

PITNEY BOWES INC /DE/  
Form 10-Q  
November 08, 2007

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

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

For the Quarterly Period  
Ended  
September 30, 2007

Commission File Number 1-3579

**PITNEY BOWES INC.**

Incorporated in Delaware

I.R.S. Employer Identification  
No. 06-0495050

World Headquarters  
1 Elmcroft Road, Stamford, Connecticut 06926-0700

(203) 356-5000

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of [accelerated filer and large accelerated filer] in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated

Non-accelerated filer

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

Yes  No

There were 216,887,629 shares of common stock outstanding as of November 2, 2007.

**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)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2007</b>	2006	<b>2007</b>	2006
Revenue:				
Equipment sales	\$ 307,897	\$ 337,291	\$ 961,868	\$ 959,683
Supplies	95,497	84,728	292,197	250,412
Software	92,256	49,979	223,580	139,614
Rentals	183,452	196,219	552,433	590,257
Financing	201,241	185,547	586,658	538,139
Support services	185,520	182,294	564,597	529,399
Business services	442,414	397,273	1,284,215	1,176,682
Total revenue	1,508,277	1,433,331	4,465,548	4,184,186
Costs and expenses:				
Cost of equipment sales	164,659	173,068	481,873	485,828
Cost of supplies	27,061	26,071	77,909	66,475
Cost of software	21,749	11,044	54,373	32,326
Cost of rentals	42,630	42,231	128,312	128,070
Cost of support services	108,011	104,042	320,832	298,791
Cost of business services	345,024	307,378	1,008,647	917,285
Selling, general and administrative	479,772	443,426	1,393,289	1,293,619
Research and development	47,691	41,893	138,364	124,409
Restructuring charges	-	6,771	-	17,409
Interest, net	60,386	51,962	179,654	160,600
Other, net	3,920	-	3,920	-
Total costs and expenses	1,300,903	1,207,886	3,787,173	3,524,812
Income from continuing operations before income taxes and minority interest				
	207,374	225,445	678,375	659,374
Provision for income taxes	73,272	77,565	234,566	247,222
Minority interest	4,862	3,653	14,404	9,814
Income from continuing operations	129,240	144,227	429,405	402,338
(Loss) income from discontinued operations, net of tax				
	(1,565)	4,393	(4,695)	(456,264)
Net income (loss)	\$ 127,675	\$ 148,620	\$ 424,710	\$ (53,926)
Basic earnings (loss) per share of common stock:				
Continuing operations	\$ 0.59	\$ 0.65	\$ 1.96	\$ 1.80
Discontinued operations	(0.01)	0.02	(0.02)	(2.05)
Net income (loss)	\$ 0.58	\$ 0.67	\$ 1.94	\$ (0.24)
Diluted earnings (loss) per share of common stock:				
Continuing operations	\$ 0.58	\$ 0.64	\$ 1.93	\$ 1.78
Discontinued operations	(0.01)	0.02	(0.02)	(2.02)
Net income (loss)	\$ 0.58	\$ 0.66	\$ 1.91	\$ (0.24)
Dividends declared per share of common stock	\$ 0.33	\$ 0.32	\$ 0.99	\$ 0.96

Note: 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 per share data)**

	<b>September 30, 2007</b>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 338,763
Short-term investments	98,101
Accounts receivables, less allowances of \$46,532 and \$50,052 at September 30, 2007 and December 31, 2006, respectively	826,917
Finance receivables, less allowances of \$44,220 and \$45,643 at September 30, 2007 and December 31, 2006, respectively	1,492,149
Inventories	257,086
Other current assets and prepayments	257,670
Total current assets	3,270,686
Property, plant and equipment, net	664,592
Rental property and equipment, net	506,062
Long-term finance receivables, less allowances of \$33,476 and \$36,856 at September 30, 2007 and December 31, 2006, respectively	1,574,072
Investment in leveraged leases	248,850
Goodwill	2,197,015
Intangible assets, net	479,767
Other assets	575,835
Total assets	\$ 9,516,879
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 1,748,183
Income taxes payable	130,364
Notes payable and current portion of long-term obligations	1,102,053
Advance billings	541,988
Total current liabilities	3,522,588
Deferred taxes on income	523,976
Long-term debt	3,793,974
Other noncurrent liabilities	454,971
Total liabilities	8,295,509
Preferred stockholders' equity in a subsidiary company	384,165
Stockholders' equity:	
Cumulative preferred stock, \$50 par value, 4% convertible	7
Cumulative preference stock, no par value, \$2.12 convertible	1,026
Common stock, \$1 par value (480,000,000 shares authorized & 323,337,912 shares issued)	323,338
Capital in excess of par value	250,079
Retained earnings	4,263,276
Accumulated other comprehensive income	43,416
Treasury stock, at cost (105,990,773 and 102,724,590 shares at September 30, 2007 and	

December 31, 2006, respectively)			<b>(4,043,937)</b>	
Total stockholders' equity			<b>837,205</b>	
Total liabilities and stockholders' equity		\$	<b>9,516,879</b>	\$

*See Notes to Condensed Consolidated Financial Statements*

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

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 424,710	\$ (53,920)
Loss on sale of Capital Services, net of tax	-	445,150
Gain on sale of Imagistics, net of tax	-	(11,065)
Non-cash charge from FSC tax law change	-	16,200
Non-cash tax charge	-	61,000
Tax and bond payments related to IRS settlement and Capital Services sale	-	(238,500)
Restructuring and other charges, net of tax	2,472	11,140
Restructuring and other payments	(24,445)	(40,980)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	285,322	272,040
Stock-based compensation	18,482	20,520
Changes in operating assets and liabilities, excluding effects of acquisitions:		
Accounts receivable	44,621	22,520
Net investment in internal finance receivables	(76,366)	(137,960)
Inventories	(4,523)	(6,870)
Other current assets and prepayments	1,785	(9,180)
Accounts payable and accrued liabilities	(56,510)	(10,340)
Deferred taxes on income and income taxes payable	85,968	1,200
Advanced billings	8,358	(6,070)
Other, net	(13,106)	920
Net cash provided by operating activities	<b>696,768</b>	335,790
<b>Cash flows from investing activities:</b>		
Short-term investments	727	(778,540)
Capital expenditures	(202,013)	(243,850)
Net investment in external financing	(5,011)	81,990
Net proceeds from sale of Imagistics lease portfolio	-	281,650
Proceeds from sale of Capital Services	-	746,890
Advance against COLI cash surrender value	-	138,380
Acquisitions, net of cash acquired	(559,907)	(225,190)
Reserve account deposits	26,506	10,390
Net cash (used in) provided by investing activities	<b>(739,698)</b>	11,720
<b>Cash flows from financing activities:</b>		
Increase in notes payable, net	58,896	487,490
Proceeds from long-term obligations	490,765	-
Principal payments on long-term obligations	(14,044)	(391,910)
Proceeds from issuance of stock	99,020	65,410
Stock repurchases	(279,996)	(311,760)
Dividends paid	(217,199)	(214,240)

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Net cash provided by (used in) financing activities	<b>137,442</b>	(365,011)
Effect of exchange rate changes on cash	<b>5,149</b>	2,340
Increase (decrease) in cash and cash equivalents	<b>99,661</b>	(15,150)
Cash and cash equivalents at beginning of period	<b>239,102</b>	243,500
Cash included in assets of discontinued operations	-	(25,480)
Cash and cash equivalents at end of period	<b>\$ 338,763</b>	\$ 202,860
Interest paid	<b>\$ 195,481</b>	\$ 165,820
Income taxes paid, net	<b>\$ 139,036</b>	\$ 438,420

*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, 2006 condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. In our opinion, all adjustments (consisting of only normal recurring adjustments) considered necessary to present fairly our financial position at September 30, 2007 and December 31, 2006, our results of operations for the three and nine months ended September 30, 2007 and 2006 and our cash flows for the nine months ended September 30, 2007 and 2006 have been included. Operating results for the three and nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for any other interim period or the year ending December 31, 2007.

These statements should be read in conjunction with the financial statements and notes thereto included in our 2006 Annual Report to Stockholders on Form 10-K.

Certain prior year amounts have been reclassified to conform with the current period presentation.

## **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, and production mail equipment; supplies; mailing and multi-vendor support services; payment solutions; and mailing, customer communication and location intelligence software. Mailstream Services includes worldwide revenue and related experience from facilities management contracts, reprographics, document management; and other value-added services for targeted customer markets; mail services operations, which include presort mail services and international outbound mail services; and marketing services. See Note 7 for details of our reporting segments and a description of their activities.

In 2006, we completed the sale of our Imagistics lease portfolio and our Capital Services external financing business. Both Imagistics' and Capital Services' results of operations have been reported as discontinued operations for all periods presented. See Note 4 for additional information on the discontinued operations.

