

PITNEY BOWES INC /DE/  
Form 10-Q  
August 05, 2009

**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 June 30, 2009**

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**

(State or other jurisdiction of incorporation or organization)

**06-0495050**

(I.R.S. Employer Identification No.)

**1 Elmcroft Road, Stamford, Connecticut**

(Address of principal executive offices)

**06926-0700**

(Zip Code)

**(203) 356-5000**

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of August 3, 2009.

Class	Outstanding
Common Stock, \$1 par value per share	207,053,403 shares

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PITNEY BOWES INC.  
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## PART I. FINANCIAL INFORMATION

## Item 1: Financial Statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
<b>Revenue:</b>				
Equipment sales	\$ 257,196	\$ 311,650	\$ 489,021	\$ 614,363
Supplies	81,973	101,286	170,002	208,886
Software	87,380	109,120	167,106	214,525
Rentals	156,151	185,855	324,281	370,808
Financing	174,508	197,263	357,306	396,202
Support services	179,246	194,955	353,593	386,480
Business services	442,008	487,957	896,737	970,779
<b>Total revenue</b>	<b>1,378,462</b>	<b>1,588,086</b>	<b>2,758,046</b>	<b>3,162,043</b>
<b>Costs and expenses:</b>				
Cost of equipment sales	139,770	166,282	262,855	327,395
Cost of supplies	21,369	26,419	44,710	54,291
Cost of software	21,570	26,453	41,067	54,190
Cost of rentals	38,013	39,671	73,864	77,975
Financing interest expense	25,438	27,552	49,890	57,928
Cost of support services	101,223	115,931	199,549	229,926
Cost of business services	352,306	383,009	712,213	762,300
Selling, general and administrative	424,265	497,689	867,793	994,184
Research and development	46,622	53,168	93,571	103,168
Restructuring charges and asset impairments		18,815		35,908
Other interest expense	29,553	30,137	57,304	61,528
Interest income	(933)	(3,562)	(2,485)	(6,552)
<b>Total costs and expenses</b>	<b>1,199,196</b>	<b>1,381,564</b>	<b>2,400,331</b>	<b>2,752,241</b>
Income from continuing operations before income taxes	179,266	206,522	357,715	409,802
Provision for income taxes	62,535	70,386	134,684	145,933
Income from continuing operations	116,731	136,136	223,031	263,869
Gain (loss) from discontinued operations, net of income tax	5,102	(2,831)	7,725	(6,663)
Net income before attribution of noncontrolling interests	121,833	133,305	230,756	257,206
Less: Preferred stock dividends of subsidiaries attributable to noncontrolling interests	4,571	4,796	9,092	9,594
Pitney Bowes Inc. net income	\$ 117,262	\$ 128,509	\$ 221,664	\$ 247,612
<b>Amounts attributable to Pitney Bowes Inc. common stockholders:</b>				
Income from continuing operations	\$ 112,160	\$ 131,340	\$ 213,939	\$ 254,275

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Gain (loss) from discontinued operations	<b>5,102</b>	(2,831)	<b>7,725</b>	(6,663)
Pitney Bowes Inc. net income	<b>\$ 117,262</b>	\$ 128,509	<b>\$ 221,664</b>	\$ 247,612

Basic earnings per share of common stock attributable to Pitney Bowes Inc. common stockholders (1):				
Continuing operations	<b>\$ 0.54</b>	\$ 0.63	<b>\$ 1.04</b>	\$ 1.21
Discontinued operations	<b>0.02</b>	(0.01)	<b>0.04</b>	(0.03)
Net income	<b>\$ 0.57</b>	\$ 0.62	<b>\$ 1.07</b>	\$ 1.18

Diluted earnings per share of common stock attributable to Pitney Bowes Inc. common stockholders (1):				
Continuing operations	<b>\$ 0.54</b>	\$ 0.63	<b>\$ 1.03</b>	\$ 1.20
Discontinued operations	<b>0.02</b>	(0.01)	<b>0.04</b>	(0.03)
Net income	<b>\$ 0.57</b>	\$ 0.61	<b>\$ 1.07</b>	\$ 1.17

Dividends declared per share of common stock	<b>\$ 0.36</b>	\$ 0.35	<b>\$ 0.72</b>	\$ 0.70
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(1) The sum of the earnings per share amounts may not equal the totals above due to rounding.

*See Notes to Condensed Consolidated Financial Statements*

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

	<u>June 30, 2009</u>	<u>December 31, 2008</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 445,262	\$ 376,671
Short-term investments	23,399	21,551
Accounts receivables, gross	842,766	924,886
Allowance for doubtful accounts receivables	(46,647)	(45,264)
Accounts receivables, net	<u>796,119</u>	<u>879,622</u>
Finance receivables	1,408,002	1,501,678
Allowance for credit losses	(42,814)	(45,932)
Finance receivables, net	<u>1,365,188</u>	<u>1,455,746</u>
Inventories	171,267	161,321
Current income taxes	91,465	59,594
Other current assets and prepayments	102,911	78,108
Total current assets	<u>2,995,611</u>	<u>3,032,613</u>
Property, plant and equipment, net	546,805	574,260
Rental property and equipment, net	365,852	397,949
Finance receivables	1,407,772	1,445,822
Allowance for credit losses	(25,091)	(25,858)
Finance receivables, net	<u>1,382,681</u>	<u>1,419,964</u>
Investment in leveraged leases	212,235	201,921
Goodwill	2,276,151	2,251,830
Intangible assets, net	341,612	375,822
Non-current income taxes	58,044	64,387
Other assets	389,188	417,685
Total assets	<u>\$ 8,568,179</u>	<u>\$ 8,736,431</u>
<b>LIABILITIES AND STOCKHOLDERS DEFICIT</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,722,404	\$ 1,922,399
Current income taxes	103,042	108,662
Notes payable and current portion of long-term obligations	292,869	770,501
Advance billings	491,073	441,556
Total current liabilities	<u>2,609,388</u>	<u>3,243,118</u>
Deferred taxes on income	320,842	254,353
FIN 48 uncertainties and other income tax liabilities	296,711	294,487
Long-term debt	4,209,129	3,934,865
Other non-current liabilities	788,244	823,322

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Total liabilities	<b>8,224,314</b>	8,550,145
Noncontrolling interests (Preferred stockholders' equity in subsidiaries)	<b>374,165</b>	374,165
Commitments and contingencies (See Note 18)		
Stockholders' deficit:		
Cumulative preferred stock, \$50 par value, 4% convertible	7	7
Cumulative preference stock, no par value, \$2.12 convertible	<b>969</b>	976
Common stock, \$1 par value (480,000,000 shares authorized; 323,337,912 shares issued)	<b>323,338</b>	323,338
Additional paid-in capital	<b>249,312</b>	259,306
Retained earnings	<b>4,351,845</b>	4,278,804
Accumulated other comprehensive loss	<b>(533,571)</b>	(596,341)
Treasury stock, at cost (116,321,121 and 117,156,719 shares, respectively)	<b>(4,422,200)</b>	(4,453,969)
Total Pitney Bowes Inc. stockholders' deficit	<b>(30,300)</b>	(187,879)
Total liabilities and stockholders' deficit	<b>\$ 8,568,179</b>	\$ 8,736,431

*See Notes to Condensed Consolidated Financial Statements*

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

	Six Months Ended June 30,	
	2009	2008
Cash flows from operating activities:		
Net income before attribution of noncontrolling interests	\$ 230,756	\$ 257,206
Restructuring charges, net of tax		22,746
Restructuring payments	(49,110)	(36,874)
Payments for settlement of derivative instruments	(20,281)	
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	175,240	193,982
Stock-based compensation	11,632	12,754
Changes in operating assets and liabilities, excluding effects of acquisitions:		
(Increase) decrease in accounts receivables	99,037	(28,839)
(Increase) decrease in finance receivables	165,142	52,243
(Increase) decrease in inventories	(4,738)	(12,298)
(Increase) decrease in prepaid, deferred expense and other assets	(20,652)	(7,556)
Increase (decrease) in accounts payable and accrued liabilities	(167,582)	(85,208)
Increase (decrease) in current and non-current income taxes	16,449	48,844
Increase (decrease) in advance billings	42,891	53,219
Increase (decrease) in other operating capital, net	4,603	229
Net cash provided by operating activities	<u>483,387</u>	<u>470,448</u>
Cash flows from investing activities:		
Short-term and other investments	(506)	28,157
Capital expenditures	(90,190)	(115,346)
Net investment in external financing	(356)	2,637
Acquisitions, net of cash acquired		(68,503)
Reserve account deposits	1,532	18,452
Net cash used in investing activities	<u>(89,520)</u>	<u>(134,603)</u>
Cash flows from financing activities:		
Increase (decrease) in notes payable, net	(476,085)	104,349
Proceeds from long-term obligations	297,513	245,582
Principal payments on long-term obligations		(219,109)
Proceeds from issuance of common stock	5,100	11,447
Stock repurchases		(272,413)
Dividends paid to stockholders	(148,623)	(146,702)
Dividends paid to noncontrolling interests	(9,092)	(9,594)
Net cash used in financing activities	<u>(331,187)</u>	<u>(286,440)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>5,911</u>	<u>2,831</u>
Increase in cash and cash equivalents	<u>68,591</u>	<u>52,236</u>
Cash and cash equivalents at beginning of period	<u>376,671</u>	<u>377,176</u>
Cash and cash equivalents at end of period	<u>\$ 445,262</u>	<u>\$ 429,412</u>



	<u>          </u>	<u>          </u>
Cash interest paid	\$ <b>99,103</b>	\$ 120,877
	<u>          </u>	<u>          </u>
Cash income taxes paid, net	\$ <b>119,132</b>	\$ 94,164
	<u>          </u>	<u>          </u>

*See Notes to Condensed Consolidated Financial Statements*

**PITNEY BOWES INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited; tabular dollars in thousands, except for per share data)**

***1. Basis of Presentation***

The terms we, us, and our are used in this report to refer collectively to Pitney Bowes Inc. and its subsidiaries.

The accompanying unaudited Condensed Consolidated Financial Statements of Pitney Bowes Inc. have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In addition, the December 31, 2008 condensed consolidated balance sheet data was derived from audited financial statements, which were revised in the current period to reflect presentation changes for the adoption of FASB Statement of Financial Accounting Standards ( SFAS ) No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*, but does not include all disclosures required by accounting principles generally accepted in the United States of America. In our opinion, all adjustments (consisting of only normal recurring adjustments) considered necessary to present fairly our financial position at June 30, 2009 and December 31, 2008, our results of operations for the three and six months ended June 30, 2009 and 2008 and our cash flows for the three and six months ended June 30, 2009 and 2008 have been included. Operating results for the three and six months ended June 30, 2009 are not necessarily indicative of the results that may be expected for any other interim period or the year ending December 31, 2009.

These statements should be read in conjunction with the financial statements and notes thereto included in our 2008 Annual Report to Stockholders on Form 10-K.

Certain prior year amounts have been reclassified to conform with the current period presentation. In the second quarter of 2009, we have separately presented a financing interest expense line item, which represents our cost of borrowing associated with the generation of financing revenues, in the Condensed Consolidated Statements of Income. In computing our financing interest expense, we assumed a 10:1 leveraging ratio of debt to equity and applied our overall effective interest rate to the average outstanding finance receivables.

In accordance with SFAS No. 165, *Subsequent Events*, we have evaluated subsequent events through August 5, 2009, the date of issuance of the unaudited condensed consolidated financial statements. During this period we did not have any material recognizable subsequent events. We did, however, have non-recognizable subsequent events by entering into three interest rate swaps for a combined notional amount of \$300 million in July 2009. See Note 11 to the Condensed Consolidated Financial Statements for additional discussion on the interest rate swaps.

***2. Nature of Operations***

We are a provider of leading-edge, global, integrated mail and document management solutions for organizations of all sizes. We operate in two business groups: Mailstream Solutions and Mailstream Services. Mailstream Solutions includes worldwide revenue and related expenses from the sale, rental, and financing of mail finishing, mail creation, shipping equipment and software; production mail equipment; supplies; mailing support and other professional services; payment solutions; and mailing, customer communication and location intelligence software. Mailstream Services includes worldwide revenue and related expenses from facilities management services; secure mail services; reprographics, document management, and other value-added services for targeted customer markets; mail services operations, which include presort mail services and international mail services; and marketing services. See Note 7 to the Condensed Consolidated Financial Statements for details of our reporting segments and a description of their activities.

