

PITNEY BOWES INC /DE/
Form 10-Q
August 07, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014

OR

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

For the transition period from _____ to _____

Commission file number: 1-3579

PITNEY BOWES INC.

(Exact name of registrant as specified in its charter)

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

1 Elmcroft Road, Stamford, Connecticut 06926-0700
(Address of principal executive offices) (Zip Code)

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

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

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

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

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

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

As of August 4, 2014, 202,811,576 shares of common stock, par value \$1 per share, of the registrant were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1: Financial Statements

PITNEY BOWES INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(Unaudited; in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue:				
Equipment sales	\$191,518	\$225,224	\$380,574	\$421,991
Supplies	76,284	71,275	155,801	144,493
Software	109,065	100,482	200,620	187,494
Rentals	122,443	129,404	246,022	258,518
Financing	107,644	112,820	217,694	226,707
Support services	158,190	160,303	316,442	322,892
Business services	193,306	151,154	378,794	297,930
Total revenue	958,450	950,662	1,895,947	1,860,025
Costs and expenses:				
Cost of equipment sales	88,818	112,079	171,352	206,622
Cost of supplies	23,505	22,246	47,659	45,092
Cost of software	33,484	25,604	63,648	50,395
Cost of rentals	25,193	25,114	50,637	51,512
Financing interest expense	20,413	18,951	40,066	37,970
Cost of support services	96,722	99,337	195,703	201,866
Cost of business services	135,024	108,168	263,960	210,523
Selling, general and administrative	338,384	353,923	689,759	705,577
Research and development	28,649	27,331	54,841	56,582
Restructuring charges	8,299	19,031	18,140	19,031
Interest expense, net	21,482	30,045	45,546	59,036
Other expense	—	—	61,657	25,121
Total costs and expenses	819,973	841,829	1,702,968	1,669,327
Income from continuing operations before income taxes	138,477	108,833	192,979	190,698
Provision for income taxes	46,335	24,218	54,371	42,013
Income from continuing operations	92,142	84,615	138,608	148,685
Income (loss) from discontinued operations, net of tax	6,717	(89,254)	9,518	(81,224)
Net income (loss)	98,859	(4,639)	148,126	67,461
Less: Preferred stock dividends attributable to noncontrolling interests	4,594	4,594	9,188	9,188
Net income (loss) attributable to Pitney Bowes Inc.	\$94,265	\$(9,233)	\$138,938	\$58,273
Amounts attributable to common stockholders:				
Net income from continuing operations	\$87,548	\$80,021	\$129,420	\$139,497
Income (loss) from discontinued operations, net of tax	6,717	(89,254)	9,518	(81,224)
Net income (loss) attributable to Pitney Bowes Inc.	\$94,265	\$(9,233)	\$138,938	\$58,273
Basic earnings per share attributable to common stockholders:				
Continuing operations	\$0.43	\$0.40	\$0.64	\$0.69
Discontinued operations	0.03	(0.44)	0.05	(0.40)
Net income (loss) attributable to Pitney Bowes Inc.	\$0.47	\$(0.05)	\$0.69	\$0.29

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Diluted earnings per share attributable to common
stockholders:

Continuing operations	\$0.43	\$0.39	\$0.63	\$0.69	
Discontinued operations	0.03	(0.44) 0.05	(0.40)
Net income (loss) attributable to Pitney Bowes Inc.	\$0.46	\$(0.05	) \$0.68	\$0.29
Dividends declared per share of common stock	\$0.1875	\$0.1875	\$0.375	\$0.5625	

See Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income (loss)	\$98,859	\$(4,639)	\$148,126	\$67,461
Less: Preferred stock dividends attributable to noncontrolling interests	4,594	4,594	9,188	9,188
Net income (loss) attributable to Pitney Bowes Inc.	94,265	(9,233)	138,938	58,273
Other comprehensive income (loss), net of tax:				
Net unrealized gain on cash flow hedges, net of tax of \$267, \$230, \$505 and \$574, respectively	417	362	790	900
Net unrealized gain (loss) on investment securities, net of tax of \$1,249, \$(3,017), \$2,453 and \$(2,842), respectively	2,136	(4,719)	4,195	(4,445)
Amortization of pension and postretirement costs, net of tax of \$3,613, \$4,926, \$7,254 and \$11,266, respectively	6,280	9,391	12,422	20,993
Foreign currency translations	5,149	(17,554)	(2,202)	(59,758)
Other comprehensive income (loss)	13,982	(12,520)	15,205	(42,310)
Comprehensive income (loss) attributable to Pitney Bowes Inc.	\$108,247	\$(21,753)	\$154,143	\$15,963

See Notes to Condensed Consolidated Financial Statements

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

	June 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,005,901	\$ 907,806
Short-term investments	23,976	31,128
Accounts receivable (net of allowance of \$13,589 and \$13,419, respectively)	409,514	469,800
Finance receivables (net of allowance of \$22,852 and \$24,340, respectively)	1,048,563	1,102,921
Inventories	101,252	103,580
Current income taxes	31,580	28,934
Other current assets and prepayments	125,540	147,067
Assets held for sale	46,976	46,976
Total current assets	2,793,302	2,838,212
Property, plant and equipment, net	242,742	245,171
Rental property and equipment, net	215,793	226,146
Finance receivables (net of allowance of \$10,819 and \$12,609, respectively)	874,999	962,363
Investment in leveraged leases	33,431	34,410
Goodwill	1,728,385	1,734,871
Intangible assets, net	102,760	120,387
Non-current income taxes	66,598	73,751
Other assets	538,073	537,397
Total assets	\$ 6,596,083	\$ 6,772,708
LIABILITIES, NONCONTROLLING INTERESTS AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,504,887	\$ 1,644,582
Current income taxes	191,687	157,340
Current portion of long-term debt	274,879	—
Advance billings	439,038	425,833
Total current liabilities	2,410,491	2,227,755
Deferred taxes on income	39,509	39,701
Tax uncertainties and other income tax liabilities	166,920	190,645
Long-term debt	2,964,843	3,346,295
Other non-current liabilities	436,194	466,766
Total liabilities	6,017,957	6,271,162
Noncontrolling interests (Preferred stockholders' equity in subsidiaries)	296,370	296,370
Commitments and contingencies (See Note 10)		
Stockholders' equity:		
Cumulative preferred stock, \$50 par value, 4% convertible	1	4
Cumulative preference stock, no par value, \$2.12 convertible	563	591
Common stock, \$1 par value (480,000,000 shares authorized; 323,337,912 shares issued)	323,338	323,338
Additional paid-in capital	172,565	196,977
Retained earnings	4,778,506	4,715,564
Accumulated other comprehensive loss	(559,351)	(574,556)
Treasury stock, at cost (120,633,020 and 121,255,390 shares, respectively)	(4,433,866)	(4,456,742)

