

PITNEY BOWES INC /DE/  
Form 10-Q  
November 07, 2016

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, 2016

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-3579

PITNEY BOWES INC.

(Exact name of registrant as specified in its charter)

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

3001 Summer Street, Stamford, Connecticut 06926  
(Address of principal executive offices) (Zip Code)

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

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

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

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

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

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

As of November 4, 2016, 185,758,673 shares of common stock, par value \$1 per share, of the registrant were outstanding.

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 amounts)

|  | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|--|-------------------------------------|------------|------------------------------------|------------|
|  | 2016                                | 2015       | 2016                               | 2015       |
| Revenue:   |                                     |            |                                    |            |
| Equipment sales  | \$ 173,143                          | \$ 163,857 | \$ 485,145                         | \$ 495,328 |
| Supplies   | 61,306                              | 71,174     | 198,631                            | 215,178    |
| Software   | 89,087                              | 97,700     | 257,760                            | 283,241    |
| Rentals  | 102,747                             | 108,420    | 309,706                            | 333,729    |
| Financing  | 87,883                              | 99,925     | 276,915                            | 306,992    |
| Support services   | 123,954                             | 136,820    | 383,632                            | 415,615    |
| Business services  | 200,911                             | 191,645    | 607,717                            | 591,030    |
| Total revenue  | 839,031                             | 869,541    | 2,519,506                          | 2,641,113  |
| Costs and expenses:  |                                     |            |                                    |            |
| Cost of equipment sales  | 86,147                              | 78,650     | 235,741                            | 232,706    |
| Cost of supplies   | 20,348                              | 21,629     | 60,662                             | 65,912     |
| Cost of software   | 25,698                              | 27,219     | 79,496                             | 85,584     |
| Cost of rentals  | 16,041                              | 21,423     | 54,951                             | 63,127     |
| Financing interest expense   | 12,965                              | 17,533     | 41,375                             | 54,171     |
| Cost of support services   | 74,799                              | 79,747     | 224,790                            | 244,853    |
| Cost of business services  | 140,989                             | 130,004    | 417,357                            | 405,559    |
| Selling, general and administrative  | 300,983                             | 309,211    | 916,445                            | 939,318    |
| Research and development   | 28,680                              | 29,153     | 89,761                             | 83,693     |
| Restructuring charges and asset impairments, net                               | 16,494                              | 36         | 49,503                             | 14,305     |
| Interest expense, net  | 22,294                              | 20,165     | 62,394                             | 65,200     |
| Other (income) expense, net  | —                                   | (1,781)    | 536                                | (94,916)   |
| Total costs and expenses   | 745,438                             | 732,989    | 2,233,011                          | 2,159,512  |
| Income from continuing operations before income taxes                          | 93,593                              | 136,552    | 286,495                            | 481,601    |
| Provision for income taxes   | 23,197                              | 42,676     | 93,615                             | 145,574    |
| Income from continuing operations  | 70,396                              | 93,876     | 192,880                            | 336,027    |
| Loss from discontinued operations, net of tax                                  | (291)                               | —          | (1,951)                            | (582)      |
| Net income   | 70,105                              | 93,876     | 190,929                            | 335,445    |
| Less: Preferred stock dividends attributable to noncontrolling interests       | 4,593                               | 4,594      | 13,781                             | 13,781     |
| Net income attributable to Pitney Bowes Inc.                                   | \$ 65,512                           | \$ 89,282  | \$ 177,148                         | \$ 321,664 |
| Amounts attributable to common stockholders:                                   |                                     |            |                                    |            |
| Net income from continuing operations  | \$ 65,803                           | \$ 89,282  | \$ 179,099                         | \$ 322,246 |
| Loss from discontinued operations, net of tax                                  | (291)                               | —          | (1,951)                            | (582)      |
| Net income attributable to Pitney Bowes Inc.                                   | \$ 65,512                           | \$ 89,282  | \$ 177,148                         | \$ 321,664 |
| Basic earnings per share attributable to common stockholders:                  |                                     |            |                                    |            |
| Continuing operations  | \$ 0.35                             | \$ 0.45    | \$ 0.95                            | \$ 1.60    |
| Discontinued operations  | —                                   | —          | (0.01)                             | —          |
| Net income attributable to Pitney Bowes Inc.                                   | \$ 0.35                             | \$ 0.45    | \$ 0.94                            | \$ 1.60    |
| Diluted earnings per share attributable to common stockholders: <sup>(1)</sup> |                                     |            |                                    |            |

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|  |          |          |          |          |
|--|----------|----------|----------|----------|
| Continuing operations                        | \$0.35   | \$0.44   | \$0.94   | \$1.60   |
| Discontinued operations                      | —        | —        | (0.01 )  | —        |
| Net income attributable to Pitney Bowes Inc. | \$0.35   | \$0.44   | \$0.93   | \$1.59   |
| Dividends declared per share of common stock | \$0.1875 | \$0.1875 | \$0.5625 | \$0.5625 |

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

See Notes to Condensed Consolidated Financial Statements

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

|   | Three Months<br>Ended September<br>30, |           | Nine Months Ended<br>September 30, |           |
|---|--|-----------|------------------------------------|-----------|
|   | 2016                                   | 2015      | 2016                               | 2015      |
| Net income  | \$70,105                               | \$93,876  | \$190,929                          | \$335,445 |
| Less: Preferred stock dividends attributable to noncontrolling interests  | 4,593                                  | 4,594     | 13,781                             | 13,781    |
| Net income attributable to Pitney Bowes Inc.  | 65,512                                 | 89,282    | 177,148                            | 321,664   |
| Other comprehensive income (loss), net of tax:  |  |           |                                    |           |
| Foreign currency translations   | 6,938                                  | (17,131 ) | 37,263                             | (76,153 ) |
| Net unrealized (loss) gain on cash flow hedges, net of tax of \$(40), \$79, \$224 and \$219, respectively             | (64 )                                  | 119       | 358                                | 335       |
| Net unrealized gain (loss) on investment securities, net of tax of \$956, \$721, \$4,399 and \$(142), respectively    | 1,628                                  | 1,231     | 7,491                              | (242 )    |
| Adjustments to pension and postretirement plans, net of tax of \$(777) for the nine months ended September 30, 2016   | —                                      | —         | (1,230 )                           | —         |
| Amortization of pension and postretirement costs, net of tax of \$3,243, \$4,219, \$10,362 and \$12,001, respectively | 5,963                                  | 7,435     | 18,791                             | 21,364    |
| Other comprehensive income (loss), net of tax   | 14,465                                 | (8,346 )  | 62,673                             | (54,696 ) |
| Comprehensive income attributable to Pitney Bowes Inc.  | \$79,977                               | \$80,936  | \$239,821                          | \$266,968 |

See Notes to Condensed Consolidated Financial Statements

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

|  | September 30,<br>2016 | December 31,<br>2015 |
|--|-----------------------|----------------------|
| <b>ASSETS</b>  |                       |                      |
| Current assets:  |                       |                      |
| Cash and cash equivalents  | \$ 992,089            | \$ 650,557           |
| Short-term investments   | 24,259                | 117,021              |
| Accounts receivable (net of allowance of \$10,722 and \$9,997, respectively)             | 427,556               | 476,583              |
| Short-term finance receivables (net of allowance of \$13,033 and \$15,480, respectively) | 870,256               | 918,383              |
| Inventories  | 108,766               | 88,824               |
| Current income taxes   | 13,060                | 6,584                |
| Other current assets and prepayments   | 65,622                | 67,400               |
| Total current assets   | 2,501,608             | 2,325,352            |
| Property, plant and equipment, net   | 312,597               | 330,088              |
| Rental property and equipment, net   | 179,554               | 177,515              |
| Long-term finance receivables (net of allowance of \$5,092 and \$6,210, respectively)    | 704,294               | 760,657              |
| Goodwill   | 1,766,418             | 1,745,957            |
| Intangible assets, net   | 174,221               | 187,378              |
| Non-current income taxes   | 66,547                | 70,294               |
| Other assets   | 553,635               | 525,891              |
| Total assets   | \$ 6,258,874          | \$ 6,123,132         |
| <b>LIABILITIES, NONCONTROLLING INTERESTS AND STOCKHOLDERS' EQUITY</b>                    |                       |                      |
| Current liabilities:   |                       |                      |
| Accounts payable and accrued liabilities   | \$ 1,307,808          | \$ 1,448,321         |
| Current income taxes   | 19,170                | 16,620               |
| Current portion of long-term debt and notes payable                                      | 535,289               | 461,085              |
| Advance billings   | 303,153               | 353,025              |
| Total current liabilities  | 2,165,420             | 2,279,051            |
| Deferred taxes on income   | 229,998               | 205,668              |
| Tax uncertainties and other income tax liabilities                                       | 57,423                | 68,429               |
| Long-term debt   | 2,831,767             | 2,489,583            |
| Other non-current liabilities  | 547,444               | 605,310              |
| Total liabilities  | 5,832,052             | 5,648,041            |
| Commitments and contingencies (See Note 13)  |                       |                      |
| Noncontrolling interests (Preferred stockholders' equity in subsidiaries)                | 296,370               | 296,370              |
| Stockholders' equity:  |                       |                      |
| Cumulative preferred stock, \$50 par value, 4% convertible                               | 1                     | 1                    |
| Cumulative preference stock, no par value, \$2.12 convertible                            | 489                   | 505                  |
| Common stock, \$1 par value (480,000,000 shares authorized; 323,337,912 shares issued)   | 323,338               | 323,338              |
| Additional paid-in capital   | 149,997               | 161,280              |
| Retained earnings  | 5,226,894             | 5,155,537            |
| Accumulated other comprehensive loss   | (825,962)             | (888,635)            |
| Treasury stock, at cost (137,701,038 and 127,816,704 shares, respectively)               | (4,744,305)           | (4,573,305)          |

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|  |              |              |
|--|--------------|--------------|
| Total Pitney Bowes Inc. stockholders' equity                         | 130,452      | 178,721      |
| Total liabilities, noncontrolling interests and stockholders' equity | \$ 6,258,874 | \$ 6,123,132 |

See Notes to Condensed Consolidated Financial Statements

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

|   | Nine Months Ended<br>September 30, |            |
|---|------------------------------------|------------|
|   | 2016                               | 2015       |
| Cash flows from operating activities:   |                                    |            |
| Net income  | \$ 190,929                         | \$ 335,445 |
| Restructuring payments  | (51,161 )                          | (46,056 )  |
| Special pension plan contributions  | (36,731 )                          | —          |
| Tax payments related to other investments   | —                                  | (20,602 )  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                    |            |
| Loss (gain) on disposal of businesses   | 3,938                              | (109,069 ) |
| Depreciation and amortization   | 140,225                            | 127,486    |
| Gain on debt forgiveness  | (10,000 )                          | —          |
| Stock-based compensation  | 16,014                             | 14,921     |
| Restructuring charges and asset impairments, net                                  | 49,503                             | 14,305     |
| Changes in operating assets and liabilities, net of acquisitions/divestitures:    |                                    |            |
| Decrease in accounts receivable   | 51,853                             | 29,128     |
| Decrease in finance receivables   | 113,180                            | 91,184     |
| Increase in inventories   | (20,489 )                          | (20,850 )  |
| Decrease (increase) in other current assets and prepayments                       | 3,312                              | (16,697 )  |
| Decrease in accounts payable and accrued liabilities                              | (125,248 )                         | (138,481 ) |
| Increase in current and non-current income taxes                                  | 1,543                              | 68,894     |
| Decrease in advance billings  | (47,183 )                          | (535 )     |
| Other, net  | 11,244                             | 22,327     |
| Net cash provided by operating activities   | 290,929                            | 351,400    |
| Cash flows from investing activities:   |                                    |            |
| Purchases of available-for-sale securities  | (163,134 )                         | (153,471 ) |
| Proceeds from sales/maturities of available-for-sale securities                   | 167,424                            | 159,436    |
| Net change in short-term and other investments                                    | 62,256                             | (119 )     |
| Capital expenditures  | (115,532 )                         | (130,328 ) |
| Proceeds from sale of buildings   | 17,671                             | 38,640     |
| Acquisition of businesses, net of cash acquired                                   | (37,942 )                          | (387,391 ) |
| Divestiture of businesses, net of cash transferred                                | —                                  | 290,543    |
| Change in reserve account deposits  | 1,813                              | (25,630 )  |
| Other investing activities  | (7,420 )                           | 3,011      |
| Net cash used in investing activities   | (74,864 )                          | (205,309 ) |
| Cash flows from financing activities:   |                                    |            |
| Proceeds from the issuance of long-term debt                                      | 894,744                            | 950        |
| Principal payments of long-term debt  | (371,007 )                         | (404,952 ) |
| Net change in short-term borrowings   | (90,000 )                          | 150,000    |
| Dividends paid to stockholders  | (105,791 )                         | (113,158 ) |
| Common stock repurchases  | (197,267 )                         | (100,000 ) |
| Dividends paid to noncontrolling interests  | (9,188 )                           | (9,188 )   |
| Other financing activities  | —                                  | 4,531      |
| Net cash provided by (used in) financing activities                               | 121,491                            | (471,817 ) |
| Effect of exchange rate changes on cash and cash equivalents                      | 3,976                              | (38,370 )  |

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|  |           |            |
|--|-----------|------------|
| Increase (decrease) in cash and cash equivalents | 341,532   | (364,096 ) |
| Cash and cash equivalents at beginning of period | 650,557   | 1,054,118  |
| Cash and cash equivalents at end of period       | \$992,089 | \$690,022  |
| Cash interest paid                               | \$132,359 | \$146,838  |
| Cash income tax payments, net of refunds         | \$95,487  | \$95,770   |

See Notes to Condensed Consolidated Financial Statements

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PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

1. Description of Business and Basis of Presentation

Pitney Bowes Inc. (we, us, our, or the company), was incorporated in the state of Delaware in 1920. We are a global technology company offering innovative products and solutions that help our clients navigate the complex world of commerce. We offer products and solutions for customer information management, location intelligence and customer engagement to help our clients market to their customers, and products and solutions for shipping, mailing, and cross border ecommerce that enable the sending of packages across the globe. Clients around the world rely on our products, solutions and services. For more information about us, our products, services and solutions, visit [www.pb.com](http://www.pb.com).

