 1% in the year-to-date period. Excluding the impacts of foreign currency and Divested Businesses, equipment sales revenue declined 3% and 5% in the quarter and year-to-date period, respectively. Equipment sales in the quarter benefited from a 2% increase in sales of mailing equipment in North America due to new product offerings and productivity improvements. However, equipment sales were adversely impacted by lower mailing equipment sales internationally primarily due to difficult economic circumstances and productivity disruptions caused by the implementation of our go-to-market strategy in France and lower worldwide sales of production mail equipment. Equipment sales for the year-to-date period were impacted by a 3% decline in mailing equipment sales in North America due to the decline in the first half of the year primarily caused by declining mail volumes and the continuing trend of clients to extend existing leases rather than purchase new equipment and an 18% decline in mailing equipment sales internationally. Worldwide sales of production mailing equipment were flat as higher equipment sales in the United States were offset by declines in Europe and Asia-Pacific. Cost of equipment sales as a percentage of revenue for the quarter improved to 48.0% compared to 51.3% in the prior year quarter primarily due a favorable mix of mailing equipment sales and higher margin Production Mail equipment sales in North America. For the year-to-date period, cost of equipment sales as a percentage of revenue was flat compared to the prior year period at

47.0%.

#### Supplies

Supplies revenue decreased 2% in the quarter to \$71 million and 6% in the year-to-date period to \$215 million, compared to the prior year periods. Foreign currency translation adversely impacted supplies sales by 6% in the quarter and year-to-date period. Excluding the impact of foreign currency, supplies sales increased 4% due to productivity improvements and pricing actions in our North America Mailing business and higher sales of supplies for production printers sold in 2014. Cost of supplies as a percentage of revenue for the quarter improved to 30.4% compared to 31.0% in the prior year quarter primarily due to a greater mix of higher margin core supplies

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sales. For the year-to-date period, cost of supplies sales as a percentage of revenue was relatively unchanged at 30.6% compared to the prior year period.

#### Software

Software revenue decreased 13% in the quarter to \$98 million and 9% in the year-to-date period to \$283 million, compared to the prior year periods. Foreign currency translation adversely impacted software revenue by 6% in the quarter and year-to-date period. Excluding the impact of foreign currency, worldwide licensing revenue declined 14% in the quarter and 5% in the year-to-date period as the third quarter and year-to-date 2014 periods included revenue from a large licensing deal. Excluding the impact of the large licensing deal in 2014, worldwide licensing revenue increased 34% in the quarter and 11% in the year-to-date period. The underlying strong performance for the quarter was driven by an 83% increase in Europe, a 46% increase in Asia Pacific and 9% increase in North America. The underlying increase in year-to-date worldwide licensing revenue was driven primarily by a 15% increase in North America and 10% increase in Europe. Cost of software as a percentage of revenue for the quarter and year-to-date period increased to 27.9% and 30.2% compared to the prior year periods primarily due to the decline in high-margin licensing revenue.

#### Rentals

Rentals revenue decreased 9% in the quarter and year-to-date period to \$108 million and \$334 million, respectively, compared to the prior year periods. Foreign currency translation adversely impacted rentals revenue 3% in the quarter and year-to-date period. Excluding the impact of foreign currency, rentals revenue declined 6% in the quarter and year-to-date period primarily due to the continuing decline in the number of installed meters and a shift by customers to less-featured, lower cost machines. Cost of rentals as a percentage of revenue was relatively unchanged at 19.8% for the quarter compared to 19.9% in the prior year quarter and improved to 18.9% compared to 20.3% for the year-to-date period, primarily due to lower depreciation.

#### Financing

Financing revenue decreased 7% in the quarter to \$100 million and 6% in the year-to-date period to \$307 million, compared to the prior year periods. Foreign currency translation accounted for 3% of the decrease in the quarter and the year-to-date period and lower equipment sales in prior periods and a declining lease portfolio accounted for the remaining decrease in the quarter and year-to-date period. We allocate a portion of our total cost of borrowing to financing interest expense. In computing financing interest expense, we assume a 10:1 debt to equity leverage ratio and apply our overall effective interest rate to the average outstanding finance receivables. Due to lower equipment sales in prior periods, average outstanding finance receivables declined. As a result, financing interest expense declined 11% and 9% in the quarter and year to date period, respectively, compared to the prior year periods. Financing interest expense as a percentage of revenue improved to 17.5% and 17.6% for the quarter and year-to-date period, respectively.

