PITNEY BOWES INC /DE/
Form 10-Q
November 07, 2008

# 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, 2008

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 þ No o

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 definition of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell Company (as defined in Rule12b-2 of the Exchange Act).
Yes o No þ

There were 206,128,495 shares of common stock outstanding as of October 30, 2008.

**PITNEY BOWES INC.**
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**PART I. FINANCIAL INFORMATION**

**Item 1: Financial Statements**

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| Revenue: | | | | |
| Equipment sales | **$ 296,520** | $ 307,897 | **$ 910,883** | $ 961,868 |
| Supplies | **96,864** | 95,497 | **305,750** | 292,197 |
| Software | **100,092** | 92,256 | **314,617** | 223,580 |
| Rentals | **182,850** | 183,452 | **553,658** | 552,433 |
| Financing | **195,632** | 201,241 | **591,834** | 586,658 |
| Support services | **193,516** | 185,520 | **579,996** | 564,597 |
| Business services | **482,199** | 442,414 | **1,452,978** | 1,284,215 |
| Total revenue | **1,547,673** | 1,508,277 | **4,709,716** | 4,465,548 |
| Costs and expenses: | | | | |
| Cost of equipment sales | **157,593** | 164,659 | **484,988** | 481,873 |
| Cost of supplies | **26,382** | 27,061 | **80,673** | 77,909 |
| Cost of software | **25,917** | 21,749 | **80,107** | 54,373 |
| Cost of rentals | **36,252** | 42,630 | **114,227** | 128,312 |
| Cost of support services | **113,581** | 108,011 | **343,507** | 320,832 |
| Cost of business services | **375,949** | 345,024 | **1,138,249** | 1,008,647 |
| Selling, general and administrative | **478,914** | 479,772 | **1,473,098** | 1,393,289 |
| Research and development | **53,008** | 47,691 | **156,176** | 138,364 |
| Interest, net | **54,560** | 60,386 | **167,464** | 179,654 |
| Restructuring charges and asset impairments | **49,229** | 4,300 | **85,137** | 4,300 |
| Other expense (income) | **-** | (380) | **-** | (380) |
| Total costs and expenses | **1,371,385** | 1,300,903 | **4,123,626** | 3,787,173 |
| Income from continuing operations before income taxes and minority interest | **176,288** | 207,374 | **586,090** | 678,375 |
| Provision for income taxes | **69,456** | 73,272 | **215,389** | 234,566 |
| Minority interest (preferred stock dividends of subsidiaries) | **6,540** | 4,862 | **16,134** | 14,404 |
| Income from continuing operations | **100,292** | 129,240 | **354,567** | 429,405 |
| Loss from discontinued operations, net of tax | **(2,063)** | (1,565) | **(8,726)** | (4,695) |
| Net income | **$ 98,229** | $ 127,675 | **$ 345,841** | $ 424,710 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Basic earnings per share of common stock: | | | | | | |
| Continuing operations | **$** | **0.48** | $ 0.59 | **$** | **1.70** | $ 1.96 |
| Discontinued operations | | **(0.01)** | (0.01) | | **(0.04)** | (0.02) |
| Net income | **$** | **0.47** | $ 0.58 | **$** | **1.65** | $ 1.94 |
| Diluted earnings per share of common stock: | | | | | | |
| Continuing operations | **$** | **0.48** | $ 0.58 | **$** | **1.68** | $ 1.93 |
| Discontinued operations | | **(0.01)** | (0.01) | | **(0.04)** | (0.02) |
| Net income | **$** | **0.47** | $ 0.58 | **$** | **1.64** | $ 1.91 |
| Dividends declared per share of common stock | **$** | **0.35** | $ 0.33 | **$** | **1.05** | $ 0.99 |

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 share and per share data)**

| | September 30, 2008 | December 31, 2007 |
|---|---|---|
| ***ASSETS*** | | |
| Current assets: | | |
| Cash and cash equivalents | **$ 458,786** | $ 377,176 |
| Short-term investments | **22,597** | 63,279 |
| Accounts receivables, less allowances of $47,871 and $49,324 at September 30, 2008 and December 31, 2007, respectively | **829,963** | 841,072 |
| Finance receivables, less allowances of $42,227 and $45,859 at September 30, 2008 and December 31, 2007, respectively | **1,450,981** | 1,498,486 |
| Inventories | **204,606** | 197,962 |
| Current income taxes | **76,633** | 83,227 |
| Other current assets and prepayments | **256,346** | 258,411 |
| Total current assets | **3,299,912** | 3,319,613 |
| Property, plant and equipment, net | **591,940** | 627,918 |
| Rental property and equipment, net | **407,220** | 435,927 |
| Long-term finance receivables, less allowances of $26,189 and $32,512 at September 30, 2008 and December 31, 2007, respectively | **1,459,957** | 1,533,773 |
| Investment in leveraged leases | **237,417** | 249,191 |
| Goodwill | **2,311,588** | 2,299,858 |
| Intangible assets, net | **411,086** | 457,188 |
| Non-current income taxes | **43,580** | 28,098 |
| Other assets | **611,678** | 598,377 |
| Total assets | **$ 9,374,378** | $ 9,549,943 |
| ***LIABILITIES AND STOCKHOLDERS EQUITY*** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | **$ 1,876,174** | $ 1,965,567 |
| Current income taxes | **159,939** | 96,851 |
| Notes payable and current portion of long-term obligations | **985,196** | 953,767 |
| Advance billings | **547,401** | 540,254 |
| Total current liabilities | **3,568,710** | 3,556,439 |
| Deferred taxes on income | **470,506** | 472,240 |
| FIN 48 uncertainties and other income tax liabilities | **303,881** | 285,505 |
| Long-term debt | **3,872,580** | 3,802,075 |
| Other non-current liabilities | **408,823** | 406,216 |
| Total liabilities | **8,624,500** | 8,522,475 |
| Preferred stockholders equity in subsidiaries | **374,165** | 384,165 |
| Stockholders equity: | | |
| Cumulative preferred stock, $50 par value, 4% convertible | **7** | 7 |
| Cumulative preference stock, no par value, $2.12 convertible | **977** | 1,003 |

| | | |
|---|---|---|
| Common stock, $1 par value (480,000,000 shares authorized & 323,337,912 shares issued) | **323,338** | 323,338 |
| Capital in excess of par value | **253,993** | 252,185 |
| Retained earnings | **4,260,150** | 4,133,756 |
| Accumulated other comprehensive (loss) income | **(7,112)** | 88,656 |
| Treasury stock, at cost (117,197,935 and 108,822,953, respectively) | **(4,455,640)** | (4,155,642) |
| Total stockholders equity | **375,713** | 643,303 |
| Total liabilities and stockholders equity | **$ 9,374,378** | $ 9,549,943 |

*See Notes to Condensed Consolidated Financial Statements*

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

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2008** | 2007 |
| Cash flows from operating activities: | | |
| Net income | **$ 345,841** | $ 424,710 |
| Restructuring and other charges, net of tax | **61,864** | 2,472 |
| Restructuring and other payments | **(65,858)** | (24,445) |
| Loss on redemption of preferred stock issued by a subsidiary | **1,777** | - |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | **288,589** | 285,322 |
| Stock-based compensation | **19,563** | 18,482 |
| Changes in operating assets and liabilities, excluding effects of acquisitions: | | |
| Accounts receivable | **(2,634)** | 44,621 |
| Net investment in internal finance receivables | **74,288** | (76,366) |
| Inventories | **(17,035)** | (4,523) |
| Other current assets and prepayments | **2,383** | 1,785 |
| Accounts payable and accrued liabilities | **(94,858)** | (56,510) |
| Current and non-current income taxes | **93,471** | 85,968 |
| Advanced billings | **16,259** | 8,358 |
| Other, net | **18,052** | (13,106) |
| Net cash provided by operating activities | **741,702** | 696,768 |
| Cash flows from investing activities: | | |
| Short-term and other investments | **21,682** | 727 |
| Capital expenditures | **(169,978)** | (202,013) |
| Net investment in leveraged leases | **(831)** | (5,011) |
| Acquisitions, net of cash acquired | **(68,976)** | (559,907) |
| Reserve account deposits | **16,617** | 26,506 |
| Net cash used in investing activities | **(201,486)** | (739,698) |
| Cash flows from financing activities: | | |
| Increase in notes payable, net | **423,899** | 58,896 |
| Proceeds from long-term obligations | **245,582** | 490,765 |
| Principal payments on long-term obligations | **(574,585)** | (14,044) |
| Proceeds from issuance of stock | **16,561** | 99,020 |
| Payments to redeem preferred stock issued by a subsidiary | **(11,777)** | - |
| Stock repurchases | **(333,231)** | (279,996) |
| Dividends paid | **(219,447)** | (217,199) |
| Net cash (used in) provided by financing activities | **(452,998)** | 137,442 |
| Effect of exchange rate changes on cash | **(5,608)** | 5,149 |
| Increase in cash and cash equivalents | **81,610** | 99,661 |
| Cash and cash equivalents at beginning of period | **377,176** | 239,102 |

| | | | | |
|---|---|---|---|---|
| Cash and cash equivalents at end of period | **$** | **458,786** | $ | 338,763 |
| Interest paid | **$** | **209,601** | $ | 195,481 |
| Income taxes paid | **$** | **125,745** | $ | 139,036 |

*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, 2007 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, 2008 and December 31, 2007, our results of operations for the three and nine months ended September 30, 2008 and 2007 and our cash flows for the nine months ended September 30, 2008 and 2007 have been included. Operating results for the three and nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for any other interim period or the year ending December 31, 2008.

These statements should be read in conjunction with the financial statements and notes thereto included in our 2007 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 equipment and software; production mail equipment; supplies; mailing support and other professional services; payment solutions; and mailing, customer communication and location intelligence software. Mailstream Services includes worldwide revenue and related expenses from facilities management services; secure mail services; reprographics, document management, and other value-added services for targeted customer markets; mail services operations, which include presort mail services and international mail services; and marketing services. See Note 7, "Segment Information," to the Condensed Consolidated Financial Statements for details of our reporting segments and a description of their activities.