The accompanying unaudited Condensed Consolidated Financial Statements 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, 2015 Condensed Consolidated Balance Sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. In management's opinion, all adjustments, consisting only of normal recurring adjustments, considered necessary to fairly state our financial position, results of operations and cash flows for the periods presented have been included. Operating results for the periods presented are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2016. These statements should be read in conjunction with the financial statements and notes thereto included in our Annual Report to Stockholders on Form 10-K for the year ended December 31, 2015 (2015 Annual Report).

During the second quarter of 2016, we determined that certain amounts included in finance receivables and rental property and equipment should be classified as accounts receivable and other current assets and prepayments. Accordingly, the Condensed Consolidated Balance Sheet as of December 31, 2015 was revised to increase accounts receivable by \$19 million and prepaid and other current assets by \$3 million and reduce rental property and equipment by \$3 million, short-term finance receivables by \$17 million and long-term finance receivables by \$2 million. The Condensed Consolidated Statement of Cash Flows for the period ended September 30, 2015 has also been adjusted accordingly.

In 2015, we determined that certain investments were classified as cash and cash equivalents. Accordingly, the Condensed Consolidated Statement of Cash Flows for the period ended September 30, 2015 has been revised to reduce beginning cash and cash equivalents by \$25 million and ending cash and cash equivalents by \$26 million and investments and with corresponding changes to investment activity.

New Accounting Pronouncements - Standards Adopted in 2016

In September 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2015-16, Business Combinations - Simplifying the Accounting for Measurement-Period Adjustments, which eliminates the requirement to restate prior period financial statements for measurement period adjustments. The new guidance requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. Consistent with existing guidance, the new guidance requires an acquirer to disclose the nature and amount of measurement period adjustments. We adopted this standard as of January 1, 2016, and there was no impact to the consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, Intangibles - Goodwill and Other - Internal-Use Software, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement, which provides guidance on fees paid by an entity in a cloud computing arrangement and whether an arrangement includes a license to the underlying software. We adopted this standard as of January 1, 2016, and there was no impact to the consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. We adopted this standard effective January 1, 2016 and recast the Condensed Consolidated Balance Sheet at December 31, 2015 to reduce other assets and long-term debt by \$18 million.

In January 2015, the FASB issued ASU 2015-01, Income Statement - Extraordinary and Unusual Items, which removes the concept of extraordinary items, thereby eliminating the need for companies to assess transactions for extraordinary treatment. The standard retained the presentation and disclosure requirements for items that are unusual in nature and/or infrequent in occurrence. We adopted this standard as of January 1, 2016, and there was no impact to the financial statements.

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

New Accounting Pronouncements - Standards Not Yet Adopted

In August, 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force). The ASU is intended to reduce diversity in practice in presentation and classification of certain cash receipts and cash payments by providing guidance on eight specific cash flow issues. The ASU is effective for interim and annual periods beginning after December 15, 2017 and early adoption is permitted, including adoption during an interim period. We are currently assessing the impact this standard will have on our consolidated statement of cash flows.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses. The ASU sets forth a “current expected credit loss” (CECL) model which requires companies to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost and applies to some off-balance sheet credit exposures. This standard is effective for interim and annual periods beginning after December 15, 2019. We are currently assessing the impact this standard will have on our financial statements and disclosures.

In March 2016, the FASB issued ASU 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The standard includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. The standard is effective for interim and annual periods beginning after December 15, 2016 and early adoption is permitted. We are currently assessing the impact this standard will have on our financial statements and disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases. This standard, among other things, will require lessees to recognize almost all leases on their balance sheet as a right-of-use asset and a lease liability and result in enhanced disclosures. The standard is effective for interim and annual periods beginning after December 15, 2018. The standard requires modified retrospective transition and early adoption is permitted. We are currently assessing the impact this standard will have on our financial statements and disclosures.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments—Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. This standard primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The standard is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. We are currently assessing the impact this standard will have on our financial statements and disclosures.

In July 2015, the FASB issued ASU 2015-11, Inventory - Simplifying the Measurement of Inventory, which requires inventory to be measured at the lower of cost and net realizable value (estimated selling price less reasonably predictable costs of completion, disposal and transportation). Inventory measured using the last-in, first-out (LIFO) basis is not impacted by the new guidance. The standard is effective for interim and annual periods beginning after December 15, 2016 and early adoption is permitted. We do not believe this standard will have a significant impact on our financial statements or disclosures.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. The standard requires companies to recognize revenue for the transfer of goods and services to customers in amounts that reflect the consideration the company expects to receive in exchange for those goods and services. The standard will also result in enhanced disclosures about revenue. In July 2015, the FASB approved a one-year deferral of the effective date.

This standard is now effective for fiscal periods beginning after December 15, 2017. The standard can be adopted either retrospectively or as a cumulative-effect adjustment. Companies are permitted to adopt the standard as early as the original public entity effective date (fiscal periods beginning after December 15, 2016). Early adoption prior to that date is prohibited. We are in the process of evaluating a sample of contracts under the new standard. At this point, we cannot estimate the financial statement impact of this standard upon adoption, nor have we decided on the transition method we will use to adopt this standard.

PITNEY BOWES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

## 2. Segment Information

The principal products and services of each of our reportable segments are as follows:

### Small & Medium Business Solutions:

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

International Mailing: Includes the revenue and related expenses from the sale, rental, financing and servicing of mailing equipment, software and supplies for small and medium businesses to efficiently create physical and digital mail and evidence postage for the sending of mail, flats and parcels in areas outside the U.S. and Canada.

### Enterprise Business Solutions:

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

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

### Digital Commerce Solutions:

Software Solutions: Includes the worldwide revenue and related expenses from the licensing of non-equipment-based mailing, customer information management, location intelligence and customer engagement solutions and related support services.

Global Ecommerce: Includes the worldwide revenue and related expenses from shipping solutions and cross-border ecommerce.

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

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

Revenue and EBIT by business segment is presented below:

|   | Revenue                          |           |                                 |             |
|---|----------------------------------|-----------|---------------------------------|-------------|
|   | Three Months Ended September 30, |           | Nine Months Ended September 30, |             |
|   | 2016                             | 2015      | 2016                            | 2015        |
| North America Mailing                                 | \$329,995                        | \$353,159 | \$1,001,789                     | \$1,071,824 |
| International Mailing                                 | 95,628                           | 104,615   | 305,725                         | 331,398     |
| Small & Medium Business Solutions                     | 425,623                          | 457,774   | 1,307,514                       | 1,403,222   |
| Production Mail                                       | 106,350                          | 101,646   | 289,649                         | 298,880     |
| Presort Services                                      | 114,053                          | 115,912   | 357,214                         | 351,365     |
| Enterprise Business Solutions                         | 220,403                          | 217,558   | 646,863                         | 650,245     |
| Software Solutions                                    | 89,031                           | 97,638    | 257,417                         | 282,916     |
| Global Ecommerce                                      | 103,974                          | 96,571    | 307,712                         | 249,923     |
| Digital Commerce Solutions                            | 193,005                          | 194,209   | 565,129                         | 532,839     |
| Other   | —                                | —         | —                               | 54,807      |
| Total revenue   | \$839,031                        | \$869,541 | \$2,519,506                     | \$2,641,113 |
|   | EBIT                             |           |                                 |             |
|   | Three Months Ended September 30, |           | Nine Months Ended September 30, |             |
|   | 2016                             | 2015      | 2016                            | 2015        |
| North America Mailing                                 | \$138,588                        | \$159,319 | \$436,730                       | \$482,376   |
| International Mailing                                 | 9,733                            | 10,739    | 34,365                          | 36,585      |
| Small & Medium Business Solutions                     | 148,321                          | 170,058   | 471,095                         | 518,961     |
| Production Mail                                       | 15,696                           | 12,401    | 35,434                          | 31,461      |
| Presort Services                                      | 19,181                           | 25,908    | 69,305                          | 76,946      |
| Enterprise Business Solutions                         | 34,877                           | 38,309    | 104,739                         | 108,407     |
| Software Solutions                                    | 10,329                           | 14,613    | 17,908                          | 34,904      |
| Global Ecommerce                                      | 4,389                            | (1,240)   | 8,835                           | 9,962       |
| Digital Commerce Solutions                            | 14,718                           | 13,373    | 26,743                          | 44,866      |
| Other   | —                                | —         | —                               | 10,569      |
| Total EBIT  | 197,916                          | 221,740   | 602,577                         | 682,803     |
| Reconciling items:                                    |                                  |           |                                 |             |
| Interest, net   | (35,259)                         | (37,698)  | (103,769)                       | (119,371)   |
| Unallocated corporate expenses                        | (51,992)                         | (49,235)  | (158,536)                       | (151,959)   |
| Restructuring charges and asset impairments, net      | (16,494)                         | (36)      | (49,503)                        | (14,305)    |
| Acquisition and disposition-related expenses          | (578)                            | —         | (3,738)                         | (10,483)    |
| Other income (expense), net                           | —                                | 1,781     | (536)                           | 94,916      |
| Income from continuing operations before income taxes | 93,593                           | 136,552   | 286,495                         | 481,601     |
| Provision for income taxes                            | 23,197                           | 42,676    | 93,615                          | 145,574     |
| Loss from discontinued operations, net of tax         | (291)                            | —         | (1,951)                         | (582)       |
| Net income  | \$70,105                         | \$93,876  | \$190,929                       | \$335,445   |



## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

## 3. Earnings per Share

The calculations of basic and diluted earnings per share are presented below. The sum of earnings per share amounts may not equal the totals due to rounding.

|   | Three Months<br>Ended September<br>30, |          | Nine Months Ended<br>September 30, |           |
|---|--|----------|------------------------------------|-----------|
|   | 2016                                   | 2015     | 2016                               | 2015      |
| Numerator:  |  |          |                                    |           |
| Amounts attributable to common stockholders:                                  |  |          |                                    |           |
| Net income from continuing operations   | \$65,803                               | \$89,282 | \$179,099                          | \$322,246 |
| Loss from discontinued operations, net of tax                                 | (291 )                                 | —        | (1,951 )                           | (582 )    |
| Net income attributable to Pitney Bowes Inc. (numerator for diluted EPS)      | 65,512                                 | 89,282   | 177,148                            | 321,664   |
| Less: Preference stock dividend   | 10                                     | 10       | 29                                 | 31        |
| Income attributable to common stockholders (numerator for basic EPS)          | \$65,502                               | \$89,272 | \$177,119                          | \$321,633 |
| Denominator:  |  |          |                                    |           |
| Weighted-average shares used in basic EPS                                     | 185,603                                | 199,874  | 188,634                            | 200,825   |
| Effect of dilutive shares:  |  |          |                                    |           |
| Conversion of Preferred stock and Preference stock                            | 299                                    | 318      | 301                                | 326       |
| Employee stock plans  | 781                                    | 825      | 657                                | 734       |
| Weighted-average shares used in diluted EPS                                   | 186,683                                | 201,017  | 189,592                            | 201,885   |
| Basic earnings per share:   |  |          |                                    |           |
| Continuing operations   | \$0.35                                 | \$0.45   | \$0.95                             | \$1.60    |
| Discontinued operations   | —                                      | —        | (0.01 )                            | —         |
| Net income  | \$0.35                                 | \$0.45   | \$0.94                             | \$1.60    |
| Diluted earnings per share:   |  |          |                                    |           |
| Continuing operations   | \$0.35                                 | \$0.44   | \$0.94                             | \$1.60    |
| Discontinued operations   | —                                      | —        | (0.01 )                            | —         |
| Net income  | \$0.35                                 | \$0.44   | \$0.93                             | \$1.59    |
| Anti-dilutive shares not used in calculating diluted weighted-average shares: | 8,036                                  | 7,934    | 8,148                              | 8,609     |

## 4. Inventories

Inventories are stated at the lower of cost or market. Cost is determined on the LIFO basis for most U.S. inventories and on the first-in, first-out (FIFO) basis for most non-U.S. inventories. Inventories at September 30, 2016 and December 31, 2015 consisted of the following:

|                                    | September 30, December 31, |           |
|------------------------------------|----------------------------|-----------|
|                                    | 2016                       | 2015      |
| Raw materials                      | \$ 35,228                  | \$ 25,803 |
| Work in process                    | 8,512                      | 6,408     |
| Supplies and service parts         | 45,653                     | 44,323    |
| Finished products                  | 31,701                     | 24,618    |
| Inventory at FIFO cost             | 121,094                    | 101,152   |
| Excess of FIFO cost over LIFO cost | (12,328 )                  | (12,328 ) |
| Total inventory, net               | \$ 108,766                 | \$ 88,824 |

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

## 5. Finance Assets

## Finance Receivables

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

Sales-type lease receivables are generally due in monthly, quarterly or semi-annual installments over periods ranging from three to five years. Loan receivables arise primarily from financing services offered to our customers for postage and supplies. Loan receivables are generally due each month; however, customers may rollover outstanding balances. Interest is recognized on loan receivables using the effective interest method and related annual fees are initially deferred and recognized ratably over the annual period covered. Customer acquisition costs are expensed as incurred. During the second quarter of 2016, we determined that certain finance receivables with a net investment of \$35 million at December 31, 2015 classified as a sales type lease receivable should have been classified as loan receivables. Accordingly, prior period amounts have been revised to reflect this change.