## **3. Recent Accounting Pronouncements**

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes*, which supplements Statement of Financial Accounting Standard No. 109, *Accounting for Income Taxes*, by defining the confidence level that a tax position must meet in order to be recognized in the financial statements. FIN 48 requires the tax effect of a position to be recognized only if it is "more-likely-than-not" to be sustained based solely on its technical merits as of the reporting date. If a tax position is not considered more-likely-than-not to be sustained based solely on its technical merits, no benefits of the position are recognized. This is a different standard for recognition than was previously required. The more-likely-than-not threshold must continue to be met in each reporting period to support continued recognition of a benefit. At adoption, companies must adjust their financial statements to reflect only those tax positions that are more-likely-than-not to be sustained as of the adoption date. Any necessary adjustment is recorded directly to opening retained earnings in the period of adoption and reported as a change in accounting principle. We adopted the provisions of FIN 48 on January 1, 2007 which resulted in a decrease to opening retained earnings of \$84.4 million, with a corresponding increase in our tax liabilities.



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

In July 2006, the FASB issued FASB Staff Position (FSP) No. FAS 13-2, *Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction*, that provides guidance on how a change or a potential change in the timing of cash flows relating to income taxes generated by a leveraged lease transaction affects the accounting by a lessor for the lease. We adopted the provisions of FSP No. FAS 13-2 on January 1, 2007. Our adoption of this FSP did not have a material impact on our financial position, results of operations or cash flows.

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 establishes a framework within GAAP for measuring fair value and expands required disclosures surrounding fair value measurements. While it will change the way companies currently measure fair value, it does not establish any new instances where fair value measurement is required. SFAS 157 defines fair value as an amount that a company would receive if it sold an asset or paid to transfer a liability in a normal transaction between market participants in the same market where the company does business. It emphasizes that the value is based on assumptions that market participants would use, not necessarily only the company that might buy or sell the asset. In September 2007, the FASB decided to scope out SFAS No. 13, *Accounting for Leases*, from this standard on fair value measurement. SFAS 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, with early adoption allowed. We continue to evaluate the impact of adopting this Statement.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We continue to evaluate the impact of adopting this Statement.

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

On July 14, 2006, we completed the sale of our Capital Services external financing business to Cerberus Capital Management, L.P. (Cerberus) for approximately \$747 million and the assumption of approximately \$470 million of non-recourse debt and other liabilities. This sale resulted in the disposition of most of the external financing activity but we have retained certain leveraged leases in Canada, which are now included in our International Mailing segment. The proceeds received at closing were invested in short-term investments and were utilized to pay our tax obligations. See Note 15 for further discussion.

In August 2006, we reached a settlement with the Internal Revenue Service (IRS) on all outstanding tax audit issues in dispute for tax years through 2000. In the second quarter of 2006, we had estimated the potential impact of this anticipated settlement and recorded \$61 million of additional tax expense, with \$41 million included in discontinued operations. The \$41 million tax estimate was not affected by the final settlement agreement reached in August 2006. See Note 15 for further discussion.

The following table shows selected financial information included in discontinued operations for the three and nine months ended September 30, 2007 and 2006, respectively:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Discontinued Operations</b>				
Revenue	\$ -	\$ 4,218	\$ -	\$ 81,199
Pre-tax (loss) income	\$ -	\$ (14,675)	\$ -	\$ 25,275

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Net (loss) income	\$ (1,565)	\$ 7,914	\$ (4,695)	\$ 35,030
(Loss) gain on sale of Imagistics, net of \$368 tax benefit & \$7,075 tax expense, respectively	-	(576)	-	11,065
FSC tax law change	-	-	-	(16,209)
Additional tax on IRS settlement	-	-	-	(41,000)
Loss on sale of Capital Services, net of \$1,883 and \$284,605 tax benefit, respectively	-	(2,945)	-	(445,150)
Total discontinued operations, net of tax	\$ (1,565)	\$ 4,393	\$ (4,695)	\$ (456,264)

**PITNEY BOWES INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited; tabular dollars in thousands, except for per share data)**

Net loss for the three and nine months ended September 30, 2007 relates primarily to the accrual of interest on uncertain tax positions. Interest expense included in discontinued operations was \$1.4 million and \$19.2 million for the three and nine months ended September 30, 2006, respectively. Interest expense recorded in discontinued operations in 2006 included only interest on third-party debt that was assumed by Cerberus. We have not allocated other consolidated interest expense to discontinued operations.

## **5. Acquisitions**

On September 12, 2007, we acquired Asterion SAS for \$30 million in cash, net of cash acquired. Asterion is a leading provider of outsourced transactional print and document process services in France. We assigned the goodwill to the Management Services segment.

On May 31, 2007, we acquired the remaining shares of Digital Cement, Inc. for \$38 million in cash, net of cash acquired. Digital Cement, Inc. provides marketing management strategy and services to help companies acquire, retain, manage, and grow their customer relationships. We assigned the goodwill to the Marketing Services segment.

On April 19, 2007, we acquired MapInfo Corporation for \$448 million in cash, net of cash acquired. Included in the assets and liabilities acquired were short-term investments of \$46 million and debt assumed of \$14 million. MapInfo is a global company and a leading provider of location intelligence software and solutions. We assigned the goodwill to the Software segment. As part of the purchase accounting for MapInfo, we aligned MapInfo's accounting policies for software revenue recognition with ours. Accordingly, certain software revenue that was previously recognized by MapInfo on a periodic basis will now be recognized over the life of the contract.

On July 31, 2006, we acquired Print, Inc. for approximately \$46 million in cash, net of cash acquired. Print, Inc. provides printer supplies, service and equipment under long-term managed services contracts. We assigned the goodwill to the U.S. Mailing segment.

On June 15, 2006, we acquired substantially all the assets of Advertising Audit Service and PMH Caramanning (collectively AAS) for approximately \$42 million in cash. AAS offers a variety of web-based tools for the customization of promotional mail and marketing collateral and designs and manages customer and channel performance solutions. We assigned the goodwill to the Marketing Services segment.

On April 24, 2006, we acquired Ibis Consulting, Inc. (Ibis) for approximately \$65 million in cash, net of cash acquired. Ibis is a leading provider of electronic discovery (eDiscovery) services to law firms and corporate clients. Ibis' technology and offerings complement those of Compulit, which we acquired in 2005, and expands our range of solutions and services for the complex litigation support needs of law firms and corporate legal departments. We assigned the goodwill to the Management Services segment.

On February 8, 2006, we acquired Emtex Ltd. (Emtex) for approximately \$33 million in cash, net of cash acquired. Emtex is a software and services company that allows large-volume mailers to simplify document production and centrally manage complex multi-vendor and multi-site print operations. We assigned the goodwill to the Software segment.

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

The following table summarizes selected financial data for the opening balance sheet allocation of the acquisitions in 2007:

	<b>Asterion SAS</b>	<b>Digital Cement, Inc.</b>	<b>MapInfo Corporation</b>
<b>Purchase price allocation</b>			
Short-term investments	\$ 2,981	\$ -	\$ 46,308
Current assets	35,805	2,146	41,213
Other non-current assets	28,370	908	46,562
Intangible assets	7,640	10,400	126,000
Goodwill	22,466	38,903	257,271
Current liabilities	(42,009)	(1,325)	(49,963)
Debt	(6,070)	-	(13,866)
Non-current liabilities	(19,353)	(13,028)	(5,990)
Purchase price, net of cash acquired	\$ 29,830	\$ 38,004	\$ 447,535

**Intangible assets**

Customer relationships	\$ 7,640	\$ 10,400	\$ 93,000
Mailing software and technology	-	-	30,000
Trademarks and trade names	-	-	3,000
Total intangible assets	\$ 7,640	\$ 10,400	\$ 126,000

**Intangible assets amortization period**

Customer relationships	10 years	10 years	10 years
Mailing software and technology	-	-	7 years
Trademarks and trade names	-	-	2 years
Total weighted average	10 years	10 years	9 years

The following table summarizes selected financial data for the opening balance sheet allocations of the acquisitions in 2006:

	<b>Print, Inc.</b>	<b>AAS</b>	<b>Ibis</b>	<b>Emtex</b>
<b>Purchase price allocation</b>				
Current assets	\$ 9,385	\$ 1,989	\$ 6,468	\$ 4,240
Other non-current assets	1,610	789	3,349	1,034
Intangible assets	8,144	8,200	17,700	14,540
Goodwill	36,057	31,670	40,751	25,076
Current liabilities	(7,660)	(1,033)	(3,258)	(11,946)
Non-current liabilities	(1,519)	-	-	(112)
Purchase price, net of cash acquired	\$ 46,017	\$ 41,615	\$ 65,010	\$ 32,832
<b>Intangible assets</b>				
Customer relationships	\$ 8,144	\$ 4,000	\$ 8,800	\$ 3,300
Mailing software and technology	-	4,200	7,800	9,200
Trademarks and trade names	-	-	1,100	2,040
Total intangible assets	\$ 8,144	\$ 8,200	\$ 17,700	\$ 14,540

**Intangible assets amortization period**

Customer relationships	6 years	10 years	10 years	10 years
Mailing software and technology	-	5 years	5 years	5 years
Trademarks and trade names	-	-	3 years	5 years
Total weighted average	6 years	7 years	7 years	6 years

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

Allocation of the purchase price to the assets acquired and liabilities assumed has not been finalized for Asterion SAS, Digital Cement, Inc., and MapInfo. The purchase price allocation for these acquisitions will be finalized upon the completion of working capital closing adjustments and fair value analyses. Final determination of the purchase price and fair values to be assigned may result in adjustments to the preliminary estimated values assigned at the date of acquisition. We do not anticipate significant adjustments to the preliminary estimated values. The amount of tax deductible goodwill added from acquisitions in the nine months ended September 30, 2007 and 2006 was \$23.2 million and \$120 million, respectively.

