PITNEY BOWES INC /DE/
Form 10-Q
August 05, 2010

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

FORM 10-Q

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

For the quarterly period ended June 30, 2010

OR

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

For the transition period from ________________ to ________________

Commission file number: 1-3579

PITNEY BOWES INC.

(Exact name of registrant as specified in its charter)

Delaware	**06-0495050**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1 Elmcroft Road, Stamford, Connecticut	**06926-0700**
(Address of principal executive offices)	(Zip Code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes 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.

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 Rule 12b-2 of the Exchange Act).
Yes o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of July 30, 2010.

Class	Outstanding
Common Stock, $1 par value per share	206,693,115 shares

PITNEY BOWES INC.
INDEX

PART I. FINANCIAL INFORMATION

Item 1: Financial Statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	**2010**	2009
Revenue:				
Equipment sales	**$ 230,235**	$ 257,196	**$ 470,171**	$ 489,021
Supplies	**77,054**	81,973	**162,331**	170,002
Software	**86,151**	87,380	**169,280**	167,106
Rentals	**150,141**	156,151	**305,578**	324,281
Financing	**156,604**	174,508	**319,379**	357,306
Support services	**175,298**	179,246	**355,332**	353,593
Business services	**421,754**	442,008	**863,399**	896,737
Total revenue	**1,297,237**	1,378,462	**2,645,470**	2,758,046
Costs and expenses:				
Cost of equipment sales	**102,997**	120,754	**209,399**	224,818
Cost of supplies	**24,173**	21,369	**49,538**	44,710
Cost of software	**19,282**	21,570	**39,873**	41,067
Cost of rentals	**34,310**	38,013	**71,381**	73,864
Financing interest expense	**21,821**	25,438	**43,759**	49,890
Cost of support services	**111,695**	120,239	**226,301**	237,586
Cost of business services	**337,652**	345,483	**668,124**	698,527
Selling, general and administrative	**426,352**	431,088	**869,649**	881,479
Research and development	**38,168**	46,622	**79,033**	93,571
Restructuring charges and asset impairments	**48,512**	-	**69,234**	-
Other interest expense	**29,204**	29,553	**56,862**	57,304
Interest income	**(696)**	(933)	**(1,458)**	(2,485)
Total costs and expenses	**1,193,470**	1,199,196	**2,381,695**	2,400,331
Income from continuing operations before income taxes	**103,767**	179,266	**263,775**	357,715
Provision for income taxes	**35,177**	62,535	**108,422**	134,684
Income from continuing operations	**68,590**	116,731	**155,353**	223,031
(Loss) gain from discontinued operations, net of income tax	**(2,666)**	5,102	**(5,796)**	7,725
Net income before attribution of noncontrolling interests	**65,924**	121,833	**149,557**	230,756
Less: Preferred stock dividends of subsidiaries attributable to noncontrolling interests	**4,543**	4,571	**9,137**	9,092
Pitney Bowes Inc. net income	**$ 61,381**	$ 117,262	**$ 140,420**	$ 221,664

Amounts attributable to Pitney Bowes Inc. common stockholders:				
Income from continuing operations	**$ 64,047**	$ 112,160	**$ 146,216**	$ 213,939
(Loss) gain from discontinued operations	**(2,666)**	5,102	**(5,796)**	7,725
Pitney Bowes Inc. net income	**$ 61,381**	$ 117,262	**$ 140,420**	$ 221,664
Basic earnings per share of common stock attributable to Pitney Bowes Inc. common stockholders (1):				
Continuing operations	**$ 0.31**	$ 0.54	**$ 0.70**	$ 1.04
Discontinued operations	**(0.01)**	0.02	**(0.03)**	0.04
Net income	**$ 0.30**	$ 0.57	**$ 0.68**	$ 1.07
Diluted earnings per share of common stock attributable to Pitney Bowes Inc. common stockholders (1):				
Continuing operations	**$ 0.31**	$ 0.54	**$ 0.70**	$ 1.03
Discontinued operations	**(0.01)**	0.02	**(0.03)**	0.04
Net income	**$ 0.30**	$ 0.57	**$ 0.68**	$ 1.07
Dividends declared per share of common stock	**$ 0.365**	$ 0.36	**$ 0.73**	$ 0.72

(1) The sum of the earnings per share amounts may not equal the totals above due to rounding.