Finance receivables at September 30, 2016 and December 31, 2015 consisted of the following:

|  | September 30, 2016 |               |             | December 31, 2015 |               |             |
|--|--------------------|---------------|-------------|-------------------|---------------|-------------|
|  | North America      | International | Total       | North America     | International | Total       |
| Sales-type lease receivables                   |                    |               |             |                   |               |             |
| Gross finance receivables                      | \$1,083,873        | \$ 287,519    | \$1,371,392 | \$1,157,189       | \$ 303,854    | \$1,461,043 |
| Unguaranteed residual values                   | 95,618             | 14,701        | 110,319     | 100,000           | 15,709        | 115,709     |
| Unearned income                                | (228,709 )         | (63,599 )     | (292,308 )  | (247,854 )        | (68,965 )     | (316,819 )  |
| Allowance for credit losses                    | (6,054 )           | (2,587 )      | (8,641 )    | (6,606 )          | (3,542 )      | (10,148 )   |
| Net investment in sales-type lease receivables | 944,728            | 236,034       | 1,180,762   | 1,002,729         | 247,056       | 1,249,785   |
| Loan receivables                               |                    |               |             |                   |               |             |
| Loan receivables                               | 365,725            | 37,547        | 403,272     | 399,193           | 41,604        | 440,797     |
| Allowance for credit losses                    | (8,288 )           | (1,196 )      | (9,484 )    | (10,024 )         | (1,518 )      | (11,542 )   |
| Net investment in loan receivables             | 357,437            | 36,351        | 393,788     | 389,169           | 40,086        | 429,255     |
| Net investment in finance receivables          | \$1,302,165        | \$ 272,385    | \$1,574,550 | \$1,391,898       | \$ 287,142    | \$1,679,040 |

## Allowance for Credit Losses

We provide an allowance for probable credit losses based on historical loss experience, the nature and volume of our portfolios, adverse situations that may affect a client's ability to pay, prevailing economic conditions and our ability to manage the collateral. We continually evaluate the adequacy of the allowance for credit losses and make adjustments as necessary. The assumptions used in determining an estimate of credit losses are inherently subjective and actual results may differ significantly from estimated reserves.

We establish credit approval limits based on the credit quality of the client and the type of equipment financed. Our policy is to discontinue revenue recognition for lease receivables that are more than 120 days past due and for loan receivables that are more than 90 days past due. We resume revenue recognition when the client's payments reduce the account aging to less than 60 days past due. Finance receivables deemed uncollectible are written off against the allowance after all collection efforts have been exhausted and management deems the account to be uncollectible. We believe that our finance receivable credit risk is low because of the geographic and industry diversification of our clients and small account balances for most of our clients.



## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

Activity in the allowance for credit losses for the nine months ended September 30, 2016 and 2015 was as follows:

|                               | Sales-type Lease<br>Receivables |               | Loan Receivables |               |           |
|-------------------------------|---------------------------------|---------------|------------------|---------------|-----------|
|                               | North<br>America                | International | North<br>America | International | Total     |
| Balance at January 1, 2016    | \$6,606                         | \$ 3,542      | \$10,024         | \$ 1,518      | \$21,690  |
| Amounts charged to expense    | 2,881                           | 464           | 4,217            | 688           | 8,250     |
| Write-offs and other          | (3,433 )                        | (1,419 )      | (5,953 )         | (1,010 )      | (11,815 ) |
| Balance at September 30, 2016 | \$6,054                         | \$ 2,587      | \$8,288          | \$ 1,196      | \$18,125  |

|                               | Sales-type Lease<br>Receivables |               | Loan Receivables |               |           |
|-------------------------------|---------------------------------|---------------|------------------|---------------|-----------|
|                               | North<br>America                | International | North<br>America | International | Total     |
| Balance at January 1, 2015    | \$10,125                        | \$ 5,024      | \$11,068         | \$ 1,788      | \$28,005  |
| Amounts charged to expense    | 793                             | 183           | 6,180            | 867           | 8,023     |
| Write-offs and other          | (3,523 )                        | (1,711 )      | (7,260 )         | (1,005 )      | (13,499 ) |
| Balance at September 30, 2015 | \$7,395                         | \$ 3,496      | \$9,988          | \$ 1,650      | \$22,529  |

## Aging of Receivables

The aging of gross finance receivables at September 30, 2016 and December 31, 2015 was as follows:

|                            | September 30, 2016              |               |                  |               |  |             |
|----------------------------|---------------------------------|---------------|------------------|---------------|--|-------------|
|                            | Sales-type Lease<br>Receivables |               | Loan Receivables |               |  | Total       |
|                            | North<br>America                | International | North<br>America | International |  |             |
| 1 - 90 days                | \$1,017,772                     | \$ 282,269    | \$361,883        | \$ 37,251     |  | \$1,699,175 |
| > 90 days                  | 66,101                          | 5,250         | 3,842            | 296           |  | 75,489      |
| Total                      | \$1,083,873                     | \$ 287,519    | \$365,725        | \$ 37,547     |  | \$1,774,664 |
| Past due amounts > 90 days |                                 |               |                  |               |  |             |
| Still accruing interest    | \$10,447                        | \$ 1,748      | \$—              | \$ —          |  | \$12,195    |
| Not accruing interest      | 55,654                          | 3,502         | 3,842            | 296           |  | 63,294      |
| Total                      | \$66,101                        | \$ 5,250      | \$3,842          | \$ 296        |  | \$75,489    |

As of September 30, 2016, we had North America sales-type lease receivables aged greater than 90 days with a contract value of \$66 million. As of October 30, 2016, we have received payments with a contract value of approximately \$30 million related to these receivables.

|                            | December 31, 2015               |               |                  |               |  |             |
|----------------------------|---------------------------------|---------------|------------------|---------------|--|-------------|
|                            | Sales-type Lease<br>Receivables |               | Loan Receivables |               |  | Total       |
|                            | North<br>America                | International | North<br>America | International |  |             |
| 1 - 90 days                | \$1,138,031                     | \$ 298,772    | \$395,573        | \$ 41,117     |  | \$1,873,493 |
| > 90 days                  | 19,158                          | 5,082         | 3,620            | 487           |  | 28,347      |
| Total                      | \$1,157,189                     | \$ 303,854    | \$399,193        | \$ 41,604     |  | \$1,901,840 |
| Past due amounts > 90 days |                                 |               |                  |               |  |             |

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|                         |          |          |         |        |          |
|-------------------------|----------|----------|---------|--------|----------|
| Still accruing interest | \$5,041  | \$ 1,617 | \$—     | \$ —   | \$6,658  |
| Not accruing interest   | 14,117   | 3,465    | 3,620   | 487    | 21,689   |
| Total                   | \$19,158 | \$ 5,082 | \$3,620 | \$ 487 | \$28,347 |

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## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

## Credit Quality

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

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

The table below shows the North America portfolio at September 30, 2016 and December 31, 2015 by relative risk class based on the relative scores of the accounts within each class. The relative scores are determined based on a number of factors, including the company type, ownership structure, payment history and financial information. A fourth class is shown for accounts that are not scored. Absence of a score is not indicative of the credit quality of the account. The degree of risk (low, medium, high), as defined by the third party, refers to the relative risk that an account in the next 12 month period may become delinquent.

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

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

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

|                              | September 30,<br>2016 | December 31,<br>2015 |
|------------------------------|-----------------------|----------------------|
| Sales-type lease receivables |                       |                      |
| Low                          | \$ 824,756            | \$ 886,198           |
| Medium                       | 172,278               | 192,645              |
| High                         | 19,339                | 37,573               |
| Not Scored                   | 67,500                | 40,773               |
| Total                        | \$ 1,083,873          | \$ 1,157,189         |
| Loan receivables             |                       |                      |
| Low                          | \$ 278,210            | \$ 295,725           |
| Medium                       | 70,052                | 85,671               |
| High                         | 6,648                 | 10,810               |
| Not Scored                   | 10,815                | 6,987                |
| Total                        | \$ 365,725            | \$ 399,193           |

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

## 6. Acquisitions, Intangible Assets and Goodwill

## Acquisitions

On July 1, 2016, we acquired Maponics for \$24 million, net of cash acquired. Maponics provides comprehensive boundary information and geospatial data that support location-based services and analytics and will be reported within our Software Solutions segment.

On January 12, 2016, we acquired Enroute for \$14 million in cash. Additional cash payments may also be required during 2017-2019 based on the achievement of certain annual revenue targets for 2016-2018. Enroute is a software-as-a-service enterprise retail and fulfillment solutions company and is reported within our Global Ecommerce segment.

In June 2015, we acquired Borderfree, Inc. ("Borderfree"). During the second quarter of 2016, we obtained new information about facts and circumstances that existed as of the acquisition date and increased accounts payable and accrued expenses and goodwill acquired in the Borderfree acquisition by \$2 million. On a supplemental pro forma basis, had we acquired Borderfree on January 1, 2015, our revenues would have been \$47 million higher for the nine months ended September 30, 2015. The impact on our earnings would not have been material.

## Intangible Assets

Intangible assets at September 30, 2016 and December 31, 2015 consisted of the following:

|                         | September 30, 2016    |                          |                     | December 31, 2015     |                          |                     |
|-------------------------|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
|                         | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Customer relationships  | \$450,890             | \$(299,224)              | \$151,666           | \$437,459             | \$(272,353)              | \$165,106           |
| Software & technology   | 152,201               | (137,680)                | 14,521              | 149,591               | (135,198)                | 14,393              |
| Trademarks & other      | 36,851                | (28,817)                 | 8,034               | 35,314                | (27,435)                 | 7,879               |
| Total intangible assets | \$639,942             | \$(465,721)              | \$174,221           | \$622,364             | \$(434,986)              | \$187,378           |

Amortization expense was \$10 million and \$11 million for the three months ended September 30, 2016 and 2015, respectively and \$32 million and \$27 million, for the nine months ended September 30, 2016 and 2015, respectively. Future amortization expense as of September 30, 2016 was as follows:

|   |           |
|---|-----------|
| Remaining for year ending December 31, 2016 | \$8,189   |
| Year ending December 31, 2017               | 29,721    |
| Year ending December 31, 2018               | 27,418    |
| Year ending December 31, 2019               | 23,992    |
| Year ending December 31, 2020               | 18,836    |
| Thereafter                                  | 66,065    |
| Total                                       | \$174,221 |

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





## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

## Goodwill

Changes in the carrying value of goodwill for the nine months ended September 30, 2016 were as follows:

|                                   | December 31,<br>2015 | Acquisitions | Foreign<br>currency<br>translation | September 30,<br>2016 |
|-----------------------------------|----------------------|--------------|------------------------------------|-----------------------|
| North America Mailing             | \$ 296,053           | \$ —         | \$ 3,993                           | \$ 300,046            |
| International Mailing             | 148,351              | —            | 5,552                              | 153,903               |
| Small & Medium Business Solutions | 444,404              | —            | 9,545                              | 453,949               |
| Production Mail                   | 105,757              | —            | (1,382 )                           | 104,375               |
| Presort Services                  | 196,890              | —            | —                                  | 196,890               |
| Enterprise Business Solutions     | 302,647              | —            | (1,382 )                           | 301,265               |
| Software Solutions                | 674,976              | 12,137       | (9,260 )                           | 677,853               |
| Global Ecommerce                  | 323,930              | 9,421        | —                                  | 333,351               |
| Digital Commerce Solutions        | 998,906              | 21,558       | (9,260 )                           | 1,011,204             |
| Total goodwill                    | \$ 1,745,957         | \$ 21,558    | \$ (1,097 )                        | \$ 1,766,418          |

## 7. Fair Value Measurements and Derivative Instruments

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

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

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

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

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect its placement within the fair value hierarchy. 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 September 30, 2016 and December 31, 2015.