During the nine months ended September 30, 2007, we also completed several smaller acquisitions. The aggregate cost of these acquisitions was \$51.8 million, net of cash acquired. These acquisitions did not have a material impact on our financial results.

*Consolidated impact of acquisitions*

The Condensed Consolidated Financial Statements include the results of operations of the acquired businesses from their respective dates of acquisition.

The following unaudited pro forma consolidated revenue has been prepared as if the acquisitions had occurred at the beginning of each period presented:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2007</b>	2006	<b>2007</b>	2006
Total revenue	<b>\$ 1,528,959</b>	\$ 1,512,792	<b>\$ 4,594,205</b>	\$ 4,458,068

The pro forma earnings of these acquisitions for the nine months ended September 30, 2007 and 2006 reduced our diluted earnings per share by approximately 5 cents, primarily due to the purchase accounting alignment for MapInfo. 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, 2007 and 2006, nor do they purport to be indicative of the results that will be obtained in the future.



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

## 6. Earnings per Share

A reconciliation of the basic and diluted earnings per share computations for the three months ended September 30, 2007 and 2006 is as follows:

	Income	2007 Weighted Average Shares	Per Share	Income	2006 Weighted Average Shares	Per Share
Net income	\$ 127,675			\$ 148,620		
Less:						
Preferred stock dividends	-			-		
Preference stock dividends	(20)			(22)		
Basic earnings per share	\$ 127,655	218,299	\$ 0.58	148,598	221,322	\$ 0.67
Effect of dilutive securities:						
Data for basic earnings per share	127,655	218,299		148,598	221,322	
Preferred stock	-	3		-	8	
Preference stock	20	634		22	673	
Stock options & stock purchase plans		1,989			1,932	
Other		103			148	
Diluted earnings per share	\$ 127,675	221,028	\$ 0.58	\$ 148,620	224,083	\$ 0.66

A reconciliation of the basic and diluted earnings per share computations for the nine months ended September 30, 2007 and 2006 is as follows:

	Income	2007 Weighted Average Shares	Per Share	Loss	2006 Weighted Average Shares	Per Share
Net income (loss)	\$ 424,710			\$ (53,926)		
Less:						
Preferred stock dividends	-			-		
Preference stock dividends	(62)			(66)		
Basic earnings (loss) per share	\$ 424,648	219,247	\$ 1.94	\$ (53,992)	223,000	\$ (0.24)
Effect of dilutive securities:						
Data for basic earnings per share	\$ 424,648	219,247		\$ (53,992)	223,000	
Preferred stock	-	3		-	8	
Preference stock	62	643		66	689	
Stock options & stock purchase plans		2,279			2,022	
Other		108			129	
Diluted earnings (loss) per share	\$ 424,710	222,280	\$ 1.91	\$ (53,926)	225,848	\$ (0.24)

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In accordance with SFAS No. 128, *Earnings per Share*, 402,877 and 919,869 weighted common stock equivalent shares for the three months ended September 30, 2007 and 2006, respectively, and 353,739 and 911,045 weighted common stock equivalent shares for the nine months ended September 30, 2007 and 2006, respectively, issuable upon the exercise of stock options are excluded from the above computations because the 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.

**PITNEY BOWES INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited; tabular dollars in thousands, except for per share data)**

## **7. Segment Information**

We conduct our business activities in seven business segments within the Mailstream Solutions and Mailstream Services business groups. The following details the activities of each segment within the two business groups:

### **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 and shipping equipment; supplies, equipment-based software, support and other professional services; and payment solutions.

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

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

### **Mailstream Services:**

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

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

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

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

Revenue and earnings before interest and taxes (EBIT) by business segment for the three and nine months ended September 30, 2007 and 2006 are as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Revenue:				
U.S. Mailing	\$ 571,568	\$ 587,226	\$ 1,780,890	\$ 1,729,983
International Mailing	254,001	252,641	764,241	741,639
Production Mail	148,038	146,212	412,622	396,268
Software	92,256	49,979	223,580	139,614
Mailstream Solutions	1,065,863	1,036,058	3,181,333	3,007,504
Management Services	278,167	263,229	825,878	798,280
Mail Services	115,999	91,067	334,782	275,914
Marketing Services	48,248	42,977	123,555	102,488
Mailstream Services	442,414	397,273	1,284,215	1,176,682
Total revenue	\$ 1,508,277	\$ 1,433,331	\$ 4,465,548	\$ 4,184,186
EBIT: (1)				
	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
U.S. Mailing	\$ 224,317	\$ 232,337	\$ 728,576	\$ 697,816
International Mailing	33,424	43,843	116,311	131,565
Production Mail	16,560	13,668	42,500	32,512
Software	11,330	7,566	30,749	17,183
Mailstream Solutions	285,631	297,414	918,136	879,076
Management Services	17,140	18,976	53,929	61,367
Mail Services	17,446	9,444	44,104	30,100
Marketing Services	5,310	6,087	6,449	11,803
Mailstream Services	39,896	34,507	104,482	103,270
Total EBIT	325,527	331,921	1,022,618	982,346
Unallocated amounts:				
Interest, net	(60,386)	(51,962)	(179,654)	(160,600)
Corporate expense	(47,993)	(47,743)	(146,915)	(144,963)
Restructuring charges	-	(6,771)	-	(17,409)
Other, net	(3,920)	-	(3,920)	-
MapInfo purchase accounting alignment	(5,854)	-	(13,754)	-
Income from continuing operations before income taxes and minority interest	\$ 207,374	\$ 225,445	\$ 678,375	\$ 659,374

(1) EBIT excludes general corporate expenses, restructuring charges, other expenses and the MapInfo purchase accounting alignment.



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

## 8. Inventories

Inventories are composed of the following:

	<b>September 30, 2007</b>	December 31, 2006
Raw materials and work in process	\$ 97,680	\$ 97,870
Supplies and service parts	77,539	82,669
Finished products	81,867	57,278
Total	\$ 257,086	\$ 237,817

## 9. Fixed Assets

	<b>September 30, 2007</b>	December 31, 2006
Property, plant and equipment	\$ 1,887,694	\$ 1,831,140
Accumulated depreciation	(1,223,102)	(1,218,500)
Property, plant and equipment, net	\$ 664,592	\$ 612,640
Rental property and equipment	\$ 1,190,411	\$ 1,163,705
Accumulated depreciation	(684,349)	(659,794)
Rental property and equipment, net	\$ 506,062	\$ 503,911

Depreciation expense was \$77.9 million and \$78.2 million for the three months ended September 30, 2007 and 2006, respectively. Depreciation expense was \$236.2 million and \$233.1 million for the nine months ended September 30, 2007 and 2006, respectively. Depreciation expense for the nine months ended September 30, 2006 included \$9.2 million expense for discontinued operations.