See Notes to Condensed Consolidated Financial Statements

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

	June 30, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 459,451	$ 412,737
Short-term investments	21,839	14,682
Accounts receivables, gross	744,584	859,633
Allowance for doubtful accounts receivables	(34,565)	(42,781)
Accounts receivables, net	710,019	816,852
Finance receivables	1,375,195	1,417,708
Allowance for credit losses	(46,195)	(46,790)
Finance receivables, net	1,329,000	1,370,918
Inventories	182,974	156,502
Current income taxes	146,859	101,248
Other current assets and prepayments	99,856	98,297
Total current assets	2,949,998	2,971,236
Property, plant and equipment, net	463,993	514,904
Rental property and equipment, net	322,110	360,207
Finance receivables	1,249,327	1,380,810
Allowance for credit losses	(22,921)	(25,368)
Finance receivables, net	1,226,406	1,355,442
Investment in leveraged leases	232,820	233,359
Goodwill	2,211,544	2,286,904
Intangible assets, net	280,829	316,417
Non-current income taxes	107,963	108,260
Other assets	481,404	387,182
Total assets	$ 8,277,067	$ 8,533,911
LIABILITIES, NONCONTROLLING INTERESTS AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,661,401	$ 1,748,254
Current income taxes	139,593	144,385
Notes payable and current portion of long-term obligations	149,082	226,022
Advance billings	465,972	447,786
Total current liabilities	2,416,048	2,566,447
Deferred taxes on income	320,100	310,274
Tax uncertainties and other income tax liabilities	541,332	525,253
Long-term debt	4,233,469	4,213,640
Other non-current liabilities	590,429	625,079
Total liabilities	8,101,378	8,240,693

Noncontrolling interests (Preferred stockholders equity in subsidiaries)	**296,370**	296,370
Commitments and contingencies (See Note 17)		
Stockholders deficit:		
Cumulative preferred stock, $50 par value, 4% convertible	**4**	4
Cumulative preference stock, no par value, $2.12 convertible	**824**	868
Common stock, $1 par value (480,000,000 shares authorized; 323,337,912 shares issued)	**323,338**	323,338
Additional paid-in capital	**244,662**	256,133
Retained earnings	**4,280,409**	4,291,393
Accumulated other comprehensive loss	**(583,181)**	(459,792)
Treasury stock, at cost (115,394,201 and 116,140,084 shares, respectively)	**(4,386,737)**	(4,415,096)
Total Pitney Bowes Inc. stockholders deficit	**(120,681)**	(3,152)
Total liabilities, noncontrolling interests and stockholders deficit	**$ 8,277,067**	$ 8,533,911

See Notes to Condensed Consolidated Financial Statements

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

	Six Months Ended June 30,	
	2010	2009
Cash flows from operating activities:		
Net income before attribution of noncontrolling interests	**$ 149,557**	$ 230,756
Restructuring charges and asset impairments, net of tax	**45,397**	-
Restructuring payments	**(66,755)**	(49,110)
Payments for settlement of derivative instruments	**-**	(20,281)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**156,831**	175,240
Stock-based compensation	**10,785**	11,632
Changes in operating assets and liabilities, excluding effects of acquisitions:		
(Increase) decrease in accounts receivables	**95,043**	99,037
(Increase) decrease in finance receivables	**125,642**	165,142
(Increase) decrease in inventories	**(31,848)**	(4,738)
(Increase) decrease in prepaid, deferred expense and other assets	**(4,638)**	(20,652)
Increase (decrease) in accounts payable and accrued liabilities	**(64,096)**	(167,582)
Increase (decrease) in current and non-current income taxes	**(6,448)**	16,449
Increase (decrease) in advance billings	**10,912**	42,891
Increase (decrease) in other operating capital, net	**3,420**	4,603
Net cash provided by operating activities	**423,802**	483,387
Cash flows from investing activities:		
Short-term and other investments	**(83,904)**	(506)
Capital expenditures	**(58,639)**	(90,190)
Net investment in external financing	**(2,641)**	(356)
Acquisitions, net of cash acquired	**(10,350)**	-
Reserve account deposits	**19,467**	1,532
Net cash used in investing activities	**(136,067)**	(89,520)
Cash flows from financing activities:		
Decrease in notes payable, net	**(77,335)**	(476,085)
Proceeds from long-term obligations	**-**	297,513
Proceeds from issuance of common stock	**5,455**	5,100
Dividends paid to common stockholders	**(151,406)**	(148,623)
Dividends paid to noncontrolling interests	**(9,137)**	(9,092)
Net cash used in financing activities	**(232,423)**	(331,187)
Effect of exchange rate changes on cash and cash equivalents	**(8,598)**	5,911
Increase in cash and cash equivalents	**46,714**	68,591
Cash and cash equivalents at beginning of period	**412,737**	376,671
Cash and cash equivalents at end of period	**$ 459,451**	$ 445,262

Cash interest paid	**$**	**94,868**	$	99,103
Cash income taxes paid, net	**$**	**138,226**	$	119,132

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, 2009 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 June 30, 2010 and December 31, 2009, our results of operations for the six months ended June 30, 2010 and 2009 and our cash flows for the six months ended June 30, 2010 and 2009 have been included. Operating results for the six months ended June 30, 2010 are not necessarily indicative of the results that may be expected for any other interim period or the year ending December 31, 2010.