Total stockholders' equity	281,756	205,176
Total liabilities, noncontrolling interests and stockholders' equity	\$6,596,083	\$6,772,708

See Notes to Condensed Consolidated Financial Statements

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

	Six Months Ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net income before attribution of noncontrolling interests	\$ 148,126	\$ 67,461
Restructuring payments	(33,530)	(27,255)
Adjustments to reconcile net income to net cash provided by operating activities:		
(Gain) loss on disposal of businesses	(26,152)	31,751
Proceeds from settlement of derivative instruments	—	4,838
Depreciation and amortization	93,717	113,702
Stock-based compensation	7,976	7,241
Restructuring charges and asset impairments	18,140	19,955
Goodwill impairment	—	97,787
Changes in operating assets and liabilities:		
Decrease in accounts receivable	66,778	67,420
Decrease in finance receivables	82,597	96,928
(Increase) decrease in inventories	(1,852)	29,863
Increase in other current assets and prepayments	(8,369)	(4,810)
Decrease in accounts payable and accrued liabilities	(88,567)	(173,479)
Increase (decrease) in current and non-current income taxes	7,657	(89,478)
Increase in advance billings	11,201	6,051
Other, net	2,725	31,060
Net cash provided by operating activities	280,447	279,035
Cash flows from investing activities:		
Purchases of available-for-sale securities	(191,882)	(198,337)
Proceeds from sales/maturities of available-for-sale securities	171,252	202,042
Short-term and other investments	6,051	10,928
Capital expenditures	(72,350)	(73,441)
Net investment in external financing	838	(1,021)
Net proceeds from the sale of businesses	101,454	—
Reserve account deposits	(3,356)	(26,189)
Net cash provided by (used in) investing activities	12,007	(86,018)
Cash flows from financing activities:		
Proceeds from the issuance of debt, net of fees and discounts of \$7,475 and \$13,387, respectively	492,525	411,613
Principal payments of long-term debt	(599,850)	(779,637)
Proceeds from the issuance of common stock under employee stock-based compensation plans	4,027	3,621
Purchase of subsidiary shares from noncontrolling interest	(7,718)	—
Dividends paid to stockholders	(76,000)	(113,106)
Dividends paid to noncontrolling interests	(9,188)	(9,188)
Net cash used in financing activities	(196,204)	(486,697)
Effect of exchange rate changes on cash and cash equivalents	1,845	(11,028)
Increase (decrease) in cash and cash equivalents	98,095	(304,708)
Cash and cash equivalents at beginning of period	907,806	913,276
Cash and cash equivalents at end of period	\$ 1,005,901	\$ 608,568

Cash interest paid	\$93,617	\$95,791
Cash income tax payments, net of refunds	\$71,741	\$111,318

See Notes to Condensed Consolidated Financial Statements

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PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

1. Description of Business and Basis of Presentation

Pitney Bowes Inc. and its subsidiaries (we, us, our or the company) is a global provider of technology solutions helping small, mid-sized and large firms connect to customers to facilitate and simplify commerce, build loyalty and grow revenue. We deliver our solutions on open platforms to best organize, analyze and apply public and proprietary data to two-way customer communications. We offer solutions for direct mail, transactional mail, customer engagement management and analytics and ecommerce parcel management, along with digital channel messaging for the Web, email and mobile applications. We conduct our business activities in five reportable segments. See Note 2 for information regarding our reportable segments.

We have prepared the accompanying unaudited Condensed Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In addition, the December 31, 2013 Condensed Consolidated Balance Sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. In management's opinion, all adjustments, consisting only of normal recurring adjustments, considered necessary to fairly state our financial position, results of operations and cash flows for the periods presented have been included. Operating results for the periods presented are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2014.

On April 15, 2014, Pitney Bowes of Canada Ltd. (PB Canada), a wholly owned subsidiary, completed the sale of its Document Imaging Solutions (DIS) business, which consisted of hardware (copiers and printers), document management software solutions and the related lease portfolio to Konica Minolta Business Solutions (Canada) Ltd. (Konica Minolta) and a business equipment leasing services provider in two separate transactions. The operating results for DIS, originally included as part of the North America Mailing segment, have been classified as discontinued operations for all periods presented. In addition, PB Canada and Konica Minolta also entered into a strategic alliance whereby Konica Minolta will represent PB Canada's mailing business in certain territories in Canada. During 2013, we sold certain businesses and realigned our segment reporting to reflect the clients we serve, the solutions we offer, and how we manage, review, analyze and measure our operations. Further, in the first quarter of 2014, we reclassified our shipping solutions operations from the Small & Medium Business Solutions segment group to the Digital Commerce Solutions segment. Prior year financial results have been recast to reflect those businesses sold as discontinued operations and our segment reporting has been recast to conform to our current segment presentation. The cash flows from discontinued operations are not separately stated or reclassified in the accompanying unaudited Condensed Consolidated Statements of Cash Flows.

These statements should be read in conjunction with the financial statements and notes thereto included in our Annual Report to Stockholders on Form 10-K for the year ended December 31, 2013 (the 2013 Annual Report).