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

|   | September 30, 2016 |             |         | Total        |
|---|--------------------|-------------|---------|--------------|
|   | Level 1            | Level 2     | Level 3 |              |
| Assets:   |                    |             |         |              |
| Investment securities   |                    |             |         |              |
| Money market funds / commercial paper                                       | \$ 143,960         | \$ 104,169  | \$ —    | —\$ 248,129  |
| Equity securities   | —                  | 23,782      | —       | 23,782       |
| Commingled fixed income securities  | 1,575              | 22,769      | —       | 24,344       |
| Debt securities - U.S. and foreign governments, agencies and municipalities | 93,515             | 19,396      | —       | 112,911      |
| Debt securities - corporate   | —                  | 82,149      | —       | 82,149       |
| Mortgage-backed / asset-backed securities                                   | —                  | 163,806     | —       | 163,806      |
| Derivatives   |                    |             |         |              |
| Foreign exchange contracts  | —                  | 3,508       | —       | 3,508        |
| Total assets  | \$ 239,050         | \$ 419,579  | \$ —    | —\$ 658,629  |
| Liabilities:  |                    |             |         |              |
| Derivatives   |                    |             |         |              |
| Interest rate swap  | \$ —               | \$ (591 )   | \$ —    | —\$ (591 )   |
| Foreign exchange contracts  | —                  | (1,515 )    | —       | (1,515 )     |
| Total liabilities   | \$ —               | \$ (2,106 ) | \$ —    | —\$ (2,106 ) |

|   | December 31, 2015 |             |         | Total        |
|---|-------------------|-------------|---------|--------------|
|   | Level 1           | Level 2     | Level 3 |              |
| Assets:   |                   |             |         |              |
| Investment securities   |                   |             |         |              |
| Money market funds / commercial paper                                       | \$ 41,215         | \$ 292,412  | \$ —    | —\$ 333,627  |
| Equity securities   | —                 | 24,538      | —       | 24,538       |
| Commingled fixed income securities  | —                 | 22,571      | —       | 22,571       |
| Debt securities - U.S. and foreign governments, agencies and municipalities | 102,235           | 12,566      | —       | 114,801      |
| Debt securities - corporate   | —                 | 62,884      | —       | 62,884       |
| Mortgage-backed / asset-backed securities                                   | —                 | 178,234     | —       | 178,234      |
| Derivatives   |                   |             |         |              |
| Foreign exchange contracts  | —                 | 1,716       | —       | 1,716        |
| Total assets  | \$ 143,450        | \$ 594,921  | \$ —    | —\$ 738,371  |
| Liabilities:  |                   |             |         |              |
| Derivatives   |                   |             |         |              |
| Foreign exchange contracts  | \$ —              | \$ (5,387 ) | \$ —    | —\$ (5,387 ) |
| Total liabilities   | \$ —              | \$ (5,387 ) | \$ —    | —\$ (5,387 ) |

## Investment Securities

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

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

exchange in an active market and are classified as Level 2.

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## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

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

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

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

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

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

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

## Available-For-Sale Securities

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

Available-for-sale securities at September 30, 2016 and December 31, 2015 consisted of the following:

|   | September 30, 2016 |                              |                               |                         |
|---|--------------------|------------------------------|-------------------------------|-------------------------|
|   | Amortized<br>cost  | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses | Estimated<br>fair value |
| U.S. and foreign governments, agencies and municipalities | \$ 109,027         | \$ 4,145                     | \$ (261 )                     | \$ 112,911              |
| Corporate notes and bonds                                 | 79,264             | 2,982                        | (97 )                         | 82,149                  |
| Commingled fixed income securities                        | 1,559              | 16                           | —                             | 1,575                   |
| Mortgage-backed / asset-backed securities                 | 161,131            | 3,378                        | (703 )                        | 163,806                 |
| Total   | \$ 350,981         | \$ 10,521                    | \$ (1,061 )                   | \$ 360,441              |
|   | December 31, 2015  |                              |                               |                         |
|   | Amortized<br>cost  | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses | Estimated<br>fair value |
| U.S. and foreign governments, agencies and municipalities | \$ 114,265         | \$ 1,804                     | \$ (1,268 )                   | \$ 114,801              |
| Corporate notes and bonds                                 | 63,140             | 823                          | (1,079 )                      | 62,884                  |
| Mortgage-backed / asset-backed securities                 | 177,821            | 1,901                        | (1,488 )                      | 178,234                 |
| Total   | \$ 355,226         | \$ 4,528                     | \$ (3,835 )                   | \$ 355,919              |

At September 30, 2016, investment securities that were in a loss position for 12 or more continuous months had aggregate unrealized holding losses of less than \$1 million and an estimated fair value of \$14 million, and investment securities that were in a loss position for less than 12 continuous months had aggregate unrealized holding losses of less than \$1 million and an estimated fair value of \$81 million.

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

At December 31, 2015, investment securities that were in a loss position for 12 or more continuous months had aggregate unrealized holding losses of \$2 million and an estimated fair value of \$36 million, and investment securities that were in a loss position for less than 12 continuous months had aggregate unrealized holding losses of \$2 million and an estimated fair value of \$146 million.

We have not recognized an other-than-temporary impairment on any of the investment securities in an unrealized loss position because we have the ability and intent to hold these securities until recovery of the unrealized losses and we expect to receive the contractual principal and interest on these investment securities at maturity.

Scheduled maturities of available-for-sale securities at September 30, 2016 were as follows:

|                                | Amortized<br>cost | Estimated<br>fair value |
|--------------------------------|-------------------|-------------------------|
| Within 1 year                  | \$28,111          | \$28,208                |
| After 1 year through 5 years   | 120,611           | 122,284                 |
| After 5 years through 10 years | 56,375            | 58,585                  |
| After 10 years                 | 145,884           | 151,364                 |
| Total                          | \$350,981         | \$360,441               |

The expected payments on mortgage-backed and asset-backed securities may not coincide with their contractual maturities as borrowers have the right to prepay obligations with or without prepayment penalties.

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

## Derivative Instruments

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

## Foreign Exchange Contracts

We enter into foreign exchange contracts to mitigate the currency risk associated with the anticipated purchase of inventory between affiliates and from third parties. These contracts are designated as cash flow hedges. The effective portion of the gain or loss on cash flow hedges is included in AOCL in the period that the change in fair value occurs and is reclassified to earnings in the period that the hedged item is recorded in earnings. At September 30, 2016 and December 31, 2015, we had outstanding contracts associated with these anticipated transactions with notional amounts of \$14 million and \$13 million, respectively.

The valuation of foreign exchange derivatives is based on the market approach using observable market inputs, such as foreign currency spot and forward rates and yield curves. We also incorporate counterparty credit risk and our credit risk into the fair value measurement of our derivative assets and liabilities, respectively. We derive credit risk from observable data in the credit default swap market. We have not seen a material change in the creditworthiness of those banks acting as derivative counterparties.

## Interest Rate Swaps

In September 2016, we entered into an interest rate swap with a notional amount of \$300 million to mitigate the interest rate risk associated with our \$300 million variable-rate term loans. The swap is designated as a cash flow hedge. The effective portion of the gain or loss on the cash flow hedge is included in AOCL in the period that the change in fair value occurs and is reclassified to earnings in the period that the hedged item is recorded in earnings. Under the terms of the swap agreement, we pay fixed-rate interest of 0.8826% and receive variable-rate interest based on 1-month LIBOR. The variable interest rate resets monthly.

The valuation of our interest rate swap 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.

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

The majority of the amounts included in AOCL at September 30, 2016 will be recognized in earnings within the next 12 months. No amount of ineffectiveness was recorded in earnings for these designated cash flow hedges.

The fair value of derivative instruments at September 30, 2016 and December 31, 2015 was as follows:

| Designation of Derivatives                        | Balance Sheet Location                   | September 30, December 31, |             |
|---|--|----------------------------|-------------|
|   |  | 2016                       | 2015        |
| Derivatives designated as hedging instruments     |  |                            |             |
| Foreign exchange contracts                        | Other current assets and prepayments     | \$ 247                     | \$ 217      |
|   | Accounts payable and accrued liabilities | (573 )                     | (208 )      |
| Interest rate swap                                | Other non-current liabilities            | (591 )                     | —           |
| Derivatives not designated as hedging instruments |  |                            |             |
| Foreign exchange contracts                        | Other current assets and prepayments     | 3,261                      | 1,499       |
|   | Accounts payable and accrued liabilities | (942 )                     | (5,179 )    |
|   | Total derivative assets                  | \$ 3,508                   | \$ 1,716    |
|   | Total derivative liabilities             | (2,106 )                   | (5,387 )    |
|   | Total net derivative asset (liabilities) | \$ 1,402                   | \$ (3,671 ) |

The following represents the results of cash flow hedging relationships for the three and nine months ended September 30, 2016 and 2015:

| Derivative Instrument      | Three Months Ended September 30, |                     | Location of Gain (Loss) (Effective Portion) | Gain (Loss) Reclassified from AOCL to Earnings (Effective Portion) |                     |
|----------------------------|----------------------------------|---------------------|---|--|---------------------|
|                            | 2016                             | 2015                |   | 2016   | 2015                |
|                            | (Effective Portion)              | (Effective Portion) |   | (Effective Portion)  | (Effective Portion) |
| Foreign exchange contracts | \$ (158 )                        | \$ (140 )           | Revenue                                     | \$ (443 )  | 211                 |
|                            |                                  |                     | Cost of sales                               | 301  | (41 )               |
| Interest rate swap         | (591 )                           | —                   | Interest Expense                            | —  | —                   |
|                            | \$ (749 )                        | \$ (140 )           |   | \$ (142 )  | \$ 170              |

| Derivative Instrument      | Nine Months Ended September 30, |                     | Location of Gain (Loss) (Effective Portion) | Gain (Loss) Reclassified from AOCL to Earnings (Effective Portion) |                     |
|----------------------------|---------------------------------|---------------------|---|--|---------------------|
|                            | 2016                            | 2015                |   | 2016   | 2015                |
|                            | (Effective Portion)             | (Effective Portion) |   | (Effective Portion)  | (Effective Portion) |
| Foreign exchange contracts | \$ (114 )                       | \$ 614              | Revenue                                     | \$ 290   | \$ 1,039            |
|                            |                                 |                     |   | (69 )  | 544                 |



|                    |           |        |          |        |          |
|--------------------|-----------|--------|----------|--------|----------|
|                    |           |        | Cost of  |        |          |
|                    |           |        | sales    |        |          |
| Interest rate swap | (591 )    | —      | Interest | —      | —        |
|                    |           |        | Expense  |        |          |
|                    | \$ (705 ) | \$ 614 |          | \$ 221 | \$ 1,583 |

We also enter into foreign exchange contracts to minimize the impact of exchange rate fluctuations on short-term intercompany loans and related interest that are denominated in a foreign currency. The revaluation of the intercompany loans and interest and the mark-to-market adjustment on the derivatives are both recorded in earnings. All outstanding contracts at September 30, 2016 mature within 12 months.

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

The following represents the results of our non-designated derivative instruments for the three and nine months ended September 30, 2016 and 2015:

| Derivatives Instrument     | Location of Derivative Gain (Loss)          | Three Months<br>Ended<br>September 30,<br>Derivative Gain<br>(Loss)<br>Recognized in<br>Earnings |         |
|----------------------------|---|--|---------|
|                            |   | 2016   | 2015    |
| Foreign exchange contracts | Selling, general and administrative expense | \$1,719  | \$2,138 |

| Derivatives Instrument     | Location of Derivative Gain (Loss)          | Nine Months<br>Ended<br>September 30,<br>Derivative Gain<br>(Loss)<br>Recognized in<br>Earnings |           |
|----------------------------|---|---|-----------|
|                            |   | 2016  | 2015      |
| Foreign exchange contracts | Selling, general and administrative expense | \$322   | \$(1,437) |

## Credit-Risk-Related Contingent Features

Certain derivative instruments contain credit-risk-related contingent features that would require us to post collateral based on a combination of our long-term senior unsecured debt ratings and the net fair value of our derivatives. At September 30, 2016, we did not post any collateral and the maximum amount of collateral that we would have been required to post had the credit-risk-related contingent features been triggered was not significant.

## Fair Value of Financial Instruments

Our financial instruments include cash and cash equivalents, investment securities, accounts receivable, loan receivables, derivative instruments, accounts payable and debt. The carrying value for cash and cash equivalents, accounts receivable, loans receivable, and accounts payable approximate fair value because of the short maturity of these instruments.

The fair value of our debt is estimated based on recently executed transactions and market price quotations. The inputs used to determine the fair value of our debt were classified as Level 2 in the fair value hierarchy. The carrying value and estimated fair value of our debt at September 30, 2016 and December 31, 2015 were as follows:

|                | September 30, December 31, |              |
|----------------|----------------------------|--------------|
|                | 2016                       | 2015         |
| Carrying value | \$ 3,367,056               | \$ 2,950,668 |
| Fair value     | \$ 3,489,163               | \$ 3,084,561 |

## 8. Restructuring Charges and Asset Impairments

## Restructuring charges

Activity in our restructuring reserves for the nine months ended September 30, 2016 and 2015 was as follows:

Total

|                               | Severance<br>and<br>benefits<br>costs | Other<br>exit<br>costs |           |
|-------------------------------|---------------------------------------|------------------------|-----------|
| Balance at January 1, 2016    | \$ 43,700                             | \$ 3,722               | \$ 47,422 |
| Expenses, net                 | 36,791                                | 1,660                  | 38,451    |
| Cash payments                 | (47,241 )                             | (3,920 )               | (51,161 ) |
| Balance at September 30, 2016 | \$ 33,250                             | \$ 1,462               | \$ 34,712 |
| <br>                          |                                       |                        |           |
| Balance at January 1, 2015    | \$ 81,836                             | \$ 8,343               | \$ 90,179 |
| Expenses, net                 | 9,196                                 | (1,183 )               | 8,013     |
| Cash payments                 | (42,708 )                             | (3,348 )               | (46,056 ) |
| Balance at September 30, 2015 | \$ 48,324                             | \$ 3,812               | \$ 52,136 |

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

Restructuring charges also include pension settlement charges of \$2 million and \$1 million for the nine months ended September 30, 2016 and 2015, respectively.

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

## Asset impairments

For the nine months ended September 30, 2016, asset impairment charges totaled \$9 million and consisted primarily of a loss of \$5 million on the sale of a facility and an impairment charge of \$3 million related to a building. For the nine months ended September 30, 2015, asset impairment charges totaled \$5 million and consisted primarily of a loss on the sale of our world headquarters building.

