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PITNEY BOWES INC /DE/
Form 8-K
July 21, 2003

United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549-1004

FORM 8 - K
CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): July 21, 2003

PITNEY BOWES INC.

Commission File Number: 1-3579

State of Incorporation
Delaware

IRS Employer Identification No.
06-0495050

World Headquarters
Stamford, Connecticut 06926-0700
Telephone Number: (203) 356-5000

Item 9 - Regulation FD Disclosure

The following information is furnished pursuant to Item 9, "Regulation FD Disclosure" and Item 12, "Disclosure of Results of Operations and Financial Condition."

On July 21, 2003, the registrant issued a press release setting forth its second quarter 2003 earnings. A copy of its press release is attached hereto as Exhibit 99.1 and hereby incorporated by reference.

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 hereunto duly authorized.

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PITNEY BOWES INC.

July 21, 2003

/s/ B.P. Nolop

B.P. Nolop
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

/s/ J.R. Catapano

J.R. Catapano
Controller
(Principal Accounting Officer)

Index to Exhibit

| Exhibit | Description |
|---------|-------------------------------------|
| 99.1 | Press release, dated July 21, 2003. |

EXHIBIT 99.1

PITNEY BOWES RESULTS ON TRACK FOR SECOND QUARTER 2003

- o Revenue Growth of 5%
- o Cash from Operations of \$209 Million
- o 1.0 Million Shares Repurchased

STAMFORD, Conn., July 21, 2003 - Pitney Bowes Inc. (NYSE: PBI) today announced second quarter 2003 revenue and earnings performance in line with previous guidance. Commenting on the quarter, Chairman and CEO Michael J. Critelli said, "Our financial results met our expectations and were on target with previous guidance. During the quarter, we continued to make progress and are on track with our strategic imperatives to enhance our core businesses, streamline our infrastructure and execute our growth strategies."

Revenue for the quarter grew five percent to \$1.13 billion and net income was \$118.9 million or \$.50 per diluted share. Excluding an after-tax charge of approximately \$21 million, or \$.09 per diluted share, as part of a previously announced restructuring program, second quarter diluted earnings per share were \$.59. In January this year, the company announced that it would take actions to execute long-term growth strategies, and as a result, expected to record approximately \$100 million of after-tax charges over the next two years. Including this quarter's charge, the company has taken a total of approximately \$34 million in after-tax charges for this program thus far in 2003. Consistent with its previously announced strategy to exit large-ticket, non-core financing activity, the company's second quarter 2003 earnings per share included \$.04 per diluted share from non-core Capital Services operations compared to \$.06 per

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diluted share in the second quarter of 2002.

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The company also generated \$209 million in cash from operations during the quarter. Subtracting \$70 million in capital expenditures and excluding \$11 million in payments associated with the restructuring program, free cash flow was \$150 million during the quarter. The company repurchased 1.0 million of its shares during the quarter for \$40 million, leaving \$210 million of authorization for future share repurchases in 2003 and 2004.

In the Global Mailing Segment revenue increased seven percent and operating profit increased five percent. The company achieved these results while increasing research and development spending for the next generation of low-end digital meters, and incurring incremental costs to integrate new PSI Group processing sites. Customer acceptance of the new digital mailing systems and their unique value added services continued to be positive. However, business and economic uncertainty caused some delayed decision making among U.S. customers to consider equipment upgrades or the purchase of new high-end systems.

Non-U.S. revenue within the segment grew at a double-digit rate primarily as a result of favorable foreign currency exchange rates. On a local currency basis Canada again had good revenue and operating profit growth driven by placements of new digital meter systems and high-end production mail systems. France also experienced another quarter of strong revenue and operating profit growth on a local currency basis due to the integration and success of the Secap organization. Some of Europe experienced declining revenue in local currency due to weak economic conditions. Japan and Australia also experienced declining revenue due to economic conditions.

The Enterprise Solutions Segment includes Pitney Bowes Management Services (PBMS) and Document Messaging Technologies (DMT). The segment reported four percent revenue growth while operating profit declined 27 percent versus the prior year.

PBMS reported revenue growth of five percent to \$252 million when compared to the prior year, while operating profit declined 26 percent. PBMS improved its operating profit margin from the previous quarter through general and administrative expense reductions and ongoing diversification into other market segments such as federal and state governments. For example, the contract that the company signed to provide mail and document management services to a division of the Department of Justice during the quarter demonstrates the strategic diversification of the management services customer base.