#### Support Services

Support services revenue decreased 11% in the quarter to \$137 million and 12% in the year-to-date period to \$416 million, respectively, compared to the prior year periods. Foreign currency translation adversely impacted support services revenue by 5% in the quarter and year-to-date period and the impact of Divested Businesses reduced support services revenue by 1% in the quarter and 3% in the year-to-date period. Excluding the impacts of foreign currency and Divested Businesses, the decrease in support services revenue was primarily due to a decline in the number of mailing machines in service, a shift to less-featured, lower cost machines, and 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. Cost of support services as a percentage of revenue for the quarter and year-to-date period decreased to 58.3% and 58.9%, compared to the prior year periods primarily due to expense reductions and productivity initiatives.

#### Business Services

Business services revenue decreased 3% in the quarter and increased 2% in the year-to-date period to \$192 million and \$591 million, respectively, compared to the prior year periods. Business services revenue for 2015 was impacted by the sale of Imagitas in May 2015 and the acquisition of Borderfree in June 2015. Excluding the impacts of these transactions, business services revenue increased 4% and 5% in the quarter and year-to-date period, respectively. Higher volumes of mail processed in Presort Services increased business services revenue 2% in both the quarter and year-to-date period and additional volumes of packages shipped from our U.K. outbound cross-border service facility increased business services revenue 4% in both the quarter and year-to-date period. Cost of business services as a percentage of revenue improved in the quarter and year-to-date period to 67.8% and 68.6%, respectively, primarily due to operational efficiencies in Presort Services and higher revenue.

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

SG&A expense decreased 10% in the quarter and 9% in the year-to-date period to \$309 million and \$939 million, respectively, compared to the prior year periods. SG&A expense for the quarter includes increased spending of \$6 million related to the launch in early October

of our ERP system in Canada and additional amortization expense of \$4 million related to the acquisition of Borderfree. SG&A expense for the year-to-date period includes a one-time compensation charge of \$10 million for the accelerated vesting and settlement of Borderfree stock-based compensation awards and additional amortization expense of \$5 million related to the acquisition of Borderfree. The overall decrease in SG&A expense in the quarter and year-to-date period is primarily due to our focus on operational excellence and the benefits of productivity and cost-cutting initiatives. Foreign currency translation also reduced SG&A expenses by 4% in the quarter and year-to-date period.

Restructuring charges and asset impairments, net

See Note 10 to the Condensed Consolidated Financial Statements.

Other (income) expense, net

Other (income) expense, net for the nine months ended September 30, 2015 primarily includes the gain on the sale of Imagitas, transaction costs incurred in connection with the acquisitions of Borderfree and RTC (see Note 3 to the Condensed Consolidated Financial Statements) and a charge associated with the settlement of a legal matter (see Note 15 to the Condensed Consolidated Financial Statements).

Other (income) expense, net for the three months ended September 30, 2014 includes an indemnity received in connection with an agreement related to a partnership investment. Other (income) expense, net for the nine months ended September 30, 2014 also includes costs associated with the early redemption of debt. See Liquidity and Capital Resources - Financings and Capitalization for further information.

Income taxes

See Note 13 to the Condensed Consolidated Financial Statements.

Discontinued operations

See Note 4 to the Condensed Consolidated Financial Statements.

Preferred stock dividends of subsidiaries attributable to noncontrolling interests

See Note 14 to the Condensed Consolidated Financial Statements.

### Business segment results

We realigned our segment reporting and recast prior period amounts to conform to the current year presentation. The principal products and services of each of our reportable segments are as follows:

#### Small & Medium Business Solutions:

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

**International Mailing:** Includes the revenue and related expenses from the sale, rental, financing and servicing of mailing equipment and supplies for small and medium businesses to efficiently create mail and evidence postage 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 (i) the sale of non-equipment-based mailing, customer information engagement, location intelligence and customer engagement solutions and related support services.