## 9. Debt

Total debt at September 30, 2016 and December 31, 2015 consisted of the following:

|  | Interest rate | September 30, December 31, |              |
|--|---------------|----------------------------|--------------|
|  |               | 2016                       | 2015         |
| Commercial paper                                       | variable      | \$ —                       | \$ 90,000    |
| Notes due January 2016                                 | 4.75%         | —                          | 370,914      |
| Notes due September 2017                               | 5.75%         | 385,109                    | 385,109      |
| Notes due March 2018                                   | 5.6%          | 250,000                    | 250,000      |
| Notes due May 2018                                     | 4.75%         | 350,000                    | 350,000      |
| Notes due March 2019                                   | 6.25%         | 300,000                    | 300,000      |
| Notes due October 2021                                 | 3.375%        | 600,000                    | —            |
| Notes due March 2024                                   | 4.625%        | 500,000                    | 500,000      |
| Notes due January 2037                                 | 5.25%         | 115,041                    | 115,041      |
| Notes due March 2043                                   | 6.7%          | 425,000                    | 425,000      |
| Term loans   | Variable      | 450,000                    | 150,000      |
| Other debt   |               | 5,666                      | 15,758       |
| Principal amount                                       |               | 3,380,816                  | 2,951,822    |
| Less: unamortized debt discount and issuance costs     |               | 29,078                     | 23,617       |
| Plus: unamortized interest rate swap proceeds          |               | 15,318                     | 22,463       |
| Total debt   |               | 3,367,056                  | 2,950,668    |
| Less: current portion long-term debt and notes payable |               | 535,289                    | 461,085      |
| Long-term debt   |               | \$ 2,831,767               | \$ 2,489,583 |

In September 2016, we issued \$600 million of 3.375% fixed-rate notes due in October 2021. Interest is payable semi-annually. The notes mature in October 2021, but may be redeemed, at our option, in whole or in part, at any time or from time to time at par plus accrued and unpaid interest. We used a portion of these proceeds to repay commercial paper and used the remaining proceeds to redeem the PBIH Preferred Stock on November 1, 2016 (see Note 12).

In January 2016, we borrowed \$300 million under a term loan agreement and applied the proceeds to the repayment of the \$371 million, 4.75% notes due January 2016. The new term loans bear interest at the applicable Eurodollar Rate plus 1.25% and mature in December 2020. The effective interest rate of these loans for the third quarter were 1.95%. In September 2016, we entered into an interest rate swap with a notional amount of \$300 million to mitigate the interest rate risk associated with these variable-rate term loans. Under the terms of the swap agreement, we pay fixed-rate interest of 0.8826% and receive variable-rate interest based on 1-month LIBOR. The variable rate resets monthly.

In March 2016, we satisfied certain employment obligations stipulated in the State of Connecticut Department of Economic and Community Development loan (issued in 2014), and under the terms of the loan, \$10 million was forgiven. We recorded loan forgiveness income in selling, general and administrative expenses.

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

## 10. Pensions and Other Benefit Programs

The components of net periodic benefit cost (income) were as follows:

|   | Defined Benefit Pension Plans                  |  |  |  | Nonpension<br>Postretirement<br>Benefit Plans  |  |
|---|--|--|--|--|--|--|
|   | United States                                  |  | Foreign  |  | Three Months<br>Ended                          |  |
|   | Three Months<br>Ended<br>September 30,<br>2016 | Three Months<br>Ended<br>September 30,<br>2015 | Three Months<br>Ended<br>September 30,<br>2016 | Three Months<br>Ended<br>September 30,<br>2015 | Three Months<br>Ended<br>September 30,<br>2016 | Three Months<br>Ended<br>September 30,<br>2015 |
| Service cost                                | \$26   | \$38   | \$549  | \$557  | \$512  | \$530  |
| Interest cost                               | 18,452   | 18,581   | 5,366  | 6,099  | 1,994  | 2,086  |
| Expected return on plan assets              | (25,480)                                       | (26,002)                                       | (7,976)  | (8,912)  | —  | —  |
| Amortization of transition credit           | —  | —  | (2)  | (2)  | —  | —  |
| Amortization of prior service (credit) cost | (15)   | 2  | (19)   | (16)   | 74   | 74   |
| Amortization of net actuarial loss          | 6,779  | 7,327  | 1,302  | 1,482  | 904  | 1,704  |
| Settlement <sup>(1)</sup>                   | 183  | 1,083  | —  | —  | —  | —  |
| Net periodic benefit cost (income)          | \$(55)   | \$1,029  | \$(780)  | \$(792)  | \$3,484  | \$4,394  |

|   | Defined Benefit Pension Plans                 |   |   |   | Nonpension<br>Postretirement<br>Benefit Plans |   |
|---|---|---|---|---|---|---|
|   | United States                                 |   | Foreign                                       |   | Nine Months<br>Ended                          |   |
|   | Nine Months<br>Ended<br>September 30,<br>2016 | Nine Months<br>Ended<br>September 30,<br>2015 | Nine Months<br>Ended<br>September 30,<br>2016 | Nine Months<br>Ended<br>September 30,<br>2015 | Nine Months<br>Ended<br>September 30,<br>2016 | Nine Months<br>Ended<br>September 30,<br>2015 |
| Service cost                                | \$80  | \$114   | \$1,622                                       | \$1,677                                       | \$1,534                                       | \$1,849                                       |
| Interest cost                               | 55,354  | 55,745  | 16,773  | 18,284  | 5,977   | 6,612   |
| Expected return on plan assets              | (76,439)                                      | (78,004)                                      | (25,029)                                      | (26,686)                                      | —   | —   |
| Amortization of transition credit           | —   | —   | (6)   | (7)   | —   | —   |
| Amortization of prior service (credit) cost | (45)  | 6   | (54)  | (49)  | 222   | 222   |
| Amortization of net actuarial loss          | 20,336  | 21,982  | 4,018   | 4,471   | 2,711   | 5,657   |
| Settlement <sup>(1)</sup>                   | 1,971   | 1,083   | —   | —   | —   | —   |
| Net periodic benefit cost (income)          | \$1,257                                       | \$926   | \$(2,676)                                     | \$(2,310)                                     | \$10,444                                      | \$14,340                                      |

(1) Included in restructuring charges and asset impairments, net in the Condensed Consolidated Statements of Income. Through September 30, 2016 and September 30, 2015, contributions to our U.S. pension plans were \$8 million and \$6 million, respectively, and contributions to our foreign plans were \$41 million and \$12 million, respectively. Nonpension postretirement benefit plan contributions were \$14 million and \$16 million through September 30, 2016 and September 30, 2015, respectively.

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

## 11. Income Taxes

The effective tax rate for the three months ended September 30, 2016 and 2015 was 24.8% and 31.3%, respectively, and the effective tax rate for the nine months ended September 30, 2016 and 2015 was 32.7% and 30.2%, respectively. The effective tax rate for both the three and nine months ended September 30, 2016 includes \$15 million of benefits from the resolution of tax examinations and a \$5 million charge from the establishment of a valuation allowance on tax attribute carryovers. The effective tax rate for the nine months ended September 30, 2015 also includes a \$20 million benefit resulting from the disposition of Imagitas.

As is the case with other large corporations, our tax returns are examined each year by tax authorities in the U.S. and other global taxing jurisdictions in which we have operations. As a result, it is reasonably possible that the amount of our unrecognized tax benefits will decrease in the next 12 months, and we expect this change could be up to 25% of our unrecognized tax benefits.

The IRS examinations of our consolidated U.S. income tax returns for tax years prior to 2012 are closed to audit. Additionally, various post-2006 U.S. state and local tax returns are subject to examination. In Canada, the examination of our tax filings prior to 2011 are closed to audit, except for the pending application of legal principles to specific issues arising in earlier years. Other significant jurisdictions in which we have, or have recently completed, tax examinations include France, closed through the end of 2012, Germany closed through the end of 2011 and except for an item under appeal, the U.K. is closed through the end of 2011. We have other less significant tax filings currently subject to examination.

## 12. Noncontrolling Interests (Preferred Stockholders' Equity in Subsidiaries)

Pitney Bowes International Holdings, Inc. (PBIH), a subsidiary of the Company, has 300,000 shares of outstanding perpetual voting preferred stock valued at \$300 million held by certain institutional investors (PBIH Preferred Stock). The holders of PBIH Preferred Stock are entitled as a group to 25% of the combined voting power of all classes of capital stock of PBIH. All outstanding common stock of PBIH, representing the remaining 75% of the combined voting power of all classes of capital stock, is owned directly or indirectly by the Company. The PBIH Preferred Stock is entitled to cumulative dividends at a rate of 6.125%. We redeemed all of the PBIH Preferred Stock on November 1, 2016 for \$300 million plus accrued dividends.

## 13. Commitments and Contingencies

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

## 14. Stockholders' Equity

Changes in stockholders' equity for the nine months ended September 30, 2016 and 2015 were as follows:

|                            | Preferred stock | Preferred stock | Common stock | Additional paid-in capital | Retained earnings | Accumulated other comprehensive loss | Treasury stock | Total equity |
|----------------------------|-----------------|-----------------|--------------|----------------------------|-------------------|--------------------------------------|----------------|--------------|
| Balance at January 1, 2016 | \$ 1            | \$ 505          | \$323,338    | \$161,280                  | \$5,155,537       | \$(888,635)                          | \$(4,573,305)  | \$178,721    |
| Net income                 | —               | —               | —            | —                          | 177,148           | —                                    | —              | 177,148      |

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|                                  |      |        |           |           |             |               |                |            |
|----------------------------------|------|--------|-----------|-----------|-------------|---------------|----------------|------------|
| Other comprehensive income       | —    | —      | —         | —         | —           | 62,673        | —              | 62,673     |
| Dividends paid                   | —    | —      | —         | —         | (105,791 )  | —             | —              | (105,791 ) |
| Issuance of common stock         | —    | —      | —         | (27,251 ) | —           | —             | 25,930         | (1,321 )   |
| Conversion to common stock       | —    | (16 )  | —         | (321 )    | —           | —             | 337            | —          |
| Stock-based compensation expense | —    | —      | —         | 16,289    | —           | —             | —              | 16,289     |
| Repurchase of common stock       | —    | —      | —         | —         | —           | —             | (197,267 )     | (197,267 ) |
| Balance at September 30, 2016    | \$ 1 | \$ 489 | \$323,338 | \$149,997 | \$5,226,894 | \$ (825,962 ) | \$ (4,744,305) | \$130,452  |



## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

|                                  | Preferred stock | Preferred stock | Common stock | Additional paid-in capital | Retained earnings | Accumulated other comprehensive loss | Treasury stock | Total equity |
|----------------------------------|-----------------|-----------------|--------------|----------------------------|-------------------|--------------------------------------|----------------|--------------|
| Balance at January 1, 2015       | \$ 1            | \$ 548          | \$323,338    | \$178,852                  | \$4,897,708       | \$(846,156 )                         | \$(4,477,032)  | \$77,259     |
| Net income                       | —               | —               | —            | —                          | 321,664           | —                                    | —              | 321,664      |
| Other comprehensive loss         | —               | —               | —            | —                          | —                 | (54,696 )                            | —              | (54,696 )    |
| Dividends paid                   | —               | —               | —            | —                          | (113,158 )        | —                                    | —              | (113,158 )   |
| Issuance of common stock         | —               | —               | —            | (36,946 )                  | —                 | —                                    | 32,983         | (3,963 )     |
| Conversion to common stock       | —               | (29 )           | —            | (632 )                     | —                 | —                                    | 661            | —            |
| Stock-based compensation expense | —               | —               | —            | 14,921                     | —                 | —                                    | —              | 14,921       |
| Repurchase of common stock       | —               | —               | —            | —                          | —                 | —                                    | (100,000 )     | (100,000 )   |
| Balance at September 30, 2015    | \$ 1            | \$ 519          | \$323,338    | \$156,195                  | \$5,106,214       | \$(900,852 )                         | \$(4,543,388)  | \$142,027    |

## 15. Accumulated Other Comprehensive Loss

Reclassifications out of AOCL for the three and nine months ended September 30, 2016 and 2015 were as follows:

|                                    | Amount Reclassified from AOCL (a)     |          |                                      |          |
|------------------------------------|---------------------------------------|----------|--------------------------------------|----------|
|                                    | Three Months Ended September 30, 2016 |          | Nine Months Ended September 30, 2015 |          |
| Gains (losses) on cash flow hedges |                                       |          |                                      |          |
| Revenue                            | \$443                                 | \$211    | \$(290 )                             | \$1,039  |
| Cost of sales                      | (301 )                                | (41 )    | 69                                   | 544      |
| Interest expense, net              | (507 )                                | (507 )   | (1,521 )                             | (1,521 ) |
| Total before tax                   | (365 )                                | (337 )   | (1,742 )                             | 62       |
| (Benefit) provision for income tax | (144 )                                | (132 )   | (679 )                               | 15       |
| Net of tax                         | \$(221 )                              | \$(205 ) | \$(1,063 )                           | \$47     |

## Gains (losses) on available for sale securities

|                                    |           |         |            |         |
|------------------------------------|-----------|---------|------------|---------|
| Interest expense, net              | \$(1,125) | \$1,085 | \$(1,126 ) | \$1,043 |
| (Benefit) provision for income tax | (433 )    | 401     | (433 )     | 385     |
| Net of tax                         | \$(692 )  | \$684   | \$(693 )   | \$658   |

## Pension and Postretirement Benefit Plans (b)

|                     |          |           |           |           |
|---------------------|----------|-----------|-----------|-----------|
| Transition credit   | \$2      | \$2       | \$6       | \$7       |
| Prior service costs | (40 )    | (60 )     | (123 )    | (179 )    |
| Actuarial losses    | (9,168 ) | (11,596 ) | (29,036 ) | (33,193 ) |

|                         |           |           |            |            |
|-------------------------|-----------|-----------|------------|------------|
| Total before tax        | (9,206 )  | (11,654 ) | (29,153 )  | (33,365 )  |
| Benefit from income tax | (3,243 )  | (4,219 )  | (10,362 )  | (12,001 )  |
| Net of tax              | \$(5,963) | \$(7,435) | \$(18,791) | \$(21,364) |

- (a) Amounts in parentheses indicate reductions to income and increases to other comprehensive income (loss).  
 (b) Reclassified from accumulated other comprehensive loss into selling, general and administrative expenses. These amounts are included in the computation of net periodic costs (see Note 10 for additional details).