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DMT reported revenue of \$58 million for the quarter, an increase of one percent from the prior year, with a decline in operating profit. Continued slow placements of high margin equipment and an increase in lower margin service revenue contributed to the decline in operating profit during the quarter. However, compared to first quarter 2003, the operating profit margin improved and customer demand for DMT solutions appears to be increasing.

Total Messaging Solutions, the combined results of the Global Mailing and Enterprise Solutions segments, showed a six percent increase in revenue and a two percent increase in operating profit.

In the Capital Services Segment, revenue for the quarter declined 17 percent and operating profit decreased 11 percent. These results are consistent with the company's previously announced decision to cease the origination of large-ticket, structured, third party financing of non-core assets. Excluding the positive impact of lower interest expense, the earnings before interest and taxes (EBIT) declined by 18 percent compared to prior year. During the quarter, the company liquidated approximately \$71 million of its assets held for sale, and continued to pursue the sale of other non-core lease assets on an economically advantageous basis, which resulted in the sale of an additional \$52

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million of assets from the portfolio during the quarter.

The company expects year-over-year revenue growth for the third quarter and the full year 2003 to be in the range of two to four percent. The company is still finalizing future plans related to previously announced restructuring initiatives, a portion of which will be recorded in the third quarter of 2003. Therefore, earnings guidance is provided excluding the impact of these charges and the impact of any new accounting standards. Diluted earnings per share are expected to be in the range of \$.61 to \$.63 for the third quarter 2003 and the company is reaffirming previous full year guidance.

In year-over-year comparisons, second quarter 2003 revenue included \$327.8 million from sales of equipment and supplies, flat with the prior year; \$211.4 million from rentals, up four percent; \$135.9 million from core financing, up four percent; \$26.6 million from non-core financing down 25 percent; \$279.3 million from business services, up 16 percent; and \$152.8 million from support services, up seven percent. Net income for the quarter was \$118.9 million, or \$.50 per diluted share, down 17 percent compared to the second quarter of 2002. Included in net income for the period was a \$32 million pre-tax restructuring charge. Excluding the after tax impact of this charge, net income was \$139.4 million and diluted earnings per share were \$.59 in the second quarter of 2003, equal to the prior year.

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For the six-month period ended June 30, 2003, total revenue was \$2.22 billion, up four percent compared to 2002. Included in total revenue was \$618.7 million from sales of equipment and supplies, down two percent; \$425.7 million from rentals, up four percent; \$270.3 million from core financing, up four percent; \$56.4 million from non-core financing down 21 percent; \$551.9 million from business services, up 16 percent; and \$301.7 million from support services, up seven percent. Net income for the period was \$232.8 million or \$0.98 per diluted share down 15 percent compared to 2002. Included in net income for the period was \$53 million in pre-tax restructuring charges. Excluding the after tax impact of these charges, net income was \$266.9 million and diluted earnings per share were \$1.13, an increase of one percent versus the prior year.

Management of Pitney Bowes will discuss the company's financial results in a conference call today scheduled for 5:00 p.m. EDT. Instructions for listening to the conference call over the WEB are available on the Investor Relations page of the company's web site at www.investorrelations.pitneybowes.com.

Pitney Bowes engineers the flow of communication. The company is a \$4.4 billion global leader of integrated mail and document management solutions headquartered in Stamford, Connecticut. For more information about the company, its products, services and solutions, visit www.pitneybowes.com

Pitney Bowes has presented in this earnings release net income and diluted earnings per share on an adjusted basis. Also, management has included a presentation of free cash flow on an adjusted basis.

Management believes this presentation provides a reasonable basis on which to present the adjusted financial information, and is provided to assist in investors' understanding of the Company's results of operations. In general, results are adjusted to exclude the impact of special items of a non-recurring nature, such as restructuring charges and write downs of assets, which materially impact the comparability of the Company's results of operations. The adjusted financial information and certain financial measures such as EBIT are intended to be more indicative of the ongoing operations and economic results of the Company.

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This adjusted financial information should not be construed as an alternative to our reported results determined in accordance with generally accepted accounting principles (GAAP). Further, our definition of this adjusted financial information may differ from similarly titled measures used by other companies.

Pitney Bowes has provided in supplemental schedules attached for reference adjusted financial information and a quantitative reconciliation of the differences between the adjusted financial measures with the financial measures calculated and presented in accordance with GAAP, except with respect to our guidance because it would not be meaningful. Additional reconciliation of adjusted financial measures to financial measures calculated and presented in accordance with GAAP may be found at the Company's web site www.pitneybowes.com

in the Investor Relations section.