## 10. Intangible Assets and Goodwill

Intangible assets are composed of the following:

	<b>September 30, 2007</b>			December 31, 2006		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$ 444,285	\$ (114,686)	\$ 329,599	\$ 314,768	\$ (84,439)	\$ 230,329
Supplier relationships	33,300	(8,952)	24,348	33,300	(5,954)	27,346
Software & technology	173,158	(59,613)	113,545	134,476	(42,357)	92,119
Trademarks & trade names	27,161	(15,830)	11,331	28,961	(14,716)	14,245
Non-compete agreements	5,491	(4,547)	944	5,247	(4,094)	1,153

Total intangible assets      \$ **683,395** \$ **(203,628)** \$ **479,767** \$ 516,752 \$ (151,560) \$ 365,192

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

Amortization expense for intangible assets for the three months ended September 30, 2007 and 2006 was \$18.5 million and \$14.8 million, respectively. Amortization expense for intangible assets for the nine months ended September 30, 2007 and 2006 was \$49.1 million and \$39 million, respectively. Estimated intangible assets amortization expense for the remainder of 2007 and the next five years is as follows:

Remaining for the year ending 12/31/07	\$ 24,000
For the year ending 12/31/08	71,000
For the year ending 12/31/09	68,000
For the year ending 12/31/10	61,000
For the year ending 12/31/11	53,000
Thereafter	203,000
Total	\$ 480,000

Changes in the carrying amount of goodwill by business segment for the nine months ended September 30, 2007 are as follows:

	Balance at January 1, 2007	Acquired during the period	Other	Balance at September 30, 2007
U.S. Mailing	\$ 84,380	\$ 12,047	\$ 31,523	\$ 127,950
International Mailing	392,434	5,949	3,689	402,072
Production Mail	102,848	4,165	2,239	109,252
Software	340,062	261,669	3,865	605,596
Mailstream Solutions	919,724	283,830	41,316	1,244,870
Management Services	429,990	22,466	6,866	459,322
Mail Services	216,709	6,461	4,613	227,783
Marketing Services	224,734	38,691	1,615	265,040
Mailstream Services	871,433	67,618	13,094	952,145
Total	\$ 1,791,157	\$ 351,448	\$ 54,410	\$ 2,197,015

□Other□ includes the impact of post closing acquisition and foreign currency translation adjustments.

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

In September 2007, we issued \$500 million of unsecured fixed rate notes maturing in September 2017. These notes bear interest at an annual rate of 5.75% and pay interest semi-annually beginning in March 2008. The proceeds from these notes were used for general corporate purposes, including the repayment of commercial paper, the financing of acquisitions, and repurchase of our stock.

On September 30, 2007, \$0.6 billion remained available under the shelf registration statement filed in February 2005 with the Securities and Exchange Commission (SEC), permitting issuances of up to \$2.5 billion in debt securities, preferred stock, preference stock, common stock, purchase contracts, depositary shares, warrants and units.



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

## 12. Comprehensive Income

Comprehensive income for the three and nine months ended September 30, 2007 and 2006 are as follows:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	2006	<b>2007</b>	2006
Net income (loss)	\$ 127,675	\$ 148,620	\$ 424,710	\$ (53,926)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	88,978	(11,055)	159,282	91,335
Amortization of pension & post retirement cost	6,382	-	16,665	
Net unrealized gain (loss) on derivative instruments	1,826	(7,060)	(787)	(4,846)
Comprehensive income	\$ 224,861	\$ 130,505	\$ 599,870	\$ 32,563

## 13. Restructuring Charges

Accrued restructuring balances at September 30, 2007 related to the program that we completed in 2006 are composed of the following:

	<b>Balance at January 1, 2007</b>	<b>Cash payments</b>	<b>Balance at September 30, 2007</b>
Severance and benefit costs	\$ 31,265	\$ (23,009)	\$ 8,256
Other exit costs	2,284	(1,436)	848
Total	\$ 33,549	\$ (24,445)	\$ 9,104

The outstanding balance is expected to be substantially paid by the end of 2007.

Pre-tax restructuring reserves at December 31, 2006 were composed of the following:

	Balance at January 1, 2006	Restructuring charges	Cash payments	Non-cash charges	Balance at December 31, 2006
Severance and benefit costs	\$ 44,635	\$ 33,254	\$ (46,624)	\$ -	\$ 31,265
Asset impairments	-	754	-	(754)	-
Other exit costs	5,235	1,991	(4,942)	-	2,284
Total	\$ 49,870	\$ 35,999	\$ (51,566)	\$ (754)	\$ 33,549

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

## 14. 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 September 30, 2007 and 2006 are as follows:

	United States		Foreign	
	Three Months Ended September 30,		Three Months Ended September 30,	
	2007	2006	2007	2006
Service cost	\$ 7,000	\$ 6,598	\$ 3,444	\$ 2,831
Interest cost	24,505	22,867	7,485	5,750
Expected return on plan assets	(32,645)	(31,184)	(10,029)	(7,975)
Amortization of transition cost	-	-	(178)	(166)
Amortization of prior service cost	(561)	(533)	176	157
Amortization of net loss	8,631	8,683	1,983	2,571
Settlement / curtailment	-	-	279	-
Net periodic benefit cost	\$ 6,930	\$ 6,431	\$ 3,160	\$ 3,168

The components of net periodic benefit cost for defined benefit pension plans for the nine months ended September 30, 2007 and 2006 are as follows:

	United States		Foreign	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Service cost	\$ 21,151	\$ 21,529	\$ 9,702	\$ 8,218
Interest cost	70,616	70,851	21,001	16,731
Expected return on plan assets	(95,309)	(97,050)	(28,102)	(23,269)
Amortization of transition cost	-	-	(502)	(492)
Amortization of prior service cost	(1,623)	(1,651)	497	459
Amortization of net loss	22,394	25,764	5,589	7,936
Settlement / curtailment	-	-	624	-
Net periodic benefit cost	\$ 17,229	\$ 19,443	\$ 8,809	\$ 9,583

We expect to contribute up to \$9.6 million and \$10 million, respectively, to our U.S. and foreign pension plans during 2007. At September 30, 2007, \$7.4 million and \$8.3 million of contributions have been made to the U.S. and foreign pension plans, respectively.

### Nonpension Postretirement Benefit Plans

The components of net periodic benefit cost for nonpension postretirement benefit plans for the three and nine months ended September 30, 2007 and 2006 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	Service cost	\$ 713	\$ 698	\$ 2,382

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Interest cost	<b>2,706</b>	2,707	<b>9,936</b>	9,883
Amortization of prior service cost	<b>(466)</b>	(367)	<b>(1,381)</b>	(1,296)
Amortization of net loss	<b>474</b>	432	<b>1,897</b>	2,227
Net periodic benefit cost	<b>\$ 3,427</b>	\$ 3,470	<b>\$ 12,834</b>	\$ 13,286

For the three months ended September 30, 2007 and 2006, we made \$9.1 million and \$8.1 million of contributions representing benefit payments, respectively. Contributions for benefit payments were \$24.8 million and \$25.5 million for the nine months ended September 30, 2007 and 2006, respectively.

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

## **15. Income Taxes**

The effective tax rate for the three months ended September 30, 2007 and 2006 was 35.3% and 34.4%, respectively. The effective tax rate for the nine months ended September 30, 2007 and 2006 was 34.6% and 37.5%, respectively. The higher rate in the third quarter of 2007 is related to a \$3.6 million non-cash deferred tax charge, related to a change in German and U.K. tax rates. The higher September 2006 year-to-date rate was primarily due to a \$20 million charge that was recorded in the second quarter of 2006 in connection with the IRS settlement.

In June 2006, the FASB issued FIN. 48, *Accounting for Uncertainty in Income Taxes*, which supplements FAS 109, *Accounting for Income Taxes*, by defining the confidence level that a tax position must meet in order to be recognized in the financial statements. FIN 48 requires the tax effect of a position to be recognized only if it is [more-likely-than-not] to be sustained, which is a different standard than was previously required. We adopted the provisions of FIN 48 on January 1, 2007. As a result, on initial adoption we recognized an \$84.4 million increase in our liability for uncertain tax positions and a corresponding reduction to our opening retained earnings. The total amount of unrecognized tax benefits including interest at January 1, 2007 was \$460.4 million, of which \$363.3 million would affect the effective tax rate if recognized. Our tax filings are under continual examination by tax authorities. On a regular basis we conclude tax return examinations, statutes of limitations expire, court decisions are made that interpret tax law and we regularly assess tax uncertainties in light of these developments. As a result of the ultimate settlement of certain tax examinations, our unrecognized tax benefits will decrease by approximately 10% in the fourth quarter of 2007. We do not anticipate any other significant adjustments to our unrecognized tax benefits during the next twelve months. We recognize interest and penalties related to uncertain tax positions in our provision for income taxes. We recognized \$4.7 million in interest and penalties during the nine months ended September 30, 2007 and this amount was included in discontinued operations. We had \$104.5 million accrued for the payment of interest and penalties at January 1, 2007. Included in the \$524.0 million September 30, 2007 noncurrent deferred tax balance is \$254.3 million of other noncurrent tax liabilities.

In August 2006, we reached a settlement with the IRS governing all outstanding tax audit issues in dispute for the tax years through 2000. These disputed items related primarily to the tax treatment of corporate owned life insurance (COLI) and related interest expense, the tax effect of the sale of certain preferred share holdings, and the tax treatment of certain Capital Services lease transactions. In the second quarter of 2006, we estimated the tax due as a result of the IRS settlement including our best estimate of the additional liability for these items in all open years, the sale of the Imagistics portfolio and the sale of the Capital Services business to be approximately \$1.1 billion. Accordingly, we recorded \$61 million of additional tax expense. The \$1.1 billion tax liability was net of \$330 million of IRS tax bonds previously posted. In the third quarter of 2006, we paid \$239 million of the \$1.1 billion obligation to the IRS, with the remainder paid by the end of 2006. These tax obligations were funded with proceeds previously received in 2006 from the sale of Imagistics and Capital Services and the advance against the cash surrender value of our COLI assets. Of the \$61 million of tax expense, \$41 million related to the Capital Services business and was included in discontinued operations and \$20 million was included in continuing operations.