***3. Recent Accounting Pronouncements***

In September 2006, the FASB issued Statement of Financial Accounting Standards ( SFAS ) No. 157, *Fair Value Measurements* ( SFAS 157 ), to define how the fair value of assets and liabilities should be measured in accounting standards where it is allowed or required. In addition to defining fair value, the Statement established a framework within GAAP for measuring fair value and expanded required disclosures surrounding fair value measurements. In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2, *Effective Date of FASB Statement No. 157*, which delayed the effective date by one year for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. In October 2008, the FASB issued FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*, to clarify the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. This FSP was

**PITNEY BOWES INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited; tabular dollars in thousands, except for per share data)**

effective immediately. In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, to provide additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. This FSP is effective for interim and annual reporting periods ending after June 15, 2009. We adopted SFAS 157 for financial assets and financial liabilities on January 1, 2008, and the adoption did not have a material impact on our financial position, results of operations, or cash flows. We adopted SFAS 157 for nonfinancial items on January 1, 2009, and the adoption did not have a material impact on our financial position, results of operations, or cash flows. We currently do not have any financial assets that are valued using inactive markets, and as such are not impacted by the issuances of FSP 157-3 and FSP 157-4. See Note 17 to the Condensed Consolidated Financial Statements for additional discussion on fair value measurements.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ( SFAS 141(R) ). SFAS 141(R) establishes principles and requirements for how a company (a) recognizes and measures in their financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest (previously referred to as minority interest); (b) recognizes and measures the goodwill acquired in a business combination or a gain from a bargain purchase; and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of a business combination. SFAS 141(R) requires fair value measurements at the date of acquisition, with limited exceptions specified in the Statement. Some of the major impacts of this new standard include expense recognition for transaction costs and restructuring costs. SFAS 141(R) was effective for fiscal years beginning on or after December 15, 2008 and is applied prospectively. The adoption of this Statement has not had a material impact on our financial position, results of operations, or cash flows for the six months ended June 30, 2009.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* ( SFAS 160 ). SFAS 160 addresses the accounting and reporting for the outstanding noncontrolling interest (previously referred to as minority interest) in a subsidiary and for the deconsolidation of a subsidiary. It also establishes additional disclosures in the consolidated financial statements that identify and distinguish between the interests of the parent's owners and of the noncontrolling owners of a subsidiary. This Statement is effective for fiscal years beginning on or after December 15, 2008. SFAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements of SFAS 160 are applied prospectively. We adopted the presentation and disclosure requirements of SFAS 160 on a retrospective basis beginning in the first quarter of 2009.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ( SFAS 161 ). SFAS 161 requires enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The adoption of this Statement requires us to present currently disclosed information in a tabular format and also expands our disclosures concerning where derivatives are reported on the balance sheet and where gains/losses are recognized in the results of operations. The Company has complied with the disclosure requirements of this Statement beginning in the first quarter of 2009. See Note 17 to the Condensed Consolidated Financial Statements for the additional disclosures.

In December 2008, the FASB issued FSP FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*, which amends Statement No. 132(R) to require more detailed disclosures about employer's plan assets, including investment strategies, major categories of assets, concentrations of risk within plan assets and valuation techniques used to measure the fair value of assets. The FSP is effective for fiscal years ending after December 15, 2009. The Company will comply with the additional disclosure requirements.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. This FSP amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. This FSP is effective for interim reporting periods ending after June 15, 2009. The Company has complied with the additional disclosure requirements beginning in the second quarter of 2009. See Note 17 to the Condensed Consolidated Financial Statements for additional discussion on fair value measurements.

**PITNEY BOWES INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited; tabular dollars in thousands, except for per share data)**

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. This FSP amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. The FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. The FSP is effective for interim and annual reporting periods ending after June 15, 2009. The Company currently does not have any financial assets that are other-than-temporarily impaired.

In April 2009, the FASB issued FSP No. FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*, to address some of the application issues under SFAS 141(R). The FSP deals with the initial recognition and measurement of an asset acquired or a liability assumed in a business combination that arises from a contingency provided the asset or liability's fair value on the date of acquisition can be determined. When the fair value cannot be determined, the FSP requires using the guidance under SFAS No. 5, *Accounting for Contingencies*, and FASB Interpretation (FIN) No. 14, *Reasonable Estimation of the Amount of a Loss*. This FSP is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after January 1, 2009. The adoption of this FSP has not had a material impact on our financial position, results of operations, or cash flows for the six months ended June 30, 2009.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*. SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Although there is new terminology, the standard is based on the same principles as those that currently exist in the auditing standards. The standard also includes a required disclosure of the date through which the entity has evaluated subsequent events and whether the evaluation date is the date of issuance or the date the financial statements were available to be issued. The standard is effective for interim or annual periods ending after June 15, 2009. The Company has complied with the disclosure requirements.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162*. The *FASB Accounting Standards Codification* (Codification) will become the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this Statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. This Statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company will comply with the requirements of the Statement beginning in the third quarter of 2009.

#### **4. Discontinued Operations**

The following table shows selected financial information included in discontinued operations for the three and six months ended June 30, 2009 and 2008, respectively:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
<b>Discontinued Operations</b>				
Pre-tax income	\$ 10,851	\$	\$ 20,624	\$
Tax provision	(5,749)	(2,831)	(12,899)	(6,663)
Gain (loss) from discontinued operations, net of tax	<b>\$ 5,102</b>	<b>\$ (2,831)</b>	<b>\$ 7,725</b>	<b>\$ (6,663)</b>

For the three months ended June 30, 2009, \$10.9 million of pre-tax income, net of \$4.2 million in tax, represents the release of reserves related to the expiration of an indemnity agreement in April 2009 associated with the sale of our Capital Services portfolio in 2006. This income was partially offset by the accrual of interest on uncertain tax positions. The net loss for the three months ended June 30, 2008 relates to the accrual of interest on uncertain tax positions.

Pre-tax income for the six months ended June 30, 2009 includes the indemnity settlement as discussed and \$9.8 million of pre-tax income, net of \$3.8 million in tax, for a bankruptcy settlement received during the first quarter of 2009 pertaining to the leasing of certain aircraft from our

former Capital Services business which was sold in 2006. This income was partly offset by the accrual of

**PITNEY BOWES INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited; tabular dollars in thousands, except for per share data)

interest on uncertain tax positions. The net loss for the six months ended June 30, 2008 relates to the accrual of interest on uncertain tax positions.

### 5. Acquisitions

On April 21, 2008, we acquired Zipsort, Inc. for \$40 million in cash, net of cash acquired. Zipsort, Inc. acts as an intermediary between customers and the U.S. Postal Service. Zipsort, Inc. offers mailing services that include presorting of first class, standard class, flats, permit and international mail as well as metering services. We assigned the goodwill to the Mail Services segment.

The following table summarizes selected financial data for the opening balance sheet of the Zipsort, Inc. acquisition in 2008:

	2008
	Zipsort, Inc.
<b>Purchase price allocation:</b>	
Current assets	\$ 708
Other non-current assets	11,707
Intangible assets	7,942
Goodwill	25,294
Current liabilities	(2,975)
Non-current liabilities	(2,885)
	\$ 39,791
<b>Intangible assets:</b>	
Customer relationships	\$ 7,658
Non-compete agreements	284
	\$ 7,942
<b>Intangible assets amortization period:</b>	
	15
Customer relationships	years
Non-compete agreements	4 years
	15
Total weighted average	years

There were no acquisitions during the six months ended June 30, 2009.

During the six months ended June 30, 2008, we also completed four smaller acquisitions with an aggregate cost of \$29.2 million. These acquisitions did not have a material impact on our financial results.

No tax deductible goodwill was added during the six months ended June 30, 2009. The amount of tax deductible goodwill added from acquisitions for the six months ended June 30, 2008 was \$27.4 million.

#### *Consolidated impact of acquisitions*

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The Condensed Consolidated Financial Statements include the results of operations of the acquired businesses from their respective dates of acquisition. These acquisitions increased our revenue and earnings but, including related financing costs, did not materially impact earnings either on an aggregate or per share basis.

The following table provides unaudited pro forma consolidated revenue for the three and six months ended June 30, 2009 and 2008 as if our acquisitions had been acquired on January 1 of each year:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Total revenue	\$ <b>1,378,462</b>	\$ 1,589,843	\$ <b>2,758,046</b>	\$ 3,164,070

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**PITNEY BOWES INC.**  
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The pro forma earnings results of these acquisitions were not material to net income or earnings per share. The pro forma consolidated results do not purport to be indicative of actual results that would have occurred had the acquisitions been completed on January 1, 2009 and 2008, nor do they purport to be indicative of the results that will be obtained in the future.

**6. Earnings per Share**

A reconciliation of the basic and diluted earnings per share computations for the three months ended June 30, 2009 and 2008 is as follows:

	2009			2008		
	Income	Weighted Average Shares	Per Share	Income	Weighted Average Shares	Per Share
Pitney Bowes Inc. net income	\$ 117,262			\$ 128,509		
Less:						
Preferred stock dividends						
Preference stock dividends	(19)			(19)		
Basic earnings per share	<u>\$ 117,243</u>	<u>206,539</u>	<u>\$ 0.57</u>	<u>\$ 128,490</u>	<u>208,050</u>	<u>\$ 0.62</u>
Effect of dilutive securities:						
Data for basic earnings per share	\$ 117,243	206,539		\$ 128,490	208,050	
Preferred stock		3			3	
Preference stock	19	594		19	601	
Stock options and stock purchase plans					819	
Other stock plans		2			70	
Diluted earnings per share	<u>\$ 117,262</u>	<u>207,138</u>	<u>\$ 0.57</u>	<u>\$ 128,509</u>	<u>209,543</u>	<u>\$ 0.61</u>
			<u>Per Share</u>			<u>Per Share</u>
Basic earnings per share of common stock attributable to Pitney Bowes Inc. common stockholders:						
Continuing operations			\$ 0.54			\$ 0.63
Discontinued operations			0.02			(0.01)
Net income			<u>\$ 0.57</u>			<u>\$ 0.62</u>
			<u>Per Share</u>			<u>Per Share</u>
Diluted earnings per share of common stock attributable to Pitney Bowes Inc. common stockholders:						
Continuing operations			\$ 0.54			\$ 0.63
Discontinued operations			0.02			(0.01)
Net income			<u>\$ 0.57</u>			<u>\$ 0.61</u>



Note: The sum of the earnings per share amounts may not equal the totals above due to rounding.

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A reconciliation of the basic and diluted earnings per share computations for the six months ended June 30, 2009 and 2008 is as follows:

	2009			2008		
	Income	Weighted Average Shares	Per Share	Income	Weighted Average Shares	Per Share
Pitney Bowes Inc. net income	\$ 221,664			\$ 247,612		
Less:						
Preferred stock dividends						
Preference stock dividends	(38)			(39)		
Basic earnings per share	<u>\$ 221,626</u>	<u>206,400</u>	<u>\$ 1.07</u>	<u>\$ 247,573</u>	<u>209,942</u>	<u>\$ 1.18</u>
Effect of dilutive securities:						
Data for basic earnings per share	\$ 221,626	206,400		\$ 247,573	209,942	
Preferred stock		3			3	
Preference stock	38	595		39	604	
Stock options and stock purchase plans					855	
Other stock plans		4			77	
Diluted earnings per share	<u>\$ 221,664</u>	<u>207,002</u>	<u>\$ 1.07</u>	<u>\$ 247,612</u>	<u>211,481</u>	<u>\$ 1.17</u>
			<u>Per Share</u>			<u>Per Share</u>
Basic earnings per share of common stock attributable to Pitney Bowes Inc. common stockholders:						
Continuing operations			\$ 1.04			\$ 1.21
Discontinued operations			0.04			(0.03)
Net income			<u>\$ 1.07</u>			<u>\$ 1.18</u>
			<u>Per Share</u>			<u>Per Share</u>
Diluted earnings per share of common stock attributable to Pitney Bowes Inc. common stockholders:						
Continuing operations			\$ 1.03			\$ 1.20
Discontinued operations			0.04			(0.03)
Net income			<u>\$ 1.07</u>			<u>\$ 1.17</u>

Note: The sum of the earnings per share amounts may not equal the totals above due to rounding.

In accordance with SFAS No. 128, *Earnings per Share*, approximately 6.4 million and 2.0 million common stock equivalent shares for the three months ended June 30, 2009 and 2008, respectively, and 6.5 million and 1.9 million common stock equivalent shares for the six months ended June 30, 2009 and 2008, respectively, issuable upon the exercise of stock options were excluded from the above computations because the

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exercise prices of such options were greater than the average market price of the common stock and therefore the impact of these shares was anti-dilutive.

On February 9, 2009, we made our annual stock compensation grant which consisted of approximately 1.6 million stock options and 0.8 million restricted stock units.

**PITNEY BOWES INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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**7. Segment Information**

We conduct our business activities in seven business segments within the Mailstream Solutions and Mailstream Services business groups. We calculate earnings before interest and taxes ( EBIT ) by deducting from revenue the related costs and expenses attributable to the segment. EBIT, a non-GAAP measure, is useful to management in demonstrating the operational profitability of the segments by excluding interest and taxes, which are generally managed across the entire company on a consolidated basis. Segment EBIT also excludes general corporate expenses, restructuring charges and asset impairments.