During the third quarter of 2013, we determined that certain revenue previously reported as rentals revenue included a service component and should have been classified as support services revenue. Accordingly, the unaudited Condensed Consolidated Statements of Income (Loss) for the three and six months ended June 30, 2013 have been revised to reflect the correct classification, resulting in a decrease in rentals revenue and corresponding increase in support services revenue of \$5 million and \$10 million, respectively. Also during the third quarter of 2013, we determined that certain research and development costs should have been classified as cost of software. Accordingly, the unaudited Condensed Consolidated Statements of Income (Loss) for the three and six months ended June 30, 2013 have been revised to reflect the correct classification, resulting in a decrease in research and development expenses and a corresponding increase in cost of software of \$4 million and \$8 million, respectively. These revisions did not impact previously reported total revenue, total costs and expenses, net income or earnings per share amounts and the effect of these revisions was not material to any of our previously issued financial statements.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers. The new standard requires companies to recognize revenue for the transfer of goods and services to customers in amounts that reflect the consideration the company expects to receive in exchange for those goods and services. The new standard will also result in enhanced disclosures about revenue. This standard is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, and can be adopted either retrospectively or as a cumulative-effect adjustment. Early adoption is prohibited. We are assessing the impact the adoption of this standard will have on our consolidated financial statements and disclosures.

In April 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which changes the criteria for determining which disposals can be presented as discontinued operations and modifies the related disclosure requirements. The standard is effective on January 1, 2015, but

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

early adoption is permitted for disposals or classifications of assets held for sale that have not been reported in financial statements previously issued or available for issuance. We elected to adopt this standard effective April 1, 2014. The adoption of this standard did not have a significant impact on our unaudited Condensed Consolidated Financial Statements.

2. Segment Information

In 2013, as a result of the sale of certain businesses, we realigned our segment reporting to reflect the clients we serve, the solutions we offer, and how we manage, review, analyze and measure our operations. Further, in the first quarter of 2014, we reclassified our shipping solutions operations from the Small & Medium Business Solutions segment group to the Digital Commerce Solutions segment. Prior year segment reporting has been recast to conform to our current segment presentation. The principal products and services of each of our reportable segments are as follows:

Small & Medium Business Solutions:

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

International Mailing: Includes the revenue and related expenses from the sale, rental and financing of mailing equipment and supplies for small and medium size businesses to efficiently create mail and evidence postage in areas outside North America.

Enterprise Business Solutions:

Production Mail: Includes the worldwide revenue and related expenses from the sale of high-speed, high-volume inserting and sortation equipment and production printer systems and supplies to large enterprise clients to process inbound and outbound mail and related support and other professional services.

Presort Services: Includes revenue and related expenses from presort mail services for our large enterprise clients to qualify large mail volumes for postal worksharing discounts.

Digital Commerce Solutions:

Digital Commerce Solutions: Includes the worldwide revenue and related expenses from (i) the sale and support services of non-equipment-based mailing, customer engagement, geocoding and location intelligence software; (ii) shipping and cross-border ecommerce solutions; (iii) direct marketing services for targeted clients; and (iv) digital mail delivery service offering.

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

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

Revenue and EBIT by business segment is presented below.

	Revenues			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
North America Mailing	\$371,194	\$392,197	\$752,221	\$781,033
International Mailing	153,260	150,357	306,528	303,333
Small & Medium Business Solutions	524,454	542,554	1,058,749	1,084,366
Production Mail	111,756	134,422	216,972	243,875
Presort Services	111,281	106,961	227,772	217,861
Enterprise Business Solutions	223,037	241,383	444,744	461,736
Digital Commerce Solutions	210,959	166,725	392,454	313,923
Total revenue	\$958,450	\$950,662	\$1,895,947	\$1,860,025
	EBIT			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
North America Mailing	\$156,781	\$157,518	\$317,119	\$305,976
International Mailing	26,449	20,075	51,268	37,465
Small & Medium Business Solutions	183,230	177,593	368,387	343,441
Production Mail	10,558	15,787	18,295	23,619
Presort Services	22,412	21,246	46,308	44,734
Enterprise Business Solutions	32,970	37,033	64,603	68,353
Digital Commerce Solutions	17,929	15,363	27,460	15,084
Total EBIT	234,129	229,989	460,450	426,878
Reconciling items:				
Interest, net ⁽¹⁾	(41,895	) (48,996	) (85,612	) (97,006
Unallocated corporate expenses	(45,458	) (53,129	) (102,062	) (95,022
Restructuring charges	(8,299	) (19,031	) (18,140	) (19,031
Other expense	—	—	(61,657	) (25,121
Income from continuing operations before income taxes	\$138,477	\$108,833	\$192,979	\$190,698

(1) Includes financing interest expense and other interest expense, net.

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

3. Finance Assets

Finance Receivables

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

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

Finance receivables at June 30, 2014 and December 31, 2013 consisted of the following:

	June 30, 2014		
	North America	International	Total
Sales-type lease receivables			
Gross finance receivables	\$ 1,320,426	\$ 444,861	\$ 1,765,287
Unguaranteed residual values	110,195	21,512	131,707
Unearned income	(278,782)	(100,561)	(379,343)
Allowance for credit losses	(13,143)	(7,604)	(20,747)
Net investment in sales-type lease receivables	1,138,696	358,208	1,496,904
Loan receivables			
Loan receivables	383,532	56,050	439,582
Allowance for credit losses	(10,775)	(2,149)	(12,924)
Net investment in loan receivables	372,757	53,901	426,658
Net investment in finance receivables	\$ 1,511,453	\$ 412,109	\$ 1,923,562
	December 31, 2013		
	North America	International	Total
Sales-type lease receivables			
Gross finance receivables	\$ 1,456,420	\$ 456,759	\$ 1,913,179
Unguaranteed residual values	121,339	21,553	142,892
Unearned income	(299,396)	(101,311)	(400,707)
Allowance for credit losses	(14,165)	(9,703)	(23,868)
Net investment in sales-type lease receivables	1,264,198	367,298	1,631,496
Loan receivables			
Loan receivables	397,815	49,054	446,869
Allowance for credit losses	(11,165)	(1,916)	(13,081)
Net investment in loan receivables	386,650	47,138	433,788
Net investment in finance receivables	\$ 1,650,848	\$ 414,436	\$ 2,065,284

Finance receivables with a net investment value of \$62 million were included in the sale of DIS.

Allowance for Credit Losses and Aging of Receivables

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

We establish credit approval limits based on the credit quality of the client and the type of equipment financed. Our policy is to discontinue revenue recognition for lease receivables that are more than 120 days past due and for unsecured loan receivables that are more than 90

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PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

days past due. We resume revenue recognition when payments reduce the account balance aging to 60 days or less past due. Finance receivables deemed uncollectible are written off against the allowance after all collection efforts have been exhausted and management deems the account to be uncollectible. We believe that our finance receivable credit risk is limited because of our large number of clients, small account balances for most of our clients, and geographic and industry diversification.