# 3. *Recent Accounting Pronouncements*

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements* ("SFAS 157"), to define how the fair value of assets and liabilities should be measured in accounting standards where it is allowed or required. In addition to defining fair value, the Statement established a framework within GAAP for measuring fair value and expanded required disclosures surrounding fair value measurements. In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-2, *Effective Date of FASB Statement No. 157,* which delayed the effective date by one year for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. In October 2008, the FASB issued FSP 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active.* This FSP is effective immediately and includes those periods for which financial statements have not been issued. We adopted this Statement for financial assets and financial liabilities on January 1, 2008, and the adoption did not have a material impact on our financial position, results of operations, or cash flows. We do not expect the adoption of this Statement for nonfinancial items effective January 1, 2009 to have a material impact on our financial position, results of operations, or cash flows. We currently do not have any financial assets that are valued using inactive markets, and as such are not impacted by the issuance of FSP 157-3. See Note 16, "Fair Value Measurements," to the Condensed Consolidated Financial Statements for additional discussion on fair value measurements.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS 141(R)). SFAS 141(R) establishes principles and requirements for how a company (a) recognizes and measures in their financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest (previously referred to as minority interest); (b) recognizes and measures the goodwill acquired in a business combination or a gain from a bargain purchase; and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects

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

of a business combination. SFAS 141(R) requires fair value measurements at the date of acquisition, with limited exceptions specified in the Statement. Some of the major impacts of this new standard include expense recognition for transaction costs and restructuring costs. SFAS 141(R) is effective for fiscal years beginning on or after December 15, 2008 and will be applied prospectively. The most significant impacts of adopting SFAS 141 (R) will be the requirement for us to expense transaction and restructuring costs. We do not expect the adoption of this Statement to have a material impact on our financial position, results of operations, or cash flows.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* (□SFAS 160□). SFAS 160 addresses the accounting and reporting for the outstanding noncontrolling interest (previously referred to as minority interest) in a subsidiary and for the deconsolidation of a subsidiary. It also establishes additional disclosures in the consolidated financial statements that identify and distinguish between the interests of the parent□s owners and of the noncontrolling owners of a subsidiary. SFAS 160 requires changes in ownership interest that do not result in deconsolidation to be accounted for as equity transactions. This Statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. This gain or loss is measured using the fair value of the noncontrolling equity investment. This Statement is effective for fiscal years beginning on or after December 15, 2008. SFAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements of SFAS 160 are applied prospectively. We do not expect the adoption of this Statement to have a material impact on our financial position, results of operations, or cash flows.

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

In April 2008, the FASB issued FASB FSP No. 142-3, *Determination of the Useful Life of Intangible Assets* (□FSP FAS 142-3□). FSP FAS 142-3 removed the requirement of SFAS No. 142, *Goodwill and Other Intangible Assets* (□SFAS 142□), for an entity to consider, when determining the useful life of an acquired intangible asset, whether the intangible asset can be renewed without substantial cost or material modification to the existing terms and conditions associated with the intangible asset. FSP FAS 142-3 replaces the previous useful-life assessment criteria with a requirement that an entity considers its own experience in renewing similar arrangements. If the entity has no relevant experience, it would consider market participant assumptions regarding renewal. This should lead to greater consistency between the useful life of recognized intangibles under SFAS 142 and the period of expected cash flows used to measure fair value of such assets under SFAS No. 141, *□Business Combinations□*. FSP FAS 142-3 will be applied prospectively beginning January 1, 2009. We do not expect the adoption of this Statement to have a material impact on our financial position, results of operations, or cash flows.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (□SFAS 162□)SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with U.S. GAAP. SFAS 162 will be effective 60 days after the SEC approves the Public Company Accounting Oversight Board (□PCAOB□) amendments to auditing standards (AU Section 411). We do not expect the adoption of this Statement to result in a change in current practice.

In September 2008, the FASB issued FSP FAS 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and*

*Clarification of the Effective Date of FASB Statement No. 161*. The FSP amends SFAS 133 to require a seller of credit derivatives, including credit derivatives embedded in a hybrid instrument, to provide certain disclosures for each statement of financial position presented. These disclosures are required even if the likelihood of having to make payments is remote. To make the disclosures consistent with the disclosures that will now be required for credit derivatives, FIN 45-4 was issued to require guarantors to disclose the current status of the payment/performance risk of the guarantee. This FSP also clarifies that SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The

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

FSP is effective for reporting periods after November 15, 2008 for the amendments and on September 12, 2008 for the effective date of SFAS 161. The Company does not sell credit derivatives. The Company will comply with the additional disclosure requirement for guarantees beginning in the fourth quarter of 2008.

## 4. *Discontinued Operations*

The following table shows selected financial information included in discontinued operations for the three and nine months ended September 30, 2008 and 2007, respectively:

| | Three Months Ended September, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **Discontinued Operations** | **2008** | 2007 | **2008** | 2007 |
| Loss from discontinued operations, net of tax | **$ 2,063** | $ 1,565 | **$ 8,726** | $ 4,695 |

Net loss for the three and nine months ended September 30, 2008 and 2007 relates to the accrual of interest on uncertain tax positions.

## 5. *Acquisitions*

On April 21, 2008, we acquired Zipsort, Inc. for $39 million in cash, net of cash acquired. Zipsort, Inc. acts as an intermediary between customers and the U.S. Postal Service. Zipsort, Inc. offers mailing services that include presorting of first class, standard class, flats, permit and international mail as well as metering services. We assigned the goodwill to the Mail Services segment.

On September 12, 2007, we acquired Asterion SAS for $29 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 a total purchase price of $52 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 $436 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 has now been recognized over the life of the contract.

**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 of acquisitions in 2008 and 2007:

| | 2008 | 2007 | | |
|---|---|---|---|---|
| | Zipsort, Inc. | Asterion SAS | Digital Cement, Inc. | MapInfo Corporation |
| **Purchase price allocation:** | | | | |
| Short-term investments | **$ -** | $ - | $ - | $ 46,308 |
| Current assets | **156** | 52,309 | 2,146 | 40,121 |
| Other non-current assets | **12,617** | 34,228 | 932 | 35,826 |
| Intangible assets | **8,613** | 8,285 | 6,600 | 113,000 |
| Goodwill | **23,985** | 20,277 | 42,583 | 327,219 |
| Current liabilities | **(3,214)** | (55,933) | (213) | (63,012) |
| Debt | **-** | - | - | (13,866) |
| Non-current liabilities | **(2,885)** | (30,345) | - | (50,060) |
| Purchase price | **$ 39,272** | $ 28,821 | $ 52,048 | $ 435,536 |
| | | | | |
| **Intangible assets:** | | | | |
| Customer relationships | **$ 8,291** | $ 6,766 | $ 6,100 | $ 75,900 |
| Mailing software and technology | **-** | - | - | 29,500 |
| Trademarks and trade names | **-** | 1,519 | 500 | 7,600 |
| Non-compete agreements | **322** | - | - | - |
| Total intangible assets | **$ 8,613** | $ 8,285 | $ 6,600 | $ 113,000 |
| | | | | |
| **Intangible assets amortization period:** | | | | |
| Customer relationships | **15 years** | 7 years | 7 years | 10 years |
| Mailing software and technology | **-** | - | - | 5 years |
| Trademarks and trade names | **-** | 2 years | 2 years | 5 years |
| Non-compete agreements | **4 years** | - | - | - |
| Total weighted average | **15 years** | 6 years | 7 years | 8 years |

Allocation of the purchase price to the assets acquired and liabilities assumed has not been finalized for Zipsort, Inc. The purchase price allocation will be finalized upon the completion of working capital closing adjustments and fair value analysis. 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.

During the nine months ended September 30, 2008, we also completed five smaller acquisitions. The aggregate cost of these acquisitions was $29.7 million. These acquisitions did not have a material impact on our financial results.

The amount of tax deductible goodwill added from acquisitions for the nine months ended September 30, 2008 and September 30, 2007 was $27.4 million and $23.2 million, respectively.

*Consolidated impact of acquisitions*

The Condensed Consolidated Financial Statements include the results of operations of the acquired businesses from their respective dates of acquisition. These acquisitions increased our revenue and earnings but, including

related financing costs, did not materially impact earnings either on an aggregate or per share basis.

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

The following table provides unaudited pro forma consolidated revenue for the three and nine months ended September 30, 2008 and 2007 as if our acquisitions had been acquired on January 1 of each year:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| Total revenue | **$ 1,548,296** | $ 1,552,700 | **$ 4,736,282** | $ 4,597,852 |

The pro forma earnings results of these acquisitions were not material to net income or earnings per share. The pro forma consolidated results do not purport to be indicative of actual results that would have occurred had the acquisitions been completed on January 1, 2008 and 2007, nor do they purport to be indicative of the results that will be obtained in the future.