The current IRS exam of tax years 2001-2004 is estimated to be completed in 2008 while the formal statute of limitations for years 1995-2000 has also yet to expire. In connection with the 2001-2004 audit, we are currently disputing a recent formal request from the IRS in the form of a civil summons to provide certain company workpapers. The company believes that certain documents being sought should not be produced because they are privileged. In the third quarter, in a similar case, the U.S. District Court in Rhode Island ruled that certain company workpapers were in fact privileged. The IRS has stated its intention to appeal that decision. A similar issue is also being litigated before the U.S. District Court for the Northern District of Alabama. A variety of post-1999 tax years remain subject to examination by other tax authorities, including the U.K., Canada, Germany and various U.S. states. We have accrued our best estimate of the probable tax, interest and penalties that may result from these tax uncertainties in these and other jurisdictions. However, the resolution of such matters could have a material impact on our results of operations, financial position and cash flow.



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

## **16. Commitment and Contingencies**

### *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.

Ricoh Corporation et al. v. Pitney Bowes Inc. (United States District Court, District of New Jersey, filed November 26, 2002). In this patent litigation where the company prevailed at trial, the appellate process is proceeding.

Imagitas, Inc., Drivers' Privacy Protection Act Litigation, MDL Docket No. 1828 (United States District Court, Middle District of Florida). In this Multi-District Litigation (MDL), expedited discovery has concluded on some discrete issues, and Imagitas has filed a motion for summary judgment. The state officials from Florida who were sued in their individual capacity have reached a settlement with the plaintiffs. As a result of that settlement, Imagitas has agreed to voluntarily suspend a portion of the program, pending a ruling in the litigation against it. During this period, Imagitas will still be placing advertisements in the registration renewal forms in Florida. The Multi-District Litigation panel denied the attempt by officials in Ohio, Missouri, and Minnesota to have the cases filed against them in their individual capacity removed from the MDL and returned to the respective courts where they were originally filed. The pendency of these litigations, regardless of their ultimate merit, may have a negative effect on the future prospects of the DriverSource program.

We expect to prevail in both the Ricoh litigation and 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.

### *Guarantees*

As part of the sale of the Capital Services business in the second quarter of 2006, we indemnified the buyer for certain guarantees by posting letters of credit at the date of sale. At September 30, 2007, the outstanding balance of these guarantees was \$8.5 million.

Our maximum risk of loss related to these letters of credit arises from the possible non-performance of lessees to meet the terms of their contracts and from changes in the value of the underlying equipment. These contracts are secured by the underlying equipment value and supported by the creditworthiness of the customer.

### *Product Warranty*

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 or product warranties based on historical claims experience, which has not been significant, and other currently available evidence. Accordingly, our product warranty liability at September 30, 2007 and December 31, 2006, respectively, was not material.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**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 in Pitney Bowes' Form 10-K for the year ended December 31, 2006.

As a result of the sale of our Imagistics lease portfolio and Capital Services external financing business in 2006, the results of operations reflect these businesses as discontinued operations for all periods presented.

**Overview**

Business conditions during the third quarter were much more challenging than we originally anticipated. Our Software and Mail Services segments continued to have very strong results, but their performance was offset by weaker performance in our U.S. and International Mailing segments as well as in our Management Services segment. In addition, weakness in certain sectors of the economy, such as financial services, adversely affected our results this quarter.

Revenue for the third quarter increased 5% to \$1.5 billion. Revenue growth was positively affected by acquisitions and foreign currency translation, which contributed about 4% and 2%, respectively.

Earnings per diluted share from continuing operations for the quarter was \$0.58 compared with \$0.64 per diluted share in the prior year. Earnings per diluted share from continuing operations for the third quarter of 2007 was reduced by approximately 2 cents due to the purchase accounting alignment for MapInfo, 2 cents due to a non-cash tax charge, primarily related to a tax rate change in Germany, and 1 cent due to an impairment charge for intangible assets in our legal solutions business. Earnings per diluted share from continuing operations for the third quarter of 2006 included a 2 cent reduction related to restructuring charges.

Net income for the quarter was \$127.7 million compared with net income of \$148.6 million in the prior year.

See Results of Operations - Third Quarter of 2007 compared to Third Quarter of 2006 for a more detailed discussion of our results of operations.

**Outlook**

On October 31, 2007, the Postal Regulatory Commission issued specific regulations to implement the U.S. postal reform bill signed into law in 2006. The rules create a new system under which postal rates will be set in the future.

As we address the current market conditions, we will examine all aspects of our operations and our investment strategies to ensure that we will deliver enhanced value to our shareholders. We will also review our mailing equipment product line in light of the evolving regulatory environment in the U.S., Canada and Europe, and accelerate our plans to improve our infrastructure to enhance the customer experience and lower costs.

We expect our mix of product sales to continue 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. In addition, we expect to expand our market presence in Mailstream Solutions and Mailstream Services and derive further synergies from our recent acquisitions. We will continue to remain focused on our productivity programs and to allocate capital in order to optimize our returns.





**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Results of Operations – Third Quarter of 2007 compared to Third Quarter of 2006**

***Business segment results***

The following table shows revenue and earnings before interest and taxes (EBIT) by segment for the three months ended September 30, 2007 and 2006.

	Revenue			EBIT(1)		
	Three months ended September 30,			Three months ended September 30,		
	2007	2006	% change	2007	2006	% change
U.S. Mailing	\$ 571,568	\$ 587,226	(3)%	\$ 224,317	\$ 232,337	(3)%
International Mailing	254,001	252,641	1%	33,424	43,843	(24)%
Production Mail	148,038	146,212	1%	16,560	13,668	21%
Software	92,256	49,979	85%	11,330	7,566	50%
Mailstream Solutions	1,065,863	1,036,058	3%	285,631	297,414	(4)%
Management Services	278,167	263,229	6%	17,140	18,976	(10)%
Mail Services	115,999	91,067	27%	17,446	9,444	85%
Marketing Services	48,248	42,977	12%	5,310	6,087	(13)%
Mailstream Services	442,414	397,273	11%	39,896	34,507	16%
Total	\$ 1,508,277	\$ 1,433,331	5%	\$ 325,527	\$ 331,921	(2)%

(1) See reconciliation of segment amounts to Income from Continuing Operations before Income Taxes and Minority Interest in Note 7 to the Condensed Consolidated Financial Statements.

During the third quarter of 2007, Mailstream Solutions revenue increased 3% and EBIT decreased 4% compared with the prior year. U.S. Mailing's revenue and EBIT decreased 3% due to lower equipment sales and rentals following the strong second quarter and the wind-down of meter migration. International Mailing revenue grew 1% and EBIT declined 24%. International Mailing revenue growth benefited by about 6% from favorable foreign currency. The segment's results were adversely affected by lower equipment sales and rentals in Europe. The segment's EBIT was also adversely impacted by continued investments in growth in sales and marketing channels in Europe, and expenses related to outsourcing our European back office operations. Worldwide revenue for Production Mail grew 1%, driven by foreign currency translation which contributed 2% to growth. Production Mail EBIT grew 21% due to a favorable mix of equipment sales. Software's revenue grew by 85% and EBIT grew 50%. The segment's results were driven by the acquisition of MapInfo, which increased revenue by about 68%, favorable foreign currency translation, which contributed about 7%, and continued strong demand for our software solutions, particularly outside the U.S.

During the third quarter of 2007, Mailstream Services revenue grew 11% and EBIT increased 16% compared with the prior year. Management Services revenue grew 6% and EBIT declined 10%. Management Services revenue benefited about 2% from acquisitions and 2% from foreign currency translation. Management Services results were positively impacted by strong written business in prior quarters but were adversely affected by continued weakness in the legal solutions business, delays in government contracts, and lower pricing on contract renewals. Mail Services revenue grew 27% due to continued growth in presort and cross-border mail services. Mail Services EBIT grew by 85% to \$17.4 million as a result of the ongoing successful integration of acquired sites and increased operating efficiencies. Marketing Services revenue grew 12% and EBIT decreased 13%. The acquisition of Digital Cement, Inc. contributed 15% to revenue growth, but lower revenue in our motor vehicle registration services had an adverse effect on the segment's results.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Revenue by source**

The following table shows revenue by source for the three months ended September 30, 2007 and 2006:

(Dollars in thousands)	<b>Three Months Ended September 30,</b>		
	<b>2007</b>	2006	% change
Equipment sales	<b>\$ 307,897</b>	\$ 337,291	(9)%
Supplies	<b>95,497</b>	84,728	13%
Software	<b>92,256</b>	49,979	85%
Rentals	<b>183,452</b>	196,219	(7)%
Financing	<b>201,241</b>	185,547	8%
Support services	<b>185,520</b>	182,294	2%
Business services	<b>442,414</b>	397,273	11%
Total revenue	<b>\$ 1,508,277</b>	\$ 1,433,331	5%

Equipment sales revenue decreased 9% from the prior year, primarily due to lower sales of mailing equipment in the U.S. and Europe, partially offset by favorable currency translation of 2%.