Activity in the allowance for credit losses for the six months ended June 30, 2014 and 2013 was as follows:

	Sales-type Lease Receivables		Loan Receivables		Total
	North America	International	North America	International	
Balance at January 1, 2014	\$14,165	\$9,703	\$11,165	\$1,916	\$36,949
Amounts charged to expense	2,360	(350)	4,742	1,034	7,786
Accounts written off	(3,382)	(1,749)	(5,132)	(801)	(11,064)
Balance at June 30, 2014	\$13,143	\$7,604	\$10,775	\$2,149	\$33,671

	Sales-type Lease Receivables		Loan Receivables		Total
	North America	International	North America	International	
Balance at January 1, 2013	\$16,979	\$8,662	\$12,322	\$2,131	\$40,094
Amounts charged to expense	3,022	784	4,625	524	8,955
Accounts written off	(4,397)	(2,268)	(5,388)	(895)	(12,948)
Balance at June 30, 2013	\$15,604	\$7,178	\$11,559	\$1,760	\$36,101

Aging of Receivables

The aging of gross finance receivables at June 30, 2014 and December 31, 2013 was as follows:

	Sales-type Lease Receivables		Loan Receivables		Total
	North America	International	North America	International	
June 30, 2014					
< 31 days	\$1,248,259	\$412,514	\$365,972	\$53,933	\$2,080,678
> 30 days and < 61 days	29,229	9,627	10,132	1,176	50,164
> 60 days and < 91 days	20,140	6,542	2,919	485	30,086
> 90 days and < 121 days	6,540	4,578	1,887	224	13,229
> 120 days	16,258	11,600	2,622	232	30,712
Total	\$1,320,426	\$444,861	\$383,532	\$56,050	\$2,204,869
Past due amounts > 90 days					
Still accruing interest	\$6,540	\$4,578	\$—	\$—	\$11,118
Not accruing interest	16,258	11,600	4,509	456	32,823
Total	\$22,798	\$16,178	\$4,509	\$456	\$43,941

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

	December 31, 2013				
	Sales-type Lease Receivables		Loan Receivables		Total
	North America	International	North America	International	
< 31 days	\$ 1,383,253	\$ 425,923	\$ 379,502	\$ 42,573		$ 2,231,251
> 30 days and < 61 days	32,102	11,760	10,464	4,391	58,717
> 60 days and < 91 days	20,830	5,724	3,330	1,363	31,247
> 90 days and < 121 days	6,413	3,979	1,809	311	12,512
> 120 days	13,822	9,373	2,710	416	26,321
Total	\$ 1,456,420	\$ 456,759	\$ 397,815	\$ 49,054	\$ 2,360,048
Past due amounts > 90 days					
Still accruing interest	\$ 6,413	\$ 3,979	\$ —	\$ —	\$ 10,392
Not accruing interest	13,822	9,373	4,519	727	28,441
Total	\$ 20,235	\$ 13,352	\$ 4,519	\$ 727	\$ 38,833

Credit Quality

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

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

The table below shows the North America portfolio at June 30, 2014 and December 31, 2013 by relative risk class (low, medium, high) based on the relative scores of the accounts within each class. The relative scores are determined based on a number of factors, including the company type, ownership structure, payment history and financial information. A fourth class is shown for accounts that are not scored. Absence of a score is not indicative of the credit quality of the account. The degree of risk, as defined by the third party, refers to the relative risk that an account in the next 12 month period may become delinquent.

• Low risk accounts are companies with very good credit scores and are considered to approximate the top 30% of all commercial borrowers.

• Medium risk accounts are companies with average to good credit scores and are considered to approximate the middle 40% of all commercial borrowers.

• High risk accounts are companies with poor credit scores, are delinquent or are at risk of becoming delinquent and are considered to approximate the bottom 30% of all commercial borrowers.

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

	June 30, 2014	December 31, 2013
Sales-type lease receivables		
Low	\$988,555	\$1,081,853
Medium	225,106	244,379
High	47,293	51,851
Not Scored	59,472	78,337
Total	\$1,320,426	\$1,456,420
Loan receivables		
Low	\$263,924	\$279,607
Medium	93,594	95,524
High	10,968	11,511
Not Scored	15,046	11,173
Total	\$383,532	\$397,815

Troubled Debt

We maintain a program for U.S. clients in our North America loan portfolio who are experiencing financial difficulties, but are able to make reduced payments over an extended period of time. Upon acceptance into the program, the client's credit line is closed and interest accrual is suspended. There is generally no forgiveness of debt or reduction of balances owed. The balance of loans in this program, related loan loss allowance and write-offs are insignificant to the overall portfolio.

Leveraged Leases

Our investment in leveraged lease assets at June 30, 2014 and December 31, 2013 consisted of the following:

	June 30, 2014	December 31, 2013
Rental receivables	\$53,051	\$61,721
Unguaranteed residual values	13,181	13,235
Principal and interest on non-recourse loans	(29,023)	(35,449)
Unearned income	(3,778)	(5,097)
Investment in leveraged leases	33,431	34,410
Less: deferred taxes related to leveraged leases	(13,245)	(15,078)
Net investment in leveraged leases	\$20,186	\$19,332

4. Inventories

Inventories consisted of the following:

	June 30, 2014	December 31, 2013
Raw materials and work in process	\$35,723	\$33,920
Supplies and service parts	45,045	48,165
Finished products	35,218	38,515
Inventory at FIFO cost	115,986	120,600
Excess of FIFO cost over LIFO cost	(14,734)	(17,020)
Total inventory, net	\$101,252	\$103,580

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

5. Discontinued Operations and Assets Held For Sale

Discontinued Operations

Discontinued operations includes the worldwide Management Services business (PBMS), International Mailing Services business (IMS) and Nordic furniture business, which were sold during 2013 and DIS, which was sold in April 2014. The following tables show selected financial information included in discontinued operations:

Three Months Ended June 30, 2014

	PBMS	IMS	Nordic furniture business	DIS	Total
Revenue	\$—	\$—	\$—	\$3,567	\$3,567
Income from operations before taxes	\$580	\$—	\$—	\$1,018	\$1,598
Gain on sale	—	831	—	25,198	26,029
Income before taxes	580	831	—	26,216	27,627
Tax provision	217	321	—	20,372	20,910
Income from discontinued operations	\$363	\$510	\$—	\$5,844	\$6,717

Three Months Ended June 30, 2013

	PBMS	IMS	Nordic furniture business	DIS	Total
Revenue	\$219,471	\$2,964	\$13,082	\$19,755	\$255,272
(Loss) income from operations before taxes	\$(117,636)	\$(378)	\$(597)	\$4,418	\$(114,193)
Loss on sale	—	(2,263)	—	—	(2,263)
(Loss) income before taxes	(117,636)	(2,641)	(597)	4,418	(116,456)
Tax (benefit) provision	(28,153)	(55)	(167)	1,173	(27,202)
(Loss) income from discontinued operations	\$(89,483)	\$(2,586)	\$(430)	\$3,245	\$(89,254)

Six Months Ended June 30, 2014

	PBMS	IMS	Nordic furniture business	DIS	Total
Revenue	\$—	\$—	\$—	\$19,858	\$19,858
Income from operations before taxes	\$334	\$308	\$345	\$3,429	\$4,416
Gain on sale	130	1,994	—	25,198	27,322
Income before taxes	464	2,302	345	28,627	31,738
Tax provision	196	850	97	21,077	22,220
Income from discontinued operations	\$268	\$1,452	\$248	\$7,550	\$9,518

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

	Six Months Ended June 30, 2013				
	PBMS	IMS	Nordic furniture business	DIS	Total
Revenue	\$444,727	\$23,032	\$25,771	\$39,405	\$532,935
(Loss) income before taxes	\$(101,582)	\$(1,978)	\$(478)	\$8,089	\$(95,949)
Loss on sale	—	(3,913)	—	—	(3,913)
(Loss) income before taxes	(101,582)	(5,891)	(478)	8,089	(99,862)
Tax (benefit) provision	(19,407)	(1,244)	(134)	2,147	(18,638)
(Loss) income from discontinued operations	\$(82,175)	\$(4,647)	\$(344)	\$5,942	\$(81,224)

The loss before income taxes for the three and six months ended June 30, 2013 for PBMS include goodwill impairment charges of \$100 million and asset impairment charges of \$15 million. The inputs used to determine the fair value of the long-lived assets and goodwill were classified as Level 3 in the fair value hierarchy.

Assets Held for Sale

Assets held for sale at June 30, 2014 and December 31, 2013 primarily represents the carrying value of our corporate headquarters building and surrounding land, which we expect to sell by the end of the year.

6. Intangible Assets and Goodwill

Intangible Assets

Intangible assets consisted of the following:

	June 30, 2014			December 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$351,291	\$(261,254)	\$90,037	\$354,373	\$(251,388)	\$102,985
Supplier relationships	29,000	(26,463)	2,537	29,000	(25,013)	3,987
Software & technology	167,691	(158,411)	9,280	167,009	(155,009)	12,000
Trademarks & trade names	34,447	(33,566)	881	35,366	(33,985)	1,381
Non-compete agreements	7,483	(7,458)	25	7,407	(7,373)	34
Total intangible assets	\$589,912	\$(487,152)	\$102,760	\$593,155	\$(472,768)	\$120,387

Amortization expense for intangible assets was \$6 million and \$9 million for the three months ended June 30, 2014 and 2013, respectively and \$12 million and \$18 million for the six months ended June 30, 2014 and 2013, respectively.

The future amortization expense for intangible assets as of June 30, 2014 was as follows:

Remaining for year ending December 31, 2014	\$16,961
Year ending December 31, 2015	30,237
Year ending December 31, 2016	22,941
Year ending December 31, 2017	11,450
Year ending December 31, 2018	8,555
Thereafter	12,616

Total

\$102,760

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PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

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

Goodwill

As a result of the reclassification of our shipping solutions operations from the Small & Medium Business Solutions segment group to the Digital Commerce Solutions segment, we reallocated goodwill on a relative fair value basis and performed the required goodwill impairment test during the first quarter of 2014. Based on the results of the impairment tests, we determined that the estimated fair values of the affected reporting units exceeded the carrying values.

The changes in the carrying value of goodwill for the six months ended June 30, 2014 were as follows:

	Gross value before accumulated impairment (1)	Accumulated impairment	December 31, 2013	Other (2)	June 30, 2014
North America Mailing	\$ 326,665	\$ —	\$ 326,665	\$(966)	\$ 325,699
International Mailing	182,261	—	182,261	(301)	181,960
Small & Medium Business Solutions	508,926	—	508,926	(1,267)	507,659
Production Mail	118,060	—	118,060	382	118,442
Presort Services	195,140	—	195,140	—	195,140
Enterprise Business Solutions	313,200	—	313,200	382	313,582
Digital Commerce Solutions	903,392	—	903,392	3,752	907,144
Discontinued operations	9,353	—	9,353	(9,353)	—
Balance at June 30, 2014	\$ 1,734,871	\$ —	\$ 1,734,871	\$(6,486)	\$ 1,728,385

(1) Includes the reallocation of certain goodwill from the Small & Medium Business Solutions segment group to the Digital Commerce Solutions segment and discontinued operations.

(2) Primarily represents the impact of foreign currency translation and the sale of DIS.

7. Fair Value Measurements and Derivative Instruments

We measure certain financial assets and liabilities at fair value on a recurring basis. Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. An entity is required to classify certain assets and liabilities measured at fair value based on the following fair value hierarchy that prioritizes the inputs used to measure fair value:

Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2 – Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity, may be derived from internally developed methodologies based on management's best estimate of fair value and that are significant to the fair value of the asset or liability.

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

The following tables show, by level within the fair value hierarchy, our financial assets and liabilities that are accounted for at fair value on a recurring basis at June 30, 2014 and December 31, 2013. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect its placement within the fair value hierarchy.