## 6. *Earnings per Share*

A reconciliation of the basic and diluted earnings per share computations for the three months ended September 30, 2008 and 2007 is as follows:

| | **2008** | | | 2007 | | |
|---|---|---|---|---|---|---|
| | **Income** | **Weighted Average Shares** | **Per Share** | Income | Weighted Average Shares | Per Share |
| Net income | **$ 98,229** | | | $ 127,675 | | |
| Less: | | | | | | |
| Preferred stock dividends | **-** | | | - | | |
| Preference stock dividends | **(19)** | | | (20) | | |
| Basic earnings per share | **$ 98,210** | **207,309** | **$ 0.47** | $ 127,655 | 218,299 | $ 0.58 |
| Effect of dilutive securities: | | | | | | |
| Data for basic earnings per share | **$ 98,210** | **207,309** | | $ 127,655 | 218,299 | |
| Preferred stock | **-** | **3** | | - | 3 | |
| Preference stock | **19** | **598** | | 20 | 634 | |
| Stock options and stock purchase plans | **-** | **648** | | - | 1,989 | |
| Other stock plans | **-** | **98** | | - | 103 | |
| Diluted earnings per share | **$ 98,229** | **208,656** | **$ 0.47** | $ 127,675 | 221,028 | $ 0.58 |

| Basic earnings per share of common stock: | **Per Share** | **Per Share** |
|---|---|---|
| Continuing operations | **$ 0.48** | $ 0.59 |
| Discontinued operations | **(0.01)** | (0.01) |
| Net income | **$ 0.47** | $ 0.58 |

| Diluted earnings per share of common stock: | **Per Share** | **Per Share** |
|---|---|---|
| Continuing operations | **$ 0.48** | $ 0.58 |
| Discontinued operations | **(0.01)** | (0.01) |

| | | |
|---|---|---|
| Net income | **$ 0.47** | $ 0.58 |

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

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A reconciliation of the basic and diluted earnings per share computations for the nine months ended September 30, 2008 and 2007 is as follows:

| | **2008** | | | 2007 | | |
|---|---|---|---|---|---|---|
| | **Income** | **Weighted Average Shares** | **Per Share** | Income | Weighted Average Shares | Per Share |
| Net income | **$ 345,841** | | | $ 424,710 | | |
| Less: | | | | | | |
| Preferred stock dividends | **-** | | | - | | |
| Preference stock dividends | **(58)** | | | (62) | | |
| Basic earnings per share | **$ 345,783** | **209,113** | **$ 1.65** | $ 424,648 | 219,247 | $ 1.94 |
| | | | | | | |
| Effect of dilutive securities: | | | | | | |
| Data for basic earnings per share | **$ 345,783** | **209,113** | | $ 424,648 | 219,247 | |
| Preferred stock | **-** | **3** | | - | 3 | |
| Preference stock | **58** | **602** | | 62 | 643 | |
| Stock options and stock purchase plans | **-** | **784** | | - | 2,279 | |
| Other stock plans | **-** | **85** | | - | 108 | |
| Diluted earnings per share | **$ 345,841** | **210,587** | **$ 1.64** | $ 424,710 | 222,280 | $ 1.91 |

| Basic earnings per share of common stock: | **Per Share** | **Per Share** |
|---|---|---|
| Continuing operations | **$ 1.70** | $ 1.96 |
| Discontinued operations | **(0.04)** | (0.02) |
| Net income | **$ 1.65** | $ 1.94 |

| Diluted earnings per share of common stock: | **Per Share** | **Per Share** |
|---|---|---|
| Continuing operations | **$ 1.68** | $ 1.93 |
| Discontinued operations | **(0.04)** | (0.02) |
| Net income | **$ 1.64** | $ 1.91 |

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

In accordance with SFAS No. 128, *Earnings per Share*, approximately 2.5 million and 0.4 million common stock equivalent shares for the three months ended September 30, 2008 and 2007, respectively, and 2.1 million and 0.4 million common stock equivalent shares for the nine months ended September 30, 2008 and 2007, respectively, issuable upon the exercise of stock options were 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.

On February 11, 2008, we made our annual stock compensation grant which consisted of approximately 2.0 million stock options and 0.5 million restricted stock units.

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# 7. *Segment Information*

We conduct our business activities in seven business segments within the Mailstream Solutions and Mailstream Services business groups. We calculate earnings before interest and taxes (□EBIT□) by deducting from revenue the related costs and expenses attributable to the segment. Segment EBIT excludes general corporate expenses, restructuring charges and asset impairments.

As a result of certain organizational changes made during the first quarter of 2008, we have reclassified certain prior year amounts to conform to the current year presentation. The amounts reclassified did not have a material impact to our segment disclosures.

**Mailstream Solutions**:

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

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

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

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

**Mailstream Services**:

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

*Mail Services*: Includes presort mail services and our international mail services.

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

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Revenue and EBIT by business segment for the three and nine months ended September 30, 2008 and 2007 are as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| Revenue: | | | | |
| U.S. Mailing | **$ 549,360** | $ 575,782 | **$ 1,652,794** | $ 1,793,830 |
| International Mailing | **271,727** | 254,001 | **882,145** | 764,241 |
| Production Mail | **154,554** | 151,857 | **439,358** | 426,393 |
| Software | **94,221** | 88,437 | **296,134** | 209,809 |
| Mailstream Solutions | **1,069,862** | 1,070,077 | **3,270,431** | 3,194,273 |
| Management Services | **287,989** | 278,167 | **891,078** | 825,878 |
| Mail Services | **139,689** | 111,785 | **399,875** | 321,842 |
| Marketing Services | **50,133** | 48,248 | **148,332** | 123,555 |
| Mailstream Services | **477,811** | 438,200 | **1,439,285** | 1,271,275 |
| Total revenue | **$ 1,547,673** | $ 1,508,277 | **$ 4,709,716** | $ 4,465,548 |

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| EBIT: (1) | | | | |
| U.S. Mailing | **$ 223,141** | $ 226,061 | **$ 667,622** | $ 734,208 |
| International Mailing | **41,123** | 33,424 | **142,520** | 116,311 |
| Production Mail | **23,183** | 16,877 | **47,116** | 42,462 |
| Software | **3,167** | 5,159 | **15,962** | 17,033 |
| Mailstream Solutions | **290,614** | 281,521 | **873,220** | 910,014 |
| Management Services | **16,064** | 17,140 | **52,931** | 53,929 |
| Mail Services | **15,467** | 15,702 | **49,836** | 38,472 |
| Marketing Services | **6,126** | 5,310 | **11,405** | 6,449 |
| Mailstream Services | **37,657** | 38,152 | **114,172** | 98,850 |
| Total EBIT | **328,271** | 319,673 | **987,392** | 1,008,864 |
| Unallocated amounts: | | | | |
| Interest, net | **(54,560)** | (60,386) | **(167,464)** | (179,654) |
| Corporate expense | **(48,194)** | (47,993) | **(148,701)** | (146,915) |
| Restructuring charges and asset impairments | **(49,229)** | (4,300) | **(85,137)** | (4,300) |
| Other, net | **-** | 380 | **-** | 380 |
| Income from continuing operations before income taxes and preferred dividends | **$ 176,288** | $ 207,374 | **$ 586,090** | $ 678,375 |

(1) EBIT excludes general corporate expenses, restructuring charges, and asset impairments.

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## 8. *Inventories*

Inventories are composed of the following:

| | **September 30, 2008** | December 31, 2007 |
|---|---|---|
| Raw materials and work in process | **$ 87,737** | $ 87,053 |
| Supplies and service parts | **64,848** | 52,895 |
| Finished products | **52,021** | 58,014 |
| Total | **$ 204,606** | $ 197,962 |

## 9. *Fixed Assets*

| | **September 30, 2008** | December 31, 2007 |
|---|---|---|
| Property, plant and equipment | **$ 1,907,206** | $ 1,877,893 |
| Accumulated depreciation | **(1,315,266)** | (1,249,975) |
| Property, plant and equipment, net | **$ 591,940** | $ 627,918 |
| | | |
| Rental property and equipment | **$ 1,076,029** | $ 1,189,675 |
| Accumulated depreciation | **(668,809)** | (753,748) |
| Rental property and equipment, net | **$ 407,220** | $ 435,927 |

Depreciation expense was $76.3 million and $77.9 million for the three months ended September 30, 2008 and 2007, respectively. Depreciation expense was $235.2 million and $236.2 million for the nine months ended September 30, 2008 and 2007, respectively.

## 10. *Intangible Assets and Goodwill*

Intangible assets are composed of the following:

| | **September 30, 2008** | | | December 31, 2007 | | |
|---|---|---|---|---|---|---|
| | **Gross Carrying Amount** | **Accumulated Amortization** | **Net Carrying Amount** | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Customer relationships | **$ 437,373** | **$ (151,881)** | **$ 285,492** | $ 427,487 | $ (119,652) | $ 307,835 |
| Supplier relationships | **29,000** | **(9,667)** | **19,333** | 29,000 | (7,492) | 21,508 |
| Software & technology | **173,238** | **(80,676)** | **92,562** | 176,558 | (65,032) | 111,526 |
| Trademarks & trade names | **24,776** | **(12,124)** | **12,652** | 32,661 | (17,202) | 15,459 |
| Non-compete agreements | **2,731** | **(1,684)** | **1,047** | 5,491 | (4,631) | 860 |
| Total intangible assets | **$ 667,118** | **$ (256,032)** | **$ 411,086** | $ 671,197 | $ (214,009) | $ 457,188 |

Amortization expense for intangible assets for the three months ended September 30, 2008 and 2007 was $18.4 million and $18.5 million, respectively. Amortization expense for intangible assets for the nine months ended September 30, 2008 and 2007 was $53.4 million and $49.1 million, respectively. For the nine months ended September 30, 2008, we recorded restructuring charges for an intangible asset impairment of $4.6 million associated with older technology equipment in France. We also recorded other asset impairments of $10.0 million associated with the loss of a customer in our Marketing Services business and the ongoing shift in market conditions for litigation support vertical in our Management Services business. These impairments are included in the restructuring charges and asset impairments line of the Consolidated Statement of Income. See Note 13, Restructuring Charges and Asset Impairments, to the Condensed Consolidated Financial Statements for further details.

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

| | Amount |
|---|---|
| Remaining for year ended December 31, 2008 | $ 19,000 |
| Year ended December 31, 2009 | 67,000 |
| Year ended December 31, 2010 | 60,000 |
| Year ended December 31, 2011 | 54,000 |
| Year ended December 31, 2012 | 45,000 |
| Thereafter | 166,086 |
| Total | $ 411,086 |

Changes in the carrying amount of goodwill by business segment for the nine months ended September 30, 2008 are as follows:

| | Balance at December 31, 2007 (1) | Acquired during the period | Other (2) | Balance at September 30, 2008 |
|---|---|---|---|---|
| U.S. Mailing | $ 131,807 | $ 3,580 | $ 1,494 | $ 136,881 |
| International Mailing | 403,828 | 7,579 | (20,031) | 391,376 |
| Production Mail | 137,855 | - | (2,070) | 135,785 |
| Software | 669,436 | - | (5,365) | 664,071 |
| Mailstream Solutions | 1,342,926 | 11,159 | (25,972) | 1,328,113 |
| Management Services | 461,589 | - | (10,361) | 451,228 |
| Mail Services | 227,163 | 33,611 | (189) | 260,585 |
| Marketing Services | 268,180 | - | 3,482 | 271,662 |
| Mailstream Services | 956,932 | 33,611 | (7,068) | 983,475 |
| Total | $ 2,299,858 | $ 44,770 | $ (33,040) | $ 2,311,588 |

(1) We have reclassified prior year amounts to conform to the current year presentation.
(2) "Other" includes post closing acquisition and foreign currency translation adjustments.