**Global Ecommerce:** Includes the worldwide revenue and related expenses from shipping and global ecommerce solutions.

We determine segment EBIT by deducting the related costs and expenses attributable to the segment from segment revenue. Segment EBIT excludes interest, taxes, general corporate expenses, restructuring charges and other items, which are not allocated to a particular business segment. Management uses segment EBIT to measure profitability and performance at the segment level. Management believes segment EBIT provides 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 income from continuing operations before income taxes.

Revenue and EBIT for the three and nine months ended September 30, 2015 and 2014 by reportable segment are presented below.

|                                   | Revenue                          |           |          | Revenue                         |             |          |
|-----------------------------------|----------------------------------|-----------|----------|---------------------------------|-------------|----------|
|                                   | Three Months Ended September 30, |           |          | Nine Months Ended September 30, |             |          |
|                                   | 2015                             | 2014      | % change | 2015                            | 2014        | % change |
| North America Mailing             | \$353,159                        | \$363,285 | (3)%     | \$1,071,824                     | \$1,115,507 | (4)%     |
| International Mailing             | 104,615                          | 132,291   | (21)%    | 331,398                         | 438,819     | (24)%    |
| Small & Medium Business Solutions | 457,774                          | 495,576   | (8)%     | 1,403,222                       | 1,554,326   | (10)%    |
| Production Mail                   | 101,646                          | 113,497   | (10)%    | 298,880                         | 330,469     | (10)%    |
| Presort Services                  | 115,912                          | 111,434   | 4%       | 351,365                         | 339,205     | 4%       |
| Enterprise Business Solutions     | 217,558                          | 224,931   | (3)%     | 650,245                         | 669,674     | (3)%     |
| Software Solutions                | 97,638                           | 112,006   | (13)%    | 282,916                         | 312,200     | (9)%     |

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|                            |           |           |       |    |             |             |      |    |
|----------------------------|-----------|-----------|-------|----|-------------|-------------|------|----|
| Global Ecommerce           | 96,571    | 71,870    | 34    | %  | 249,923     | 204,399     | 22   | %  |
| Digital Commerce Solutions | 194,209   | 183,876   | 6     | %  | 532,839     | 516,599     | 3    | %  |
| Other                      | —         | 37,261    | (100) | )% | 54,807      | 96,992      | (43) | )% |
| Total revenue              | \$869,541 | \$941,644 | (8    | )% | \$2,641,113 | \$2,837,591 | (7   | )% |

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|                                   | EBIT                             |            |          | EBIT                            |            |          |
|-----------------------------------|----------------------------------|------------|----------|---------------------------------|------------|----------|
|                                   | Three Months Ended September 30, |            |          | Nine Months Ended September 30, |            |          |
|                                   | 2015                             | 2014       | % change | 2015                            | 2014       | % change |
| North America Mailing             | \$ 159,319                       | \$ 159,638 | — %      | \$ 482,376                      | \$ 476,757 | 1 %      |
| International Mailing             | 10,739                           | 16,079     | (33) %   | 36,585                          | 67,347     | (46) %   |
| Small & Medium Business Solutions | 170,058                          | 175,717    | (3) %    | 518,961                         | 544,104    | (5) %    |
| Production Mail                   | 12,401                           | 9,570      | 30 %     | 31,461                          | 27,865     | 13 %     |
| Presort Services                  | 25,908                           | 21,927     | 18 %     | 76,946                          | 68,235     | 13 %     |
| Enterprise Business Solutions     | 38,309                           | 31,497     | 22 %     | 108,407                         | 96,100     | 13 %     |
| Software Solutions                | 14,613                           | 18,921     | (23) %   | 34,904                          | 30,620     | 14 %     |
| Global Ecommerce                  | (1,240)                          | (676)      | (83) %   | 9,962                           | 9,100      | 9 %      |
| Digital Commerce Solutions        | 13,373                           | 18,245     | (27) %   | 44,866                          | 39,720     | 13 %     |
| Other                             | —                                | 7,980      | (100) %  | 10,569                          | 13,965     | (24) %   |
| Total segment EBIT                | \$ 221,740                       | \$ 233,439 | (5) %    | \$ 682,803                      | \$ 693,889 | (2) %    |
| Small & Medium Business Solutions |                                  |            |          |                                 |            |          |
| North America Mailing             |                                  |            |          |                                 |            |          |