**Mailstream Solutions:**

*U.S. Mailing:* Includes the U.S. revenue and related expenses from the sale, rental and financing of our mail finishing, mail creation, shipping equipment and software; supplies; support and other professional services; and payment solutions.

*International Mailing:* Includes the non-U.S. revenue and related expenses from the sale, rental and financing of our mail finishing, mail creation, shipping equipment and software; supplies; support and other professional services; and payment solutions.

*Production Mail:* Includes the worldwide revenue and related expenses from the sale, financing, support and other professional services of our high-speed, production mail systems and sorting equipment.

*Software:* Includes the worldwide revenue and related expenses from the sale and support services of non-equipment-based mailing, customer communication and location intelligence software.

**Mailstream Services:**

*Management Services:* Includes worldwide facilities management services; secure mail services; reprographic, document management services; and litigation support and eDiscovery services.

*Mail Services:* Includes presort mail services and cross-border mail services.

*Marketing Services:* Includes direct marketing services for targeted customers; web-tools for the customization of promotional mail and marketing collateral; and other marketing consulting services.

**PITNEY BOWES INC.**  
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Revenue and EBIT by business segment for the three and six months ended June 30, 2009 and 2008 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
<b>Revenue:</b>				
U.S. Mailing	\$ 505,159	\$ 550,849	\$ 1,013,682	\$ 1,103,434
International Mailing	217,900	302,085	455,212	610,418
Production Mail	130,137	149,400	239,566	284,804
Software	82,823	102,250	158,198	201,913
Mailstream Solutions	936,019	1,104,584	1,866,658	2,200,569
Management Services	263,763	300,454	530,265	603,089
Mail Services	138,598	134,764	279,849	260,186
Marketing Services	40,082	48,284	81,274	98,199
Mailstream Services	442,443	483,502	891,388	961,474
<b>Total revenue</b>	<b>\$ 1,378,462</b>	<b>\$ 1,588,086</b>	<b>\$ 2,758,046</b>	<b>\$ 3,162,043</b>
<b>EBIT: (1)</b>				
U.S. Mailing	\$ 195,044	\$ 220,526	\$ 387,878	\$ 444,481
International Mailing	27,069	51,462	58,008	101,397
Production Mail	10,413	15,350	15,480	23,933
Software	5,219	6,317	7,823	12,795
Mailstream Solutions	237,745	293,655	469,189	582,606
Management Services	16,140	18,230	29,777	36,867
Mail Services	21,723	15,980	40,298	34,369
Marketing Services	3,147	3,527	5,163	5,279
Mailstream Services	41,010	37,737	75,238	76,515
<b>Total EBIT</b>	<b>278,755</b>	<b>331,392</b>	<b>544,427</b>	<b>659,121</b>
<b>Unallocated amounts:</b>				
Interest, net (2)	(54,058)	(54,127)	(104,709)	(112,904)
Corporate expenses	(45,431)	(51,928)	(82,003)	(100,507)
Restructuring charges and asset impairments		(18,815)		(35,908)

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Income from continuing operations before income taxes	<u>\$ 179,266</u>	<u>\$ 206,522</u>	<u>\$ 357,715</u>	<u>\$ 409,802</u>
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- (1) Earnings before interest and taxes excludes general corporate expenses, restructuring charges, and asset impairments.
- (2) Interest, net includes financing interest expense, other interest expense and interest income.

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**PITNEY BOWES INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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**8. Inventories**

Inventories are composed of the following:

	June 30, 2009	December 31, 2008
Raw materials and work in process	\$ 47,303	\$ 41,171
Supplies and service parts	78,373	78,018
Finished products	45,591	42,132
Total	<u>\$ 171,267</u>	<u>\$ 161,321</u>

**9. Fixed Assets**

	June 30, 2009	December 31, 2008
Property, plant and equipment	\$ 1,826,971	\$ 1,880,422
Accumulated depreciation	(1,280,166)	(1,306,162)
Property, plant and equipment, net	<u>\$ 546,805</u>	<u>\$ 574,260</u>
Rental property and equipment	\$ 736,338	\$ 932,389
Accumulated depreciation	(370,486)	(534,440)
Rental property and equipment, net	<u>\$ 365,852</u>	<u>\$ 397,949</u>

Depreciation expense was \$69.6 million and \$78.5 million for the three months ended June 30, 2009 and 2008, respectively. Depreciation expense was \$139.6 million and \$158.9 million for the six months ended June 30, 2009 and 2008, respectively.

**10. Intangible Assets and Goodwill**

Intangible assets are composed of the following:

	June 30, 2009			December 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$ 424,042	\$ (176,228)	\$ 247,814	\$ 423,169	\$ (154,619)	\$ 268,550
Supplier relationships	29,000	(11,842)	17,158	29,000	(10,392)	18,608
Software & technology	151,783	(84,828)	66,955	155,035	(78,982)	76,053
Trademarks & trade names	24,998	(15,885)	9,113	25,071	(13,310)	11,761
Non-compete agreements	2,693	(2,121)	572	2,652	(1,802)	850
Total intangible assets	<u>\$ 632,516</u>	<u>\$ (290,904)</u>	<u>\$ 341,612</u>	<u>\$ 634,927</u>	<u>\$ (259,105)</u>	<u>\$ 375,822</u>

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Amortization expense for intangible assets for the three months ended June 30, 2009 and 2008 was \$18.2 million and \$17.9 million, respectively. Amortization expense for intangible assets for the six months ended June 30, 2009 and 2008 was \$35.6 million and \$35.0 million, respectively.



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The estimated future amortization expense related to intangible assets is as follows:

	<u>Amount</u>
Remaining for year ended December 31, 2009	\$ 31,000
Year ended December 31, 2010	59,000
Year ended December 31, 2011	53,000
Year ended December 31, 2012	47,000
Year ended December 31, 2013	44,000
Thereafter	107,612
	<u>          </u>
Total	<u>\$ 341,612</u>

Changes in the carrying amount of goodwill by business segment for the six months ended June 30, 2009 are as follows:

	<u>Balance at December 31, 2008</u>	<u>Acquired during the period</u>	<u>Other (1)</u>	<u>Balance at June 30, 2009</u>
U.S. Mailing	\$ 142,365	\$	\$ 246	\$ 142,611
International Mailing	322,230		16,112	338,342
Production Mail	137,067		238	137,305
Software	623,995		7,728	631,723
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Mailstream Solutions	1,225,657		24,324	1,249,981
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Management Services	491,633		912	492,545
Mail Services	260,793		(983)	259,810
Marketing Services	273,747		68	273,815
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Mailstream Services	1,026,173		(3)	1,026,170
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total	<u>\$ 2,251,830</u>	<u>\$</u>	<u>\$ 24,321</u>	<u>\$ 2,276,151</u>

(1) Other includes post closing acquisition and foreign currency translation adjustments.

### **11. Long-term Debt**

On June 29, 2009, we entered into an interest rate swap for an aggregate notional amount of \$100 million to effectively convert our interest payments on a portion of the \$400 million, 4.625% fixed rate notes due in 2012, into variable interest rates. The variable rates payable are based on one month LIBOR plus 249 basis points. In July 2009, we entered into three additional interest rate swaps for an aggregate notional amount of \$300 million to effectively convert our interest payments on the remainder of the \$400 million, 4.625% fixed rate notes due in 2012, into variable interest rates. The variable rates payable are based on one month LIBOR plus 248 basis points for \$100 million notional amount and one month LIBOR plus 250 basis points for \$200 million notional amount.

On March 2, 2009, we issued \$300 million of 10-year fixed-rate notes with a coupon rate of 6.25%. The interest is paid semi-annually beginning September 15, 2009. The notes mature on March 15, 2019. We simultaneously unwound four forward starting swap agreements (forward swaps) used to hedge the interest rate risk associated with the forecasted issuance of the fixed-rate debt. The unwind of the derivatives resulted in a loss (and cash payment) of \$20.3 million which was recorded to other comprehensive income, net of tax, and will be amortized to net interest

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expense over the 10-year term of the notes. The proceeds from these notes were used for general corporate purposes, including the repayment of commercial paper.

On March 4, 2008, we issued \$250 million of 10-year fixed-rate notes with a coupon rate of 5.60%. The interest is paid semi-annually beginning September 2008. The notes mature on March 15, 2018. We simultaneously entered into two interest rate swaps for a total notional amount of \$250 million to convert the fixed-rate notes to a floating rate obligation bearing interest at 6 month LIBOR plus 111.5 basis points. The proceeds from these notes were used for general corporate purposes, including the repayment of commercial paper and repurchase of our stock.

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

Pitney Bowes International Holdings, Inc. ( PBIH ), a subsidiary of the Company, has 3,750,000 shares outstanding or \$375 million of variable term voting preferred stock owned by certain outside institutional investors. These preferred shares are entitled to 25% of the combined voting power of all classes of capital stock of PBIH. All outstanding common stock of Pitney Bowes International Holdings, Inc., representing the remaining 75% of the combined voting power of all classes of capital stock, is owned directly or indirectly by Pitney Bowes Inc. The preferred stock, \$.01 par value, is entitled to cumulative dividends at rates set at auction. The weighted average dividend rate was 4.8% for the three months and six months ended June 30, 2009 and 2008, respectively. Preferred dividends are included in noncontrolling interests (preferred stock dividends of subsidiaries) in the Condensed Consolidated Statements of Income. The preferred stock is subject to mandatory redemption based on certain events, at a redemption price not less than \$100 per share, plus the amount of any dividends accrued or in arrears. No dividends were in arrears at June 30, 2009, December 31, 2008 or June 30, 2008. A rollforward of noncontrolling interests is as follows:

Beginning balance, January 1, 2008	\$ 384,165
Movements:	
Share redemptions (1)	(10,000)
	<hr/>
Ending balance, December 31, 2008 and June 30, 2009	<b>\$ 374,165</b>
	<hr/>

- (1) At December 31, 2007, a subsidiary of the Company had 100 shares or \$10 million of 9.11% Cumulative Preferred Stock, mandatorily redeemable in 20 years, owned by an institutional investor. In August 2008, we redeemed 100% of this Preferred Stock resulting in a net loss of \$1.8 million.

**13. Comprehensive Income**

Comprehensive income for the three and six months ended June 30, 2009 and 2008 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Pitney Bowes Inc. net income	\$ 117,262	\$ 128,509	\$ 221,664	\$ 247,612
Other comprehensive income, net of tax:				
Foreign currency translation adjustments (1)	107,164	1,413	47,734	38,113
Net unrealized gain (loss) on derivatives	164	(225)	6,514	803
Net unrealized loss on investment securities	(151)	(284)	(230)	(75)
Amortization of pension and postretirement costs	4,157	3,562	8,752	7,131
	<hr/>	<hr/>	<hr/>	<hr/>
Comprehensive income	<b>\$ 228,596</b>	<b>\$ 132,975</b>	<b>\$ 284,434</b>	<b>\$ 293,584</b>
	<hr/>	<hr/>	<hr/>	<hr/>

- (1) Includes a net deferred translation loss of \$6.4 million and \$0.3 million for the three months ended June 30, 2009 and 2008, respectively. For the six months ended June 30, 2009 and 2008, a net loss of \$12.0 million and a net gain of \$10.0 million, respectively, were recorded. These amounts are associated with intercompany loans denominated in a foreign currency that have been designated as a hedge of net investment.

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**14. Restructuring Charges and Asset Impairments**

Pre-tax restructuring reserves at June 30, 2009 are composed of the following:

	Balance at December 31, 2008	Expenses	Cash payments	Non-cash charges	Balance at June 30, 2009
Severance and benefit costs	\$ 108,431	\$	\$ (42,264)	\$	\$ 66,167
Other exit costs	32,678		(6,846)		25,832
<b>Total</b>	<b>\$ 141,109</b>	<b>\$</b>	<b>\$ (49,110)</b>	<b>\$</b>	<b>\$ 91,999</b>

We recorded pre-tax restructuring charges and asset impairments during 2008 and 2007. These charges primarily related to a program we announced in November 2007 to lower our cost structure, accelerate efforts to improve operational efficiencies, and transition our product line.

As of June 30, 2009, 2,743 terminations have occurred under this program and approximately 300 additional positions have been eliminated since the inception of the program. The majority of the liability at June 30, 2009 is expected to be paid by the end of 2009 from cash generated from operations.