The statements contained in this news release that are not purely historical are forward-looking statements with the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements may be identified by their use of forward-looking terminology such as the words "expects," "anticipates," "intends" and other similar words. Such forward-looking statements include, but are not limited to, statements about possible restructuring charges and our future guidance, including our expected revenue in the third quarter and full year 2003, and our expected diluted earnings per share for the third quarter and for the full year 2003. Such forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to: severe adverse changes in the economic environment, timely development and acceptance of new products or gaining product approval; successful entry into new markets; changes in interest rates; and changes in postal regulations, as more fully outlined in the company's 2002 Form 10-K Annual Report filed with the Securities and Exchange Commission. In addition, the forward-looking statements are subject to change based on the timing and specific terms of any announced acquisitions. The forward-looking statements contained in this news release are made as of the date hereof and we do not assume any obligation to update the reasons why actual results could differ materially from those projected in the forward-looking statements.

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 Note: Consolidated statements of income for the three and six months ended June 30, 2003 and 2002, and consolidated balance sheets at June 30, 2003, March 31, 2003, and June 30, 2002, are attached.

Pitney Bowes Inc.
 Consolidated Statements of Income
 (Unaudited)

(Dollars in thousands, except per share data)

| | Three Months Ended June 30, | | Six Mo |
|---------------|-----------------------------|------------|------------|
| | 2003 | 2002 | 2003 |
| | ----- | ----- | ----- |
| Revenue from: | | | |
| Sales | \$ 327,804 | \$ 327,466 | \$ 618,654 |

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| | | | |
|--|-------------|-------------|-------------|
| Rentals | 211,403 | 203,874 | 425,704 |
| Core financing | 135,931 | 130,264 | 270,292 |
| Non-core financing | 26,649 | 35,328 | 56,405 |
| Business services | 279,300 | 241,222 | 551,920 |
| Support services | 152,791 | 143,171 | 301,712 |
| | ----- | ----- | ----- |
| Total revenue | 1,133,878 | 1,081,325 | 2,224,687 |
| | ----- | ----- | ----- |
| Costs and expenses: | | | |
| Cost of sales | 147,549 | 145,948 | 287,476 |
| Cost of rentals | 43,792 | 43,148 | 85,400 |
| Cost of core financing | 36,804 | 36,156 | 71,997 |
| Cost of non-core financing | 8,973 | 10,701 | 20,240 |
| Cost of business services | 229,529 | 193,706 | 452,322 |
| Cost of support services | 80,863 | 73,226 | 159,162 |
| Selling, general and administrative | 302,123 | 288,704 | 597,273 |
| Research and development | 39,008 | 36,095 | 74,759 |
| Restructuring charge | 32,091 | - | 53,356 |
| Interest, net | 40,178 | 45,327 | 83,459 |
| | ----- | ----- | ----- |
| Total costs and expenses | 960,910 | 873,011 | 1,885,444 |
| | ----- | ----- | ----- |
| Income before income taxes | 172,968 | 208,314 | 339,243 |
| Provision for income taxes | 54,072 | 65,211 | 106,444 |
| | ----- | ----- | ----- |
| Net income | \$ 118,896 | \$ 143,103 | \$ 232,799 |
| | ===== | ===== | ===== |
| Basic earnings per share | | | |
| Net income | \$ 0.51 | \$ 0.60 | \$ 0.99 |
| Restructuring charge | 0.09 | - | 0.15 |
| | ----- | ----- | ----- |
| Net income excluding restructuring charge | \$ 0.60 | \$ 0.60 | \$ 1.14 |
| | ===== | ===== | ===== |
| Diluted earnings per share | | | |
| Net income | \$ 0.50 | \$ 0.59 | \$ 0.98 |
| Restructuring charge | 0.09 | - | 0.14 |
| | ----- | ----- | ----- |
| Net income excluding restructuring charge | \$ 0.59 | \$ 0.59 | \$ 1.13 |
| | ===== | ===== | ===== |
| Average common and potential common shares outstanding | 236,136,087 | 242,968,251 | 236,421,147 |
| | ===== | ===== | ===== |

Pitney Bowes Inc.
Consolidated Balance Sheets

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(Unaudited)