## 11. *Long-term Debt and Preferred Stockholders' Equity in Subsidiary Companies*

On March 4, 2008, we issued $250 million of 10 year fixed rate notes with a coupon rate of 5.60% . The interest is paid semi-annually beginning September 2008. The notes mature on March 15, 2018. We simultaneously entered into two interest rate swaps for a total notional amount of $250 million to convert the fixed rate notes to a floating rate obligation bearing interest at 6 month LIBOR plus 111.5 basis points. The proceeds from these notes were used for general corporate purposes, including the repayment of commercial paper and repurchase of our stock. See Note 16, "Fair Value Measurements," to the Condensed Consolidated Financial Statements for further detail on the interest rate swaps.

As of September 30, 2008, we had $350 million available under an existing shelf registration statement filed in February 2005 with the SEC. This shelf registration statement is set to expire on December 1, 2008. In

anticipation of this expiration, we filed a Well-known Seasoned Issuer registration statement with the SEC on June 18 permitting the issuance of debt securities, preferred stock, preference stock, common stock, purchase contracts, depositary shares, warrants and units.

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

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## 12. *Comprehensive (Loss) Income*

Comprehensive (loss) income for the three and nine months ended September 30, 2008 and 2007 are as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| Net income | **$ 98,229** | $ 127,675 | **$ 345,841** | $ 424,710 |
| Other comprehensive (loss) income, net of tax: | | | | |
| Foreign currency translation adjustments (1) | **(144,453)** | 88,978 | **(106,340)** | 159,282 |
| Amortization of retiree benefit costs | **3,505** | 6,382 | **10,636** | 16,665 |
| Net unrealized loss on investment securities | **(178)** | - | **(253)** | - |
| Net unrealized gain (loss) on derivatives | **(614)** | 1,826 | **189** | (787) |
| Comprehensive (loss) income | **$ (43,511)** | $ 224,861 | **$ 250,073** | $ 599,870 |

(1) Includes a net deferred translation loss of $13.7 million and a net gain of $2.3 million for the three months ended September 30, 2008 and 2007, respectively. For the nine months ended September 30, 2008 and 2007, a net loss of $3.7 million and a net gain of $15.3 million, respectively, were recorded. These amounts are associated with inter-company loans denominated in a foreign currency that have been designated as a hedge of net investment.

## 13. *Restructuring Charges and Asset Impairments*

Pre-tax restructuring reserves at September 30, 2008 are composed of the following:

| | **Balance at December 31, 2007** | **Expenses** | **Cash payments** | **Non-cash charges** | **Balance at September 30, 2008** |
|---|---|---|---|---|---|
| Severance and benefit costs | **$ 81,251** | **$ 54,584** | **$ (58,071)** | **$ -** | **$ 77,764** |
| Asset impairments | **-** | **20,205** | **-** | **(20,205)** | **-** |
| Other exit costs | **5,795** | **10,348** | **(5,606)** | **-** | **10,537** |
| Total | **$ 87,046** | **$ 85,137** | **$ (63,677)** | **$ (20,205)** | **$ 88,301** |

We recorded pre-tax restructuring charges and asset impairments of $85.1 million in the nine months ended September 30, 2008. These charges primarily relate to a program we announced in November 2007 to lower our cost structure, accelerate efforts to improve operational efficiencies, and transition our product line. For the nine months ended September 30, 2008, the asset impairment charges included in restructuring activities related to older technology equipment of $9.9 million primarily in France and other assets of $0.3 million. Additional asset impairments, unrelated to restructuring, were also recorded. These other impairment charges are related to intangible assets of $10.0 million principally due to a loss of a customer in our Marketing Services business and the ongoing shift in market conditions for the litigation support vertical in our Management Services business.

As a result of this program, we originally targeted a net reduction of about 1,500 positions. About half of these reductions were to be outside the U.S. As of September 30, 2008, 1,272 terminations have occurred under this program and approximately 300 additional positions have been eliminated. We expect to incur approximately $15

million of restructuring charges in the fourth quarter 2008 associated with actions identified to date; however, we continue to evaluate additional actions in conjunction with this program. We expect to complete the majority of this program by the end of 2008. The majority of the liability at September 30, 2008 is expected to be paid by mid-2009 from cash generated from operations.

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# 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, 2008 and 2007 are as follows:

| | **United States Three Months Ended September 30,** | | **Foreign Three Months Ended September 30,** | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| Service cost | **$ 7,583** | $ 7,000 | **$ 2,688** | $ 3,444 |
| Interest cost | **23,993** | 24,505 | **7,436** | 7,485 |
| Expected return on plan assets | **(33,175)** | (32,645) | **(9,362)** | (10,029) |
| Amortization of transition cost (credit) | - | - | **31** | (178) |
| Amortization of prior service cost (credit) | **(628)** | (561) | **164** | 176 |
| Amortization of net loss | **4,652** | 8,631 | **1,015** | 1,983 |
| Settlement/curtailment | **-** | - | - | 279 |
| Net periodic benefit cost | **$ 2,425** | $ 6,930 | **$ 1,972** | $ 3,160 |

The components of net periodic benefit cost for defined benefit pension plans for the nine months ended September 30, 2008 and 2007 are as follows:

| | **United States Nine Months Ended September 30,** | | **Foreign Nine Months Ended September 30,** | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| Service cost | **$ 21,487** | $ 21,151 | **$ 8,266** | $ 9,702 |
| Interest cost | **72,259** | 70,616 | **22,915** | 21,001 |
| Expected return on plan assets | **(99,567)** | (95,309) | **(28,864)** | (28,102) |
| Amortization of transition cost (credit) | **-** | - | **95** | (502) |
| Amortization of prior service cost (credit) | **(1,922)** | (1,623) | **504** | 497 |
| Amortization of net loss | **14,418** | 22,394 | **3,129** | 5,589 |
| Settlement/curtailment | **-** | - | - | 624 |
| Net periodic benefit cost | **$ 6,675** | $ 17,229 | **$ 6,045** | $ 8,809 |

As we previously disclosed in our Consolidated Financial Statements for the year ended December 31, 2007, we expect to contribute up to $10 million to each of our U.S. and foreign pension plans during 2008. At September 30, 2008, $6.8 million and $6.7 million of contributions have been made to the U.S. and foreign pension plans, respectively.

Our pension funds actual asset returns have declined in line with the market indices. Our funded status will be highly dependent on the market returns and the prevailing discount rate used to value our year-end obligations. The funds 2008 year-end asset values and year-end assumptions will affect the Company s pension expense beginning in 2009.

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*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, 2008 and 2007 are as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| Service cost | **$ 919** | $ 713 | **$ 2,703** | $ 2,382 |
| Interest cost | **3,704** | 2,706 | **10,619** | 9,936 |
| Amortization of prior service credit | **(618)** | (466) | **(1,854)** | (1,381) |
| Amortization of net loss | **911** | 474 | **2,388** | 1,897 |
| Net periodic benefit cost | **$ 4,916** | $ 3,427 | **$ 13,856** | $ 12,834 |

For the three months ended September 30, 2008 and 2007, we made $6.6 million and $9.1 million of contributions representing benefit payments, respectively. Contributions for benefit payments were $23.7 million and $24.8 million for the nine months ended September 30, 2008 and 2007, respectively.

## 15. *Income Taxes*

The effective tax rate for the three months ended September 30, 2008 and 2007 was 39.4% and 35.3%, respectively. The increase in the tax rate is principally due to a low tax benefit associated with restructuring expenses recorded in the three months ended September 30, 2008. The effective tax rate for the nine months ended September 30, 2008 and 2007 was 36.8% and 34.6%, respectively. The increase in the year-to-date tax rate is principally due to the low tax benefit associated with restructuring expenses recorded in 2008, and an additional tax accrual of $6.5 million in the first quarter of 2008 associated with lease refunds in the U.K. and Ireland.

Tax authorities continually examine our tax filings. On a regular basis, we conclude tax return examinations, statutes of limitations expire, and court decisions interpret tax law. We regularly assess tax uncertainties in light of these developments. As a result, it is reasonably possible that the amount of our unrecognized tax benefits will increase or decrease in the next 12 months, but we expect this change to be less than 5% of our unrecognized tax benefits. We recognize interest and penalties related to uncertain tax positions in our provision for income taxes or discontinued operations as appropriate. We recorded $8.7 million and $4.7 million during the nine months ended September 30, 2008 and 2007, respectively, in interest and penalties and this amount was included in discontinued operations. We had $122.3 million and $113.6 million accrued for the payment of interest and penalties at September 30, 2008 and December 31, 2007, respectively.

We estimate the IRS will complete its current examination of tax years 2001-2004 in 2009. In connection with the 2001-2004 audit, we have recently received notices of proposed adjustments to our filed returns. We have accrued our best estimate of the probable tax, interest and penalties that may result from these proposed adjustments. We are also disputing a formal request from the IRS in the form of a civil summons to provide certain company workpapers. We believe that certain documents being sought should not be produced because they are privileged. In a similar case, the U.S. District Court in Rhode Island ruled that certain company workpapers were privileged. The IRS has appealed that decision. Also in connection with the 2001-2004 audits, we have entered into a settlement with the IRS regarding the tax treatment of certain lease transactions related to the Capital Services business that we sold in 2006. Prior to 2007, we accrued and paid the IRS the additional tax and interest associated with this settlement. A variety of post-1999 tax years remain subject to examination by other tax authorities, including the U.K., Canada, France, Germany and various U.S. states. We have accrued our best estimate of the 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 flows.