These statements should be read in conjunction with the financial statements and notes thereto included in our 2009 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 the largest provider of mail processing equipment and integrated mail solutions in the world. We offer a full suite of equipment, supplies, software and services for end-to-end mailstream solutions which enable our customers to optimize the flow of physical and electronic mail, documents and packages across their operations. We conduct our business activities in seven reporting segments within two business groups: Small & Medium Business Solutions and Enterprise Business Solutions. See Note 6 to the Condensed Consolidated Financial Statements for details of our reporting segments and a description of their activities.

3. Recent Accounting Pronouncements

Revenue Recognition
In September 2009, new guidance was introduced addressing the accounting for revenue arrangements with multiple elements and certain revenue arrangements that include software. This will allow companies to allocate consideration in a multiple element arrangement in a way that better reflects the economics of the transaction and will result in the elimination of the residual method. In addition, tangible products that have software components that are essential to the functionality of the tangible product will be scoped out of the software revenue guidance. The new guidance may also result in more expansive disclosures. The new guidance will be effective on January 1, 2011. We do not expect the adoption of this guidance to have a material impact on our financial position, results of operations, or cash flows.

4. Discontinued Operations

The following table shows selected financial information included in discontinued operations for the three and six months ended June 30, 2010 and 2009, respectively:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	**2010**	2009
Pre-tax income	**$ 754**	$ 10,851	**$ 754**	$ 20,624
Tax provision	**(3,420)**	(5,749)	**(6,550)**	(12,899)
(Loss) gain from discontinued operations, net of tax	**$ (2,666)**	$ 5,102	**$ (5,796)**	$ 7,725

The net loss for the three and six months months ended June 30, 2010 primarily relates to the accrual of interest on uncertain tax positions. The net gain for the three months ended June 30, 2009 relates to $10.9 million of pre-tax income ($6.7 million net of tax) representing the release of reserves related to the expiration of an indemnity agreement associated with our former Capital Services business.

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

The net gain for the six months ended June 30, 2009 includes the indemnity settlement as discussed and $9.8 million pre-tax income ($6.0 million net of tax) for a bankruptcy settlement, which was partially offset by the accrual of interest on uncertain tax positions. We received a bankruptcy settlement for unsecured claims pertaining to the leasing of certain aircraft. These leasing transactions were originally executed by our former Capital Services business. At the time of the Capital Services sale, we retained the rights to the bankruptcy claims. Since these claims were attributable to our former Capital Services business, we recorded the gain on this settlement in discontinued operations.

5. Earnings per Share

A reconciliation of the basic and diluted earnings per share computations for the three months ended June 30, 2010 and 2009 is as follows:

	2010			2009		
	Income	**Weighted Average Shares**	**Per Share**	Income	Weighted Average Shares	Per Share
Pitney Bowes Inc. net income	**$ 61,381**			$ 117,262		
Less:						
Preferred stock dividends	**-**			-		
Preference stock dividends	**(16)**			(19)		
Basic earnings per share	**$ 61,365**	**207,517**	**$ 0.30**	$ 117,243	206,539	$ 0.57
Effect of dilutive securities:						
Data for basic earnings per share	**$ 61,365**	**207,517**		$ 117,243	206,539	
Preferred stock	**-**	**2**		-	3	
Preference stock	**16**	**509**		19	594	
Stock options and stock purchase plans	**-**	**28**		-	-	
Other stock plans	**-**	**3**		-	2	
Diluted earnings per share	**$ 61,381**	**208,059**	**$ 0.30**	$ 117,262	207,138	$ 0.57

Basic earnings per share of common stock attributable to Pitney Bowes Inc. common stockholders:	**Per Share**	Per Share
Continuing operations	**$ 0.31**	$ 0.54
Discontinued operations	**(0.01)**	0.02
Net income	**$ 0.30**	$ 0.57

Diluted earnings per share of common stock attributable to Pitney Bowes Inc. common stockholders:	**Per Share**	Per Share
Continuing operations	**$ 0.31**	$ 0.54
Discontinued operations	**(0.01)**	0.02
Net income	**$ 0.30**	$ 0.57

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

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

A reconciliation of the basic and diluted earnings per share computations for the six months ended June 30, 2010 and 2009 is as follows:

	2010			2009		
	Income	**Weighted Average Shares**	**Per Share**	Income	Weighted Average Shares	Per Share
Pitney Bowes Inc. net income	**$ 140,420**			$ 221,664		
Less:						
Preferred stock dividends	**-**			-		
Preference stock dividends	**(33)**			(38)		
Basic earnings per share	**$ 140,387**	**207,412**	**$ 0.68**	$ 221,626	206,400	$ 1.07
Effect of dilutive securities:						
Data for basic earnings per share	**$ 140,387**	**207,412**		$ 221,626	206,400	
Preferred stock	**-**	**2**		-	3	
Preference stock	**33**	**518**		38	595	
Stock options and stock purchase plans	**-**	**25**		-	-	
Other stock plans	**-**	**14**		-	4	
Diluted earnings per share	**$ 140,420**	**207,971**	**$ 0.68**	$ 221,664	207,002	$ 1.07

Basic earnings per share of common stock attributable to Pitney Bowes Inc. common stockholders:	**Per Share**	Per Share
Continuing operations	**$ 0.70**	$ 1.04
Discontinued operations	**(0.03)**	0.04
Net income	**$ 0.68**	$ 1.07

Diluted earnings per share of common stock attributable to Pitney Bowes Inc. common stockholders:	**Per Share**	Per Share
Continuing operations	**$ 0.70**	$ 1.03
Discontinued operations	**(0.03)**	0.04
Net income	**$ 0.68**	$ 1.07

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

The computation of diluted earnings per share as of June 30, 2010 and 2009 did not include the effects of 15.3 million and 18.2 million stock options, respectively, because their exercise prices were greater than the corresponding market value per share of our common stock.

On February 8, 2010, we made our annual stock compensation grant which consisted of approximately 1.7 million stock options and 0.8 million restricted stock units.

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

6. Segment Information

We conduct our business activities in seven reporting segments within two business groups, Small & Medium Business Solutions and Enterprise Business Solutions, based on the customers they primarily serve. The principal products and services of each of our reporting segments are as follows:

Small & Medium Business 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.

Enterprise Business Solutions:

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

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

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

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

Marketing Services: Includes direct marketing services for targeted customers.

Earnings before interest and taxes (EBIT), a non-GAAP measure, is useful to management in demonstrating the operational profitability of the segments by excluding interest and taxes, which are generally managed across the entire company on a consolidated basis. EBIT is determined by deducting from revenue the related costs and expenses attributable to the segment. Segment EBIT also excludes general corporate expenses, restructuring charges and asset impairments.

As a result of certain organizational changes made during the third quarter of 2009, we have reclassified certain 2009 amounts to conform to the revised presentation. The amounts reclassified did not have a material impact on our segment disclosures.

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

Revenue and EBIT by business segment for the three and six months ended June 30, 2010 and 2009 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	**2010**	2009
Revenue:				
U.S. Mailing	**$ 467,636**	$ 510,324	**$ 944,677**	$ 1,026,341
International Mailing	**215,814**	217,900	**451,117**	455,212
Small & Medium Business Solutions	**683,450**	728,224	**1,395,794**	1,481,553
Production Mail	**120,395**	130,137	**245,171**	239,566
Software	**80,960**	82,823	**160,333**	158,198
Management Services	**248,809**	263,763	**503,425**	530,265
Mail Services (3)	**126,155**	138,598	**271,257**	279,849
Marketing Services	**37,468**	34,917	**69,490**	68,615
Enterprise Business Solutions	**613,787**	650,238	**1,249,676**	1,276,493
Total revenue	**$ 1,297,237**	$ 1,378,462	**$ 2,645,470**	$ 2,758,046

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	**2010**	2009
EBIT: (1)				
U.S. Mailing	**$ 166,913**	$ 192,538	**$ 338,050**	$ 383,166
International Mailing	**29,557**	27,069	**66,538**	58,008
Small & Medium Business Solutions	**196,470**	219,607	**404,588**	441,174
Production Mail	**8,954**	10,413	**19,868**	15,480
Software	**5,808**	5,219	**10,140**	7,823
Management Services	**22,181**	16,140	**42,273**	29,777
Mail Services (3)	**5,354**	21,723	**29,674**	40,298
Marketing Services	**7,337**	5,653	**11,859**	9,875
Enterprise Business Solutions	**49,634**	59,148	**113,814**	103,253
Total EBIT	**246,104**	278,755	**518,402**	544,427
Unallocated amounts:				
Interest, net (2)	**(50,329)**	(54,058)	**(99,163)**	(104,709)
Corporate expenses	**(43,496)**	(45,431)	**(86,230)**	(82,003)
Restructuring charges and asset impairments	**(48,512)**	-	**(69,234)**	-

Income from continuing operations before income taxes	**$ 103,767**	$ 179,266	**$ 263,775**	$ 357,715

(1) Earnings before interest and taxes excludes general corporate expenses, restructuring charges and asset impairments.
(2) Interest, net includes financing interest expense, other interest expense and interest income.
(3) The Mail Services segment includes a one-time out of period adjustment primarily to correct rates used previously to estimate earned but unbilled revenue for the periods 2007 through first quarter 2010. The aggregate adjustment for this period reduced second quarter revenue and EBIT by approximately $21 million and $16 million respectively, but the impact of this adjustment was not material on any individual quarter or year during these periods and is not material to anticipated 2010 results.