## PITNEY BOWES INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; table amounts in thousands unless otherwise noted, except per share amounts)

Changes in AOCL for the nine months ended September 30, 2016 and 2015 were as follows:

|  | Cash<br>flow<br>hedges | Available<br>for sale<br>securities | Pension and<br>postretirement<br>benefit plans | Foreign<br>currency<br>adjustments | Total       |
|--|------------------------|-------------------------------------|--|------------------------------------|-------------|
| Balance at January 1, 2016                                     | \$(3,912)              | \$ 536                              | \$ (738,768 )                                  | \$ (146,491 )                      | \$(888,635) |
| Other comprehensive (loss) income before reclassifications (a) | (705 )                 | 6,798                               | (1,230 )                                       | 37,263                             | 42,126      |
| Reclassifications into earnings (a), (b)                       | 1,063                  | 693                                 | 18,791   | —                                  | 20,547      |
| Net other comprehensive income                                 | 358                    | 7,491                               | 17,561   | 37,263                             | 62,673      |
| Balance at September 30, 2016                                  | \$(3,554)              | \$ 8,027                            | \$ (721,207 )                                  | \$ (109,228 )                      | \$(825,962) |

|   | Cash<br>flow<br>hedges | Available<br>for sale<br>securities | Pension and<br>postretirement<br>benefit plans | Foreign<br>currency<br>adjustments | Total       |
|---|------------------------|-------------------------------------|--|------------------------------------|-------------|
| Balance at January 1, 2015                            | \$(4,689)              | \$ 2,966                            | \$ (786,079 )                                  | \$ (58,354 )                       | \$(846,156) |
| Other comprehensive loss before reclassifications (a) | 382                    | 416                                 | —  | (76,153 )                          | (75,355 )   |
| Reclassifications into earnings (a), (b)              | (47 )                  | (658 )                              | 21,364   | —                                  | 20,659      |
| Net other comprehensive income (loss)                 | 335                    | (242 )                              | 21,364   | (76,153 )                          | (54,696 )   |
| Balance at September 30, 2015                         | \$(4,354)              | \$ 2,724                            | \$ (764,715 )                                  | \$ (134,507 )                      | \$(900,852) |

(a) Amounts are net of tax. Amounts in parentheses indicate debits to AOCL.

(b) See table above for additional details of these reclassifications.

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations  
Forward-Looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) contains statements that are forward-looking. 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 may change based on various factors. These forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties and actual results could differ materially. Words such as "estimate," "target," "project," "plan," "believe," "expect," "anticipate," "intend" and similar expressions may identify such forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. 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, without limitation:

- declining physical mail volumes
- competitive factors, including pricing pressures, technological developments and introduction of new products and services by competitors
- our success in developing new products and services, including digital-based products and services, obtaining regulatory approval if required, and the market's acceptance of these new products and services
- our ability to efficiently and effectively transition into our new Enterprise Resource Planning (ERP) system in the U.S. without significant disruption to existing operations
- the success of our advertising and investment to rebrand the company and to build market awareness to create new demand for our businesses
- changes in postal or banking regulations
- macroeconomic factors, including global and regional business conditions that adversely impact customer demand, access to capital markets at reasonable costs, changes in interest rates, foreign currency exchange rates and fuel prices
- the continued availability and security of key information systems and the cost to comply with information security requirements and privacy laws
- third-party suppliers' ability to provide product components, assemblies or inventories
- our success at managing the relationships with our outsource providers, including the costs of outsourcing functions and operations not central to our business
- the loss of some of our larger clients in the Global Ecommerce segment
- integrating newly acquired businesses including operations and product and service offerings
- intellectual property infringement claims
- our success at managing customer credit risk
  - significant changes in pension, health care and retiree medical costs
- income tax adjustments or other regulatory levies for prior audit years and changes in tax laws, rulings or regulations
- a disruption of our businesses due to changes in international or national political conditions, including the use of the mail for transmitting harmful biological agents or other terrorist attacks
- acts of nature



## Overview

Through the first three quarters of 2016, we continued to execute on our strategic priorities to stabilize and reinvent our mail business, drive operational excellence and grow our business through digital commerce. We acquired a software-as-a-service enterprise retail and fulfillment solutions company and a company that provides comprehensive boundary and geospatial data to support location-based services and analytics. We also exited certain geographic markets as part of our initiative to simplify our geographic footprint, launched a new advertising campaign and launched our Pitney Bowes Commerce Cloud that helps our clients identify customers, locate new sales opportunities, communicate with their existing and prospective customers, power shipping globally and manage payments for mailing and shipping.

During the second quarter, we deployed our new enterprise business platform in the U.S. In the second quarter, due to the conversion process and training, our business was temporarily impacted from lost sales activity and reduced productivity that adversely impacted equipment sales and stream revenues. During the third quarter, the issues impacting equipment sales have subsided and equipment sales rebounded in the quarter. However, we continued to experience lower financing related fees as a result of proactive waivers to allow clients to adjust to new billing formats as well as due to the timing of invoices being sent.

During the third quarter, we issued \$600 million of 3.375% fixed rate five year notes. We used a portion of the proceeds to repay commercial paper and we used the remaining proceeds to redeem the \$300 million PBIH Preferred Stock on November 1, 2016.

## Financial Highlights

### Revenue - Third Quarter 2016 compared to Third Quarter 2015

Revenue for the third quarter of 2016 decreased 4% to \$839 million compared to \$870 million in the third quarter of 2015. Of this decrease, 1% is attributable to foreign currency translation and 1% to the exit of direct operations in Mexico, South Africa and five markets in Asia (Market Exits), that occurred in the first quarter of 2016 and fourth quarter of 2015.

Equipment sales increased 6% and business services revenue grew 5%. However, support services revenue declined 9%, financing income declined 12%, supplies revenue declined 14%, software revenue declined 9% and rentals revenue declined 5%.

- Small & Medium Business Solutions (SMB) revenue decreased 7% driven by a 7% decline in North America Mailing revenue and a 9% decline in International Mailing revenue. Excluding the impacts of foreign currency translation and Market Exits, SMB revenue declined 6%.

Enterprise Business Solutions revenue increased 1% as Production Mail revenue increased 5%, but was partially offset by a decrease of 2% in Presort Services. Excluding the impacts of foreign currency translation and Market Exits, Enterprise Business Solutions revenue increased 4%.

Digital Commerce Solutions (DCS) revenue decreased 1%. Software Solutions revenue decreased 9%, but was mostly offset by an 8% increase in Global Ecommerce revenue. Excluding the impacts of foreign currency translation, DCS revenue increased 2%.

### Revenue - First Nine Months of 2016 compared to First Nine Months of 2015

Revenue for the first nine months of 2016 decreased 5% to \$2,520 million compared to \$2,641 million in the first nine months of 2015. Of this decrease, 1% is attributable to foreign currency translation and 1% to Market Exits.

Equipment sales declined 2%, supplies revenues declined 8%, software revenue declined 9%, rentals revenue declined 7%, financing income declined 10% and support services revenue declined 8%. Business services revenue increased 3%, partially offsetting these declines.

SMB revenue decreased 7%. North America Mailing revenue was down 7% and International Mailing revenue was down 8%. Excluding the impacts of foreign currency translation and Market Exits, SMB revenue decreased 6%.

Enterprise Business Solutions revenue decreased 1% as Production Mail revenue decreased 3%, but was mostly offset by a 2% increase in Presort Services revenue. Excluding the impacts of foreign currency translation and Market Exits, Enterprise Business Solutions revenue increased 1%.

DCS revenue increased 6%. Global Ecommerce revenue increased 23%, but was partially offset by a 9% decrease in Software Solutions revenue. Excluding the impacts of foreign currency translation, DCS revenue increased 8%.

### Net Income

Net income and diluted earnings per share from continuing operations for the third quarter of 2016 were \$66 million and \$0.35, respectively, compared to \$89 million and \$0.44, respectively, in the third quarter of 2015. Net income and diluted earnings per share from continuing operations for the first nine months of 2016 were \$179 million and \$0.94, respectively, compared to \$322 million and \$1.60, respectively, for the first nine months of 2015. The decreases in the quarter and first nine months of 2016 were primarily due to lower revenue and gross margin and higher restructuring charges and asset impairments. The decline in the first nine of months of 2016 compared to 2015 was also impacted by the gain on the sale of Imagitas in 2015.

### Cash Flows

Cash and cash equivalents increased \$342 million during the first nine months of 2016 since December 31, 2015.

Sources and uses of cash include:

- Generated cash from operations of \$291 million;
- Increased net borrowings by \$434 million;
- Decreased investments by \$66 million;
- Received \$18 million for the sale of assets;
- Acquired Enroute and Maonics for an aggregate \$38 million;
- Paid dividends of \$106 million to our common stockholders;
- Spent \$197 million to repurchase our common stock; and
- Spent \$116 million on capital expenditures.

### Outlook

We anticipate that our restructuring actions, synergies and revenue from acquisitions, the introduction of new products and solutions, our implementation of our go-to-market strategy in all our major markets and the implementation of the new enterprise business platform will continue to provide long-term benefits.

Within SMB Solutions, we anticipate that the introduction of new solutions and services, particularly those included in the Pitney Bowes Commerce Cloud, will help further stabilize revenue over the long-term. We continue to work through the issues impacting stream revenues as a result of our new enterprise business platform and expect to see improvements in the near future. Internationally, the implementation of our go-to-market strategy is now complete in our major markets and, as a result, we anticipate further stabilizing financial results in those markets.

Within Enterprise Business Solutions, we anticipate revenue and profitability growth in Presort Services due to client expansion and higher processed mail volumes. We expect that Production Mail revenue growth will continue to be challenged by changes in the overall market and declining services revenue.

Within DCS, we continue to build our partner channel in Software Solutions by adding new regional systems integrators and location intelligence partners. Additionally, we anticipate improved sales efficiencies and new industry-specific solutions from the transition and training of a new sales group within the organization. We anticipate continued growth in our ecommerce business with our existing marketplace sites (sites where multiple sellers sell) and individual retail clients, as well as through continued new client acquisition and expanded service offerings. A strong U.S. dollar could continue to affect demand for U.S. goods sold to customers in other countries, but such an impact could continue to be mitigated by the effects of a weakened British Pound on sales of U.K. goods to customers in other countries. We continue to expand and globalize our cross-border ecommerce offerings which diversifies the business and helps to mitigate foreign currency risk.



## RESULTS OF OPERATIONS

Revenue by source and the related cost of revenue are shown in the following tables:

|                   | Three Months Ended<br>September 30, |           |             | Nine Months Ended September<br>30, |             |             |
|-------------------|-------------------------------------|-----------|-------------|------------------------------------|-------------|-------------|
|                   | 2016                                | 2015      | %<br>change | 2016                               | 2015        | %<br>change |
| Equipment sales   | \$173,143                           | \$163,857 | 6 %         | \$485,145                          | \$495,328   | (2 )%       |
| Supplies          | 61,306                              | 71,174    | (14 )%      | 198,631                            | 215,178     | (8 )%       |
| Software          | 89,087                              | 97,700    | (9 )%       | 257,760                            | 283,241     | (9 )%       |
| Rentals           | 102,747                             | 108,420   | (5 )%       | 309,706                            | 333,729     | (7 )%       |
| Financing         | 87,883                              | 99,925    | (12 )%      | 276,915                            | 306,992     | (10 )%      |
| Support services  | 123,954                             | 136,820   | (9 )%       | 383,632                            | 415,615     | (8 )%       |
| Business services | 200,911                             | 191,645   | 5 %         | 607,717                            | 591,030     | 3 %         |
| Total revenue     | \$839,031                           | \$869,541 | (4 )%       | \$2,519,506                        | \$2,641,113 | (5 )%       |

  

|                            | Three Months Ended September<br>30, |           | Percentage of<br>Revenue |        | Nine Months Ended September 30, |             | Percentage of<br>Revenue |        |
|----------------------------|-------------------------------------|-----------|--------------------------|--------|---------------------------------|-------------|--------------------------|--------|
|                            | 2016                                | 2015      | 2016                     | 2015   | 2016                            | 2015        | 2016                     | 2015   |
| Cost of equipment sales    | \$86,147                            | \$78,650  | 49.8 %                   | 48.0 % | \$235,741                       | \$232,706   | 48.6 %                   | 47.0 % |
| Cost of supplies           | 20,348                              | 21,629    | 33.2 %                   | 30.4 % | 60,662                          | 65,912      | 30.5 %                   | 30.6 % |
| Cost of software           | 25,698                              | 27,219    | 28.8 %                   | 27.9 % | 79,496                          | 85,584      | 30.8 %                   | 30.2 % |
| Cost of rentals            | 16,041                              | 21,423    | 15.6 %                   | 19.8 % | 54,951                          | 63,127      | 17.7 %                   | 18.9 % |
| Financing interest expense | 12,965                              | 17,533    | 14.8 %                   | 17.5 % | 41,375                          | 54,171      | 14.9 %                   | 17.6 % |
| Cost of support services   | 74,799                              | 79,747    | 60.3 %                   | 58.3 % | 224,790                         | 244,853     | 58.6 %                   | 58.9 % |
| Cost of business services  | 140,989                             | 130,004   | 70.2 %                   | 67.8 % | 417,357                         | 405,559     | 68.7 %                   | 68.6 % |
| Total cost of revenue      | \$376,987                           | \$376,205 | 44.9 %                   | 43.3 % | \$1,114,372                     | \$1,151,912 | 44.2 %                   | 43.6 % |

## Revenue and Cost of Revenues - 2016 compared to 2015

## Equipment sales

Equipment sales revenue increased 6% in the quarter. Excluding the unfavorable impact from Market Exits of 2%, revenue increased 9% primarily due to higher sales in our production mail business due to a number of larger client installations of sorter, inserter and print equipment.