	June 30, 2014			
	Level 1	Level 2	Level 3	Total
Assets:				
Investment securities				
Money market funds / commercial paper	\$299,474	\$201,606	\$—	\$501,080
Equity securities	—	27,587	—	27,587
Commingled fixed income securities	—	25,268	—	25,268
Debt securities - U.S. and foreign governments, agencies and municipalities	109,850	19,141	—	128,991
Debt securities - corporate	—	60,555	—	60,555
Mortgage-backed / asset-backed securities	—	148,339	—	148,339
Derivatives				
Foreign exchange contracts	—	932	—	932
Total assets	\$409,324	\$483,428	\$—	\$892,752
Liabilities:				
Derivatives				
Foreign exchange contracts	\$—	\$(3,509)	\$—	\$(3,509)
Total liabilities	\$—	\$(3,509)	\$—	\$(3,509)
	December 31, 2013			
	Level 1	Level 2	Level 3	Total
Assets:				
Investment securities				
Money market funds / commercial paper	\$403,706	\$224,440	\$—	\$628,146
Equity securities	—	26,536	—	26,536
Commingled fixed income securities	—	24,695	—	24,695
Debt securities - U.S. and foreign governments, agencies and municipalities	122,783	17,653	—	140,436
Debt securities - corporate	—	38,264	—	38,264
Mortgage-backed / asset-backed securities	—	164,598	—	164,598
Derivatives				
Foreign exchange contracts	—	1,358	—	1,358
Total assets	\$526,489	\$497,544	\$—	\$1,024,033
Liabilities:				
Investment securities				
Mortgage-backed securities	\$—	\$(4,445)	\$—	\$(4,445)
Derivatives				
Foreign exchange contracts	—	(3,009)	—	(3,009)
Total liabilities	\$—	\$(7,454)	\$—	\$(7,454)

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

Investment Securities

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

Money Market Funds / Commercial Paper: Money market funds typically invest in highly liquid and low-risk securities, including government securities, certificates of deposit and commercial paper. Money market funds are principally used for overnight deposits and are classified as Level 1 when unadjusted quoted prices in active markets are available and as Level 2 when they are not actively traded on an exchange. Direct investments in commercial paper are not listed on an exchange in an active market and are classified as Level 2.

Equity Securities: Equity securities are comprised of mutual funds investing in U.S. and foreign common stock. These mutual funds are classified as Level 2 as they are not separately listed on an exchange.

Commingled Fixed Income Securities: Mutual funds that invest in a variety of fixed income securities including securities of the U.S. government and its agencies, corporate debt, mortgage-backed securities and asset-backed securities. The value of the funds is based on the market value of the underlying investments owned by each fund, minus its liabilities, divided by the number of shares outstanding, as reported by the fund manager. These commingled funds are not listed on an exchange in an active market and are classified as Level 2.

Debt Securities – U.S. and Foreign Governments, Agencies and Municipalities: Debt securities are classified as Level 1 where active, high volume trades for identical securities exist. Valuation adjustments are not applied to these securities. Debt securities valued using quoted market prices for similar securities or benchmarking model derived prices to quoted market prices and trade data for identical or comparable securities are classified as Level 2.

Debt Securities – Corporate: Corporate debt securities are valued using recently executed transactions, market price quotations where observable, or bond spreads. The spread data used are for the same maturity as the security. These securities are classified as Level 2.

Mortgage-Backed Securities (MBS) / Asset-Backed Securities (ABS): These securities are valued based on external pricing indices. When external index pricing is not observable, MBS and ABS are valued based on external price/spread data. These securities are classified as Level 2.

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

The Bank's investment securities are classified as available-for-sale and recorded at fair value in the unaudited Condensed Consolidated Balance Sheets as cash and cash equivalents, short-term investments and other assets depending on the type of investment and maturity. Unrealized holding gains and losses are recorded, net of tax, in accumulated other comprehensive income (AOCI).

Available-for-sale securities at June 30, 2014 and December 31, 2013 consisted of the following:

	June 30, 2014			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Debt securities - U.S. and foreign governments, agencies and municipalities	\$102,854	\$1,986	\$(878)	) \$103,962
Debt securities - corporate	58,914	1,771	(130)	) 60,555
Mortgage-backed / asset-backed securities	147,290	2,363	(1,314)	) 148,339
Total	\$309,058	\$6,120	\$(2,322)	) \$312,856

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

	December 31, 2013		Gross unrealized losses	Estimated fair value
	Amortized cost	Gross unrealized gains		
Debt securities - U.S. and foreign governments, agencies and municipalities	\$ 121,803	\$ 999	\$(3,372)	) \$ 119,430
Debt securities - corporate	37,901	935	(572)	) 38,264
Mortgage-backed / asset-backed securities	165,664	1,570	(2,636)	) 164,598
Total	\$ 325,368	\$ 3,504	\$(6,580)	) \$ 322,292

Scheduled maturities of available-for-sale securities at June 30, 2014 were as follows:

	Amortized cost	Estimated fair value
Within 1 year	\$ 23,296	\$ 23,356
After 1 year through 5 years	47,382	48,261
After 5 years through 10 years	85,913	87,204
After 10 years	152,467	154,035
Total	\$ 309,058	\$ 312,856

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

Derivative Instruments

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

As required by the fair value measurements guidance, we have incorporated counterparty credit risk and our credit risk into the fair value measurement of our derivative assets and liabilities, respectively. We derive credit risk from observable data related to credit default swaps. We have not seen a material change in the creditworthiness of those banks acting as derivative counterparties.

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

The fair value of derivative instruments at June 30, 2014 and December 31, 2013 was as follows:

Designation of Derivatives	Balance Sheet Location	June 30, 2014	December 31, 2013
Derivatives designated as hedging instruments	Other current assets and prepayments:		
	Foreign exchange contracts	\$603	\$546
	Accounts payable and accrued liabilities:		
	Foreign exchange contracts	(303)	(526)
Derivatives not designated as hedging instruments	Other current assets and prepayments:		
	Foreign exchange contracts	329	812
	Accounts payable and accrued liabilities:		
	Foreign exchange contracts	(3,206)	(2,483)
	Total derivative assets	\$932	\$1,358
	Total derivative liabilities	(3,509)	(3,009)
	Total net derivative liabilities	\$(2,577)	\$(1,651)

The valuation of foreign exchange derivatives is based on the market approach using observable market inputs, such as forward rates.