**15. Pensions and Other Benefit Programs***Defined Benefit Pension Plans*

The components of net periodic benefit cost for defined benefit pension plans for the three months ended June 30, 2009 and 2008 are as follows:

	United States		Foreign	
	Three Months Ended June 30,		Three Months Ended June 30,	
	2009	2008	2009	2008
Service cost	\$ 4,916	\$ 7,031	\$ 1,683	\$ 2,887
Interest cost	23,262	24,190	6,217	7,748
Expected return on plan assets	(29,861)	(33,196)	(6,727)	(9,748)
Amortization of transition (credit) cost			(2)	32
Amortization of prior service (credit) cost	(678)	(635)	112	170
Amortization of net loss	6,159	4,883	611	1,055
<b>Net periodic benefit cost</b>	<b>\$ 3,798</b>	<b>\$ 2,273</b>	<b>\$ 1,894</b>	<b>\$ 2,144</b>

The components of net periodic benefit cost for defined benefit pension plans for the six months ended June 30, 2009 and 2008 are as follows:

	United States		Foreign	
	Six Months Ended June 30,		Six Months Ended June 30,	

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	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Service cost	\$ 12,256	\$ 14,062	\$ 3,275	\$ 5,578
Interest cost	47,486	48,380	12,009	15,479
Expected return on plan assets	(60,012)	(66,392)	(12,983)	(19,502)
Amortization of transition (credit) cost			(4)	64
Amortization of prior service (credit) cost	(1,274)	(1,270)	215	340
Amortization of net loss	13,186	9,766	1,191	2,114
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net periodic benefit cost	\$ 11,642	\$ 4,546	\$ 3,703	\$ 4,073
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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We are revising our expected 2009 pension plan contributions. We now expect to contribute up to \$15 million each to the U.S. and foreign plans. We will continue to reassess our funding alternatives as the year progresses. At June 30, 2009, \$10.3 million and \$7.8 million of contributions have been made to the U.S. and foreign pension plans, respectively.

Our pension funds' actual asset returns have performed in line with our portfolio benchmark indices. Our funded status will be highly dependent on the market returns and the prevailing discount rate used to value our year-end obligations.

*Nonpension Postretirement Benefit Plans*

The components of net periodic benefit cost for nonpension postretirement benefit plans for the three and six months ended June 30, 2009 and 2008 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Service cost	\$ 1,010	\$ 892	\$ 1,812	\$ 1,784
Interest cost	3,728	3,459	7,290	6,915
Amortization of prior service credit	(620)	(618)	(1,240)	(1,236)
Amortization of net loss	1,122	738	2,068	1,477
Net periodic benefit cost	\$ 5,240	\$ 4,471	\$ 9,930	\$ 8,940

For the three months ended June 30, 2009 and 2008, we made \$5.5 million and \$8.3 million of contributions representing benefit payments, respectively. Contributions for benefit payments were \$13.4 million and \$17.1 million for the six months ended June 30, 2009 and 2008.

**16. Income Taxes**

The effective tax rate for the three months ended June 30, 2009 and 2008 was 34.9% and 34.1%, respectively. The effective tax rate for the six months ended June 30, 2009 and 2008 was 37.7% and 35.6%, respectively. The year-to-date 2009 tax rate was increased by a \$12.0 million write-off of deferred tax assets associated with the expiration of out-of-the-money vested stock options and the vesting of stock units previously granted to our employees. This write-off of deferred tax assets will not require us to pay any taxes. The year-to-date 2008 tax rate was increased by a \$6.5 million tax accrual associated with lease refunds in the U.K. and Ireland.

We regularly assess the likelihood of tax adjustments in each of the tax jurisdictions in which we have operations and account for the related financial statement implications. Tax reserves have been established which we believe to be appropriate given the possibility of tax adjustments. Determining the appropriate level of tax reserves requires us to exercise judgment regarding the uncertain application of tax law. The amount of reserves is adjusted when information becomes available or when an event occurs indicating a change in the reserve is appropriate. Future changes in tax reserve requirements could have a material impact on our results of operations.

We are continually under examination by tax authorities in the United States, other countries and local jurisdictions in which we have operations. The years under examination vary by jurisdiction. The current IRS exam of tax years 2001-2004 is estimated to be completed within the next two years and the examination of years 2005-2007 has commenced. In connection with the 2001-2004 exam, we have received notices of proposed adjustments to our filed returns. We have accrued our best estimate of the tax, interest and penalties that may result from these proposed adjustments in accordance with FIN 48. We are disputing a formal request from the IRS in the form of a civil summons to provide certain company workpapers. We believe that certain documents being sought should not be produced because they are privileged. In a similar case, the U.S. District Court in Rhode Island ruled that certain company workpapers were privileged. The IRS has appealed that decision. Also in connection with the 2001-2004 audit, we have entered into a settlement with the IRS regarding the tax treatment of certain lease transactions related to the Capital Services business that we sold in 2006. Prior to 2007, we accrued and paid the IRS the additional tax and interest associated with this settlement. A variety of post-1999 tax years remain subject to examination by other tax authorities, including the U.K., Canada, France, Germany and various U.S. states. We have accrued our best estimate of the tax, interest and penalties that may result from these tax uncertainties in these and



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other jurisdictions in accordance with FIN 48. However, the resolution of such matters could have a material impact on our results of operations, financial position and cash flows.

***17. Fair Value Measurements***

Effective January 1, 2008, we adopted SFAS 157 for financial assets and liabilities. Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. SFAS 157 emphasizes that an entity's valuation technique for measuring fair value should maximize observable inputs and minimize unobservable inputs.

Non-recurring nonfinancial assets and nonfinancial liabilities include those measured at fair value in goodwill and indefinite lived intangible asset impairment testing, and those non-recurring nonfinancial assets and nonfinancial liabilities initially measured at fair value in a business combination. The new fair value definition and disclosure requirements for these specific nonfinancial assets and nonfinancial liabilities were effective January 1, 2009.

SFAS 157 established a fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of the fair value hierarchy as defined by SFAS 157 are as follows:

Level 1 Unadjusted quoted prices in active markets for identical assets and liabilities. Examples of Level 1 assets include money market securities and U.S. Treasury securities.

Level 2 Observable inputs other than Level 1 inputs such as quoted prices for similar assets or liabilities; quoted prices in markets that trade infrequently; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Examples of Level 2 assets and liabilities include derivative contracts whose values are determined using a model with inputs that are observable in the market or can be derived from or corroborated by observable market data, such as mortgage-backed securities, asset backed securities, U.S. agency securities, and corporate notes and bonds.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability. These inputs may be derived with internally developed methodologies that result in management's best estimate of fair value. During the six months ended June 30, 2009 and for the year ended December 31, 2008, we had no Level 3 recurring measurements.



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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 as of June 30, 2009 and December 31, 2008, respectively. As required by SFAS 157, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect their placement within the fair value hierarchy levels.

**Recurring Fair Value Measurements at June 30, 2009 by Level**

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Investment securities				
Money market funds	\$ 222,435			\$ 222,435
U.S. Government and agency issued debt	54,637	11,352		65,989
Corporate notes and bonds		8,365		8,365
Asset backed securities		1,344		1,344
Mortgage-backed securities		14,013		14,013
Derivatives				
Interest rate swaps		8,374		8,374
Foreign exchange contracts		748		748
<b>Total assets</b>	<b>\$ 277,072</b>	<b>\$ 44,196</b>	<b>\$</b>	<b>\$ 321,268</b>
<b>Liabilities:</b>				
Derivatives				
Interest rate swaps		259		259
Foreign exchange contracts		36,180		36,180
<b>Total liabilities</b>	<b>\$</b>	<b>\$ 36,439</b>	<b>\$</b>	<b>\$ 36,439</b>

**Recurring Fair Value Measurements at December 31, 2008 by Level**

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Investment securities				
Money market funds	\$ 181,664			\$ 181,664
U.S. Government and agency issued debt	30,583	11,433		42,016
Corporate notes and bonds		4,725		4,725
Asset backed securities		2,658		2,658
Mortgage-backed securities		21,713		21,713
Derivatives				
Interest rate swaps		32,486		32,486
<b>Total assets</b>	<b>\$ 212,247</b>	<b>\$ 73,015</b>	<b>\$</b>	<b>\$ 285,262</b>
<b>Liabilities:</b>				
Derivatives				
Foreign exchange contracts		286		286
Treasury lock and forward starting swaps		31,326		31,326

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Total liabilities	\$	\$ 31,612	\$	\$ 31,612
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**Investment Securities**

For our investments, we use the market approach for recurring fair value measurements and the valuation techniques use 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:* Money market funds typically invest in government securities, certificates of deposit, commercial paper of companies and other highly liquid and low-risk securities. Money market funds are principally used for overnight deposits and are classified in Level 1 of the fair value hierarchy.

*U.S. Government Issued Debts:* U.S. Governmental securities are valued using active, high volume trades for identical securities. Valuation adjustments are not applied so these securities are classified in Level 1 of the fair value hierarchy.

*U.S. Agency Issued Debt:* U.S. Agency issued debt is based on active, high volume trades for identical or comparable securities. Non-callable agency issued debt securities are generally valued using quoted market prices. To the extent that the securities are actively traded, they are categorized in Level 1 of the fair value hierarchy. Callable agency issued debt securities are valued through benchmarking model derived prices to quoted market prices and trade data for identical or comparable securities. Callable agency issued debt securities are categorized in Level 2 of the fair value hierarchy.

*Corporate Notes and Bonds:* The fair value of corporate securities is estimated 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 in Level 2 of the fair value hierarchy.

*Asset Backed Securities ( ABS ) and Mortgage-Backed Securities ( MBS ):* These securities are valued based on external pricing indices. When external index pricing is not observable, ABS and MBS are valued based on external price/spread data. If neither pricing method is available, we then utilize broker quotes. We verify that the unadjusted indices or broker quotes are reasonable and that the market is active by comparing prices across multiple (three or more) dealers. When inputs are observable and supported by an active market, asset backed securities and mortgage-backed securities are classified as Level 2 of the fair value hierarchy.

Investment securities are primarily composed of investments by The Pitney Bowes Bank (PBB). PBB, our wholly-owned subsidiary, is a Utah-chartered Industrial Loan Company (ILC). The bank's investments at June 30, 2009 were \$226.2 million. We reported these investments in the Condensed Consolidated Balance Sheet as cash and cash equivalents of \$154.5 million, short-term investments of \$20.6 million and long-term investments of \$51.1 million. The bank's investments at December 31, 2008 were \$196.9 million. We reported these investments in the Condensed Consolidated Balance Sheet as cash and cash equivalents of \$125.8 million, short-term investments of \$18.3 million and long-term investments of \$52.8 million.

The fair value measurements of PBB's investments are determined by third party service providers (Zions - Liquid Asset Management and Utendahl Capital Management). To validate the accuracy of the portfolio valuation, we utilize independent third parties to price monthly a minimum of 20% of the portfolio balance, ensuring our sample includes all types of securities held in the portfolio. We review the results of the pricing sample to ensure that the initial fair value valuations are accurate. If the pricing can not be validated reasonably (plus or minus 3% for each security and plus or minus 1% for the entire sample), we take action to investigate the differences. We have not adjusted the initial values as variances have been within these tolerance limits. Additionally, we ensure that the fair value measurements are in accordance with SFAS 157 and that we have properly classified our assets in the fair value hierarchy.

We have no investments either directly or indirectly in the sub-prime mortgage market. We have not experienced any write-offs in our investment portfolio. The majority of our mortgage-backed securities are either guaranteed or supported by the U.S. government. The recent market events have not caused our money market funds to experience declines in their net asset value below \$1.00 dollar per share or to incur imposed limits on redemptions.

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We have no investments in inactive markets which would warrant a possible change in our pricing methods or classification within the fair value hierarchy. Further, we have no investments in auction rate securities.

### Derivative Instruments

In the normal course of business, we are exposed to the impact of interest rate changes and foreign currency fluctuations. The company limits these risks by following established risk management policies and procedures, including the use of derivatives. We use derivatives to manage the related cost of debt and to limit the effects of foreign exchange rate fluctuations on financial results. We do not use derivatives for trading or speculative purposes.

As required by SFAS 157, we have incorporated counterparty risk into the fair value of our derivative assets and our credit risk into the value of our derivative liabilities. We derive credit risk from observable data related to credit default swaps. In light of the current market events, we have not seen a material change in the creditworthiness of those banks acting as derivative counterparties.

The valuation of our interest rate swaps is based on the income approach using a model with inputs that are observable or that can be derived from or corroborated by observable market data. Our foreign exchange derivatives are measured at fair value using observable market inputs, such as forward rates.

The following is a summary of our derivative fair values at June 30, 2009:

Designation of Derivatives	Balance Sheet Location	Fair Value
<b>Derivatives designated as hedging instruments</b>	<b>Other current assets and prepayments:</b>	
	Foreign exchange contracts	\$ 574
	<b>Other assets:</b>	
	Interest rate swaps	8,374
	<b>Accounts payable and accrued liabilities:</b>	
	Foreign exchange contracts	1,365
	<b>Other non-current liabilities:</b>	
	Interest rate swaps	259
<b>Derivatives not designated as hedging instruments</b>	<b>Other current assets and prepayments:</b>	
	Foreign exchange contracts	173
	<b>Accounts payable and accrued liabilities:</b>	
	Foreign exchange contracts	34,815
	<b>Total Derivative Assets</b>	\$ 9,121
	<b>Total Derivative Liabilities</b>	\$ 36,439
	<b>Total Net Derivative Liabilities</b>	\$ 27,318

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**Interest Rate Swaps**

Derivatives designated as fair value hedges include interest rate swaps related to fixed rate debt. Changes in the fair value of both the derivative and item being hedged are recognized in income.