During 2009, we expect to accrue additional tax of approximately $11 to $13 million associated with the expiration of vested stock options and the vesting of restricted stock units previously granted to our employees. This write-off of deferred tax assets will not require us to pay any taxes.

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# 16. *Fair Value Measurements*

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

Non-recurring nonfinancial assets and nonfinancial liabilities for which we have not applied the provisions of SFAS 157 include those measured at fair value in goodwill impairment testing, indefinite lived intangible assets measured at fair value for impairment testing, and those non-recurring nonfinancial assets and nonfinancial liabilities initially measured at fair value in a business combination. The new fair value definition and disclosure requirements for these specific nonfinancial assets and nonfinancial liabilities will be effective January 1, 2009.

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

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

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

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

The following table shows, by level within the fair value hierarchy, our financial assets and liabilities that are accounted for at fair value on a recurring basis as of September 30, 2008. As required by SFAS 157, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect their placement within the fair value hierarchy levels.

| | Recurring Fair Value Measurements At September 30, 2008 By Level | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Assets:** | | | | |
| Investment securities | | | | |
| Money market funds | $ 204,430 | $ - | $ - | $ 204,430 |
| U.S. Government and agency | | | | |
| Issued debt | 23,582 | 11,830 | - | 35,412 |
| Corporate notes and bonds | - | 3,812 | - | 3,812 |
| Asset backed securities | - | 4,864 | - | 4,864 |
| Mortgage-backed securities | - | 25,152 | - | 25,152 |
| Derivative instruments | | | | |
| Interest rate swaps | - | 8,594 | - | 8,594 |
| Foreign exchange contracts | - | 10,240 | - | 10,240 |

| | | | | |
|---|---|---|---|---|
| Total assets | $ 228,012 | $ 64,492 | $ - | $ 292,504 |

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

**Investment Securities**

For our investments, we use the market approach for recurring fair value measurements and the valuation techniques use inputs that are observable, or can be corroborated by observable data, in an active marketplace.

The following information relates to our classification into the fair value hierarchy:

- *Money market funds:* Money market funds typically invest in government securities, certificates of deposit, commercial paper of companies and other highly liquid and low-risk securities. Money market funds are principally used for overnight deposits and are classified in Level 1 of the fair value hierarchy.

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

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

- *Corporate Notes and Bonds*: The fair value of corporate securities is estimated using recently executed transactions, market price quotations where observable, or bond spreads. The spread data used are for the same maturity as the security. These securities are classified in Level 2 of the fair value hierarchy.

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

Investment securities are primarily composed of investments by The Pitney Bowes Bank (PBB). PBB, our wholly-owned subsidiary, is a Utah-chartered Industrial Loan Company (ILC). Our investments are all classified as available-for-sale securities. The bank s investments at September 30, 2008 were $198.5 million. We reported these investments in the Condensed Consolidated Balance Sheet as cash and cash equivalents of $130.9 million, short-term investments of $19.4 million and long-term investments of $48.2 million.

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

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

**Derivative Instruments**

In the normal course of business, we are exposed to the impact of interest rate changes and foreign currency fluctuations. The company limits these risks by following established risk management policies and procedures, including the use of derivatives. We use derivatives to manage the related cost of debt and to limit the effects of

foreign exchange rate fluctuations on financial results. We do not use derivatives for trading or speculative purposes.

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

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

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

*Interest Rate Swaps*

Derivatives designated as fair value hedges include interest rate swaps related to fixed rate debt. Changes in the fair value of both the derivative and item being hedged are recognized in income. In April 2003, we entered into an interest rate swap for an aggregate notional amount of $350 million. The interest rate swap effectively converted the fixed rate of 4.75% on $350 million of our notes, due 2018, into variable interest rates. The variable rates payable by us are based on six month LIBOR less a spread of 22.8 basis points. At September 30, 2008 and December 31, 2007, the fair value of the derivative was an asset of $10.1 million and $6.8 million, respectively. Long-term debt was increased by $10.1 million and $6.8 million at September 30, 2008 and December 31, 2007, respectively.

In March 2008, we entered into two interest rate swaps for an aggregate notional amount of $250 million to effectively convert the fixed rate of 5.60% on $250 million of our notes, due 2018, into variable interest rates. The variable rates payable by us are based on six month LIBOR plus 111.5 basis points. At September 30, 2008, the fair value of the derivatives was a liability of $1.5 million. Long-term debt was reduced by $1.5 million at September 30, 2008.

*Foreign Exchange Contracts*

We enter into foreign exchange contracts to minimize the impact of exchange rate fluctuations on inter-company loans and related interest that are denominated in a foreign currency. The revaluation of the short-term inter-company loans and interest and the mark-to-market on the derivatives are both recorded to income. At September 30, 2008, we had 20 outstanding foreign exchange contracts to buy or sell various currencies with an asset value of $9.9 million. The contracts will expire by March 19, 2009. At December 31, 2007, the asset value of these derivatives was $1.9 million.

We also enter into foreign currency exchange contracts arising from the anticipated purchase of inventory between affiliates. These contracts are designated as cash flow hedges. The effective portion of the gain or loss on the cash flow hedges is included in other comprehensive income in the period that the change in fair value occurs and is reclassified to income in the same period that the hedged item is recorded in income. At September 30, 2008, we had 9 outstanding contracts with a notional amount of $14.8 million associated with these anticipated transactions and a derivative asset of $0.2 million. We had no outstanding contracts at December 31, 2007.

## 17. *Commitment 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.

Ricoh Corporation et al. v. Pitney Bowes Inc. (United States District Court, District of New Jersey, filed November 26, 2002). On September 8, 2008, the Court of Appeals for the Federal Circuit affirmed the District Court's decision in the company's favor in this patent litigation. Unless Ricoh successfully petitions the United States Supreme Court to hear a further appeal, this case is concluded.

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

Imagitas, Inc., Drivers Privacy Protection Act Litigation, MDL Docket No. 1828 (United States Court of Appeals, Eleventh Judicial Circuit, on appeal from the United States District Court, Middle District of Florida). On April 9, 2008, the District Court granted Imagitas motion for summary judgment in one of the coordinated cases Rine, et al. v. Imagitas, Inc. (United States District Court, Middle District of Florida, filed August 1, 2006). On July 30, 2008, the court issued a final judgment on the Rine litigation and stayed all of the other cases filed against Imagitas pending an appellate decision on the Rine litigation. On August 27, 2008, the plaintiffs in the Rine litigation filed an appeal of the District Court s decision. The appellate process in this case is proceeding.

We expect to prevail in these lawsuits; 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.

## 18. *Guarantees*

We apply FIN No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, to our agreements that contain guarantees or indemnifications. 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, 2008, the outstanding balance of these guarantees was $4.3 million.

We provide product warranties in conjunction with certain product sales, generally for a period of 90 days from the date of installation. Our product warranty liability reflects our best estimate of probable liability for product warranties based on historical claims experience, which has not been significant, and other currently available evidence. Accordingly, our product warranty liability at September 30, 2008 and December 31, 2007, respectively, was not material.

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

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

The following analysis of our financial condition and results of operations should be read in conjunction with Pitney Bowes' Condensed Consolidated Financial Statements contained in this report and Pitney Bowes' Form 10-K for the year ended December 31, 2007.

**Overview**

For the third quarter, revenue grew 3% over the prior year to $1.5 billion. Excluding acquisitions and foreign currency translation which contributed 3% and 1%, respectively, revenue was down 1%. U.S. Mailing revenue declined primarily due to lower mailing equipment sales as large enterprise accounts and some government agencies elected to either defer upgrade decisions for new equipment or extend leases on existing equipment because of uncertainty about how the economy may impact their operations. As a result of lower equipment placements, rental and financing revenue also declined. Partially offsetting the decline was growth in Mail Services, International Mailing and Marketing Services.

Income from continuing operations for the third quarter of 2008 was $100.3 million or $0.48 per diluted share as compared with $0.59 earnings per diluted share in the third quarter of 2007. Income from continuing operations in the third quarter of 2008 included restructuring charges and asset impairments of 19 cents per diluted share. Income from continuing operations in the third quarter of 2007 was reduced approximately 2 cents per diluted share 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.

Performance for the quarter reflects the impact of our transition initiatives, which helped offset continued economic weakness, particularly in the financial services sector.

The Company generated $281 million in cash from operations during the third quarter and $742 million during the nine months ended September 30, 2008.

See "Results of Operations – Third Quarter of 2008 Compared to Third Quarter of 2007" for a more detailed discussion of our results of operations.

**Outlook**

While we anticipate that the remainder of 2008 will present challenges for all of our businesses, our products and services are designed to provide efficiencies, cost savings and revenue growth opportunities for our customers. We believe we are well positioned to continue to grow our earnings in the fourth quarter and during 2009 despite the challenging economic environment due to our business model of high recurring revenue and our diverse customer base.

We will continue to execute our transition initiatives that we began in the fourth quarter of 2007. We expect to incur approximately $15 million of restructuring charges in the fourth quarter of 2008 associated with actions identified to date; however, we continue to evaluate additional actions in conjunction with this program. We will continue to focus on operational efficiency, cash flow and expense management. We remain committed to meet and potentially exceed our original target of $150 million in pre-tax benefits in 2009.

We expect our mix of revenue to continue to change, with a greater percentage of the revenue coming from diversified revenue streams associated with fully featured smaller systems and a smaller percentage from larger system sales. In addition, we continue to expect a greater percentage of revenue growth from our Software, International Mailing and Mail Services segments. We expect to derive further synergies from our recent acquisitions, to remain focused on enhancing our productivity, and to allocate capital in order to optimize our returns.