Equipment sales revenue decreased 2% in the first nine months of 2016. Excluding the unfavorable impacts from foreign currency translation of 1% and Market Exits of 2%, revenue increased 1%. This increase is primarily due to 3% from higher sales in our production mail business, partially offset by 2% from lower mailing equipment sales in North America, due in part to sales disruption during the second quarter from the platform cut-over.

Cost of equipment sales as a percentage of equipment sales increased to 49.8% in the quarter and 48.6% in the first nine months of 2016 primarily due product mix.

## Supplies

Supplies revenue decreased 14% in the quarter. Excluding the unfavorable impacts from foreign currency translation of 1% and Market Exits of 1%, revenue decreased 12% primarily due to:

• 9% from North America mailing due to lower sales productivity and lower demand; and  
 • 2% from lower international mailing supplies sales, primarily in the U.K., due to lower demand.

Supplies revenue decreased 8% in the first nine months of 2016. Excluding the unfavorable impacts from foreign currency translation of 1% and Market Exits of 1%, revenue decreased 5% primarily due to:

•

4% from North America mailing reflecting sales disruption from the platform cut-over in the second quarter of 2016, and lower demand in the third quarter; and  
1% from lower international mailing supplies sales, primarily in the U.K.

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Cost of supplies as a percentage of supplies revenue increased to 33.2% in the quarter due to lower sales and a greater mix of lower margin supply sales. Cost of supplies as a percentage of supplies revenue of 30.5% in the first nine months of 2016 was consistent with the prior year period.

#### Software

Software revenue decreased 9% in both the quarter and first nine months of 2016. Excluding the unfavorable impact from foreign currency translation of 3% in the quarter and 2% in the first nine months of 2016, revenue decreased 6% in the quarter and 7% in the first nine months of 2016. These decreases were primarily due to a worldwide decline in licensing revenue.

Cost of software as a percentage of software revenue increased to 28.8% for the quarter and 30.8% for the first nine months of 2016 due to the decline in high margin license revenue.

#### Rentals

Rentals revenue decreased 5% for the quarter and 7% for the first nine months of 2016. These declines are primarily due to a reduction in the number of installed meters worldwide as well as a shift by certain customers to less-featured, lower cost machines.

Cost of rentals as a percentage of rentals revenue improved to 15.6% for the quarter and 17.7% for the first nine months of 2016 primarily due to cost savings initiatives.

#### Financing

Financing revenue decreased 12% in the quarter and 10% in the first nine months of 2016. Excluding the unfavorable impact from foreign currency translation of 1% in both the quarter and the first nine months of 2016, revenue decreased 11% for the quarter and 9% for the first nine months of 2016. These decreases were primarily due to lower mailing equipment sales in prior periods, a declining lease portfolio and lower financing fees as a result of proactive waivers to allow clients to adjust to new billing formats and timing of invoices being sent as a result of the platform cutover.

We allocate a portion of our total cost of borrowing to financing interest expense. In computing financing interest expense, we assume an 8:1 debt to equity leverage ratio (10:1 in 2015) and apply our overall effective interest rate to the average outstanding finance receivables.

Financing interest expense as a percentage of financing revenue decreased to 14.8% for the quarter and 14.9% for the first nine months of 2016 primarily due to a decrease in our effective interest rate.

#### Support Services

Support services revenue decreased 9% in the quarter and 8% in the first nine months of 2016. Excluding the unfavorable impacts of foreign currency translation of 1% and Market Exits of 1% in both periods, revenue decreased 7% in the quarter and 6% in the first nine months of 2016, primarily due to:

• 3% in both the quarter and year-to-date period from lower maintenance revenue on production mail equipment as some in-house mailers moved their mail processing to third-party service bureaus who service some of their own equipment;

• 2% in both the quarter and year-to-date period from the worldwide decline in the number of mailing machines in service and a shift to less-featured, lower cost machines; and

• 2% in the quarter and 1% in the year-to-date period from lower shipping solutions services revenues in our Global Ecommerce business.

Cost of support services as a percentage of support services revenue increased to 60.3% for the quarter due to a mix of lower margin service revenues and improved to 58.6% for the first nine months of 2016 due to expense reductions and productivity initiatives.

#### Business Services

Business services revenue increased 5% in the quarter and 3% in the first nine months of 2016. Excluding the unfavorable impact from foreign currency translation of 1% in the quarter and the first nine months of 2016, revenue increased 6% in the quarter and 4% in the first nine months of 2016. These increases were primarily due to the growth in our Global Ecommerce business.

Cost of business services as a percentage of business services revenue increased to 70.2% for the quarter and to 68.7% for the first nine months of 2016 primarily due to higher mail processing costs in the presort business.

Selling, general and administrative (SG&A)

SG&A expense decreased 3% in the quarter to \$301 million primarily due to \$3 million lower spending on our enterprise business platform and other cost-saving initiatives.

SG&A expense decreased 2% in the first nine months of 2016 to \$916 million primarily due to lower employee-related costs of \$10 million, loan forgiveness income of \$10 million (see Note 9 to the Condensed Consolidated Financial Statements), a \$5 million favorable state sales tax adjustment and other cost-saving initiatives. Partially offsetting these decreases were higher marketing and advertising expense of \$10 million, higher expense related to our new enterprise business platform of \$9 million and higher amortization expense of \$5 million, primarily related to the acquisition of Borderfree in 2015. SG&A expense in the first nine months of 2015 also included a one-time compensation charge of \$10 million related to the acquisition of Borderfree.

#### Income taxes

See Note 11 to the Condensed Consolidated Financial Statements.

#### Preferred stock dividends attributable to noncontrolling interests

See Note 12 to the Condensed Consolidated Financial Statements.

#### Business segment results - 2016 compared to 2015

The principal products and services of each of our reportable segments are as follows:

##### Small & Medium Business Solutions:

**North America Mailing:** Includes the revenue and related expenses from the sale, rental, financing and servicing of mailing equipment, software and supplies for small and medium businesses to efficiently create physical and digital mail and evidence postage for the sending of mail, flats and parcels in the U.S. and Canada.

**International Mailing:** Includes the revenue and related expenses from the sale, rental, financing and servicing of mailing equipment, software and supplies for small and medium businesses to efficiently create physical and digital mail and evidence postage for the sending of mail, flats and parcels in areas outside the U.S. and Canada.

##### Enterprise Business Solutions:

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

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

##### Digital Commerce Solutions:

**Software Solutions:** Includes the worldwide revenue and related expenses from the licensing of non-equipment-based mailing, customer information management, location intelligence and customer engagement solutions and related support services.

**Global Ecommerce:** Includes the worldwide revenue and related expenses from shipping solutions and cross-border ecommerce.

We determine EBIT by deducting from segment revenue the related costs and expenses attributable to the segment. Segment EBIT excludes interest, taxes, general corporate expenses and restructuring charges that are not allocated to a particular business segment. Management uses segment EBIT to measure profitability and performance at the segment level. Management believes segment EBIT provides a useful measure of our operating performance and underlying trends of the businesses. Segment EBIT may not be indicative of our overall consolidated performance and therefore, should be read in conjunction with our consolidated results of operations. See Note 2 to the Condensed Consolidated Financial Statements for a reconciliation of segment EBIT to net income.



Revenue and EBIT for the three and nine months ended September 30, 2016 and 2015 by reportable segment are presented below:

|                                   | Revenue                          |           |          | Revenue                         |             |          |
|-----------------------------------|----------------------------------|-----------|----------|---------------------------------|-------------|----------|
|                                   | Three Months Ended September 30, |           |          | Nine Months Ended September 30, |             |          |
|                                   | 2016                             | 2015      | % change | 2016                            | 2015        | % change |
| North America Mailing             | \$329,995                        | \$353,159 | (7 )%    | \$1,001,789                     | \$1,071,824 | (7 )%    |
| International Mailing             | 95,628                           | 104,615   | (9 )%    | 305,725                         | 331,398     | (8 )%    |
| Small & Medium Business Solutions | 425,623                          | 457,774   | (7 )%    | 1,307,514                       | 1,403,222   | (7 )%    |
| Production Mail                   | 106,350                          | 101,646   | 5 %      | 289,649                         | 298,880     | (3 )%    |
| Presort Services                  | 114,053                          | 115,912   | (2 )%    | 357,214                         | 351,365     | 2 %      |
| Enterprise Business Solutions     | 220,403                          | 217,558   | 1 %      | 646,863                         | 650,245     | (1 )%    |
| Software Solutions                | 89,031                           | 97,638    | (9 )%    | 257,417                         | 282,916     | (9 )%    |
| Global Ecommerce                  | 103,974                          | 96,571    | 8 %      | 307,712                         | 249,923     | 23 %     |
| Digital Commerce Solutions        | 193,005                          | 194,209   | (1 )%    | 565,129                         | 532,839     | 6 %      |
| Other                             | —                                | —         | — %      | —                               | 54,807      | (100)%   |
| Total                             | \$839,031                        | \$869,541 | (4 )%    | \$2,519,506                     | \$2,641,113 | (5 )%    |
|                                   | EBIT                             |           |          |                                 |             |          |
|                                   | Three Months Ended September 30, |           |          | Nine Months Ended September 30, |             |          |
|                                   | 2016                             | 2015      | % change | 2016                            | 2015        | % change |
| North America Mailing             | \$138,588                        | \$159,319 | (13 )%   | \$436,730                       | \$482,376   | (9 )%    |
| International Mailing             | 9,733                            | 10,739    | (9 )%    | 34,365                          | 36,585      | (6 )%    |
| Small & Medium Business Solutions | 148,321                          | 170,058   | (13 )%   | 471,095                         | 518,961     | (9 )%    |
| Production Mail                   | 15,696                           | 12,401    | 27 %     | 35,434                          | 31,461      | 13 %     |
| Presort Services                  | 19,181                           | 25,908    | (26 )%   | 69,305                          | 76,946      | (10 )%   |
| Enterprise Business Solutions     | 34,877                           | 38,309    | (9 )%    | 104,739                         | 108,407     | (3 )%    |
| Software Solutions                | 10,329                           | 14,613    | (29 )%   | 17,908                          | 34,904      | (49 )%   |
| Global Ecommerce                  | 4,389                            | (1,240 )  | >100%    | 8,835                           | 9,962       | (11 )%   |
| Digital Commerce Solutions        | 14,718                           | 13,373    | 10 %     | 26,743                          | 44,866      | (40 )%   |
| Other                             | —                                | —         | — %      | —                               | 10,569      | (100)%   |
| Total                             | \$197,916                        | \$221,740 | (11 )%   | \$602,577                       | \$682,803   | (12 )%   |

#### Small & Medium Business Solutions

##### North America Mailing

North America Mailing revenue decreased 7% in both the quarter and the first nine months of 2016 primarily due to: 3% in the quarter and 2% in the first nine months of 2016 from lower financing revenue primarily from declining equipment sales in prior periods and lower fees resulting from proactive waivers to allow clients to adjust to new billing formats as well as timing of invoices being sent as result of the platform cutover; 2% the quarter and 1% in the first nine months of 2016 from lower sales of supplies due to lower demand and sales productivity;

1% in the quarter and 2% for the first nine months of 2016 from lower rentals revenue and 1% in both the quarter and the first nine months of 2016 from lower support services revenue, primarily reflecting continuing decline in installed meters and shift to less featured lower cost machines; and

1% in the first nine months of 2016 from lower equipment sales which were impacted by the platform cut-over disruption in the second quarter.

EBIT decreased 13% in the quarter and 9% in the first nine months of 2016 compared to the prior year, primarily due to the decline in higher margin recurring revenue streams.



#### International Mailing

International Mailing revenue decreased 9% in the quarter and 8% in the first nine months of 2016. Excluding the unfavorable impacts from foreign currency translation of 4% in the quarter and 3% in the year-to-date period and Market Exits of 2% in both the quarter and year-to-date period, revenue decreased 3% in the quarter and year-to-date periods primarily due to a 1% decline in each of rental, supplies and support services revenue resulting from the continuing decline in installed meters.

EBIT decreased 9% in the quarter and 6% in the first nine months of 2016, primarily due to the decline in higher margin recurring revenue streams, partially offset by lower costs from cost savings and productivity initiatives.

#### Enterprise Business Solutions

##### Production Mail

Production Mail revenue increased 5% in the quarter. Excluding the impact from Market Exits of 5%, revenue increased 11%, primarily due to 15% from higher equipment sales due to a number of larger client installations of sorter, inserter and print equipment in the quarter. This increase was partially offset by 4% due to lower support services revenue as a result of some in-house mailers shifting their mail processing to third-party outsourcers.