On June 29, 2009, we entered into an interest rate swap for an aggregate notional amount of \$100 million to effectively convert our interest payments on a portion of the \$400 million, 4.625% fixed rate notes due in 2012, into variable interest rates. The variable rates payable are based on one month LIBOR plus 249 basis points. At June 30, 2009, the fair value of the derivative was a liability of \$0.3 million. Long-term debt was increased by \$0.3 million at June 30, 2009.

In March 2008, we entered into two interest rate swaps for an aggregate notional amount of \$250 million to effectively convert the fixed rate of 5.60% on \$250 million of our notes, due 2018, into variable interest rates. The variable rates payable by us are based on six month LIBOR plus 111.5 basis points. At June 30, 2009, the fair value of the derivatives was an asset of \$8.4 million. Long-term debt was reduced by \$8.4 million at June 30, 2009. At December 31, 2008, the fair value of the derivatives was an asset of \$32.5 million. Long-term debt was reduced by \$32.5 million at December 31, 2008. The following represents the results of our derivatives in fair value hedging relationships for the three months ended June 30, 2009:

Derivative Instrument	Location of Gain (Loss) Recognized In Income	Derivative Gain (Loss) Recognized In Income	Hedged Item Income (Expense) Recognized in Income
Interest rate swaps	Interest expense	\$ 1,716	\$ (3,500)

The following represents the results of our derivatives in fair value hedging relationships for the six months ended June 30, 2009:

Derivative Instrument	Location of Gain (Loss) Recognized In Income	Derivative Gain (Loss) Recognized In Income	Hedged Item Income (Expense) Recognized in Income
Interest rate swaps	Interest expense	\$ 3,256	\$ (7,000)

**Foreign Exchange Contracts**

We enter into foreign currency exchange contracts arising from the anticipated purchase of inventory between affiliates. These contracts are designated as cash flow hedges. The effective portion of the gain or loss on the cash flow hedges is included in other comprehensive income in the period that the change in fair value occurs and is reclassified to income in the same period that the hedged item is recorded in income. At June 30, 2009, we had 93 outstanding contracts with a notional amount of \$27.8 million associated with these anticipated transactions and a derivative net liability position of \$0.8 million. We had no outstanding contracts at December 31, 2008.

The following represents the results of cash flow hedging relationships for the three months ended June 30, 2009:

Derivative Instrument	Derivative Gain (Loss) Recognized in OCI (Effective Portion) (1)	Location of Derivative Gain (Loss) Reclassified From AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI to Income (Effective Portion)
Foreign exchange contracts	\$ 1,238	Revenue	\$ (47)
Foreign exchange contracts	(1,477)	Cost of sales	(308)
	\$ (239)		\$ (355)

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The following represents the results of cash flow hedging relationships for the six months ended June 30, 2009:

Derivative Instrument	Derivative Gain (Loss) Recognized in OCI (Effective Portion) (1)	Location of Derivative Gain (Loss) Reclassified From AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI to Income (Effective Portion)
Foreign exchange contracts	\$ 574	Revenue	\$ (47)
Foreign exchange contracts	(1,365)	Cost of sales	(308)
	<u>\$ (791)</u>		<u>\$ (355)</u>

- (1) At December 31, 2008, there were no outstanding cash flow hedges and, therefore, the opening AOCI balance related to these types of hedges was \$0. For 2009, there were 7 derivatives that were entered into and settled within the three months ended March 31 and 9 derivatives that were entered into and settled within the three months ended June 30. Thus, these amounts were not recorded to AOCI but were recorded directly to income. For the six months ended June 30, these derivatives reduced revenue in the amount of \$0.1 million and increased cost of sales in the amount of \$0.3 million. For the three months ended June 30, these derivatives increased revenue in the amount of \$0.2 million and reduced cost of sales in the amount of \$0.3 million

As of June 30, 2009, \$0.5 million of the \$0.8 million derivative loss recognized in OCI will be recognized in income within the next 12 months.

No amount of ineffectiveness was recorded in the Condensed Consolidated Statements of Income for these designated cash flow hedges.

We also enter into foreign exchange contracts to minimize the impact of exchange rate fluctuations on intercompany loans and related interest that are denominated in a foreign currency. The revaluation of the short-term intercompany loans and interest and the mark-to-market on the derivatives are both recorded to income. At June 30, 2009, we had 23 outstanding foreign exchange contracts to buy or sell various currencies with a net liability value of \$34.6 million. The contracts will expire by November 10, 2009. At December 31, 2008, the liability value of these derivatives was \$0.1 million. The following represents the results of our non-designated derivative instruments for the three months ended June 30, 2009:

Derivatives not designated as hedging instruments	Location of Derivative Gain (Loss)	Derivative Gain (Loss) Recognized in Income
Foreign exchange contracts	Selling, general and administrative expense	\$ (34,534)

The following represents the results of our non-designated derivative instruments for the six months ended June 30, 2009:

Derivatives not designated as hedging instruments	Location of Derivative Gain (Loss)	Derivative Gain (Loss) Recognized in Income
Foreign exchange contracts	Selling, general and administrative expense	\$ (35,564)

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**Net Investment Hedges**

One of our intercompany loans denominated in a foreign currency is designated as a hedge of a net investment. The revaluation of this loan is reflected as a deferred translation gain or loss and thereby offsets a portion of the translation adjustment of the applicable foreign subsidiaries' net assets. At June 30, 2009 and December 31, 2008, we had one intercompany loan with an outstanding value of \$84.1 million and \$119.2 million, respectively, designated as a net investment hedge. Deferred translation gains of \$29.8 million and \$41.7 million at June 30, 2009 and December 31, 2008, respectively, were included in accumulated other comprehensive loss in stockholders' deficit on the Condensed Consolidated Balance Sheets. The following represents our net investment hedge at June 30, 2009:

Net Investment Hedging Relationships	Loan Balance	Location of Deferred Translation Gain (Loss)	Deferred Translation Gain (Loss)
Non-derivative intercompany loan	\$ 84,114	Accumulated other comprehensive (loss) income	\$ 29,787

**Credit-Risk-Related Contingent Features**

At June 30, 2009, Pitney Bowes maintained investment grade ratings of A / A1. Certain of our derivative instruments contain provisions that would require us to post collateral upon a significant downgrade in our long-term senior unsecured debt ratings. Based on derivative values at June 30, 2009, we would have been required to post \$35.4 million in collateral had our long-term senior unsecured debt ratings fallen below BB- / Ba3.

**Fair Value of Financial Instruments**

The estimated fair value of our financial instruments follows:

	June 30, 2009		December 31, 2008	
	Carrying value (1)	Fair value	Carrying value (1)	Fair value
Investment securities	\$ 311,042	\$ 312,156	\$ 251,298	\$ 252,776
Loans receivable	\$ 476,288	\$ 476,288	\$ 528,800	\$ 528,800
Long-term debt	\$ (4,270,298)	\$ (4,357,897)	\$ (3,990,134)	\$ (3,880,418)
Derivatives, net	\$ (27,318)	\$ (27,318)	\$ 874	\$ 874

(1) Carrying value includes accrued interest and deferred fee income, where applicable.

The fair value of long-term debt is estimated based on quoted dealer prices for the same or similar issues. The carrying value for cash, cash equivalents, accounts receivable, loans receivable, accounts payable and notes payable approximate fair value because of the short maturity of these instruments.

**18. Commitments and Contingencies**

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

Our wholly-owned subsidiary, Imagitas, Inc., is a defendant in ten purported class actions filed in six different states. These lawsuits have been coordinated in the United States District Court for the Middle District of Florida, In re: Imagitas, Driver s Privacy Protection Act Litigation (Coordinated, May 28, 2007). Each of these lawsuits alleges that the Imagitas DriverSource program violated the federal Drivers Privacy Protection Act (DPPA). Under the DriverSource program, Imagitas entered into contracts with state governments to mail out automobile registration renewal materials along with third party advertisements, without revealing the personal information of any state resident to any advertiser. The DriverSource program assisted the state in performing its governmental function of delivering these mailings and funding the costs of them. The plaintiffs in these actions are seeking both statutory damages under the DPPA and an injunction against the continuation of

the program. On April 9, 2008, the District Court granted Imagitas motion for summary judgment in one of the coordinated cases, Rine, et al. v. Imagitas, Inc. (United States District



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Court, Middle District of Florida, filed August 1, 2006). On July 30, 2008, the District Court issued a final judgment in the Rine lawsuit and stayed all of the other cases filed against Imagitas pending an appellate decision in Rine. On August 27, 2008, the Rine plaintiffs filed an appeal of the District Court's decision in the United States Court of Appeals, Eleventh Judicial Circuit. The appellate process in this case is proceeding.

We expect to prevail in the lawsuits against Imagitas; however, as litigation is inherently unpredictable, there can be no assurance in this regard. If the plaintiffs do prevail, the results may have a material effect on our financial position, future results of operations or cash flows, including, for example, our ability to offer certain types of goods or services in the future.

*Product Warranties*

We provide product warranties in conjunction with certain product sales, generally for a period of 90 days from the date of installation. Our product warranty liability reflects our best estimate of probable liability for product warranties based on historical claims experience, which has not been significant, and other currently available evidence. Accordingly, our product warranty liability at June 30, 2009 and December 31, 2008, respectively, was not material.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) contains statements that are forward-looking. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially because of factors discussed in "Forward-Looking Statements" and elsewhere in this report.

The following analysis of our financial condition and results of operations should be read in conjunction with Pitney Bowes' Condensed Consolidated Financial Statements contained in this report and Pitney Bowes' Form 10-K for the year ended December 31, 2008.

**Overview**

For the second quarter, revenue decreased 13% to \$1.38 billion due to continuing challenging global economic conditions and the negative impact of foreign currency translation, which negatively impacted revenue growth by 5%. Acquisitions positively impacted revenue growth by less than 1%.

Income from continuing operations attributable to Pitney Bowes Inc. common stockholders was \$112.2 million or \$0.54 per diluted share as compared with \$0.63 earnings per diluted share in the second quarter of 2008. Income from continuing operations in the second quarter of 2009 included a non-cash tax charge associated with out-of-the money stock options that expired during the quarter of less than 1 cent per diluted share. Income from continuing operations in the second quarter of 2008 included restructuring charges and asset impairments of 6 cents per diluted share and the favorable settlement of a legal matter in Europe of 3 cents per diluted share.

Despite volatile and difficult global economic conditions which resulted in a decline in revenue growth for the quarter in the majority of our business segments, we were able to grow our net cash provided by operating activities by 3 percent to \$483.4 million for the six months ended June 30, 2009 when compared to the same period in 2008. We also reduced our debt by \$178.6 million during the six months ended June 30, 2009. EBIT margins, which were down from 2008, have increased in 6 of our 7 segments when compared to first quarter of 2009.

We remain focused on cost controls and reduced our SG&A expense by over \$73 million, despite significant headwinds from the negative impacts of both foreign currencies and increased pension costs when compared to the prior year.

See "Results of Operations - Second Quarter of 2009 Compared to Second Quarter of 2008" for a more detailed discussion of our results of operations.

**Outlook**

Economic and business conditions in mail-intensive industries have not been improving and have actually declined further in some key geographies. Sales cycles for most capital purchase decisions by customers remain long. These factors have impacted our financial results, as the sustained economic downturn has had a negative effect on high-margin financing, rental, and supplies revenue streams. While the company has been successful in reducing its cost structure across its entire business and is shifting to a more variable cost structure, these actions have not been enough to offset the impact of lower revenue.

We continue to expect our mix of revenue to change, with a greater percentage of revenue coming from diversified revenue streams associated with fully featured smaller systems and a smaller percentage from larger system sales. We expect that our 2009 reported results will continue to be negatively impacted by the strengthened U.S. dollar and by the increase in pension costs related to recent changes in capital markets and assumptions used to calculate pension liabilities. We continue to remain focused on enhancing our productivity and evaluating additional opportunities within our businesses while continuing to allocate capital in order to optimize our returns.