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

7. Inventories

Inventories are composed of the following:

	June 30, 2010	December 31, 2009
Raw materials and work in process	$ 47,046	$ 36,331
Supplies and service parts	70,372	69,506
Finished products	65,556	50,665
Total	$ 182,974	$ 156,502

8. Fixed Assets

	June 30, 2010	December 31, 2009
Property, plant and equipment	$ 1,792,683	$ 1,820,797
Accumulated depreciation	(1,328,690)	(1,305,893)
Property, plant and equipment, net	$ 463,993	$ 514,904
Rental property and equipment	$ 669,856	$ 728,537
Accumulated depreciation	(347,746)	(368,330)
Rental property and equipment, net	$ 322,110	$ 360,207

Depreciation expense was $61.1 million and $69.6 million for the three months ended June 30, 2010 and 2009, respectively. Depreciation expense was $124.4 million and $139.6 million for the six months ended June 30, 2010 and 2009, respectively. A pre-tax restructuring charge of $1.4 million for asset impairments was recorded during the six months ended June 30, 2010 in the restructuring charges and asset impairments line of the Condensed Consolidated Statements of Income. See Note 13 to the Consolidated Financial Statements for further details.

9. Intangible Assets and Goodwill

Intangible assets are composed of the following:

	June 30, 2010			December 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	$ 412,470	$ (205,627)	$ 206,843	$ 428,888	$ (197,497)	$ 231,391
Supplier relationships	29,000	(14,742)	14,258	29,000	(13,292)	15,708
Software & technology	157,184	(106,613)	50,571	164,211	(103,388)	60,823
Trademarks & trade names	34,049	(27,777)	6,272	35,855	(27,898)	7,957

Non-compete agreements	**10,788**	**(7,903)**	**2,885**	7,753	(7,215)	538
Total intangible assets	**$ 643,491**	**$ (362,662)**	**$ 280,829**	$ 665,707	$ (349,290)	$ 316,417

Amortization expense for intangible assets for the three months ended June 30, 2010 and 2009 was $16.0 million and $18.2 million. Amortization expense for intangible assets for the six months ended June 30, 2010 and 2009 was $32.4 million and $35.6 million, respectively. In 2010, we recorded impairment charges of $4.7 million and included these charges in the restructuring charges and asset impairments line of the Consolidated Statements of Income. See Note 13 to the Consolidated Financial Statements for further details.

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

During the second quarter of 2010 we completed a small acquisition with an anticipated total purchase price of $11.5 million. This included $10.9 million of identified intangible assets with a weighted average amortization period of 9 years.

In July 2010, we announced our planned acquisition of Portrait Software PLC (Portrait) which we expect to complete in the third quarter. Portrait provides software to enhance existing customer relationship management systems, enabling clients to achieve improved customer retention and profitability.

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

	Amount
Remaining for year ended December 31, 2010	$ 33,000
Year ended December 31, 2011	58,000
Year ended December 31, 2012	52,000
Year ended December 31, 2013	42,000
Year ended December 31, 2014	34,000
Thereafter	61,829
Total	$ 280,829

Changes in the carrying amount of goodwill by business segment for the six months ended June 30, 2010 are as follows:

	Balance at December 31, 2009	**Acquired during the period**	**Other (1)**	**Balance at June 30, 2010**
U.S. Mailing	$ 218,567	**$ -**	**$ (75)**	**$ 218,492**
International Mailing	342,549	**-**	**(44,542)**	**298,007**
Small & Medium Business Solutions	561,116	**-**	**(44,617)**	**516,499**
Production Mail	137,366	-	**(5,762)**	**131,604**
Software	633,938	-	**(9,669)**	**624,269**
Management Services	500,055	-	**(14,827)**	**485,228**
Mail Services	259,632	-	**(485)**	**259,147**
Marketing Services	194,797	-	**-**	**194,797**
Enterprise Business Solutions	1,725,788	**-**	**(30,743)**	**1,695,045**
Total	$ 2,286,904	**$ -**	**$ (75,360)**	**$ 2,211,544**

(1) Other is primarily foreign currency translation adjustments.