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**Results of Operations – Third Quarter of 2008 compared to Third Quarter of 2007**

***Business segment results***

The following table shows revenue and earnings before interest and taxes ("EBIT") by segment for the three months ended September 30, 2008 and 2007. Prior year results have been reclassified to conform to the current year presentation. Refer to Note 7 to the Condensed Consolidated Financial Statements for further detail on these changes.

| (Dollars in thousands) | Revenue | | | EBIT(1) | | |
|---|---|---|---|---|---|---|
| | Three Months Ended September 30, | | | Three Months Ended September 30, | | |
| | **2008** | 2007 | % change | **2008** | 2007 | % change |
| U.S. Mailing | **$ 549,360** | $ 575,782 | (5)% | **$ 223,141** | $ 226,061 | (1)% |
| International Mailing | **271,727** | 254,001 | 7% | **41,123** | 33,424 | 23% |
| Production Mail | **154,554** | 151,857 | 2% | **23,183** | 16,877 | 37% |
| Software | **94,221** | 88,437 | 7% | **3,167** | 5,159 | (39)% |
| Mailstream Solutions | **1,069,862** | 1,070,077 | -% | **290,614** | 281,521 | 3% |
| Management Services | **287,989** | 278,167 | 4% | **16,064** | 17,140 | (6)% |
| Mail Services | **139,689** | 111,785 | 25% | **15,467** | 15,702 | (1)% |
| Marketing Services | **50,133** | 48,248 | 4% | **6,126** | 5,310 | 15% |
| Mailstream Services | **477,811** | 438,200 | 9% | **37,657** | 38,152 | (1)% |
| Total | **$ 1,547,673** | $ 1,508,277 | 3% | **$ 328,271** | $ 319,673 | 3% |

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

During the third quarter of 2008, Mailstream Solutions revenue was flat and EBIT increased 3% compared with the prior year. U.S. Mailing's revenue decreased 5% due to lower mailing equipment placements and rental revenues in core mailing of 2%, lower financing revenues due to lower lease portfolio levels of 2% and lower supplies revenue of 1%. The lower revenues were driven by the wind-down of meter migration and by customer buying decisions influenced by uncertainty created by weak economic conditions. U.S. Mailing's EBIT decreased 1% principally due to the lower revenue growth, but was partly offset by positive impacts of our transition initiatives. International Mailing's revenue grew by 7% and benefited 4% from favorable foreign currency translation and 2% from acquisitions. Revenue growth was also impacted by increased rentals in France; increased equipment sales in Norway and other parts of Europe; and continued growth in supplies. International Mailing's EBIT margins were favorably impacted by an improving cost structure in Europe. Revenue for Production Mail grew by 2% driven by positive foreign currency translation. Revenue growth from higher equipment placements in the U.K., Germany, and other parts of Europe were offset by lower equipment sales in the U.S. where economic uncertainty has slowed large-ticket investment for many companies, especially in the financial services sector. Production Mail's EBIT, however, increased 37% due to a consistent focus on improving the cost structure. Software revenue increased 7%. Revenue was flat, when compared with the prior year, after excluding the effect of acquisitions. Software sales increased outside of the U.S., but declined within the U.S. as a result of the economic uncertainty, which has resulted in certain large customers delaying their purchasing decisions. Software's EBIT decreased 39% due to the lower revenue growth, planned global investment in sales and marketing, and increase in research and development.

During the third quarter of 2008, Mailstream Services revenue grew 9% and EBIT decreased 1% compared with the prior year. The Management Services revenue growth of 4% was driven by acquisitions of 6%, partially offset by a decline in revenue of 3% due to lower transaction volumes for some customers, especially in the U.S. financial services sector. Management Services EBIT decreased 6% due to acquisition costs in France and fewer,

high margin volume-related transactions. These decreases were partially offset by cost reductions in the U.S. through several productivity initiatives. Mail Services revenue grew 25%. Continued growth in presort and international mail services contributed 11% and acquisitions contributed 14% to this revenue growth. The Mail Services EBIT benefits from operating leverage were more than offset in the quarter by the costs associated with the acquisition of a multi-site presort operation in the U.S. and two U.K. international mail services sites. Marketing Services revenue grew 4% and EBIT increased by 15%. The segment□s results benefited from higher volumes in our mover-source program. The company□s phased exit from the motor vehicle registration services program adversely affected the segment□s revenue growth by $1.1 million, while positively impacting EBIT margins versus prior year by $2.0 million.

***Revenue by source***

The following table shows revenue by source for the three months ended September 30, 2008 and 2007:

| (Dollars in thousands) | **Three Months Ended September 30,** | | |
|---|---|---|---|
| | **2008** | 2007 | % change |
| Equipment sales | **$ 296,520** | $ 307,897 | (4)% |
| Supplies | **96,864** | 95,497 | 1% |
| Software | **100,092** | 92,256 | 8% |
| Rentals | **182,850** | 183,452 | -% |
| Financing | **195,632** | 201,241 | (3)% |
| Support services | **193,516** | 185,520 | 4% |
| Business services | **482,199** | 442,414 | 9% |
| Total revenue | **$ 1,547,673** | $ 1,508,277 | 3% |

Equipment sales revenue decreased 4% compared to the prior year. Sales of equipment in U.S. Mailing were lower primarily due to weak economic conditions, the wind-down of meter migration and the product shift toward smaller, fully featured postage machines. Foreign currency translation had a favorable impact of 1%.

Supplies revenue increased by 1% from the prior year, principally due to foreign currency translation. Increased demand internationally was offset by lower revenue in the U.S.

Software revenue increased by 8% compared to the prior year. The revenue growth was primarily driven by acquisitions of 7% and higher international demand for our products. We experienced strong revenue growth in Asia Pacific and Europe, which was offset by a decrease in U.S. revenue. U.S. revenue was adversely impacted by the ongoing weak economic conditions causing some large enterprise accounts to postpone their purchase decisions.

Rentals revenue was flat compared to the prior year. A decrease in U.S. Mailing rental revenue was principally offset by strong rental demand in France.

Financing revenue decreased 3% mainly due to a reduction in equipment placements.

Support services revenue increased 4% from the prior year. The increase is primarily attributable to higher service revenue on older equipment as customers defer their upgrade decisions, partly due to the weak economic conditions. Foreign currency translation had a favorable impact of 2%.

Business services revenue increased 9% from the prior year. This growth was driven by higher revenue in the mail and management services businesses. Acquisitions contributed 7% to this growth.

***Costs and expenses***

| (Dollars in thousands) | **Three Months Ended September 30,** | |
|---|---|---|
| | **2008** | 2007 |
| Cost of equipment sales | **$ 157,593** | $ 164,659 |
| Cost of supplies | **$ 26,382** | $ 27,061 |
| Cost of software | **$ 25,917** | $ 21,749 |
| Cost of rentals | **$ 36,252** | $ 42,630 |
| Cost of support services | **$ 113,581** | $ 108,011 |
| Cost of business services | **$ 375,949** | $ 345,024 |
| Selling, general and administrative | **$ 478,914** | $ 479,772 |

| | | | | |
|---|---|---|---|---|
| Research and development | **$** | **53,008** | $ | 47,691 |

Cost of equipment sales decreased as a percentage of revenue to 53.1% in the third quarter of 2008 compared with 53.5% in the prior year, primarily due to actions taken pursuant to the Company□s transition initiatives.

Cost of supplies as a percentage of revenue decreased to 27.2% in the third quarter of 2008 compared with 28.3% in the prior year driven by favorable product mix in the U.S., which was offset by an increase of lower margin international sales.

Cost of software as a percentage of revenue increased to 25.9% in the third quarter of 2008 compared with 23.6% in the prior year primarily due to a change in the mix of business.

Cost of rentals as a percentage of revenue decreased to 19.8% in the third quarter of 2008 compared with 23.2% in the prior year primarily due to lower depreciation costs associated with the transition of our product line.

Cost of support services as a percentage of revenue increased to 58.7% compared with 58.2% in the prior year primarily due to higher fuel costs worldwide for our direct service organization.

Cost of business services as a percentage of revenue was 78.0% for the third quarter of 2008 and 2007. The favorable impact due to increased volumes at Marketing Services and productivity improvements for U.S. Management Services were offset by acquisition costs at Mail Services and Management Services.

Selling, general and administrative (SG&A) expenses as a percentage of revenue decreased to 30.9% in the third quarter of 2008 compared with 31.8% in the prior year reflecting the positive impacts of our transition initiatives.

Research and development (R&D) expenses increased $5.3 million from the prior year as we continue to invest in developing new technologies and enhancing our products. R&D expenses as a percentage of revenue increased to 3.4% in the third quarter of 2008 from 3.2% in the third quarter of 2007.

***Restructuring Charges and Asset Impairments***

Pre-tax restructuring reserves at September 30, 2008 are composed of the following:

| (Dollars in thousands) | Balance at June 30, 2008 | Expenses | Cash payments | Non-cash charges | Balance at September 30, 2008 |
|---|---|---|---|---|---|
| Severance and benefit costs | **$ 77,314** | **$ 24,709** | **$ (24,257)** | **$ -** | **$ 77,766** |
| Asset impairments | **-** | **19,522** | **-** | **(19,522)** | **-** |
| Other exit costs | **9,195** | **4,998** | **(3,658)** | **-** | **10,535** |
| Total | **$ 86,509** | **$ 49,229** | **$ (27,915)** | **$ (19,522)** | **$ 88,301** |

We recorded pre-tax restructuring charges and asset impairments of $49.2 million in the three months ended September 30, 2008. These charges primarily relate to a program we announced in November 2007 to lower our cost structure, accelerate efforts to improve operational efficiencies, and transition our product line. For the three months ended September 30, 2008, the asset impairment charges included in restructuring activities related to older technology equipment of $10.7 million in France and other assets of $0.2 million. Additional asset impairments, unrelated to restructuring, were also recorded. These other impairment charges are related to intangible assets of $8.6 million due to a loss of a customer in our Marketing Services business and the ongoing shift in market conditions for the litigation support vertical in our Management Services business.

As a result of this program, we originally targeted a net reduction of about 1,500 positions. About half of these reductions were to be outside the U.S. For the three and nine months ended September 30, 2008, 308 and 1,272 terminations have occurred under this program, respectively. During 2008, approximately 300 additional positions have been eliminated. We expect to incur approximately $15 million of restructuring charges in the fourth quarter 2008 associated with actions identified to date; however, we continue to evaluate additional actions in conjunction with this program. We expect to complete the majority of this program by the end of 2008. The majority of the liability at September 30, 2008 is expected to be paid by mid-2009 from cash generated from operations.