Interest Rate Swaps

Derivatives designated as fair value hedges include interest rate swaps related to fixed rate debt. Changes in the fair value of both the derivative and item being hedged are recognized in earnings. There were no interest rate swaps in effect during 2014. The following represents the results of fair value hedging relationships for the three and six months ended June 30, 2013:

Derivative Instrument	Location of Gain (Loss)	Derivative Gain (Loss) Recognized in Earnings		Hedged Item Expense Recognized in Earnings	
		Three Months Ended June 30, 2013	Six Months Ended June 30, 2013	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
Interest rate swaps	Interest expense	\$774	\$2,768	\$(2,742)	\$(8,227)

Foreign Exchange Contracts

We enter into foreign currency exchange contracts to mitigate the currency risk associated with the anticipated purchase of inventory between affiliates and from third parties. These contracts are designated as cash flow hedges. The effective portion of the gain or loss on cash flow hedges is included in AOCI in the period that the change in fair value occurs and is reclassified to earnings in the period that the hedged item is recorded in earnings. At June 30, 2014 and December 31, 2013, we had outstanding contracts associated with these anticipated transactions with a notional amount of \$26 million. All outstanding contracts at June 30, 2014 mature within 12 months.

The amounts included in AOCI at June 30, 2014 will be recognized in earnings within the next 12 months. No amount of ineffectiveness was recorded in earnings for these designated cash flow hedges.

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

The following represents the results of cash flow hedging relationships for the three and six months ended June 30, 2014 and 2013:

Derivative Instrument	Three Months Ended June 30,		Location of Gain (Loss) (Effective Portion)	Gain (Loss) Reclassified from AOCI to Earnings (Effective Portion)	
	Derivative Gain (Loss) Recognized in AOCI (Effective Portion)			2014	2013
	2014	2013			
Foreign exchange contracts	\$17	\$170	Revenue	\$(346)	\$(371)
			Cost of sales	153	286
				\$(193)	\$(85)
Derivative Instrument	Six Months Ended June 30,		Location of Gain (Loss) (Effective Portion)	Gain (Loss) Reclassified from AOCI to Earnings (Effective Portion)	
	Derivative Gain (Loss) Recognized in AOCI (Effective Portion)			2014	2013
	2014	2013			
Foreign exchange contracts	\$(52)	\$800	Revenue	\$(580)	\$(753)
			Cost of sales	352	412
				\$(228)	\$(341)

We also enter into foreign exchange contracts to minimize the impact of exchange rate fluctuations on short-term intercompany loans and related interest that are denominated in a foreign currency. The revaluation of the intercompany loans and interest and the mark-to-market adjustment on the derivatives are both recorded in earnings. All outstanding contracts at June 30, 2014 mature by the end of the year.

The following represents the results of our non-designated derivative instruments for the three and six months ended June 30, 2014 and 2013:

Derivatives Instrument	Location of Derivative Gain (Loss)	Derivative Gain (Loss) Recognized in Earnings			
		Three Months Ended June 30,		Six Months Ended June 30,	
		2014	2013	2014	2013
Foreign exchange contracts	Selling, general and administrative expense	\$(2,622)	\$(1,644)	\$(3,304)	\$(5,995)

Credit-Risk-Related Contingent Features

Certain derivative instruments contain credit-risk-related contingent features that would require us to post collateral based on a combination of our long-term senior unsecured debt ratings and the net fair value of our derivatives. At June 30, 2014, we were not required to post any collateral. The maximum amount of collateral that we would have been required to post at June 30, 2014, had the credit-risk-related contingent features been triggered, was \$3 million.

Fair Value of Financial Instruments

Our financial instruments include cash and cash equivalents, investment securities, accounts receivable, loan receivables, derivative instruments, accounts payable and debt. The carrying value for cash and cash equivalents, accounts receivable, loans receivable, and accounts payable approximate fair value because of the short maturity of these instruments. The fair value of our debt is estimated based on recently executed transactions and market price

quotations. These inputs are classified as Level 2 in the fair value hierarchy. The carrying value and estimated fair value of our debt at June 30, 2014 and December 31, 2013 was as follows:

	June 30, 2014	December 31, 2013
Carrying value	\$3,239,722	\$3,346,295
Fair value	\$3,475,702	\$3,539,022

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

8. Restructuring Charges

Activity in our restructuring reserves for the six months ended June 30, 2014 was as follows:

	Severance and benefits costs	Pension and Retiree Medical	Other exit costs	Total
Balance at January 1, 2014	\$58,558	\$—	\$8,014	\$66,572
Expenses, net	11,760	3,372	3,008	18,140
Cash payments	(26,071)	(3,372)	(4,087)	(33,530)
Balance at June 30, 2014	\$44,247	\$—	\$6,935	\$51,182

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

9. Debt

Debt consisted of the following:

	June 30, 2014	December 31, 2013
Term loans	\$130,000	\$230,000
5.0% notes due 2015	274,879	274,879
4.75% notes due 2016	370,914	370,914
5.75% notes due 2017	385,109	500,000
5.60% notes due 2018	250,000	250,000
4.75% notes due 2018	350,000	350,000
6.25% notes due 2019	300,000	300,000
5.25% notes due 2022	110,000	110,000
4.625% notes due 2024	500,000	—
5.25% notes due 2037	115,041	500,000
6.70% notes due 2043	425,000	425,000
Other	28,779	35,502
Total long-term debt	3,239,722	3,346,295
Current portion	274,879	—
Long-term debt	\$2,964,843	\$3,346,295

During the first quarter of 2014, we completed a cash tender offer (the Tender Offer) for a portion of the 5.75% Notes due 2017 and the 5.25% Notes due 2037 (the Subject Notes). Holders who validly tendered their notes received the principal amount of the notes tendered, all accrued and unpaid interest and a premium amount. An aggregate \$500 million of the Subject Notes were tendered. We incurred expenses of \$62 million, consisting of the call premium, the write-off of unamortized costs and bank transaction fees. These expenses are included in other expense in the unaudited Condensed Consolidated Statements of Income (Loss).