North America Mailing revenue decreased 3% in the quarter to \$353 million compared to the prior year period. Foreign currency translation had a 1% unfavorable impact on revenue. Excluding the impact of foreign currency, equipment sales and supplies revenue increased 3% and 8%, respectively primarily due to new product offerings and productivity improvements. These increases were offset by a 6% decline in rentals revenue and a 5% decline in support services revenue due to the continuing decline in installed meters and shift by customers to less-featured, lower cost machines. Financing revenue also declined 3% in the quarter primarily due to declining equipment sales in prior periods.

For the year-to-date period, revenue declined 4% to \$1,072 million. Foreign currency translation had a 1% unfavorable impact on revenue. Excluding the impact of foreign currency, rentals revenue and support services revenue decreased 5% and 6%, respectively, due to the continuing decline in installed meters and shift by customers to less-featured, lower cost machines. Equipment sales decreased 3% primarily due to the decline in the first half of the year caused by declining mail volumes and the continuing trend of clients to extend existing leases rather than purchasing new equipment. Partially offsetting these declines was a 1% increase in supplies sales due to productivity improvements and pricing actions.

Despite the decline in revenue, EBIT was flat in the quarter and increased 1% in the year-to-date period, compared to the prior year periods, primarily due to the benefits of productivity improvements, cost reduction initiatives and a favorable product mix.

#### International Mailing

International Mailing revenue decreased 21% in the quarter to \$105 million and 24% in the year-to-date period to \$331 million compared to the prior year periods. Foreign currency translation adversely impacted revenue by 12% and 13% in the quarter and year-to-date period, respectively, and the impact of Divested Businesses adversely impacted revenue by 2% and 4% in the quarter and year-to-date period, respectively. Excluding the impacts of foreign currency and Divested Businesses, revenue decreased 7% in both the quarter and year-to-date period. International Mailing results have been adversely impacted throughout the year by difficult economic circumstances in many of our international markets and productivity disruptions caused by the implementation of our go-to-market strategy in certain European markets.

EBIT decreased 33% in the quarter and 46% in the year-to-date period to \$11 million and \$37 million, respectively, compared to the prior year periods, primarily due to the decline in revenue and reduced margins due to productivity

disruptions and incremental costs of transitioning the sales organization in France. Foreign currency translation unfavorably impacted EBIT by 10% in the quarter and 11% in the year-to-date period.

#### Enterprise Business Solutions

##### Production Mail

Production Mail revenue decreased 10% in the quarter and year-to-date period to \$102 million and \$299 million, respectively, compared to the prior year periods. Revenue for the quarter and year-to-date period was unfavorably impacted by 5% from foreign currency translation and by 1% from Divested Businesses. Excluding the impacts of foreign currency and Divested Businesses, support services revenue declined 7% in the quarter and 6% in the year-to-date period as some in-house mailers moved their mail processing to third-party service bureaus who service some of their own equipment. Equipment sales for the quarter declined 4% primarily due to installations of high-speed production printers in the third quarter of 2014. On a year-to-date basis, equipment sales were flat compared to the prior year as higher sales in the United States were offset by lower sales in Europe and Asia-Pacific. Despite the decline in revenue, EBIT increased 30% in the quarter and 13% in the year-to-date period to \$12 million and \$31 million, respectively, compared to the prior year periods, primarily due to a higher margin product mix and ongoing cost reduction initiatives.

##### Presort Services

Presort Services revenue increased 4% in the quarter and year-to-date period to \$116 million and \$351 million, respectively, compared to the prior year periods, primarily due to increased volumes of mail processed. EBIT increased 18% in the quarter and 13% in the year-to-date period to \$26 million and \$77 million, respectively, compared to the prior year periods, primarily due to the increase in revenue and lower transportation costs.