Supplies revenue increased 13% from the prior year due to the transition of our meter base to digital technology, the acquisition of our print management business last year which contributed 3%, and foreign currency translation which contributed 3%.

Software revenue increased 85% from the prior year due to the acquisition of MapInfo, which contributed 68% to this increase, favorable currency translation, which contributed 7% to growth, and strong demand for our software solutions.

Rentals revenue declined 7% from the prior year due primarily to the continued downsizing by customers to smaller machines.

Financing revenue increased 8% from the prior year, primarily due to higher revenue from payment solutions and higher lease revenue from the higher equipment sales in the second quarter.

Support services revenue increased 2% from the prior year. Acquisitions contributed 1% to this growth and foreign currency translation contributed 2%. Support services revenue was negatively affected by lower equipment sales.

Business services revenue increased 11% from the prior year, due primarily to strong growth in our presort and cross-border mail services. Acquisitions and foreign currency translation contributed 5% and 1%, respectively, to this growth.

**Costs and expenses**

(Dollars in thousands)	<b>Three Months Ended September 30,</b>	
	<b>2007</b>	2006
Cost of equipment sales	<b>\$ 164,659</b>	\$ 173,068
Cost of supplies	<b>\$ 27,061</b>	\$ 26,071
Cost of software	<b>\$ 21,749</b>	\$ 11,044
Cost of rentals	<b>\$ 42,630</b>	\$ 42,231
Cost of support services	<b>\$ 108,011</b>	\$ 104,042

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Cost of business services	<b>\$ 345,024</b>	\$	307,378
Selling, general and administrative	<b>\$ 479,772</b>	\$	443,426
Research and development	<b>\$ 47,691</b>	\$	41,893

Cost of equipment sales as a percentage of revenue increased to 53.5% in the third quarter of 2007 compared with 51.3% in the prior year, primarily due to the decrease in sales of higher margin equipment in the U.S.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Cost of supplies as a percentage of revenue decreased to 28.3% in the third quarter of 2007 compared with 30.8% in the prior year, primarily due to favorable product mix.

Cost of software increased to 23.6% of revenue in the third quarter of 2007 compared with 22.1% in the prior year, primarily due to the acquisition of MapInfo.

Cost of rentals as a percentage of revenue increased to 23.2% for the third quarter of 2007 compared with 21.5% in the prior year due to higher depreciation costs from the placement of new meters.

Cost of support services increased to 58.2% of revenue in the third quarter of 2007 compared with 57.1% in the prior year, primarily due to a higher mix of lower margin international sales.

Cost of business services increased to 78.0% of revenue in the third quarter of 2007 compared with 77.4% in the third quarter of 2006, primarily due to continued weakness in legal solutions and lower margin on contract renewals at Management Services.

Selling, general and administrative expenses increased to 31.8% of total revenue in the third quarter of 2007 compared with 30.9% in the prior year. This increase is due primarily to the acquisition of MapInfo, which has a higher proportion of selling, general and administrative costs, and lower equipment sales during the quarter.

Research and development expenses increased 13.8% in the third quarter of 2007 compared with the prior year due primarily to the acquisition of MapInfo. Our investment in research and development reflects our continued focus on developing new technologies and enhancing features for our products.

***Restructuring***

In connection with our restructuring program that we concluded in 2006, we recorded pre-tax restructuring charges of \$6.8 million for the three months ended September 30, 2006.

The pre-tax restructuring costs were composed of:

(Dollars in thousands)	Three Months Ended September 30, 2006	
Severance and benefit costs	\$	5,799
Asset impairments		225
Other exit costs		747
Total restructuring costs	\$	6,771

We primarily fund restructuring payments with cash from operating activities. We expect to pay most of the outstanding restructuring balance by the end of 2007. We expect the restructuring initiatives to continue to increase our operating efficiency and effectiveness in 2007 and beyond while enhancing growth, primarily as a result of the reduction in personnel-related expenses.

Accrued restructuring balances at September 30, 2007 are composed of the following:

(Dollars in thousands)	Balance at January 1, 2007		Cash payments	Balance at September 30, 2007	
Severance and benefit costs	\$	31,265	\$ (23,009)	\$	8,256
Other exit costs		2,284	(1,436)		848

Total	\$	<b>33,549</b>	\$	<b>(24,445)</b>	\$	<b>9,104</b>
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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Net interest expense**

Interest expense for the three months ended September 30, 2007 and 2006:

(Dollars in thousands)

	<b>Three Months Ended September 30,</b>		
	<b>2007</b>	<b>2006</b>	<b>% change</b>
Interest expense, net	\$ 60,386	\$ 51,962	16%

Net interest expense increased by \$8.4 million or 16% in the third quarter of 2007 compared with the prior year due to higher average borrowings. Also, last year we had interest income on the cash balance that resulted from the Capital Services divestiture.

**Other, net**

In the third quarter of 2007, we recorded a pre-tax expense of \$4.3 million related to the impairment of certain intangible assets in our legal solutions business.

In the third quarter of 2007, we recorded a net pre-tax gain of \$0.4 million related to a revised liability estimate associated with prior legal settlements net of other legal matters.

**Income Taxes**

The effective tax rate for the third quarter of 2007 was 35.3% compared with 34.4% in the prior year. The rate for 2007 includes a \$3.6 million non-cash deferred tax charge, due to a tax rate change in Germany and the U.K.

**Minority Interest**

The following table details minority interest for the three months ended September 30, 2007 and 2006:

(Dollars in thousands)

	<b>Three Months Ended September 30,</b>		
	<b>2007</b>	<b>2006</b>	<b>% change</b>
Minority interest	\$ 4,862	\$ 3,653	33%

Minority interest includes dividends paid to preferred stockholders in a subsidiary. Minority interest increased by \$1.2 million or 33% in the third quarter of 2007 compared with the prior year due to an increase in outstanding preferred shares and the weighted average dividend rate which is set at auction.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Discontinued Operations**

The following table details the components of discontinued operations for the three months ended September 30, 2007 and 2006:

(Dollars in thousands)	<b>Three Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
Revenue	\$ -	\$ 4,218
Pre-tax loss	\$ -	\$ (14,675)
Net (loss) income	\$ <b>(1,565)</b>	\$ 7,914
Loss on sale of Imagistics, net of \$368 tax benefit	-	(576)
Loss on sale of Capital Services, net of \$1,883 tax benefit	-	(2,945)
Total discontinued operations, net of tax	\$ <b>(1,565)</b>	\$ 4,393

See Note 4 to the Condensed Consolidated Financial Statements for further discussion and details of the discontinued operations.

**Results of Operations - Nine Months Ended September 30, 2007 compared to Nine Months Ended September 30, 2006**

**Revenue by source**

The following table shows revenue by source for the nine months ended September 30, 2007 and 2006:

(Dollars in thousands)	<b>Nine Months Ended September 30,</b>		
	<b>2007</b>	<b>2006</b>	<b>% change</b>
Equipment sales	\$ <b>961,868</b>	\$ 959,683	-%
Supplies	<b>292,197</b>	250,412	17%
Software	<b>223,580</b>	139,614	60%
Rentals	<b>552,433</b>	590,257	(6)%
Financing	<b>586,658</b>	538,139	9%
Support services	<b>564,597</b>	529,399	7%
Business services	<b>1,284,215</b>	1,176,682	9%
Total revenue	\$ <b>4,465,548</b>	\$ 4,184,186	7%

Equipment sales revenue was flat compared with the prior year as higher sales of equipment in the U.S. and favorable currency translation of 2% were offset by lower international sales.

Supplies revenue increased 17% over the prior year period due to transition of our meter base to digital technology. The acquisition of our print management business last year contributed 4% to this increase and foreign currency translation contributed 3% to this growth.

Software revenue increased 60% over the prior year period due to the acquisition of MapInfo, which contributed 44% to this overall increase, favorable currency translation, which contributed 3% to growth, and strong worldwide demand for our software solutions.

Rentals revenue declined 6% over the prior year period due to continued downsizing by customers to smaller machines.

Financing revenue increased 9% over the prior year period, primarily due to higher revenue from payment solutions and growth in our equipment leasing volumes.