(Dollars in thousands, except per share data)

| Assets | 6/30/03 | 3/03 |
|--|--------------|--------------|
| ----- | ----- | ----- |
| Current assets: | | |
| Cash and cash equivalents | \$ 358,167 | \$ 37,464 |
| Short-term investments, at cost which approximates market | 7,464 | |
| Accounts receivable, less allowances: | | |
| 6/03 \$37,560 3/03 \$37,191 6/02 \$33,392 | 417,157 | 42,464 |
| Finance receivables, less allowances: | | |
| 6/03 \$65,939 3/03 \$70,538 6/02 \$66,991 | 1,388,248 | 1,438,248 |
| Inventories | 231,425 | 23,425 |
| Other current assets and prepayments | 192,679 | 17,679 |
| | ----- | ----- |
| Total current assets | 2,595,140 | 2,658,140 |
| | ----- | ----- |
| Property, plant and equipment, net | 647,682 | 63,682 |
| Rental equipment and related inventories, net | 426,996 | 42,996 |
| Property leased under capital leases, net | 2,245 | |
| Long-term finance receivables, less allowances: | | |
| 6/03 \$77,131 3/03 \$80,839 6/02 \$66,143 | 1,637,674 | 1,658,674 |
| Investment in leveraged leases | 1,542,640 | 1,538,640 |
| Goodwill | 911,347 | 89,347 |
| Other assets | 1,108,596 | 1,058,596 |
| | ----- | ----- |
| Total assets | \$ 8,872,320 | \$ 8,848,320 |
| | ===== | ===== |
| Liabilities and stockholders' equity | | |
| ----- | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 1,319,719 | \$ 1,288,719 |
| Income taxes payable | 170,863 | 158,863 |
| Notes payable and current portion of long-term obligations | 582,203 | 1,538,203 |
| Advance billings | 373,697 | 378,697 |
| | ----- | ----- |
| Total current liabilities | 2,446,482 | 3,348,482 |
| | ----- | ----- |
| Deferred taxes on income | 1,556,269 | 1,528,269 |
| Long-term debt | 3,240,110 | 2,428,110 |
| Other noncurrent liabilities | 349,487 | 358,487 |
| | ----- | ----- |
| Total liabilities | 7,592,348 | 7,648,348 |
| | ----- | ----- |
| Preferred stockholders' equity in a subsidiary company | 310,000 | 318,000 |
| Stockholders' equity: | | |

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| | | |
|--|--------------|---------|
| Cumulative preferred stock, \$50 par value, 4% convertible | 19 | |
| Cumulative preference stock, no par value, \$2.12 convertible | 1,368 | |
| Common stock, \$1 par value | 323,338 | 32 |
| Capital in excess of par value | - | |
| Retained earnings | 3,930,970 | 3,88 |
| Accumulated other comprehensive income | (40,474) | (8 |
| Treasury stock, at cost | (3,245,249) | (3,23 |
| | ----- | ----- |
| Total stockholders' equity | 969,972 | 89 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$ 8,872,320 | \$ 8,84 |
| | ===== | ===== |

Pitney Bowes Inc.
Revenue and Operating Profit
By Business Segment
June 30, 2003
(Unaudited)

(Dollars in thousands)

| | 2003 | 2002 | % Change |
|---------------------------|--------------|--------------|-------------|
| | ----- | ----- | ----- |
| Second Quarter | | | |
| ----- | | | |
| Revenue | | | |
| ----- | | | |
| Global Mailing | \$ 785,885 | \$ 737,203 | 7% |
| Enterprise Solutions | 310,641 | 299,131 | 4% |
| | ----- | ----- | ----- |
| Total Messaging Solutions | 1,096,526 | 1,036,334 | 6% |
| | ----- | ----- | ----- |
| Non-core | 26,649 | 35,328 | (25%) |
| Core | 10,703 | 9,663 | 11% |
| | ----- | ----- | ----- |
| Capital Services | 37,352 | 44,991 | (17%) |
| | ----- | ----- | ----- |
| Total Revenue | \$ 1,133,878 | \$ 1,081,325 | 5% |
| | ===== | ===== | ===== |
| Operating Profit (1) | | | |
| ----- | | | |
| Global Mailing | \$ 236,094 | \$ 225,087 | 5% |
| Enterprise Solutions | 16,309 | 22,354 | (27%) |
| | ----- | ----- | ----- |
| Total Messaging Solutions | 252,403 | 247,441 | 2% |
| | ----- | ----- | ----- |