#### Digital Commerce Solutions

##### Software Solutions

Software Solutions revenue decreased 13% in the quarter and 9% in the year-to-date period to \$98 million and \$283 million, respectively, compared to the prior year periods. Foreign currency translation unfavorably impacted revenue by 6% in the quarter and year-to-date period. Excluding the impact of foreign currency, worldwide licensing revenue declined 14% in the quarter and 5% in the year-to-date period as the third quarter and year-to-date 2014 periods included revenue from a large licensing deal. Excluding the impact of the large licensing deal in 2014, worldwide licensing revenue increased 34% in the quarter and 11% in the year-to-date period. The underlying strong performance for the quarter was driven by an 83% increase in Europe, a 46% increase in Asia Pacific and 9% increase in North America. The underlying increase in year-to-date worldwide licensing revenue was driven primarily by a 15% increase in North America and 10% increase in Europe.

EBIT in the quarter decreased 23% compared to the prior year quarter primarily due to lower high-margin licensing revenue. EBIT for the year-to-date period increased 14% as cost reductions, improved operational productivity and greater sales efficiencies more than offset the impact of lower high-margin licensing revenue.

##### Global Ecommerce

Global Ecommerce revenue increased 34% in the quarter and 22% in the year-to-date period to \$97 million and \$250 million, respectively, compared to the prior year periods. Excluding revenue from the Borderfree business, revenue was flat for the quarter and up 7% in the year-to-date period. The increase in year-to-date revenue was primarily due to volumes of packages shipped from our U.K. outbound cross-border service facility and higher shipping solutions revenue due to client growth. Volumes of packages shipped from our U.S. outbound cross-border service facility were lower than the prior year periods and continue to be pressured by a strong U.S. dollar.

EBIT decreased 83% in the quarter primarily due to incremental operating expenses related to the Borderfree acquisition, including \$4 million of amortization expense, and continued investment in our cross-border technology and services. EBIT increased 9% for the year-to-date period primarily due to the recognition of \$6 million of deferred cross-border delivery fees partially offset by incremental operating expenses related to the Borderfree acquisition,



including \$5 million of amortization expense, and continued investment in our cross-border technology and services.

Other

Other includes our Marketing Services business which was sold in May 2015.

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## 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 \$750 million at September 30, 2015 and \$1,111 million at December 31, 2014. 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 \$521 million at September 30, 2015 and \$470 million at December 31, 2014. Cash and cash equivalents held by our foreign subsidiaries are generally used to support the liquidity needs of these subsidiaries. Most of these amounts could be repatriated to the U.S. but would be subject to additional taxes. Repatriation of some foreign balances is restricted by local laws.

### Cash Flow Summary

Changes in cash and cash equivalents for the nine months ended September 30, 2015 and 2014 were as follows:

|  | 2015    | 2014  | Change  |
|--|---------|-------|---------|
| Net cash provided by operating activities                    | \$351   | \$397 | \$(46)  |
| Net cash used in investing activities                        | (204)   | (82)  | (122)   |
| Net cash used in financing activities                        | (472)   | (282) | (190)   |
| Effect of exchange rate changes on cash and cash equivalents | (38)    | (17)  | (21)    |
| Change in cash and cash equivalents                          | \$(363) | \$16  | \$(379) |

Cash flows from operations for the nine months ended September 30, 2015 decreased \$46 million compared to the nine months ended September 30, 2014. The decrease was primarily due to lower collections of accounts receivable due to timing and amounts received in the prior year for transition services in connection with the sale of our Management Services business, higher payments of accounts payable and accrued liabilities primarily due to timing and higher inventory purchases, primarily for parts and supplies in the U.S. and U.K., partially offset by lower interest and tax payments.

Cash flows from investing activities for the nine months ended September 30, 2015 decreased \$122 million compared to the nine months ended September 30, 2014. During the nine months ended September 30, 2015, we paid \$387 million to acquire Borderfree and RTC and received proceeds of \$292 million from the sale of Imagitas and \$39 million from the sale of our former corporate headquarters building. During the nine months ended September 30, 2014, we received proceeds of \$101 million from the sale of our DIS business.