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Support services revenue increased 7% compared with the prior year period. This growth was primarily driven by higher service revenue from production mail and mailing equipment. Acquisitions contributed 2% and foreign currency translation contributed 2% to this growth.

Business services revenue increased 9% from the prior year period. This growth was driven by higher demand for our mail services. Acquisitions contributed 4% and foreign currency translation contributed 1% to this growth.



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Costs and expenses**

(Dollars in thousands)

**Nine Months Ended September 30,  
2007** **2006**

Cost of equipment sales	\$	<b>481,873</b>	\$	485,828
Cost of supplies	\$	<b>77,909</b>	\$	66,475
Cost of software	\$	<b>54,373</b>	\$	32,326
Cost of rentals	\$	<b>128,312</b>	\$	128,070
Cost of support services	\$	<b>320,832</b>	\$	298,791
Cost of business services	\$	<b>1,008,647</b>	\$	917,285
Selling, general and administrative	\$	<b>1,393,289</b>	\$	1,293,619
Research and development	\$	<b>138,364</b>	\$	124,409

Cost of equipment sales as a percentage of revenue decreased to 50.1% in the first nine months of 2007 compared with 50.6% in the prior year, primarily due to the increase in sales of higher margin equipment in the U.S.

Cost of supplies as a percentage of revenue was 26.7% in the first nine months of 2007 compared with 26.5% in the prior year.

Cost of software as a percentage of revenue increased to 24.3% of revenue in the first nine months of 2007 compared to 23.2% in the prior year, due primarily to the acquisition of MapInfo.

Cost of rentals as a percentage of revenue increased to 23.2% in the first nine months of 2007 compared with 21.7% in the prior year, primarily due to higher depreciation costs from placements of new meters.

Cost of support services as a percentage of revenue was 56.8% for the nine months of 2007 compared to 56.4% for the prior year.

Cost of business services increased to 78.5% of revenue in the first nine months of 2007 compared with 78.0% in the prior year, due to continued integration costs in our legal solutions businesses at Management Services and higher margin print contracts in the prior year that did not repeat this year.

Selling, general and administrative expenses as a percentage of total revenue was 31.2% for the first nine months of 2007 compared to 30.9% for last year. The acquisition of MapInfo and continued investments in sales and marketing channels offset benefits from our productivity initiatives.

Research and development expenses as a percentage of total revenue were 3.1% in the first nine month of 2007 compared with 3.0% in the prior year. Research and development expenses increased due primarily to the acquisition of MapInfo.

**Restructuring**

Pre-tax restructuring costs of \$17.4 million for the nine months ended September 30, 2006 were composed of:

(Dollars in thousands)	Nine Months Ended September 30, 2006	
Severance and benefit costs	\$	14,936
Asset impairments		739
Other exit costs		1,734
Total restructuring costs	\$	17,409



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Net interest expense**

The following table shows net interest expense for the nine months ended September 30, 2007 and 2006:

(Dollars in thousands)	<b>Nine Months Ended September 30,</b>			
	<b>2007</b>		<b>2006</b>	<b>% change</b>
Interest expense, net	\$ 179,654	\$	160,600	12%
Net interest expense increased by \$19.1 million or 12% in the first nine months of 2007 compared with the prior year due primarily to higher average borrowings.				

**Other, net**

In the third quarter of 2007, we recorded a pre-tax expense of \$4.3 million related to impairment of certain intangible assets in the legal solutions business.

In the third quarter of 2007, we recorded a net pre-tax gain of \$0.4 million related to a revised liability estimate associated with prior legal settlements net of other legal matters.

**Income Taxes**

The effective tax rate for the first nine months of 2007 was 34.6% compared with 37.5% in the prior year. The effective rate for 2007 includes a third quarter \$3.6 million non-cash deferred tax charge, due to a tax rate change in Germany and the U.K. The effective rate for 2006 included a \$20 million charge related to the IRS settlement discussed in Note 15 to the Condensed Consolidated Financial Statements.

**Minority Interest**

The following table details minority interest for the nine months ended September 30, 2007 and 2006:

(Dollars in thousands)	<b>Nine Months Ended September 30,</b>			
	<b>2007</b>		<b>2006</b>	<b>% change</b>
Minority interest	\$ 14,404	\$	9,814	47%

Minority interest includes dividends paid to preferred stockholders in subsidiary companies. Minority interest increased by \$4.6 million or 47% compared to the prior year due to an increase in outstanding preferred shares and the weighted average dividend rate.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

***Discontinued Operations***

The following table details the components of discontinued operations for the nine months ended September 30, 2007 and 2006:

(Dollars in thousands)	<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
Revenue	\$ -	\$ 81,199
Pre-tax income	\$ -	\$ 25,275
Net (loss) income	<b>\$ (4,695)</b>	<b>\$ 35,030</b>
Gain on sale of Imagistics, net of \$7,075 tax	-	11,065
FSC tax law change	-	(16,209)
Additional tax on IRS settlement	-	(41,000)
Loss on sale of Capital Services, net of \$284,605 tax benefit	-	(445,150)
Total discontinued operations, net of tax	<b>\$ (4,695)</b>	<b>\$ (456,264)</b>

See Note 4 to the Condensed Consolidated Financial Statements for further discussion and details of the discontinued operations.

**Acquisitions**

On September 12, 2007, we acquired Asterion SAS for \$30 million in cash, net of cash acquired. Asterion is a leading provider of outsourced transactional print and document process services in France. We assigned the goodwill to the Management Services segment.

On May 31, 2007, we acquired the remaining shares of Digital Cement, Inc. for \$38 million in cash, net of cash acquired. Digital Cement, Inc. provides marketing management strategy and services to help companies acquire, retain, manage, and grow their customer relationships. We assigned the goodwill to the Marketing Services segment.

On April 19, 2007, we acquired MapInfo Corporation for \$448 million in cash, net of cash acquired. Included in the assets and liabilities acquired were short-term investments of \$46 million and debt assumed of \$14 million. MapInfo is a global company and a leading provider of location intelligence software and solutions. We assigned the goodwill to the Software segment. As part of the purchase accounting for MapInfo, we aligned MapInfo's accounting policies with ours. Accordingly, certain software revenue that was previously recognized by MapInfo on a periodic basis will now be recognized over the life of the contract.

On July 31, 2006, we acquired Print, Inc. for approximately \$46 million in cash, net of cash acquired. Print, Inc. provides printer supplies, service and equipment under long-term managed services contracts. We assigned the goodwill to the U.S. Mailing segment.

On June 15, 2006, we acquired substantially all the assets of Advertising Audit Service and PMH Caramanning (collectively AAS) for approximately \$42 million in cash. AAS offers a variety of web-based tools for the customization of promotional mail and marketing collateral and designs and manages customer and channel performance solutions. We assigned the goodwill to the Marketing Services segment.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

On April 24, 2006, we acquired Ibis Consulting, Inc. (Ibis) for approximately \$65 million in cash, net of cash acquired. Ibis is a leading provider of electronic discovery (eDiscovery) services to law firms and corporate clients. Ibis' technology and offerings complement those of Compulit, which we acquired in 2005, and expands our range of solutions and services for the complex litigation support needs of law firms and corporate legal departments. We assigned the goodwill to the Management Services segment.

On February 8, 2006, we acquired Emtex Ltd. (Emtex) for approximately \$33 million in cash, net of cash acquired. Emtex is a software and services company that allows large-volume mailers to simplify document production and centrally manage complex multi-vendor and multi-site print operations. We assigned the goodwill to the Software segment.

During the nine months ended September 30, 2007, we also completed several smaller acquisitions. The aggregate cost of these acquisitions was \$51.8 million, net of cash acquired. These acquisitions did not have a material impact on our financial results.

**Liquidity and Capital Resources**

Our primary sources of liquidity and capital resources include cash flows from operating activities. Additionally, we have substantial borrowing capability through our commercial paper program, long-term capital markets and revolving credit line agreements. The primary factors that affect our liquidity position, other than operating results associated with current sales activity, include the following: growth and expansion requirements; customer financing assistance; federal income tax payments; interest and dividend payments; our stock repurchase program; internal investments; and potential acquisitions and divestitures.

***Cash Flow Summary***

The change in cash and cash equivalents is as follows:

(Dollars in thousands)	<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
Cash provided by operating activities	\$ <b>696,768</b>	\$ 335,790
Cash (used in) provided by investing activities	<b>(739,698)</b>	11,721
Cash provided by (used in) financing activities	<b>137,442</b>	(365,013)
Effect of exchange rate changes on cash	<b>5,149</b>	2,346
Increase (decrease) in cash and cash equivalents	\$ <b>99,661</b>	\$ (15,156)

2007 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 increase in cash flow provided by operating activities for the nine months ended September 30, 2007 compared with the prior year is primarily due to lower additions to finance receivables and the tax payment related to the IRS settlement in 2006. For the nine months ended September 30, 2007, the net increase in our deferred taxes on income and income taxes payable contributed \$86.0 million to cash from operations resulting primarily from the timing of tax payments. The decrease in accounts payable and accrued liabilities reduced our cash from operations by \$56.5 million, primarily due to the payment of year-end compensation and commissions, and the timing of accounts payable following the strong fourth quarter of 2006. The increase in our internal finance receivable balances decreased cash from operations by \$76.4 million, reflecting growth in equipment placements and our payment solutions business during the first nine months.