10. Long-term Debt

On September 15, 2009, we repaid the 8.55% notes with a $150 million face value at their maturity. The repayment of these notes was funded through cash generated from operations and issuance of commercial paper.

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

On March 2, 2009, we issued $300 million of 10-year fixed-rate notes with a coupon rate of 6.25%. The interest is paid semi-annually beginning September 15, 2009. The notes mature on March 15, 2019. We simultaneously unwound four forward starting swap

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

agreements (forward swaps) used to hedge the interest rate risk associated with the forecasted issuance of the fixed-rate debt. The unwind of the derivatives resulted in a loss (and cash payment) of $20.3 million which was recorded to other comprehensive income, net of tax, and will be amortized to net interest expense over the 10-year term of the notes. The proceeds from these notes were used for general corporate purposes, including the repayment of commercial paper.

11. Noncontrolling Interests (Preferred Stockholders Equity in Subsidiaries)

At January 1, 2009, Pitney Bowes International Holdings, Inc. (PBIH), a subsidiary of the Company, had 3,750,000 shares outstanding or $375 million of variable term voting preferred stock owned by certain outside institutional investors. These preferred shares were entitled as a group to 25% of the combined voting power of all classes of capital stock of PBIH. All outstanding common stock of PBIH, representing the remaining 75% of the combined voting power of all classes of capital stock, was owned directly or indirectly by Pitney Bowes Inc. The preferred stock, $.01 par value, was entitled to cumulative dividends at rates set at auction. The weighted average dividend rate was 4.8% for the variable term voting preferred stock for the three and six months ended June 30, 2009, respectively.

During 2009, PBIH issued 300,000 shares, or $300 million, of perpetual voting preferred stock to certain outside institutional investors. These preferred shares are entitled as a group to 25% of the combined voting power of all classes of capital stock of PBIH. All outstanding common stock of PBIH, representing the remaining 75% of the combined voting power of all classes of capital stock, is owned directly or indirectly by Pitney Bowes Inc. The preferred stock is entitled to cumulative dividends at a rate of 6.125% for a period of 7 years after which it becomes callable and, if it remains outstanding, will yield a dividend that increases by 150% every six months thereafter.

During 2009, PBIH redeemed $375 million of its existing variable term voting preferred stock. The redemption was funded by a combination of the issuance of the $300 million perpetual voting preferred stock, cash flows from operations and the issuance of commercial paper.

Preferred dividends are reported in the Condensed Consolidated Statements of Income as Preferred stock dividends of subsidiaries attributable to noncontrolling interests. Preferred dividends totaled $4.5 million and $4.6 million for the three months ended June 30, 2010 and 2009, respectively. Preferred dividends totaled $9.1 million for both six months ended June 30, 2010 and 2009. No dividends were in arrears at June 30, 2010 or December 31, 2009.

A rollforward of noncontrolling interests is as follows:

Beginning balance at January 1, 2009	$ 374,165
Movements:	
Share issuances (1)	296,370
Share redemptions	(374,165)
Ending balance at December 31, 2009 and June 30, 2010	**$ 296,370**

(1) Net of issuance costs of $3.6 million.

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

12. Comprehensive (Loss) / Income

Comprehensive (loss) / income for the three and six months ended June 30, 2010 and 2009 are as follows:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2010	2009	**2010**	2009
Pitney Bowes Inc. net income	**$ 61,381**	$ 117,262	**$ 140,420**	$ 221,664
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	**(110,043)**	107,164	**(143,385)**	47,734
Net unrealized gain on derivatives	**1,181**	164	**1,501**	6,514
Net unrealized gain (loss) on investment securities	**1,938**	(151)	**2,082**	(230)
Amortization of pension and postretirement costs	**6,975**	4,157	**14,000**	8,752
Comprehensive (loss) / income	**$ (38,568)**	$ 228,596	**$ 14,618**	$ 284,434

13. Restructuring Charges and Asset Impairments

We recorded pre-tax restructuring charges and asset impairments of $69.2 million for the six months ended June 30, 2010.

2009 Program

In 2009, we announced that we were undertaking a series of initiatives that are designed to transform and enhance the way we operate as a global company. In order to enhance our responsiveness to changing market conditions, we are executing a strategic transformation program designed to create improved processes and systems to further enable us to invest in future growth in areas such as our global customer interactions and product development processes. This program is expected to continue into 2012 and will result in the reduction of up to 10 percent of the positions in the company. We expect the total pre-tax cost of this program will be in the range of $250 million to $350 million primarily related to severance and benefit costs incurred in connection with such workforce reductions. Most of the total pre-tax costs will be cash-related charges. Currently, we are targeting annualized benefits by 2012, net of system and related investments, in the range of at least $150 million to $200 million on a pre-tax basis. These costs and the related benefits will be recognized as different actions are approved and implemented.