**Results of Operations Second Quarter of 2009 compared to Second Quarter of 2008****Business segment results**

The following table shows revenue and earnings before interest and taxes ( EBIT ) by segment for the three months ended June 30, 2009 and 2008:

(Dollars in thousands)

	Revenue			EBIT (1)		
	Three Months Ended June 30,			Three Months Ended June 30,		
	2009	2008	% change	2009	2008	% change
U.S. Mailing	\$ 505,159	\$ 550,849	(8)%	\$ 195,044	\$ 220,526	(12)%
International Mailing	217,900	302,085	(28)%	27,069	51,462	(47)%
Production Mail	130,137	149,400	(13)%	10,413	15,350	(32)%
Software	82,823	102,250	(19)%	5,219	6,317	(17)%
<b>Mailstream Solutions</b>	<b>936,019</b>	<b>1,104,584</b>	<b>(15)%</b>	<b>237,745</b>	<b>293,655</b>	<b>(19)%</b>
Management Services	263,763	300,454	(12)%	16,140	18,230	(11)%
Mail Services	138,598	134,764	3 %	21,723	15,980	36%
Marketing Services	40,082	48,284	(17)%	3,147	3,527	(11)%
<b>Mailstream Services</b>	<b>442,443</b>	<b>483,502</b>	<b>(8)%</b>	<b>41,010</b>	<b>37,737</b>	<b>9%</b>
<b>Total</b>	<b>\$ 1,378,462</b>	<b>\$ 1,588,086</b>	<b>(13)%</b>	<b>\$ 278,755</b>	<b>\$ 331,392</b>	<b>(16)%</b>

(1) See reconciliation of segment amounts to Income from continuing operations before income taxes in Note 7 to the Condensed Consolidated Financial Statements.

During the second quarter of 2009, Mailstream Solutions revenue decreased 15% to \$936 million and EBIT decreased 19% to \$238 million, compared to the prior year. Within Mailstream Solutions:

U.S. Mailing's revenue decreased 8% primarily due to fewer placements of mailing equipment as customers continued to delay purchases of new equipment and extended leases on existing equipment due to the economic conditions. Revenue continues to be adversely affected by the ongoing changing mix to more fully featured smaller systems. Additionally, revenue continues to be impacted by an increase in lease renewals, which has a positive impact on profit margins but negatively impacts revenue in the current period. U.S. Mailing's EBIT decreased 12% principally due to lower financing revenue, meter rentals, and supplies sales because of lower business activity levels over the last year. International Mailing revenue decreased 28%, with 14% of this decline driven by the unfavorable impact of foreign currency translation. The remaining decrease was due to weak economic conditions internationally which appear to be lagging the U.S., particularly in Canada, Asia and certain key markets in Europe. This has resulted in ongoing deferred capital purchases for mailing equipment and delays by customers in adding new services. International Mailing's EBIT declined 47% to \$27.1 million, primarily driven by our Canada and European operations, changes in currency which increased product costs and the unfavorable comparison to the settlement of a legal matter in 2008 for \$7.5 million, which positively impacted EBIT in the prior year. Revenue for Production Mail decreased 13%, partly due to the unfavorable impact of foreign currency translation of 6%, and also as a result of lower equipment sales in the U.S., France, and Asia Pacific as economic uncertainty continues to delay large-ticket capital expenditures for many large enterprises worldwide. As a result, customers are keeping existing equipment longer than usual, which resulted in an increase in service revenue. Production Mail's EBIT decreased 32% driven by lower revenues and a shift in product mix to lower margin products. This was partially offset by an improved service margin due to prior year cost reduction initiatives and price increases on longer-service equipment. Software's revenue decreased 19%, with 7% of this decline driven by the unfavorable impact of

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foreign currency translation. The remaining decrease is principally due to consolidation in the financial services industry and slowness in the retail sector worldwide which continues to adversely impact the sales and renewal of software licenses. Uncertainty surrounding the economy has resulted in many large multi-national organizations changing their approval policies for capital expenditures, which has lengthened the sales cycle. Software's EBIT decreased 17%. Ongoing cost reduction measures helped offset the pressure on margin due to lower revenue and a mix of lower margin software sales.

During the second quarter of 2009, Mailstream Services revenue decreased 8% to \$442 million and EBIT increased 9% to \$41 million, compared to the prior year. Within Mailstream Services:

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Management Services revenue decreased 12%, of which 4% was driven by the unfavorable impact of foreign currency translation. The segment's revenue was also adversely affected by lower business activity and decreased print and transaction volumes throughout the U.S. and Europe. Management Services EBIT decreased by 11% primarily due to lower transaction volumes worldwide. In the U.S., EBIT as a percentage of revenue remained at 10% despite lower business activity and a decline in transaction volumes, which resulted in lower revenue. Outside the U.S., the company's high exposure to the weak financial services industry in the U.K., and overall reduced print volumes throughout most of Europe resulted in an overall decline in the segment's EBIT. Mail Services revenue grew 3% mostly due to acquisitions which contributed 3% and was partly offset by the unfavorable impact of foreign currency translation of 1%. Expansion of the customer base and continued growth in mail volume processed drove the increase in revenue for the quarter. Mail Services EBIT increased by 36% driven by the integration of Mail Services sites acquired last year and ongoing cost reduction actions taken by the business. Marketing Services revenue decreased 17%, mostly due to the impact of lower revenues associated with the areas of marketing campaign management and loyalty programs. Marketing Services EBIT decreased 11%, however ongoing cost reduction initiatives resulted in EBIT margin improvement in 2009.

### *Revenue by source*

The following table shows revenue by source for the three months ended June 30, 2009 and 2008:

(Dollars in thousands)

	Three Months Ended June 30,		
	2009	2008	% change
Equipment sales	\$ 257,196	\$ 311,650	(17)%
Supplies	81,973	101,286	(19)%
Software	87,380	109,120	(20)%
Rentals	156,151	185,855	(16)%
Financing	174,508	197,263	(12)%
Support services	179,246	194,955	(8)%
Business services	442,008	487,957	(9)%
Total revenue	\$ 1,378,462	\$ 1,588,086	(13)%

Equipment sales revenue decreased 17% compared to the prior year mostly due to fewer placements of mailing equipment as customers delayed purchases of new equipment and extended leases on existing equipment due to the economic conditions. Revenue also continues to be adversely affected by the ongoing changing mix in equipment placements to more fully featured smaller systems. Foreign currency translation had an unfavorable impact of 6%.

Supplies revenue decreased 19% compared to the prior year due to lower supplies usage resulting from lower mail volumes and fewer installed meters due to customer consolidations in the U.S. and internationally. Foreign currency translation had an unfavorable impact of 6%.

Software revenue decreased 20% compared to the prior year due to the impact of the global economic slowdown which has caused many businesses to delay their capital spending worldwide, thus impacting software revenues. Foreign currency translation had an unfavorable impact of 7%.

Rentals revenue decreased 16% compared to the prior year. In the U.S., customers continue to downsize to smaller, fully featured machines. We also see weakening economic conditions affecting our international rental markets of Canada and France. Foreign currency translation had an unfavorable impact of 3%.

Financing revenue decreased 12% compared to the prior year. Foreign currency translation had an unfavorable impact of 4%. In addition, lower equipment sales have resulted in a corresponding decline in our lease portfolios.

Support services revenue decreased 8% compared to the prior year, principally due to the unfavorable impact of foreign currency translation of 6%.

Business services revenue decreased 9% compared to the prior year due to lower transaction volumes at Management Services and Marketing Services. The unfavorable impact of foreign currency translation of 3% was partly offset by the positive impact of acquisitions which contributed 1%.



*Costs and expenses*

(Dollars in thousands)

	<b>Three Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
Cost of equipment sales	\$ 139,770	\$ 166,282
Cost of supplies	\$ 21,369	\$ 26,419
Cost of software	\$ 21,570	\$ 26,453
Cost of rentals	\$ 38,013	\$ 39,671
Financing interest expense	\$ 25,438	\$ 27,552
Cost of support services	\$ 101,223	\$ 115,931
Cost of business services	\$ 352,306	\$ 383,009
Selling, general and administrative	\$ 424,265	\$ 497,689
Research and development	\$ 46,622	\$ 53,168

Cost of equipment sales as a percentage of revenue was 54.3% in the second quarter of 2009 compared with 53.4% in the prior year, primarily due to the unfavorable mix of lower margin equipment sales in Production Mail, which were partly offset by a favorable mix of higher margin equipment sales in International Mailing.

Cost of supplies as a percentage of revenue was unchanged at 26.1% in the second quarter of 2009 compared with the prior year.

Cost of software as a percentage of revenue was 24.7% in the second quarter of 2009 compared with 24.2% in the prior year due to an unfavorable mix.

Cost of rentals as a percentage of revenue was 24.3% in the second quarter of 2009 compared with 21.3% in the prior year primarily due to the fixed costs associated with meter depreciation on lower revenues in both the U.S. Mailing and International Mailing segments.

Financing interest expense as a percentage of revenue was 14.6% in the second quarter of 2009 compared with 14.0% in the prior year primarily due to a slightly higher interest rate and lower finance receivables levels. In computing our financing interest expense, which represents our cost of borrowing associated with the generation of financing revenues, we assumed a 10:1 leveraging ratio of debt to equity and applied our overall effective interest rate to the average outstanding finance receivables.

Cost of support services as a percentage of revenue was 56.5% in the second quarter of 2009 compared with 59.5% in the prior year due to margin improvements in Production Mail driven by the positive impacts of ongoing cost reduction initiatives and price increases on longer-service equipment.

Cost of business services as a percentage of revenue was 79.7% in the second quarter of 2009 compared with 78.5% in the prior year. This is due to lower volumes of higher margin print and transaction activity which has negatively impacted Management Services.

Selling, general and administrative ( SG&A ) expenses as a percentage of revenue was 30.8% in the second quarter of 2009 compared with 31.3% in the prior year. SG&A expense declined \$73.4 million, primarily as a result of our cost reduction initiatives which contributed 7% and the positive impact of foreign currency translation of 5%.

Research and development expenses decreased \$6.5 million from the prior year, \$2.4 million of which related to foreign currency translation. The decline in overall spending is due to the wind-down of duplicate costs related to our transition to offshore development capabilities.

**Restructuring charges and asset impairments**

Pre-tax restructuring reserves at June 30, 2009 are composed of the following:

(Dollars in thousands)

	<b>Balance at March 31, 2009</b>	<b>Expenses</b>	<b>Cash payments</b>	<b>Non-cash charges</b>	<b>Balance at June 30, 2009</b>
Severance and benefit costs	\$ 80,115	\$	\$ (13,948)	\$	\$ 66,167
Other exit costs	28,293		(2,461)		25,832
<b>Total</b>	<b>\$ 108,408</b>	<b>\$</b>	<b>\$ (16,409)</b>	<b>\$</b>	<b>\$ 91,999</b>

We recorded pre-tax restructuring charges and asset impairments during 2008 and 2007. These charges primarily related to a program we announced in November 2007 to lower our cost structure, accelerate efforts to improve operational efficiencies, and transition our product line.

As of June 30, 2009, 2,743 terminations have occurred under this program and approximately 300 additional positions have been eliminated. The majority of the liability at June 30, 2009 is expected to be paid by the end of 2009 from cash generated from operations.

**Other interest expense**

Other interest expense for the three months ended June 30, 2009 and 2008:

(Dollars in thousands)

	<b>Three Months Ended June 30,</b>		
	<b>2009</b>	<b>2008</b>	<b>% change</b>
Other interest expense	\$ 29,553	\$ 30,137	(2)%

Other interest expense decreased by \$0.6 million or 2% in the second quarter of 2009 compared to the prior year. This is driven primarily by lower average borrowings.

**Income taxes**

The effective tax rate for the second quarter of 2009 was 34.9% compared with 34.1% in the prior year. The 2009 tax rate was increased by a \$0.9 million write-off of deferred tax assets associated with the expiration of out-of-the-money vested stock options and the vesting of stock units previously granted to our employees.

**Discontinued operations**

The following table shows selected financial information included in discontinued operations for the three months ended June 30, 2009 and 2008, respectively:

(Dollars in thousands)

	<b>Three Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
Net gain (loss) from discontinued operations, net of tax	\$ 5,102	\$ (2,831)



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For the three months ended June 30, 2009, \$10.9 million of pre-tax income, net of \$4.2 million in tax, represents the release of reserves related to the expiration of an indemnity agreement in April 2009 associated with the sale of our Capital Services portfolio in 2006. This income was partially offset by the accrual of interest on uncertain tax positions. The net loss for the three months ended June 30, 2008 relates to the accrual of interest on uncertain tax positions.

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*Noncontrolling interests (Preferred stock dividends of subsidiaries)*

The following table details dividends paid to preferred stockholders for the three months ended June 30, 2009 and 2008:

(Dollars in thousands)

	<u>Three Months Ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Preferred stock dividends of subsidiaries	\$ 4,571	\$ 4,796
<b>Results of Operations Six Months Ended June 30, 2009 compared to Six Months Ended December 31, 2008</b>		

*Revenue by source*

(Dollars in thousands)

	<u>Six Months Ended June 30,</u>		
	<u>2009</u>	<u>2008</u>	<u>% change</u>
Equipment sales	\$ 489,021	\$ 614,363	(20)%
Supplies	170,002	208,886	(19)%
Software	167,106	214,525	(22)%
Rentals	324,281	370,808	(13)%
Financing	357,306	396,202	(10)%
Support services	353,593	386,480	(9)%
Business services	896,737	970,779	(8)%
Total revenue	<u>\$ 2,758,046</u>	<u>\$ 3,162,043</u>	<u>(13)%</u>

Equipment sales revenue decreased 20% compared to the prior year due to lower placements of mailing equipment as more customers have delayed purchases of new equipment and extended their leases on existing equipment due to the economic conditions. Revenue also continues to be adversely affected by the ongoing changing mix in equipment placements to more fully featured smaller systems. Foreign currency translation had an unfavorable impact of 7%.