***Net interest expense***

Interest expense for the three months ended September 30, 2008 and 2007:

| (Dollars in thousands) | Three Months Ended September 30, | | |
|---|---|---|---|
| | **2008** | 2007 | % change |
| Interest expense, net | **$ 54,560** | $ 60,386 | (10)% |

Net interest expense decreased by $5.8 million or 10% in the third quarter of 2008 compared with the prior year. A 57 basis point change in our average interest rate, as a result of lower interest rates on our floating rate debt, was partially offset by an increase in average borrowings of $39 million.

***Income taxes***

The effective tax rate for the third quarter of 2008 was 39.4% compared with 35.3% in the prior year. The increase is principally due to a low tax benefit associated with restructuring expenses recorded in the three months ended September 30, 2008.

***Minority interest (preferred stock dividends of subsidiaries)***

The following table details dividends paid to preferred stockholders for the three months ended September 30, 2008 and 2007:

| (Dollars in thousands) | Three Months Ended September 30, | |
|---|---|---|
| | **2008** | 2007 |
| Preferred stock dividends of subsidiaries | **$ 6,540** | $ 4,862 |

In August 2008, we redeemed 100% of the outstanding Cumulative Preferred Stock issued previously by a subsidiary company for $10 million. This redemption resulted in a net expense of $1.8 million.

***Discontinued operations***

The following table details the components of discontinued operations for the three months ended September 30, 2008 and 2007:

| (Dollars in thousands) | Three Months Ended September 30, | |
|---|---|---|
| | **2008** | 2007 |
| Net loss from discontinued operations, net of tax | **$ 2,063** | $ 1,565 |

Net loss for the three months ended September 30, 2008 and 2007 relates to the accrual of interest on uncertain tax positions.

**Results of Operations  Nine Months Ended September 30, 2008 compared to Nine Months Ended September 30, 2007**

***Revenue by source***

| (Dollars in thousands) | Nine Months Ended September 30, | | |
|---|---|---|---|
| | **2008** | 2007 | % change |
| Equipment sales | **$ 910,883** | $ 961,868 | (5)% |
| Supplies | **305,750** | 292,197 | 5% |
| Software | **314,617** | 223,580 | 41% |
| Rentals | **553,658** | 552,433 | -% |
| Financing | **591,834** | 586,658 | 1% |
| Support services | **579,996** | 564,597 | 3% |
| Business services | **1,452,978** | 1,284,215 | 13% |
| Total revenue | **$ 4,709,716** | $ 4,465,548 | 5% |

Equipment sales revenue decreased 5% compared to the prior year. Lower sales of equipment in U.S. Mailing were primarily due to the postal rate case in 2007, which stimulated incremental sales during that period, weak economic conditions, and product shift toward smaller, fully featured postage machines which resulted in an overall unfavorable impact on equipment sales. International revenue increased principally due to a postal rate change in the first quarter of 2008 in France, combined with higher equipment placements throughout Europe and Asia. Foreign currency translation contributed a favorable impact of 4%.

Supplies revenue increased by 5% from the prior year. This increase was primarily driven by revenue growth in Europe as our customers continue to migrate to digital technology. Foreign currency translation contributed 3%.

Software revenue increased by 41% from the prior year primarily driven by acquisitions which contributed 27%, strong international demand for our location intelligence and customer communication software solutions, and foreign currency translation which contributed 3%.

Rentals revenue was flat compared to the prior year. Favorable foreign currency translation of 2% and higher demand in France were offset by lower revenue in the U.S., as our customers continue to downsize to smaller, fully featured machines.

Financing revenue increased 1% primarily due to foreign currency translation.

Support services revenue increased 3% from the prior year, primarily due to the favorable impact of foreign currency translation of 3%. Renewals and pricing increases offset the impact of customers down-sizing their equipment.

Business services revenue increased 13% from the prior year. The growth was driven by higher revenue in Mail Services and Marketing Services, which was partly offset by lower transaction volumes in Management Services. Acquisitions and foreign currency translation contributed 8% and 1%, respectively, to this growth.

***Costs and expenses***

| (Dollars in thousands) | Nine Months Ended September 30, | |
|---|---|---|
| | **2008** | 2007 |
| Cost of equipment sales | **$ 484,988** | $ 481,873 |
| Cost of supplies | **$ 80,673** | $ 77,909 |
| Cost of software | **$ 80,107** | $ 54,373 |

| | | | | |
|---|---|---|---|---|
| Cost of rentals | **$** | **114,227** | $ | 128,312 |
| Cost of support services | **$** | **343,507** | $ | 320,832 |
| Cost of business services | **$** | **1,138,249** | $ | 1,008,647 |
| Selling, general and administrative | **$** | **1,473,098** | $ | 1,393,289 |
| Research and development | **$** | **156,176** | $ | 138,364 |

Cost of equipment sales as a percentage of revenue increased to 53.2% in the first nine months of 2008 compared with 50.1% in the prior year, primarily due to the increase in mix of lower margin equipment sales outside the U.S.

Cost of supplies as a percentage of revenue decreased slightly to 26.4% in the first nine months of 2008 compared with 26.7% in the prior year. This variance is driven by changes in product mix.

Cost of software as a percentage of revenue increased to 25.5% in the first nine months of 2008 compared with 24.3% in the prior year primarily due to a change in the mix of business.

Cost of rentals as a percentage of revenue decreased to 20.6% in the first nine months of 2008 compared with 23.2% in the prior year primarily due to lower depreciation costs related to the transition of our product line.

Cost of support services as a percentage of revenue increased to 59.2% for the first nine months compared with 56.8% in the prior year primarily due to higher fuel costs worldwide for our direct service organization.

Cost of business services as a percentage of revenue was 78.3% for the nine months of 2008 compared to 78.5% for the prior year. The successful integration of new sites and productivity improvements at our Mail Services operations was partially offset by higher acquisition costs in both our Management Services and Mail Services operations.

SG&A expenses as a percentage of revenue increased slightly to 31.3% in the first nine months of 2008 compared with 31.2% in the prior year. The increase was due to lower revenue growth and a shift in the mix of our businesses as well as higher credit loss expenses in the U.S. Software, which is becoming a larger portion of our overall business, has a relatively higher SG&A expense ratio. These increases were largely offset by the positive impacts of our transition initiatives.

R&D expenses increased $17.8 million from the prior year as we continue to invest in developing new technologies, enhancing our products, and the acquisition of MapInfo. R&D expenses as a percentage of sales increased to 3.3% in the first nine months of 2008 from 3.1% in 2007.

***Restructuring Charges and Asset Impairments***

Pre-tax restructuring reserves at September 30, 2008 are composed of the following:

| (Dollars in thousands) | Balance at December 31, 2007 | Expenses | Cash payments | Non-cash charges | Balance at September 30, 2008 |
|---|---|---|---|---|---|
| Severance and benefit costs | $ 81,251 | $ 54,584 | $ (58,071) | $ - | $ 77,764 |
| Asset impairments | - | 20,205 | - | (20,205) | - |
| Other exit costs | 5,795 | 10,348 | (5,606) | - | 10,537 |
| Total | $ 87,046 | $ 85,137 | $ (63,677) | $ (20,205) | $ 88,301 |

We recorded pre-tax restructuring charges and asset impairments of $85.1 million in the nine months ended September 30, 2008. These charges primarily relate to a program we announced in November 2007 to lower our cost structure, accelerate efforts to improve operational efficiencies, and transition our product line. For the nine months ended September 30, 2008, the asset impairment charges included in restructuring activities related to older technology equipment of $9.9 million primarily in France and other assets of $0.3 million. Additional asset impairments, unrelated to restructuring, were also recorded. These other impairment charges are related to intangible assets of $10.0 million principally due to a loss of a customer in our Marketing Services business and the ongoing shift in market conditions for the litigation support vertical in our Management Services business.

As a result of this program, we originally targeted a net reduction of about 1,500 positions. About half of these reductions were to be outside the U.S. As of September 30, 2008, 1,272 terminations have occurred under this program and approximately 300 additional positions have been eliminated. We expect to incur approximately $15 million of restructuring charges in the fourth quarter 2008 associated with actions identified to date; however, we continue to evaluate additional actions in conjunction with this program. We expect to complete the majority of

this program by the end of 2008. The majority of the liability at September 30, 2008 is expected to be paid by mid-2009 from cash generated from operations.

***Net interest expense***

Interest expense for the nine months ended September 30, 2008 and 2007:

| (Dollars in thousands) | Nine Months Ended September 30, | | |
|---|---|---|---|
| | **2008** | 2007 | % change |
| Interest expense, net | **$ 167,464** | $ 179,654 | (7)% |

Net interest expense decreased by $12.2 million or 7% in the nine months ended September 30, 2008 compared with the prior year. A 57 basis point change in our average interest rate, as a result of lower interest rates on our floating rate debt, was partially offset by an increase in average borrowings of $273 million.

***Income taxes***

The effective tax rate for the first nine months of 2008 was 36.8% compared with 34.6% in the prior year. The increase is principally due to the low tax benefit associated with restructuring expenses recorded in 2008, and an additional tax accrual of $6.5 million in the first quarter of 2008 associated with lease refunds in the U.K. and Ireland.

***Minority interest (preferred stock dividends of subsidiaries)***

The following table details dividends paid to preferred stockholders for the nine months ended September 30, 2008 and 2007:

| (Dollars in thousands) | Nine Months Ended September 30, | |
|---|---|---|
| | **2008** | 2007 |
| Preferred stock dividends of subsidiaries | **$ 16,134** | $ 14,404 |

In August 2008, we redeemed 100% of the outstanding Cumulative Preferred Stock issued previously by a subsidiary company for $10 million. This redemption resulted in a net expense of $1.8 million.

***Discontinued operations***

The following table details the components of discontinued operations for the nine months ended September 30, 2008 and 2007:

| (Dollars in thousands) | Nine Months Ended September 30, | |
|---|---|---|
| | **2008** | 2007 |
| Net loss from discontinued operations, net of tax | **$ 8,726** | $ 4,695 |

Net loss for the nine months ended September 30, 2008 and 2007 relates to the accrual of interest on uncertain tax positions.