During the first quarter of 2014, we issued \$500 million of 4.625% fixed rate 10-year notes. Interest is payable on March 15 and September 15 of each year, commencing September 15, 2014. The notes mature in March 2024, but may be redeemed, at any time, in whole or in part, at our option. If the notes are redeemed prior to December 15, 2023, the redemption price will be equal to the sum of 100% of the principal amount, accrued and unpaid interest and a make-whole payment. Net proceeds from the issuance of the notes were \$493 million. The net proceeds were used to fund the Tender Offer.

During the second quarter of 2014, we repaid \$100 million of the outstanding term loans.

Other consists of the unamortized net proceeds received from the unwinding of interest rate swaps, debt discounts and premiums and the mark-to-market adjustment of interest rate swaps, if applicable.

There were no commercial paper borrowings through June 30, 2014.

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PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

10. Commitments and Contingencies

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

In December 2013, we received a Civil Investigative Demand (CID) from the Department of Justice (DOJ) pursuant to the False Claims Act requesting documents and information relating to compliance with certain postal regulatory requirements in our Presort Services business. We had previously provided information to the DOJ in response to letter requests and continue to provide information in response to the CID and other requests from the DOJ. Given the current stage of this inquiry, we cannot provide an estimate of any possible losses or range of loss and we cannot yet predict the ultimate outcome of this matter or its impact, if any, on our business, financial condition or results of operations.

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

Pitney Bowes International Holdings, Inc. (PBIH), a subsidiary, has 300,000 shares, or \$300 million, of outstanding perpetual voting preferred stock (the Preferred Stock) held by certain institutional investors. The holders of the Preferred Stock are entitled as a group to 25% of the combined voting power of all classes of capital stock of PBIH. All outstanding common stock of PBIH, representing the remaining 75% of the combined voting power of all classes of capital stock, is owned directly or indirectly by the company. The Preferred Stock is entitled to cumulative dividends at a rate of 6.125% through 2016 after which it becomes callable and, if it remains outstanding, will yield a dividend that increases by 50% every six months thereafter. No dividends were in arrears at June 30, 2014 or December 31, 2013. There was no change in the carrying value of noncontrolling interests during the period ended June 30, 2014 or the year ended December 31, 2013.

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

12. Stockholders' Equity

Changes in stockholders' equity for the six months ended June 30, 2014 and 2013 were as follows:

	Preferred stock	Preference stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensiv loss	Treasury stock	Total equity
Balance at January 1, 2014	\$4	\$ 591	\$323,338	\$ 196,977	\$4,715,564	\$ (574,556)	\$(4,456,742)	\$205,176
Net income	—	—	—	—	138,938	—	—	138,938
Other comprehensive income	—	—	—	—	—	15,205	—	15,205
Cash dividends								
Common	—	—	—	—	(75,974)	—	—	(75,974)
Preference	—	—	—	—	(22)	—	—	(22)
Issuances of common stock	—	—	—	(24,212)	—	—	22,189	(2,023)
Conversions to common stock	(3)	(28)	—	(656)	—	—	687	—
Stock-based compensation expense	—	—	—	7,976	—	—	—	7,976
Purchase of subsidiary shares from noncontrolling interest	—	—	—	(7,520)	—	—	—	(7,520)
Balance at June 30, 2014	\$1	\$ 563	\$323,338	\$ 172,565	\$4,778,506	\$ (559,351)	\$(4,433,866)	\$281,756
	Preferred stock	Preference stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensiv loss	Treasury stock	Total equity
Balance at January 1, 2013	\$4	\$ 648	\$323,338	\$ 223,847	\$4,744,802	\$ (681,213)	\$(4,500,795)	\$ 110,631
Retained earnings adjustment (see Note 15)	—	—	—	—	16,773	—	—	16,773
Adjusted balance at January 1, 2013	4	648	323,338	223,847	4,761,575	(681,213)	(4,500,795)	127,404
Net income	—	—	—	—	58,273	—	—	58,273
Other comprehensive loss	—	—	—	—	—	(42,310)	—	(42,310)
Cash dividends								
Common	—	—	—	—	(113,083)	—	—	(113,083)

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Preference	—	—	—	—	(23)	—	—	(23)
Issuances of common stock	—	—	—	(31,532)	—	—	33,144	1,612	
Conversions to common stock	—	(35)	—	(618)	—	653	—	
Stock-based compensation expense	—	—	—	7,241	—	—	—	—	7,241	
Balance at June 30, 2013	\$4	\$613	\$323,338	\$198,938	\$4,706,742	\$ (723,523)	\$ (4,466,998)	\$39,114		

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

13. Accumulated Other Comprehensive Loss

Reclassifications out of accumulated other comprehensive loss for the three and six months ended June 30, 2014 and 2013 were as follows:

	Amount Reclassified from AOCI (a)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Losses on cash flow hedges				
Revenue	\$(346)	\$(371)	\$(580)	\$(753)
Cost of sales	153	286	352	412
Interest expense	(507)	(507)	(1,014)	(1,014)
Total before tax	(700)	(592)	(1,242)	(1,355)
Tax benefit	269	231	479	528
Net of tax	\$(431)	\$(361)	\$(763)	\$(827)
Unrealized (losses) gains on available for sale securities				
Interest income	\$(505)	\$10	\$(852)	\$(2,602)
Tax benefit	186	(3)	314	963
Net of tax	\$(319)	\$7	\$(538)	\$(1,639)
Pension and Postretirement Benefit Plans (b)				
Transition credit	\$3	\$2	\$5	\$4
Prior service costs	(27)	(163)	(54)	(361)
Actuarial losses	(9,869)	(14,156)	(19,627)	(31,902)
Total before tax	(9,893)	(14,317)	(19,676)	(32,259)
Tax benefit	3,613	4,926	7,254	11,266
Net of tax	\$(6,280)	\$(9,391)	\$(12,422)	\$(20,993)

(a) Amounts in parentheses indicate debits (reductions) to income.

(b) These items are included in the computation of net periodic costs of defined benefit pension plans and nonpension postretirement benefit plans (see Note 14 for additional details).

Changes in accumulated other comprehensive loss for the six months ended June 30, 2014 and 2013 were as follows:

	Gains (losses) on cash flow hedges	Unrealized gains (losses) on available for sale securities	Defined benefit pension plans and nonpension postretirement benefit plans	Foreign currency items	Total
Balance at January 1, 2014	\$(6,380)	\$(1,769)	\$(601,421)	\$35,014	\$