Supplies revenue decreased 19% compared to the prior year due to lower supplies usage resulting from lower mail volumes and fewer installed meters due to customer consolidations. Foreign currency translation had an unfavorable impact of 6%.

Software revenue decreased 22% compared to the prior year primarily due to the impact of the global economic slowdown which has caused many businesses to delay their capital spending worldwide, thus impacting our software revenues. Foreign currency translation had an unfavorable impact of 9%.

Rentals revenue decreased 13% compared to the prior year as customers in the U.S. continue to downsize to smaller, fully featured machines. We also see weakening economic conditions affecting our international rental markets specifically in France and Canada. Foreign currency translation had an unfavorable impact of 3%.

Financing revenue decreased 10% compared to the prior year due to lower equipment sales which have resulted in a corresponding decline in our lease portfolios. Foreign currency translation had an unfavorable impact of 5%.

Support services revenue decreased 9% compared to the prior year, principally due to the unfavorable impact of foreign currency translation of 7%.

Business services revenue decreased 8% compared to the prior year. Lower volumes at Management Services more than offset the increase in mail volumes processed at Mail Services. The unfavorable impact of foreign currency translation of 3% was partly offset by the positive impact of acquisitions which contributed 2%.



*Costs and expenses*

(Dollars in thousands)

	<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
Cost of equipment sales	\$ 262,855	\$ 327,395
Cost of supplies	\$ 44,710	\$ 54,291
Cost of software	\$ 41,067	\$ 54,190
Cost of rentals	\$ 73,864	\$ 77,975
Financing interest expense	\$ 49,890	\$ 57,928
Cost of support services	\$ 199,549	\$ 229,926
Cost of business services	\$ 712,213	\$ 762,300
Selling, general and administrative	\$ 867,793	\$ 994,184
Research and development	\$ 93,571	\$ 103,168

Cost of equipment sales as a percentage of revenue was 53.8% in the first six months of 2009 compared with 53.3% in the prior year, primarily due to an unfavorable mix of lower margin equipment sales in Production Mail. This was partly offset by higher margin equipment sales in International Mailing.

Cost of supplies as a percentage of revenue was 26.3% in the first six months of 2009 compared with 26.0% in the prior year due to the lower sales volume and product mix.

Cost of software as a percentage of revenue was 24.6% in the first six months of 2009 compared with 25.3% in the prior year due to a favorable mix.

Cost of rentals as a percentage of revenue was 22.8% in the first six months of 2009 compared with 21.0% in the prior year primarily due to the fixed costs associated with meter depreciation on lower revenues.

Financing interest expense as a percentage of revenue was 14.0% in the first six months of 2009 compared with 14.6% in the prior year due to lower interest rates and lower finance receivables levels. In computing our financing interest expense, which represents our cost of borrowing associated with the generation of financing revenues, we assumed a 10:1 leveraging ratio of debt to equity and applied our overall effective interest rate to the average outstanding finance receivables.

Cost of support services as a percentage of revenue was 56.4% in the first six months of 2009 compared with 59.5% in the prior year due to margin improvements in U.S. Mailing, International Mailing and Production Mail driven by the positive impacts of ongoing cost reduction initiatives and price increases on longer-service equipment in Production Mail.

Cost of business services as a percentage of revenue was 79.4% in the first six months of 2009 compared with 78.5% in the prior year. This is due to lower volumes of higher margin print and transaction activity which has negatively impacted Management Services.

Selling, general and administrative ( SG&A ) expenses as a percentage of revenue was 31.5% in the first six months of 2009 compared with 31.4% in the prior year. SG&A expense declined \$126.4 million primarily as a result of our cost reduction initiatives which contributed 6% and the positive impact of foreign currency translation of 6%. However, the impact of the lower revenues and increased pension costs more than offset these benefits.

Research and development expenses decreased \$9.6 million in the first six months of 2009 from the prior year, \$5.3 million of which related to foreign currency translation. As a percentage of revenue, research and development expenses were slightly higher than the prior year as we continue to invest in developing new technologies, enhancing our products, and expanding our offshore development capabilities.

**Restructuring charges and asset impairments**

Pre-tax restructuring reserves at June 30, 2009 are composed of the following:

(Dollars in thousands)

	Balance at December 31, 2008	Expenses	Cash payments	Non-cash charges	Balance at June 30, 2009
Severance and benefit costs	\$ 108,431	\$	\$ (42,264)	\$	\$ 66,167
Other exit costs	32,678		(6,846)		25,832
<b>Total</b>	<b>\$ 141,109</b>	<b>\$</b>	<b>\$ (49,110)</b>	<b>\$</b>	<b>\$ 91,999</b>

We recorded pre-tax restructuring charges and asset impairments during 2008 and 2007. These charges primarily related to a program we announced in November 2007 to lower our cost structure, accelerate efforts to improve operational efficiencies, and transition our product line.

As of June 30, 2009, 2,743 terminations have occurred under this program and approximately 300 additional positions have been eliminated. The majority of the liability at June 30, 2009 is expected to be paid by the end of 2009 from cash generated from operations.

**Other interest expense**

Other interest expense for the six months ended June 30, 2009 and 2008:

(Dollars in thousands)

	Six Months Ended June 30,		
	2009	2008	% change
Other interest expense	\$ 57,304	\$ 61,528	(7)%

Other interest expense decreased 7% in the first six months of 2009 compared to the prior year due to lower interest rates and lower average borrowings.

**Income taxes**

The effective tax rate for the six months ended June 30, 2009 was 37.7% compared with 35.6% in the prior year. The 2009 tax rate was increased by a \$12.0 million write-off of deferred tax assets associated with the expiration of out-of-the-money vested stock options and the vesting of stock units previously granted to our employees. The 2008 effective tax rate was negatively impacted by a \$6.5 million tax accrual associated with lease refunds in the U.K. and Ireland.

**Discontinued operations**

The following table shows selected financial information included in discontinued operations for the six months ended June 30, 2009 and 2008, respectively:

(Dollars in thousands)

	Six Months Ended June 30,	
	2009	2008
Net gain (loss) from discontinued operations, net of tax	\$ 7,725	\$ (6,663)

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For the six months ended June 30, 2009, \$10.9 million of pre-tax income, net of \$4.2 million in tax, represents the release of reserves related to the expiration of an indemnity agreement in April 2009 associated with the sale of our Capital Services portfolio in 2006 and \$9.8 million of pre-tax income, net of \$3.8 million in tax, for a bankruptcy settlement received during the first quarter of 2009 pertaining to the leasing of certain aircraft from our former Capital Services business which was sold in 2006. This income was partly offset by the accrual of interest on uncertain tax positions. The net loss for the six months ended June 30, 2008 relates to the accrual of interest on uncertain tax positions.

*Noncontrolling interests (Preferred stock dividends of subsidiaries)*

The following table details dividends paid to preferred stockholders for the six months ended June 30, 2009 and 2008:

(Dollars in thousands)

	<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
Preferred stock dividends of subsidiaries	\$ 9,092	\$ 9,594

**Liquidity and Capital Resources**

We believe that cash flow from operations, existing cash and liquid investments, as well as borrowing capacity under our commercial paper program, the existing credit facility and debt capital markets should be sufficient to finance our capital requirements and to cover our customer deposits. Our potential uses of cash include but are not limited to the following: growth and expansion opportunities; internal investments; customer financing; tax payments; interest and dividend payments; pension and other benefit plan funding; acquisitions; and share repurchase program.

In light of recent market events, we have conducted an extensive review of our liquidity provisions. We have carefully monitored for material changes in the creditworthiness of those banks acting as derivative counterparties, depository banks or credit providers to us through credit ratings and the credit default swap market. We have determined that there has not been a material variation in the underlying sources of cash flows currently used to finance the operations of the company. To date, we have had consistent access to the commercial paper market.

*Cash Flow Summary*

The change in cash and cash equivalents is as follows:

(Dollars in thousands)

	<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
Cash provided by operating activities	\$ 483,387	\$ 470,448
Cash used in investing activities	(89,520)	(134,603)
Cash used in financing activities	(331,187)	(286,440)
Effect of exchange rate changes on cash	5,911	2,831
Increase in cash and cash equivalents	\$ 68,591	\$ 52,236

*2009 Cash Flows*

Net cash provided by operating activities consists primarily of net income adjusted for non-cash items and changes in operating assets and liabilities. Cash provided by operating activities included decreases in finance receivables and accounts receivable balances of \$165.1 million and \$99.0 million, respectively, resulting from lower levels of new business and strong collections. Partially offsetting these positive cash flow impacts was a reduction in accounts payable and accrued liabilities of \$167.6 million, primarily due to lower compensation accruals as well as \$49.1 million in restructuring payments associated with the prior year cost reduction initiatives and a \$20.3 million payment for the unwinding of derivatives related to the March 2009 debt issuance. See Note 14 to the Condensed Consolidated Financial Statements for additional discussion of the restructuring payments.

Net cash used in investing activities consisted principally of capital expenditures of \$90.2 million.

Net cash used in financing activities consisted primarily of a decrease in notes payable of \$476.1 million due to the repayment of commercial paper, which was partially offset by the proceeds from long term obligations of \$297.5 million related to the March 2009 debt issuance. Dividends paid to stockholders were \$148.6 million for the six months ended June 30, 2009.

*2008 Cash Flows*

Net cash provided by operating activities consisted primarily of net income adjusted for non-cash items and changes in operating assets and liabilities. The net increase in our current and non-current income taxes contributed \$48.8 million to cash from operations resulting from the timing of tax payments. A decrease in our internal finance receivables of \$52.2 million and an increase in advance billings of \$53.2 million also contributed to the increase in operating cash flow. The decrease in accounts payable and accrued liabilities of \$85.2 million, primarily due to the payment of year-end incentive compensation and commissions partially offset by



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additional restructuring reserves, and an increase in inventory of \$12.3 million, partly due to the required build of new fully digital, networked, and remotely-downloadable equipment, reduced our cash flow from operations. The increase in accounts receivable of \$28.8 million resulted from acquisitions, the timing of billings, as sales at the end of June were higher than at the end of March, and the timing of collections.

Net cash used in investing activities consisted principally of capital expenditures of \$115.3 million combined with acquisitions of \$68.5 million partially offset by increased reserve account balances for customer deposits of \$18.5 million and a reduction in short-term investments of \$28.2 million.

Net cash used in financing activities consisted primarily of dividends paid to stockholders of \$146.7 million and stock repurchases of \$272.4 million, partially offset by proceeds from issuance of stock of \$11.4 million and a net increase in notes payable and long-term obligations of \$130.8 million.

### ***Capital Expenditures***

During the first six months of 2009, capital expenditures included \$45.2 million in net additions to property, plant and equipment and \$45.0 million in net additions to rental equipment and related inventories compared with \$58.2 million and \$57.1 million, respectively, in the same period in 2008.

### ***Financings and Capitalization***

We have a commercial paper program that is a significant source of liquidity for the Company. During 2009, we have continued to have consistent access to the commercial paper market. As of June 30, 2009, we had \$134 million of outstanding commercial paper issuances. We also have a committed line of credit of \$1.5 billion which supports commercial papers issuance and is provided by a syndicate of 14 banks until 2011. As of June 30, 2009, this line of credit had not been drawn down. In addition, we filed a Well-Known Seasoned Issuer registration statement with the SEC in June 2008 which permits the issuance of debt securities, preferred stock, preference stock, common stock, purchase contracts, depositary shares, warrants and units.

On June 29, 2009, we entered into an interest rate swap for an aggregate notional amount of \$100 million to effectively convert our interest payments on a portion of the \$400 million, 4.625% fixed rate notes due in 2012, into variable interest rates. The variable rates payable are based on one month LIBOR plus 249 basis points. In July 2009, we entered into three additional interest rate swaps for an aggregate notional amount of \$300 million to effectively convert our interest payments on the remainder of the \$400 million, 4.625% fixed rate notes due in 2012, into variable interest rates. The variable rates payable are based on one month LIBOR plus 248 basis points for \$100 million notional amount and one month LIBOR plus 250 basis points for \$200 million notional amount.

On March 2, 2009, we issued \$300 million of 10-year fixed-rate notes with a coupon rate of 6.25%. The interest is paid semi-annually beginning September 15, 2009. The notes mature on March 15, 2019. We simultaneously unwound four forward starting swap agreements (forward swaps) used to hedge the interest rate risk associated with the forecasted issuance of the fixed-rate debt. The unwind of the derivatives resulted in a loss (and cash payment) of \$20.3 million which was recorded to other comprehensive income, net of tax, and will be amortized to net interest expense over the 10-year term of the notes. The proceeds from these notes were used for general corporate purposes, including the repayment of commercial paper.