The net cash used in investing activities consisted primarily of acquisitions, net of cash acquired, of \$559.9 million and capital expenditures of \$202.0 million.

Net cash provided by financing activities consisted primarily of a net increase in debt of \$535.6 million and \$99.0 million received from stock issuances partially offset by stock repurchases of \$280.0 million and dividends paid to

stockholders of \$217.2 million.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

2006 Cash Flows

The cash provided by operating activities consisted primarily of net income adjusted for non-cash items and changes in operating assets and liabilities. The increase in our internal finance receivable balances decreased cash from operations by \$138.0 million, reflecting growth in equipment placements and our payment solutions business during the first nine months. Cash provided by discontinued operations included in operating activities was approximately \$1 million.

Net cash provided by investing activities consisted of proceeds of \$746.9 million received from the sale of our Capital Services external financing business, net proceeds of \$281.7 million received from the sale of our Imagistics lease portfolio and an advance of \$138.4 million against the cash surrender value of our COLI policies. Cash used in investing activities consisted of \$778.5 million in short-term investments, capital expenditures of \$243.9 million, and acquisitions, net of cash acquired, of \$225.2 million.

Net cash used in financing activities consisted mainly of stock repurchases of \$311.8 million and dividends paid of \$214.2 million. Cash provided in financing activities included the issuance of stock of \$65.4 million and an increase in net debt of \$95.6 million.

***Capital Expenditures***

During the first nine months of 2007, capital expenditures included \$107.9 million in net additions to property, plant and equipment and \$94.1 million in net additions to rental equipment and related inventories compared with \$95.7 million and \$148.2 million, respectively, in the same period in 2006.

We expect capital expenditures for the full year of 2007 to be lower than the prior year, primarily due to the wind-down of our customers' transition to digital meters.

***Financings and Capitalization***

We have a commercial paper program that provides short-term liquidity. Commercial paper remains a significant liquidity source. As of September 30, 2007, we have \$554.0 million of outstanding commercial paper issuances. We have unused credit facilities of \$1.5 billion which supports commercial paper issuances.

In September 2007, we issued \$500 million on unsecured fixed rate notes maturing in September 2017. These notes bear interest at an annual rate of 5.75% and pay interest semi-annually beginning in March 2008. The proceeds from these notes were used for general corporate purposes, including the repayment of commercial paper, the financing of acquisitions and repurchase of our stock.

In addition to our borrowing capability under the unused credit facilities described above, we have \$0.6 billion remaining available under the shelf registration statement filed in February 2005 with the SEC, permitting issuances of up to \$2.5 billion in debt securities, preferred stock, preference stock, common stock, purchase contracts, depositary shares, warrants and units.

We believe our financing needs in short and long term can be met with cash generated internally, borrowing capacity from existing credit agreements, available debt issuances under existing shelf registration statements and our existing commercial paper program.

**Recent Accounting Pronouncements**

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes*, which supplements Statement of Financial Accounting Standard No. 109, *Accounting for Income Taxes*, by defining the confidence level that a tax position must meet in order to be recognized in the financial statements. FIN 48 requires the tax effect of a position to be recognized only if it is more-likely-than-not to be sustained based solely on its technical merits as of the reporting date. If a tax position is not considered more-likely-than-not to be sustained based solely on its technical merits, no benefits of the

position are recognized. This is a different standard for recognition than was previously required. The more-likely-than-not threshold must continue to be met in each reporting period to support continued recognition of a benefit. At adoption, companies must adjust their financial statements to reflect only those tax positions that are more-likely-than-not to be sustained as of the adoption date. Any necessary adjustment is recorded directly to opening retained earnings in the period of adoption and reported as a change in accounting principle. We adopted the provisions of FIN 48 on January 1, 2007 which resulted in a decrease to opening retained earnings of \$84.4 million, with a corresponding increase in our tax liabilities.



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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 establishes a framework within GAAP for measuring fair value and expands required disclosures surrounding fair value measurements. While it will change the way companies currently measure fair value, it does not establish any new instances where fair value measurement is required. SFAS 157 defines fair value as an amount that a company would receive if it sold an asset or paid to transfer a liability in a normal transaction between market participants in the same market where the company does business. It emphasizes that the value is based on assumptions that market participants would use, not necessarily only the company that might buy or sell the asset. In September 2007, the FASB decided to scope out SFAS No. 13, *Accounting for Leases*, from this standard on fair value measurement. SFAS 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, with early adoption allowed. We continue to evaluate the impact of adopting this Statement.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We continue to evaluate the impact of adopting this Statement.

**Regulatory Matters**

There have been no significant changes to the regulatory matters disclosed in our 2006 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-Q, 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 or management's 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 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 the restructuring plan 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

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- 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
- 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, 2006 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 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 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 September 30, 2007. In addition, no change in internal control over financial reporting occurred during the quarter ended September 30, 2007, 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**

This item updates the legal proceedings more fully described in our 2006 Annual Report on Form 10-K, filed March 1, 2007, and as updated in our Forms 10-Q filed May 4, 2007 and August 6, 2007.

Ricoh Corporation et al. v. Pitney Bowes Inc. (United States District Court, District of New Jersey, filed November 26, 2002). In this patent litigation where the company prevailed at trial, the appellate process is proceeding.

Imagitas, Inc., Drivers' Privacy Protection Act Litigation, MDL Docket No. 1828 (United States District Court, Middle District of Florida). In this Multi-District Litigation (MDL), expedited discovery has concluded on some discrete issues, and Imagitas has filed a motion for summary judgment. The state officials from Florida who were sued in their individual capacity have reached a settlement with the plaintiffs. As a result of that settlement, Imagitas has agreed to voluntarily suspend a portion of the program, pending a ruling in the litigation against it. During this period, Imagitas will still be placing advertisements in the registration renewal forms in Florida. The Multi-District Litigation panel denied the attempt by officials in Ohio, Missouri, and Minnesota to have the cases filed against them in their individual capacity removed from the MDL and returned to the respective courts where they were originally filed. The pendency of these litigations, regardless of their ultimate merit, may have a negative effect on the future prospects of the DriverSource program.

We expect to prevail in both the Ricoh litigation and 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, 2006 regarding this matter.



**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 2007 in any other manner.

In March 2006, our Board of Directors authorized \$300 million for repurchases of outstanding shares of our common stock in the open market of which \$141.2 million remained for future purchases at December 31, 2006. We repurchased 3.0 million shares during the six months ended June 30, 2007 under this program for a total price of \$141.2 million. There are no further funds available under this authorization for the repurchase of outstanding shares.

In March 2007, our Board of Directors authorized the repurchase of up to an additional \$300 million of our common stock in the open market. We repurchased 3.0 million shares during the nine months ended September 30, 2007 under this program for a total price of \$138.8 million, leaving \$161.2 remaining for future repurchases.

The following table summarizes our share repurchase activity under active programs during the first nine months of 2007:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of a publicly announced plan	Approximate dollar value of shares that may yet be purchased under the plan (in thousands)
<b>March 2006 Program</b>				
Balance carried forward				\$141,199
January 2007	866,300	\$47.88	866,300	\$ 99,721
February 2007	451,850	\$47.99	451,850	\$ 78,035
March 2007	586,100	\$45.78	586,100	\$ 51,203
April 2007	518,700	\$46.95	518,700	\$ 26,849
May 2007	564,452	\$47.57	564,452	\$ -
Total	2,987,402		2,987,402	
<b>March 2007 Program</b>				
March 2007	-	-	-	\$300,000
April 2007	-	-	-	\$300,000
May 2007	61,148	\$47.57	61,148	\$297,090
June 2007	661,054	\$46.73	661,054	\$266,199
July 2007	484,000	\$46.74	484,000	\$243,575
August 2007	1,116,400	\$44.79	1,116,400	\$193,577
September 2007	714,800	\$45.29	714,800	\$161,203
Total	6,024,804		6,024,804	

**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.

November 8, 2007

/s/ B. P. Nolop

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

/s/ S. J. Green

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

**Index of Exhibits**

Reg. S-K

Exhibits Description

- (12) Computation of ratio of earnings to fixed charges.
- (31.1) Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- (31.2) Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- (32.1) Section 1350 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- (32.2) Section 1350 Certification of Chief Financial Officer Pursuant Section 906 of the Sarbanes-Oxley Action of 2002.