Cash flows from financing activities for the nine months ended September 30, 2015 decreased \$190 million compared to the nine months ended September 30, 2014 primarily due to higher debt reduction and share repurchases. During the nine months ended September 30, 2015, we reduced total debt by \$254 million and repurchased \$100 million of our common shares compared to a net debt reduction of \$107 million and share repurchases of \$50 million for nine months ended September 30, 2014.

### Financings and Capitalization

We are a Well-Known Seasoned Issuer within the meaning of Rule 405 under the Securities Act, which allows us to issue debt securities, preferred stock, preference stock, common stock, purchase contracts, depository shares, warrants and units in an expedited fashion. We have a commercial paper program that is an important source of liquidity for us and a committed credit facility of \$1 billion to support our commercial paper issuances. The credit facility expires in January 2020. We have not drawn upon the credit facility.

At September 30, 2015, there was \$150 million of outstanding commercial paper borrowings with an effective interest rate of 0.54%. During the third quarter of 2015, the average daily amount of outstanding commercial paper borrowings was \$69 million at a weighted-average interest rate of 0.52% and the maximum amount outstanding at any time during the quarter was \$210 million. There were no commercial paper borrowings during the third quarter of 2014.

Through the nine months ended September 30, 2015, we repaid the \$275 million, 5% notes that matured in March and the \$130 million term loans. We recently announced that we will redeem in November 2015, the \$110 million, 5.25% Notes scheduled to mature in November 2022.

Through the nine months ended September 30, 2014, we redeemed an aggregate \$500 million of the 5.75% Notes due 2017 and the 5.25% Notes due 2037 through a cash tender offer (the 2014 Tender Offer). Holders who validly tendered their notes received the principal

amount, all accrued and unpaid interest and a premium payment. We incurred expenses of \$62 million, consisting of the call premium, the write-off of unamortized costs and bank transaction fees.

Through the nine months ended September 30, 2014, we also issued \$500 million of 4.625% fixed rate 10-year notes. Net proceeds from the issuance were \$493 million and were used to fund the 2014 Tender Offer.

#### Dividends and Share Repurchases

Through the nine months ended September 30, 2015, we paid dividends to our stockholders and noncontrolling interests of \$113 million and \$9 million, respectively. 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.

During the third quarter, we repurchased 4.9 million of our common shares for an aggregate cost of \$100 million. We received authorization from the Board of Directors to repurchase up to an additional \$100 million of our common stock.

#### Regulatory Matters

There have been no significant changes to the regulatory matters disclosed in our 2014 Annual Report.

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

There were no material changes to the disclosures made in the 2014 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 September 30, 2015.

## PART II. OTHER INFORMATION

## Item 1: Legal Proceedings

See Note 15 to the Condensed Consolidated Financial Statements.

## Item 1A: Risk Factors

There were no material changes to the risk factors identified in our 2014 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. During the third quarter, we repurchased 4.9 million shares of our common stock at an aggregate cost of \$100 million. We received authorization from the Board of Directors to repurchase an additional \$100 million of our common stock.

|                   | Number of<br>shares purchased | Average price<br>paid per share | Number of<br>shares<br>purchased<br>as part of a<br>publicly<br>announced plan | Approximate<br>dollar value of<br>shares that may<br>be purchased<br>under the plan (in<br>thousands) |
|-------------------|-------------------------------|---------------------------------|--|---|
| Beginning balance |                               |                                 |  | \$100,000   |
| July 2015         | 143,000                       | \$20.75                         | 143,000  | \$97,039  |
| August 2015       | 3,468,717                     | \$20.45                         | 3,468,717  | \$26,104  |
| September 2015    | 1,298,879                     | \$20.09                         | 1,298,879  | \$100,000   |
|                   | 4,910,596                     | \$20.36                         | 4,910,596  |   |

## Item 6: Exhibits

| Exhibit<br>Number | Description  | Exhibit Number in<br>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: November 6, 2015

/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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| 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   |                                  |