On March 4, 2008, we issued \$250 million of 10-year fixed-rate notes with a coupon rate of 5.60%. The interest is paid semi-annually beginning September 2008. The notes mature on March 15, 2018. We simultaneously entered into two interest rate swaps for a total notional amount of \$250 million to convert the fixed rate debt to a floating rate obligation bearing interest at 6 month LIBOR plus 111.5 basis points. The proceeds from these notes were used for general corporate purposes, including the repayment of commercial paper and repurchase of our stock.

The 8.55% notes with a \$150 million face value are due to be repaid on September 15, 2009. The repayment of these notes will be funded through cash generated from operations and issuance of commercial paper. The notes are reported in current portion of long-term debt at June 30, 2009. No additional long-term notes will mature until 2012.

We believe our financing needs in the short and long-term can be met from cash generated internally, the issuance of commercial paper, debt issuance under our effective shelf registration statement and borrowing capacity under our existing credit agreements.

### **Recent Accounting Pronouncements**

In September 2006, the FASB issued Statement of Financial Accounting Standards ( SFAS ) No. 157, *Fair Value Measurements* ( SFAS 157 ), to define how the fair value of assets and liabilities should be measured in accounting standards where it is allowed or



required. In addition to defining fair value, the Statement established a framework within GAAP for measuring fair value and expanded required disclosures surrounding fair value measurements. In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2, *Effective Date of FASB Statement No. 157*, which delayed the effective date by one year for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. In October 2008, the FASB issued FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*, to clarify the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. This FSP was effective immediately. In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, to provide additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. This FSP is effective for interim and annual reporting periods ending after June 15, 2009. We adopted SFAS 157 for financial assets and financial liabilities on January 1, 2008, and the adoption did not have a material impact on our financial position, results of operations, or cash flows. We adopted SFAS 157 for nonfinancial items on January 1, 2009, and the adoption did not have a material impact on our financial position, results of operations, or cash flows. We currently do not have any financial assets that are valued using inactive markets, and as such are not impacted by the issuances of FSP 157-3 and FSP 157-4. See Note 17 to the Condensed Consolidated Financial Statements for additional discussion on fair value measurements.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ( SFAS 141(R) ). SFAS 141(R) establishes principles and requirements for how a company (a) recognizes and measures in their financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest (previously referred to as minority interest); (b) recognizes and measures the goodwill acquired in a business combination or a gain from a bargain purchase; and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of a business combination. SFAS 141(R) requires fair value measurements at the date of acquisition, with limited exceptions specified in the Statement. Some of the major impacts of this new standard include expense recognition for transaction costs and restructuring costs. SFAS 141(R) was effective for fiscal years beginning on or after December 15, 2008 and is applied prospectively. The adoption of this Statement has not had a material impact on our financial position, results of operations, or cash flows for the six months ended June 30, 2009.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* ( SFAS 160 ). SFAS 160 addresses the accounting and reporting for the outstanding noncontrolling interest (previously referred to as minority interest) in a subsidiary and for the deconsolidation of a subsidiary. It also establishes additional disclosures in the consolidated financial statements that identify and distinguish between the interests of the parent's owners and of the noncontrolling owners of a subsidiary. This Statement is effective for fiscal years beginning on or after December 15, 2008. SFAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements of SFAS 160 are applied prospectively. We adopted the presentation and disclosure requirements of SFAS 160 on a retrospective basis beginning in the first quarter of 2009.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ( SFAS 161 ). SFAS 161 requires enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The adoption of this Statement requires us to present currently disclosed information in a tabular format and also expands our disclosures concerning where derivatives are reported on the balance sheet and where gains/losses are recognized in the results of operations. The Company has complied with the disclosure requirements of this Statement beginning in the first quarter of 2009. See Note 17 to the Condensed Consolidated Financial Statements for the additional disclosures.

In December 2008, the FASB issued FSP FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*, which amends Statement No. 132(R) to require more detailed disclosures about employer's plan assets, including investment strategies, major categories of assets, concentrations of risk within plan assets and valuation techniques used to measure the fair value of assets. The FSP is effective for fiscal years ending after December 15, 2009. The Company will comply with the additional disclosure requirements.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. This FSP amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. This FSP is effective for interim reporting periods ending after June 15, 2009. The

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Company has complied with the additional disclosure requirements beginning in the second quarter of 2009. See Note 17 to the Condensed Consolidated Financial Statements for additional discussion on fair value measurements.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. This FSP amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. The FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. The FSP is effective for interim and annual reporting periods ending after June 15, 2009. The Company currently does not have any financial assets that are other-than-temporary impaired.

In April 2009, the FASB issued FSP No. FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*, to address some of the application issues under SFAS 141(R). The FSP deals with the initial recognition and measurement of an asset acquired or a liability assumed in a business combination that arises from a contingency provided the asset or liability's fair value on the date of acquisition can be determined. When the fair value cannot be determined, the FSP requires using the guidance under SFAS No. 5, *Accounting for Contingencies*, and FASB Interpretation (FIN) No. 14, *Reasonable Estimation of the Amount of a Loss*. This FSP is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after January 1, 2009. The adoption of this FSP has not had a material impact on our financial position, results of operations, or cash flows for the six months ended June 30, 2009.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*. SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Although there is new terminology, the standard is based on the same principles as those that currently exist in the auditing standards. The standard also includes a required disclosure of the date through which the entity has evaluated subsequent events and whether the evaluation date is the date of issuance or the date the financial statements were available to be issued. The standard is effective for interim or annual periods ending after June 15, 2009. The Company has complied with the disclosure requirements.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162*. The *FASB Accounting Standards Codification* (Codification) will become the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this Statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. This Statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company will comply with the requirements of the Statement beginning in the third quarter of 2009.

### **Regulatory Matters**

There have been no significant changes to the regulatory matters disclosed in our 2008 Annual Report on Form 10-K.

### **Forward-Looking Statements**

We want to caution readers that any forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 in this Form 10-K, other reports or press releases or made by our management involve risks and uncertainties which may change based on various important factors. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. These forward-looking statements are those which talk about our current expectations as to the future and include, but are not limited to, statements about the amounts, timing and results of possible restructuring charges and future earnings. Words such as estimate, project, plan, believe, expect, anticipate, intend, and similar expressions may identify such forward-looking statements. Some of the 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:

changes in international or national political conditions, including any terrorist attacks

negative developments in economic conditions, including adverse impacts on customer demand

changes in postal regulations

timely development and acceptance of new products

success in gaining product approval in new markets where regulatory approval is required

successful entry into new markets

mailers utilization of alternative means of communication or competitors products  
our success at managing customer credit risk  
our success at managing costs associated with our strategy of outsourcing functions and operations not central to our business  
changes in interest rates  
foreign currency fluctuations  
cost, timing and execution of our transition plans including any potential asset impairments  
regulatory approvals and satisfaction of other conditions to consummation of any acquisitions and integration of recent acquisitions  
interrupted use of key information systems  
changes in privacy laws  
intellectual property infringement claims  
impact on mail volume resulting from current concerns over the use of the mail for transmitting harmful biological agents  
third-party suppliers ability to provide product components, assemblies or inventories  
negative income tax adjustments for prior audit years and changes in tax laws or regulations  
changes in pension and retiree medical costs  
acts of nature

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

There were no material changes to the disclosures made in the Annual Report on Form 10-K for the year ended December 31, 2008 regarding this matter.

**Item 4: Controls and Procedures**

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

Under the direction of our CEO and CFO, we evaluated the effectiveness of our disclosure controls and procedures and internal control over financial reporting. The CEO and CFO concluded that our disclosure controls and procedures were effective as of June 30, 2009. In addition, no change in internal control over financial reporting occurred during the quarter ended June 30, 2009, that has materially affected, or is reasonably likely to materially affect, such internal control over financial reporting. It should be noted that any system of controls is based in part upon certain assumptions designed to obtain reasonable (and not absolute) assurance as to its effectiveness, and there can be no assurance that any design will succeed in achieving its stated goals. Notwithstanding this caution, the disclosure controls and procedures are designed to provide reasonable assurance of achieving their stated objectives, and the CEO and CFO have concluded that the disclosure controls and procedures are effective at that reasonable assurance level.

**PART II. OTHER INFORMATION**

**Item 1: Legal Proceedings**

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

Our wholly-owned subsidiary, Imagitas, Inc., is a defendant in ten purported class actions filed in six different states. These lawsuits have been coordinated in the United States District Court for the Middle District of Florida, In re: Imagitas, Driver s Privacy Protection Act Litigation (Coordinated, May 28, 2007). Each of these lawsuits alleges that the Imagitas DriverSource program violated the federal Drivers Privacy Protection Act (DPPA). Under the DriverSource program, Imagitas entered into contracts with state governments to mail out automobile registration renewal materials along with third party advertisements, without revealing the personal information of any state resident to any advertiser. The DriverSource program assisted the state in performing its governmental function of delivering these mailings and funding the costs of them. The plaintiffs in these actions are seeking both statutory damages under the DPPA and an injunction against the continuation of the program. On April 9, 2008, the District Court granted Imagitas motion for summary judgment in one of the coordinated cases, Rine, et al. v. Imagitas, Inc. (United States District Court, Middle District of Florida, filed August 1, 2006). On July 30, 2008, the District Court issued a final judgment in the Rine lawsuit and stayed all of the other cases filed against Imagitas pending an appellate decision in Rine. On August 27, 2008, the Rine plaintiffs filed an appeal of the District Court s decision in the United States Court of Appeals, Eleventh Judicial Circuit. The appellate process in this case is proceeding.

We expect to prevail in the lawsuits against Imagitas; however, as litigation is inherently unpredictable, there can be no assurance in this regard. If the plaintiffs do prevail, the results may have a material effect on our financial position, future results of operations or cash flows, including, for example, our ability to offer certain types of goods or services in the future.

**Item 1A: Risk Factors**

There were no material changes to the risk factors identified in the Annual Report on Form 10-K for the year ended December 31, 2008.

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

*Repurchases of Equity Securities*

We repurchase shares of our common stock under a systematic program to manage the dilution created by shares issued under employee stock plans and for other purposes. This program authorizes repurchases in the open market. We have not repurchased or acquired any other shares of our common stock during 2009 in any other manner.

No shares were purchased during the second quarter of 2009, leaving approximately \$73.4 million available for future repurchases under this program at June 30, 2009.

**Item 3: Defaults Upon Senior Securities**

None

**Item 4: Submission of Matters to a Vote of Security Holders**

The following matters were submitted to a vote of security holders during our annual meeting of stockholders held on May 11, 2009.

	<u>Votes For</u>	<u>Votes Against</u>	<u>Abstain</u>
1. Election of Directors:			
Anne M. Busquet	169,339,528	3,692,662	417,131
Anne Sutherland Fuchs	168,755,108	4,271,839	422,374
James H. Keyes	167,539,691	5,516,553	393,077
David L. Shedlarz	169,372,273	3,672,132	404,916
David B. Snow, Jr.	167,573,276	5,480,424	395,621
2. Ratification of Independent Accountants for 2009	169,359,098	3,791,025	299,198

The following other directors continued their term of office after the annual meeting:

Rodney C. Adkins	Murray D. Martin	Michael I. Roth
Linda G. Alvarado	John S. McFarlane	Robert E. Weissman
Ernie Green	Eduardo R. Menascé	

There were no broker non-votes for matters submitted at the annual meeting of stockholders.

**Item 5: Other Information**

None

**Item 6: Exhibits**

See Index of Exhibits.



**Signatures**

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

PITNEY BOWES INC.

August 5, 2009

/s/ Michael Monahan

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

/s/ S. J. Green

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

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Exhibit Index

Exhibit Number	Description	Page Number
(3)(i)(a)	Restated Certificate of Incorporation, as amended, incorporated by reference to Exhibit (3) to Form 10-Q as filed with the Commission on August 14, 1996. (Commission file number 1-3579)	Not applicable
(3)(i)(b)	Certificate of Amendment to the Restated Certificate of Incorporation (as amended May 29, 1996), incorporated by reference to Exhibit (a.1) to Form 10-K as filed with the Commission on March 27, 1998. (Commission file number 1-3579)	Not applicable
(3)(ii)	Pitney Bowes Inc. Amended and Restated By-laws, incorporated by reference to Exhibit (3)(ii) to Form 10-Q as filed with the Commission on August 6, 2007. (Commission file number 1-3579)	Not applicable
(10)	Form of Performance Award	Page 44
(12)	Computation of ratio of earnings to fixed charges	Page 47
(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	Page 48
(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	Page 49
(32.1)	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350	Page 50
(32.2)	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350	Page 51
101.INS	XBRL Report Instance Document	
101.SCH	XBRL Taxonomy Extension Schema Document	
101.CAL	XBRL Taxonomy Calculation Linkbase Document	
101.LAB	XBRL Taxonomy Label Linkbase Document	
101.PRE	XBRL Taxonomy Presentation Linkbase Document	