During the six months ended June 30, 2010, we recorded pre-tax restructuring charges of $69.2 million, of which $38.6 million related to severance and benefit costs, $24.6 million related to other exit costs and $1.4 million related to asset impairments associated with this program. The cumulative charges for this program from inception to June 30, 2010 were $136.5 million. As of June 30, 2010, approximately 1,300 employee terminations have occurred under this program. The majority of the liability at June 30, 2010 is expected to be paid during the next twelve months from cash generated from operations.

Additional asset impairments, unrelated to restructuring, were also recorded in 2010 and relate to intangible assets of $4.7 million.

Pre-tax restructuring reserves at June 30, 2010 for the restructuring actions taken in connection with the 2009 program are composed of the following:

	Balance at December 31, 2009	**Expenses**	**Cash payments**	**Non-cash charges**	**Balance at June 30, 2010**
Severance and benefit costs	$ 45,895	**$ 38,568**	**$ (30,990)**	**$ -**	**$ 53,473**

Other exit costs	6,807	**24,598**	**(22,616)**	**-**	**8,789**
Asset impairments	-	**6,068**	**-**	**(6,068)**	**-**
Total	$ 52,702	**$ 69,234**	**$ (53,606)**	**$ (6,068)**	**$ 62,262**

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

2007 Program

We announced a program in November 2007 to lower our cost structure, accelerate efforts to improve operational efficiencies, and transition our product line. The program included charges primarily associated with older equipment that we had stopped selling upon transition to the new generation of fully digital, networked, and remotely-downloadable equipment.

The cumulative charges for this program from inception to June 30, 2010 were $445.7 million. As of June 30, 2010, approximately 3,000 employee terminations have occurred under this program. The majority of the liability at June 30, 2010 is expected to be paid during the next six months from cash generated from operations.

Pre-tax restructuring reserves at June 30, 2010 for the restructuring program announced in November 2007 are composed of the following:

	Balance at December 31, 2009	**Expenses**	**Cash payments**	**Non-cash charges**	**Balance at June 30, 2010**
Severance and benefit costs	$ 27,897	**$ -**	**$ (11,276)**	**$ -**	**$ 16,621**
Other exit costs	8,027	**-**	**(1,873)**	**-**	**6,154**
Total	$ 35,924	**$ -**	**$ (13,149)**	**$ -**	**$ 22,775**

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 June 30, 2010 and 2009 are as follows:

	United States		**Foreign**	
	Three Months Ended June 30,		**Three Months Ended June 30,**	
	2010	2009	**2010**	2009
Service cost	**$ 5,825**	$ 4,916	**$ 1,719**	$ 2,887
Interest cost	**22,253**	23,262	**6,699**	7,748
Expected return on plan assets	**(30,513)**	(29,861)	**(7,032)**	(9,748)
Amortization of transition credit	**-**	-	**(2)**	32
Amortization of prior service (credit) cost	**(657)**	(678)	**70**	170
Amortization of net loss	**8,046**	6,159	**2,458**	1,055
Settlement	**559**	-	**-**	-
Net periodic benefit cost	**$ 5,513**	$ 3,798	**$ 3,912**	$ 2,144

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

The components of net periodic benefit cost for defined benefit pension plans for the six months ended June 30, 2010 and 2009 are as follows:

	United States		Foreign	
	Six Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	**2010**	2009
Service cost	**$ 11,542**	$ 12,256	**$ 3,494**	$ 5,578
Interest cost	**45,049**	47,486	**13,628**	15,479
Expected return on plan assets	**(61,548)**	(60,012)	**(14,270)**	(19,502)
Amortization of transition (credit) cost	**-**	-	**(4)**	64
Amortization of prior service (credit) cost	**(1,289)**	(1,274)	**139**	340
Amortization of net loss	**16,118**	13,186	**5,001**	2,114
Settlement/curtailment	**3,440**	-	**-**	-
Net periodic benefit cost	**$ 13,312**	$ 11,642	**$ 7,988**	$ 4,073

As we previously disclosed in our Consolidated Financial Statements for the year ended December 31, 2009, we expect to contribute up to $20 million to each of our U.S. and foreign pension plans during 2010. We will reassess our funding alternatives as the year progresses. At June 30, 2010, $15.7 million and $5.1 million of contributions have been made to the U.S. and foreign pension plans, respectively.