**Liquidity and Capital Resources**

In light of recent market events, we have conducted an extensive review of our liquidity provisions. We have not determined a material variation in the underlying sources of cash flows currently used to finance the operations of the company. To date, we have had consistent access to the commercial paper market. In addition, we have carefully monitored the creditworthiness of those banks acting as derivative counterparties, depository banks or

credit providers to Pitney Bowes through credit ratings and the credit default swap market for material changes. Lease and loan customer payments are running slightly slower in the third quarter of 2008, but overall delinquency has not increased significantly, or beyond historical levels. We recognize that there are risks in the economy and are closely monitoring the portfolio condition. We will record loss provisions, as necessary, to ensure the business is adequately reserved.

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

***Cash Flow Summary***

The change in cash and cash equivalents is as follows:

| (Dollars in thousands) | Nine Months Ended September 30, | |
|---|---|---|
| | **2008** | 2007 |
| Cash provided by operating activities | **$ 741,702** | $ 696,768 |
| Cash used in investing activities | **(201,486)** | (739,698) |
| Cash (used in) provided by financing activities | **(452,998)** | 137,442 |
| Effect of exchange rate changes on cash | **(5,608)** | 5,149 |
| Increase in cash and cash equivalents | **$ 81,610** | $ 99,661 |

*2008 Cash Flows*

Net cash provided by operating activities consists primarily of net income adjusted for non-cash items and changes in operating assets and liabilities. A lower investment in finance receivables of $74.3 million and an increase in advanced billings of $16.3 million contributed to this increase in cash. In addition, the timing of tax payments favorably contributed $93.5 million. Partially offsetting these positive impacts was a reduction in accounts payable and accrued liabilities of $94.9 million, primarily due to timing of payments.

Net cash used in investing activities consisted principally of capital expenditures of $170.0 million combined with acquisitions of $69.0 million partially offset by increased reserve account balances for customer deposits of $16.6 million and a reduction in investments of $21.7 million.

Net cash used in financing activities consisted primarily of dividends paid to stockholders of $219.4 million and stock repurchases of $333.2 million, partially offset by proceeds from issuance of stock of $16.6 million and a net increase in notes payable and long-term obligations of $94.9 million. We also paid $11.8 million associated with the redemption of 100% of the outstanding Cumulative Preferred Stock issued previously by a subsidiary company.

*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.

***Capital Expenditures***

During the first nine months of 2008, capital expenditures included $86.3 million in net additions to property, plant and equipment and $83.7 million in net additions to rental equipment and related inventories compared with $107.9 million and $94.1 million, respectively, in the same period in 2007.

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***Financings and Capitalization***

We have a commercial paper program that is a significant source of liquidity. During the credit crisis, we have continued to have consistent access to the commercial paper market and have issued commercial paper with longer maturities. As of September 30, 2008, we had $829 million of outstanding commercial paper issuances. We also have a committed line of credit of $1.5 billion which supports commercial papers issuances and is guaranteed by a syndicate of 15 banks until 2011. As of September 30, 2008, this line of credit has not been drawn down.

As of September 30, 2008, we had $350 million available under an existing shelf registration statement filed in February 2005 with the SEC. This shelf registration statement is set to expire on December 1, 2008. In anticipation of this expiration, we filed a "Well-known Seasoned Issuer" registration statement with the SEC on June 18 permitting the issuance of debt securities, preferred stock, preference stock, common stock, purchase contracts, depositary shares, warrants and units.

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

We believe our financing needs in the 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 September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements* ("SFAS 157"), to define how the fair value of assets and liabilities should be measured in accounting standards where it is allowed or required. In addition to defining fair value, the Statement established a framework within GAAP for measuring fair value and expanded required disclosures surrounding fair value measurements. In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-2, *Effective Date of FASB Statement No. 157,* which delayed the effective date by one year for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. In October 2008, the FASB issued FSP 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active.* This FSP is effective immediately and includes those periods for which financial statements have not been issued. We adopted this Statement for financial assets and financial liabilities on January 1, 2008, and the adoption did not have a material impact on our financial position, results of operations, or cash flows. We do not expect the adoption of this Statement for nonfinancial items effective January 1, 2009 to have a material impact on our financial position, results of operations, or cash flows. We currently do not have any financial assets that are valued using inactive markets, and as such are not impacted by the issuance of FSP 157-3. See Note 16, "Fair Value Measurements," to the Condensed Consolidated Financial Statements for additional discussion on fair value measurements.

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

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* ("SFAS 160"). SFAS 160 addresses the accounting and reporting for the

outstanding noncontrolling interest (previously referred to as minority interest) in a subsidiary and for the deconsolidation of a subsidiary. It also establishes additional disclosures in the consolidated financial statements that identify and distinguish between the interests of the parent□s owners and of the noncontrolling owners of a subsidiary. SFAS 160 requires changes in ownership interest that do not result in deconsolidation to be accounted for as equity transactions. This Statement requires

that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. This gain or loss is measured using the fair value of the noncontrolling equity investment. This Statement is effective for fiscal years beginning on or after December 15, 2008. SFAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements of SFAS 160 are applied prospectively. We do not expect the adoption of this Statement to have a material impact on our financial position, results of operations, or cash flows.

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

In April 2008, the FASB issued FSP No. 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3)FSP FAS 142-3 removed the requirement of SFAS No. 142*, Goodwill and Other Intangible Assets* (SFAS 142), for an entity to consider, when determining the useful life of an acquired intangible asset, whether the intangible asset can be renewed without substantial cost or material modification to the existing terms and conditions associated with the intangible asset. FSP FAS 142-3 replaces the previous useful-life assessment criteria with a requirement that an entity considers its own experience in renewing similar arrangements. If the entity has no relevant experience, it would consider market participant assumptions regarding renewal. This should lead to greater consistency between the useful life of recognized intangibles under SFAS 142 and the period of expected cash flows used to measure fair value of such assets under SFAS No. 141, *Business Combinations*. FSP FAS 142-3 will be applied prospectively beginning January 1, 2009. We do not expect the adoption of this Statement to have a material impact on our financial position, results of operations, or cash flows.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS 162)SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. SFAS 162 will be effective 60 days after the SEC approves the Public Company Accounting Oversight Board (PCAOB) amendments to auditing standards (AU Section 411). We do not expect the adoption of this Statement to result in a change in current practice.

In September 2008, the FASB issued FSP FAS 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161*. The FSP amends SFAS 133 to require a seller of credit derivatives, including credit derivatives embedded in a hybrid instrument, to provide certain disclosures for each statement of financial position presented. These disclosures are required even if the likelihood of having to make payments is remote. To make the disclosures consistent with the disclosures that will now be required for credit derivatives, FIN 45-4 was issued to require guarantors to disclose the current status of the payment/performance risk of the guarantee. This FSP also clarifies that SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The FSP is effective for reporting periods after November 15, 2008 for the amendments and on September 12, 2008 for the effective date of SFAS 161. The Company does not sell credit derivatives. The Company will comply with the additional disclosure requirement for guarantees beginning in the fourth quarter of 2008.

**Regulatory Matters**

There have been no significant changes to the regulatory matters disclosed in our 2007 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 su 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
- 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, 2007 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 the effectiveness of our disclosure controls and procedures and internal control over financial reporting. The CEO and CFO concluded that our disclosure controls and procedures were effective as of September 30, 2008. In addition, no change in internal control over financial reporting occurred during the quarter ended September 30, 2008, 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

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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**

Ricoh Corporation et al. v. Pitney Bowes Inc. (United States District Court, District of New Jersey, filed November 26, 2002). On September 8, 2008, the Court of Appeals for the Federal Circuit affirmed the District Court's decision in the company's favor in this patent litigation. Unless Ricoh successfully petitions the United States Supreme Court to hear a further appeal, this case is concluded.

Imagitas, Inc., Drivers' Privacy Protection Act Litigation, MDL Docket No. 1828 (United States Court of Appeals, Eleventh Judicial Circuit, on appeal from the United States District Court, Middle District of Florida). On April 9, 2008, the District Court granted Imagitas' motion for summary judgment in one of the coordinated cases Rine, et al. v. Imagitas, Inc. (United States District Court, Middle District of Florida, filed August 1, 2006). On July 30, 2008, the court issued a final judgment on the Rine litigation and stayed all of the other cases filed against Imagitas pending an appellate decision on the Rine litigation. On August 27, 2008, the plaintiffs in the Rine litigation, filed an appeal of the District Court's decision. The appellate process in this case is proceeding.

We expect to prevail in these lawsuits; 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, 2007.

**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 2008 in any other manner.

The following table summarizes our share repurchase activity under active programs during the first nine months of 2008:

| | 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) |
|---|---|---|---|---|
| December 2007 Balance | | | | $ 406,607 |
| January 2008 | 2,162,600 | $ 35.91 | 2,162,600 | $ 328,942 |
| February 2008 | 1,918,500 | $ 37.17 | 1,918,500 | $ 257,636 |
| March 2008 | 875,600 | $ 35.43 | 875,600 | $ 226,610 |
| April 2008 | 2,222,500 | $ 35.78 | 2,222,500 | $ 147,085 |
| May 2008 | 356,000 | $ 36.21 | 356,000 | $ 134,194 |
| June 2008 | - | - | - | $ 134,194 |
| July 2008 | - | - | - | $ 134,194 |

| | | | | | |
|---|---|---|---|---|---|
| August 2008 | - | | - | $ | 134,194 |
| September 2008 | 1,711,335 | $ 35.54 | 1,711,335 | $ | 73,376 |
| | 9,246,535 | | 9,246,535 | | |

**Item 3: Defaults Upon Senior Securities**

None

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

None

**Item 5: Other Information**

None

**Item 6: Exhibits**

See Index of Exhibits.

**Signatures**

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

PITNEY BOWES INC.

November 7, 2008

/s/ Michael Monahan
Michael Monahan
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 Act of 2002. |