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| | | | |
|--|------------|------------|-------|
| Non-core | 12,331 | 16,123 | (24%) |
| Core | 5,427 | 3,736 | 45% |
| | ----- | ----- | |
| Capital Services | 17,758 | 19,859 | (11%) |
| | ----- | ----- | |
| Total Operating Profit | 270,161 | 267,300 | 1% |
| Unallocated amounts: | | | |
| Net interest (corporate interest expense, net of intercompany transactions) | (26,362) | (22,914) | |
| Corporate expense | (38,740) | (36,072) | |
| Restructuring charge | (32,091) | - | |
| | ----- | ----- | |
| Income before income taxes | \$ 172,968 | \$ 208,314 | |
| | ===== | ===== | |

Pitney Bowes Inc.
Revenue and Operating Profit
By Business Segment
June 30, 2003
(Unaudited)

(Dollars in thousands)

| | 2003 | 2002 | % Change |
|---------------------------|--------------|--------------|-------------|
| | ----- | ----- | ----- |
| Year to Date | | | |
| ----- | | | |
| Revenue | | | |
| ----- | | | |
| Global Mailing | \$ 1,533,826 | \$ 1,449,294 | 6% |
| Enterprise Solutions | 613,850 | 590,521 | 4% |
| | ----- | ----- | |
| Total Messaging Solutions | 2,147,676 | 2,039,815 | 5% |
| | ----- | ----- | |
| Non-core | 56,405 | 70,996 | (21%) |
| Core | 20,606 | 20,022 | 3% |
| | ----- | ----- | |
| Capital Services | 77,011 | 91,018 | (15%) |
| | ----- | ----- | |
| Total Revenue | \$ 2,224,687 | \$ 2,130,833 | 4% |
| | ===== | ===== | |
| Operating Profit (1) | | | |
| ----- | | | |
| Global Mailing | \$ 456,671 | \$ 426,668 | 7% |
| Enterprise Solutions | 27,673 | 39,935 | (31%) |

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| | | | |
|--|------------|------------|-------|
| Total Messaging Solutions | 484,344 | 466,603 | 4% |
| Non-core | 24,356 | 31,503 | (23%) |
| Core | 10,498 | 8,063 | 30% |
| Capital Services | 34,854 | 39,566 | (12%) |
| Total Operating Profit | 519,198 | 506,169 | 3% |
| Unallocated amounts: | | | |
| Net interest (corporate interest expense, net of intercompany transactions) | (52,555) | (43,159) | |
| Corporate expense | (74,044) | (66,160) | |
| Restructuring charge | (53,356) | - | |
| Income before income taxes | \$ 339,243 | \$ 396,850 | |

Pitney Bowes Inc.
Reconciliation of Reported Consolidated Results to Adjusted Results
(Unaudited)

(Dollars in thousands, except per share amounts)

| | Three months ended June 30, 2003 | Six months ended June 30, 2003 |
|--|-------------------------------------|--------------------------------------|
| GAAP income before income taxes, as reported | \$ 172,968 | \$ 339,243 |
| Restructuring charge | 32,091 | (10,000) |
| Income before income taxes, as adjusted | 205,059 | 329,243 |
| Provision for income taxes, as adjusted | 65,625 | (10,000) |
| Net income, as adjusted | \$ 139,434 | \$ 319,243 |
| GAAP diluted earnings per share, as reported | \$ 0.50 | \$ 0.50 |
| Restructuring charge | 0.09 | (0.01) |
| Diluted earnings per share, as adjusted | \$ 0.59 | \$ 0.49 |
| GAAP net cash provided by operating activities, as reported | \$ 208,988 | \$ 408,988 |
| Net investment in fixed assets | (70,013) | (70,013) |
| Free cash flow | 138,975 | 338,975 |

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| | | |
|---|--------------------|---------------|
| Payments related to restructuring charge | 10,887 | |
| | ----- | ----- |
| Free cash flow excluding restructuring payments | \$ 149,862 | \$ |
| | ===== | ===== |
| | Three months ended | Three months |
| | June 30, 2003 | June 30, 2002 |
| | ----- | ----- |
| GAAP Capital Services operating profit, as reported | \$ 17,758 | \$ |
| Capital Services interest expense | 7,333 | |
| | ----- | ----- |
| Earnings before interest and taxes (EBIT) | \$ 25,091 | \$ |
| | ===== | ===== |