Nonpension Postretirement Benefit Plans

The components of net periodic benefit cost for nonpension postretirement benefit plans for the six months ended June 30, 2010 and 2009 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	**2010**	2009
Service cost	**$ 932**	$ 1,010	**$ 1,862**	$ 1,812
Interest cost	**3,514**	3,728	**6,912**	7,290
Amortization of prior service credit	**(627)**	(620)	**(1,255)**	(1,240)
Amortization of net loss	**1,734**	1,122	**3,397**	2,068
Net periodic benefit cost	**$ 5,553**	$ 5,240	**$ 10,916**	$ 9,930

For the three months ended June 30, 2010 and 2009, we made $5.8 million and $5.5 million of contributions representing benefit payments, respectively. Contributions for benefit payments were $13.2 million and $13.4 million for the six months ended June 30, 2010 and 2009, respectively.

15. Income Taxes

The effective tax rate for the three months ended June 30, 2010 and 2009 was 33.9% and 34.9%, respectively. The effective tax rate for the six months ended June 30, 2010 and 2009 was 41.1% and 37.7%, respectively. The year-to-date 2010 rate was increased by $9.1 million of tax charges related to the write-off of deferred tax assets as a result of the recent health care reform legislation in the U.S. This legislation, signed in March 2010, includes a provision eliminating the tax deduction for retiree health care costs to the extent of federal subsidies received by companies that provide retiree prescription drug benefits equivalent to Medicare Part D coverage. The tax rates for 2010 and 2009 included $9.1 million and $12.0 million, respectively, of tax charges related to the write-off of deferred tax assets associated with the expiration of out-of-the-money vested stock options and the vesting of restricted stock units previously granted to our employees. These write-offs of deferred tax assets will not require us to pay any taxes. The 2010 rate also includes benefits and charges associated with previously unrecognized deferred taxes on outside basis differences and unremitted earnings.

We regularly assess the likelihood of tax adjustments in each of the tax jurisdictions in which we have operations and account for the related financial statement implications. Tax reserves have been established which we believe to be appropriate given the possibility

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

of tax adjustments. Determining the appropriate level of tax reserves requires us to exercise judgment regarding the uncertain application of tax law. The amount of reserves is adjusted when information becomes available or when an event occurs indicating a change in the reserve is appropriate. Future changes in tax reserve requirements could have a material impact on our results of operations.

We are continually under examination by tax authorities in the United States, other countries and local jurisdictions in which we have operations. The years under examination vary by jurisdiction. The current IRS exam of tax years 2001-2004 is estimated to be completed within the next two years and the examination of years 2005-2008 has commenced. In connection with the 2001-2004 exam, we have received notices of proposed adjustments to our filed returns. Tax reserves have been established which we believe to be appropriate given the possibility of tax 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. 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. Tax reserves have been established which we believe to be appropriate given the possibility of tax adjustments. However, the resolution of such matters could have a material impact on our results of operations, financial position and cash flows.

During 2010, an analysis of prior year non-US income tax returns indicated that lease rental income associated with certain leveraged lease transactions was not properly captured. A tax expense of $3.3 million related to the periods 2007 through 2009 was recorded in the provision for income taxes in the second quarter of 2010. A $14.4 million adjustment, primarily related to the same issue, was made to opening retained earnings to establish the related tax liabilities for earlier years. The impact of the adjustments was not material to any previously reported period.

16. Fair Value Measurements

The fair value measurement guidance established a fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of the fair value hierarchy 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.

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

The following tables show, by level within the fair value hierarchy, our financial assets and liabilities that are accounted for at fair value on a recurring basis at June 30, 2010 and December 31, 2009, respectively. As required by the fair value measurements guidance, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect their placement within the fair value hierarchy levels.

	Recurring Fair Value Measurements at June 30, 2010 by Level			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Investment securities				
Money market funds / commercial paper	**$ 201,089**	**$ 2,723**	**$ -**	**$ 203,812**
Equity securities	**-**	**19,233**	**-**	**19,233**
Debt securities - U.S. and foreign governments, agencies and municipalities	**90,705**	**34,600**	**-**	**125,305**
Debt securities - corporate	**-**	**22,462**	**-**	**22,462**
Asset-backed securities	**-**	**753**	**-**	**753**
Mortgage-backed securities	**-**	**55,923**	**-**	**55,923**
Derivatives				
Interest rate swaps	**-**	**33,992**	**-**	**33,992**
Foreign exchange contracts	**-**	**3,891**	**-**	**3,891**
Total assets	**$ 291,794**	**$ 173,577**	**$ -**	**$ 465,371**
Liabilities:				
Derivatives				
Foreign exchange contracts	**$ -**	**$ 1,557**	**$ -**	**$ 1,557**
Total liabilities	**$ -**	**$ 1,557**	**$ -**	**$ 1,557**

	Recurring Fair Value Measurements at December 31, 2009 by Level			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Investment securities				
Money market funds / commercial paper	$ 225,581	$ -	$	