Production Mail revenue decreased 3% in the first nine months of 2016. Excluding the unfavorable impacts from foreign currency translation of 1% and Market Exits of 3%, revenue increased 1%, primarily due to 5% from an increase in equipment sales, offset by 3% from lower support services and supplies revenue.

EBIT increased 27% in the quarter, primarily due to higher revenue, service delivery cost management initiatives and lower selling and marketing costs. Despite a decline in revenue, EBIT increased 13% in the first nine months of 2016, primarily due to service delivery cost management initiatives and lower sales and marketing costs. These benefits were partially offset by lower sales in 2016 of higher margin inserting equipment.

##### Presort Services

Presort Services revenue decreased 2% in the quarter primarily due to lower revenue per unit processed as a result of a United States Postal Service (USPS) rate change earlier in the year. Despite this USPS rate change, revenue for the first nine months of 2016 increased 2% primarily due to higher volumes of first class mail processed and expansion into new markets.

EBIT decreased 26% in the quarter and 10% in the first nine months of 2016, primarily due to lower margins and increased mail processing costs related to higher labor costs.

#### Digital Commerce Solutions

##### Software Solutions

Software Solutions revenue decreased 9% in both the quarter and first nine months of 2016. Excluding the unfavorable impact from foreign currency translation of 3% in the quarter and 2% in the first nine months of 2016, revenue decreased 6% in the quarter and 7% in the first nine months of 2016. These decreases were primarily due to a worldwide decline in licensing revenue.

EBIT decreased 29% for the quarter and 49% for the first nine months of 2016 primarily due to lower high-margin licensing revenue.

##### Global Ecommerce

Global Ecommerce revenue increased 8% in the quarter. Excluding the unfavorable impact of foreign currency translation of 2%, revenue increased 10% primarily due to 11% from expansion of our U.S. and U.K. cross-border business and retail network. Outbound U.S. marketplace package shipments grew in the quarter despite the stronger U.S. dollar versus prior year, as well as some temporary disruption on demand for parcel shipments from the U.S. to Canada prior to the resolution of the Canada Post labor dispute. Partially offsetting this increase was a 2% decrease from a decline in domestic shipping solutions revenue.

Global Ecommerce revenue increased 23% in the first nine months of 2016. Excluding the unfavorable impact of foreign currency translation of 1%, revenue increased 24% primarily due to 29% from expansion of our U.S. and U.K. cross-border business and retail network, including the acquisition of Borderfree. This increase was partially offset by a decrease of 2% related to the one-time recognition of deferred cross-border delivery fees in the first quarter of 2015 and a 2% decrease from a decline in domestic shipping solutions revenue.

EBIT increased to \$4 million in the quarter compared to a loss of \$1 million in the third quarter of 2015, primarily due to higher revenue and synergy savings partially offset by decline in higher margin domestic shipping solutions revenue. EBIT decreased 11% for the first nine months of the year primarily due to \$7 million of additional amortization expense from acquisitions, \$6 million of deferred cross-border delivery fees recognized in 2015, additional investments in the business and lower higher margin domestic shipping solutions revenue, partially offset by higher revenue in cross-border.

## Other

Other includes Imagitas, our Marketing Services business, which was sold in May 2015.

## LIQUIDITY AND CAPITAL RESOURCES

We believe that existing cash and investments, cash generated from operations and borrowing capacity under our commercial paper program will be sufficient to support our current cash needs, including discretionary uses such as capital investments, dividends, strategic acquisitions and share repurchases. Cash and cash equivalents and short-term investments were \$1,016 million at September 30, 2016 and \$768 million at December 31, 2015. We continuously review our credit profile through published credit ratings and the credit default swap market. We also monitor the creditworthiness of those banks acting as derivative counterparties, depository banks or credit providers.

Cash and cash equivalents held by our foreign subsidiaries were \$500 million at September 30, 2016 and \$470 million at December 31, 2015. Cash and cash equivalents held by our foreign subsidiaries are generally used to support the liquidity needs of these subsidiaries. Most of these amounts could be repatriated to the U.S. but would be subject to additional taxes. Repatriation of some foreign balances is restricted by local laws.

### Cash Flow Summary

Changes in cash and cash equivalents for the nine months ended September 30, 2016 and 2015 were as follows:

|  | 2016  | 2015    | Change |
|--|-------|---------|--------|
| Net cash provided by operating activities                    | \$291 | \$351   | \$(60) |
| Net cash used in investing activities                        | (75)  | (205)   | 130    |
| Net cash provided by (used in) financing activities          | 121   | (472)   | 593    |
| Effect of exchange rate changes on cash and cash equivalents | 4     | (38)    | 42     |
| Change in cash and cash equivalents                          | \$341 | \$(364) | \$705  |

Cash flows from operations decreased \$60 million, primarily due to:

• Lower income;

• A special pension plan contribution of \$37 million to the U.K. pension plan; and

• Payments associated with the launch of the enterprise business platform and new advertising campaign; partially offset by:

• Lower employee-related costs and interest payments.

Cash flows from investing activities improved by \$130 million, primarily due to:

• A decrease of \$349 million in acquisitions;

• An increase of \$60 million in net maturities of investments;

• An increase in reserve deposits of \$27 million;

• Lower capital expenditures of \$15 million, partially offset by:

• Proceeds of \$292 million from the sale of Imagitas in 2015; and

• Lower proceeds from asset sales of \$21 million.

Cash flows from financing activities improved by \$593 million, primarily due to:

• Higher net borrowings of \$688 million (we increased total debt by \$434 million in 2016 compared to a net debt reduction of \$254 million in 2015); partially offset by:

• Higher share repurchases of \$97 million.

### Financings and Capitalization

We are a "Well-Known Seasoned Issuer" within the meaning of Rule 405 under the Securities Act, which allows us to issue debt securities, preferred stock, preference stock, common stock, purchase contracts, depository shares, warrants and units in an expedited fashion. We have a commercial paper program that is an important source of liquidity for us and a committed credit facility of \$1 billion to support our commercial paper issuances. The credit facility expires in January 2020. We have not drawn upon the credit facility.

At September 30, 2016, there were no outstanding commercial paper borrowings. During the third quarter of 2016, the average daily amount of outstanding commercial paper borrowings was \$305 million at a weighted-average interest rate of 1.01% and the maximum amount outstanding at any time during the quarter was \$409 million.

In September 2016, we issued \$600 million of 3.375% fixed-rate notes due in October 2021. Interest is payable semi-annually. The notes mature in October 2021, but may be redeemed, at our option, in whole or in part, at any time or from time to time at a par plus accrued

and unpaid interest. We used a portion of these proceeds to repay commercial paper and used the remaining proceeds to redeem the PBIH Preferred Stock on November 1, 2016 (see Note 12 to the Condensed Consolidated Financial Statements).

In January 2016, we borrowed \$300 million under a term loan agreement and applied the proceeds to the repayment of the \$371 million, 4.75% notes due January 2016. The new term loans bear interest at the applicable Eurodollar Rate plus 1.25% and mature in December 2020. The effective interest rate of these loans for the third quarter was 1.95%. In September 2016, we entered into an interest rate swap with a notional amount of \$300 million to mitigate the interest rate risk associated with these variable-rate term loans. Under the terms of the swap agreement, we pay fixed-rate interest of 0.8826% and receive variable-rate interest based on 1-month LIBOR. The variable rate resets monthly.

In March 2016, we satisfied certain employment obligations stipulated in the State of Connecticut Department of Economic and Community Development loan (issued in 2014), and under the terms of the loan, \$10 million was forgiven.

#### Dividends and Share Repurchases

Through the nine months ended September 30, 2016, we paid dividends to our stockholders of \$106 million. Each quarter, our Board of Directors considers our recent and projected earnings and other capital needs and priorities in deciding whether to approve the payment, as well as the amount, of a dividend. There are no material restrictions on our ability to declare dividends.

During 2016, we spent \$197 million to repurchase our common shares.

#### Off-Balance Sheet Arrangements

At September 30, 2016, we had no off-balance sheet arrangements that have, or are reasonably likely to have, a material current or future effect on our financial condition, results of operations or liquidity.

#### Critical Accounting Estimates

##### Finance Receivables and Allowance for Credit Losses

Finance receivables are composed of sales-type lease receivables and unsecured revolving loan receivables. We provide an allowance for probable credit losses based on historical loss experience, the nature and volume of our portfolios, adverse situations that may affect a client's ability to pay, prevailing economic conditions and our ability to manage the collateral. At September 30, 2016 gross finance receivables aged greater than 90 days have grown since the implementation of our enterprise business platform in the second quarter of 2016. We believe the majority of the increased delinquency is administrative in nature and the result of a change in our billing format and new process under our new enterprise business platform. The billing format under our new platform is different and clients are in the process of transitioning and understanding the new format and thus have not made payments timely. These accounts are considered delinquent in our analysis, but we continue to expect that payment in full will be received. The aging as disclosed in Note 5 of the condensed consolidated financial statements represents full contract value while only a small portion (approximately 25%) has been billed and recognized in income as of September 30, 2016. The quality of the portfolio has not changed. Our loan portfolio delinquency has remained fairly constant when compared to loan delinquency in our legacy platform and there has been no significant changes in customers within the portfolio. Also, we use a third party to credit score our lease and loan portfolios. The credit quality of our portfolio as determined by this third party has shown no signs of deterioration suggesting that the increase in delinquency is not a result of our customer's ability to pay, but instead is a result of changes to invoice format and presentation. Accordingly, we do not believe that an increase in the allowance for credit losses as a result of the increase in delinquencies is necessary.

##### Goodwill

Based on the year-to-date operating results of our Software Solutions reporting unit, we performed a goodwill impairment test to assess the adequacy of the carrying value of goodwill. As a result of our test, we determined that the estimated fair value of the reporting unit exceeded its carrying value by 15%. The assumptions used to estimate fair value were based on projections incorporated in our current operating plans as well as other available information. By their nature, projections are uncertain. Potential events and circumstances, such as declining revenue, loss of client contracts and inability to acquire new clients could have an adverse effect on our assumptions.

The goodwill balance related to the software reporting unit at September 30, 2016 was \$678 million. We will continue to monitor and evaluate the carrying value of goodwill for this reporting unit, and should facts and circumstances change, a non-cash impairment charge could be recorded in the future. We will also perform our annual goodwill impairment testing for all reporting units during the fourth quarter.

Regulatory Matters

There have been no significant changes to the regulatory matters disclosed in our 2015 Annual Report.

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Item 3: Quantitative and Qualitative Disclosures about Market Risk

There were no material changes to the disclosures made in the 2015 Annual Report.

Item 4: Controls and Procedures

Disclosure controls and procedures are designed to reasonably assure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934, as amended (Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures are also designed to reasonably assure that such information is accumulated and communicated to management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate to allow timely decisions regarding required disclosure.

Under the direction of our CEO and CFO, we evaluated our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act) and internal control over financial reporting. Our CEO and CFO concluded that, as of the end of the period covered by this report, such disclosure controls and procedures were effective to ensure that information we are required to disclose in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Exchange Act. In addition, no changes in internal control over financial reporting occurred during the fiscal quarter covered by this report that have materially affected, or are 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 CEO and CFO have reasonable assurance that the disclosure controls and procedures were effective as of September 30, 2016.

We are implementing an Enterprise Resource Planning ("ERP") system on a worldwide basis, which is expected to improve the efficiency of our supply chain and financial transaction processes. The implementation is expected to occur in phases extending through 2017. The implementation of a worldwide ERP system will likely affect the processes and related controls that constitute our internal control over financial reporting and will require testing for effectiveness. During the second quarter of 2016, we implemented the ERP system in the U.S. after having implemented in Canada during the fourth quarter 2015.



## PART II. OTHER INFORMATION

## Item 1: Legal Proceedings

See Note 13 to the Condensed Consolidated Financial Statements.

## Item 1A: Risk Factors

There were no material changes to the risk factors identified in our 2015 Annual Report.

## Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

## Repurchases of Equity Securities

We periodically repurchase shares of our common stock to manage the dilution created by shares issued under employee stock plans and for other purposes in the open market. In February 2016, we received authorization from the Board of Directors to repurchase an additional \$150 million of our common stock. The following table provides information about our purchases of our common stock during the three months ended September 30, 2016:

|  | Total<br>Number of<br>shares<br>purchased | Average<br>price<br>paid per<br>share | Total<br>Number of<br>shares<br>purchased<br>as part of<br>publicly<br>announced<br>plans or<br>programs | Approximate<br>dollar value of<br>shares that may<br>be purchased<br>under the plans or<br>programs (in<br>thousands) |
|--|---|---------------------------------------|--|---|
| Beginning balance                      |   |                                       |  | \$23,513  |
| July 1, 2016 - July 31, 2016           | 144,734                                   | \$17.21                               | 144,734  | \$21,022  |
| August 1, 2016 - August 31, 2016       | —   | —                                     | —  | \$21,022  |
| September 1, 2016 - September 30, 2016 | —   | —                                     | —  | \$21,022  |
|  | 144,734                                   | \$17.21                               | 144,734  |   |

## Item 6: Exhibits

| Exhibit<br>Number | Description  | Exhibit Number in this<br>Form 10-Q |
|-------------------|--|-------------------------------------|
| 12                | Computation of ratio of earnings to fixed charges  | 12                                  |
| 31.1              | Certification of Chief Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended | 31.1                                |
| 31.2              | Certification of Chief Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended | 31.2                                |
| 32.1              | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350  | 32.1                                |
| 32.2              | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350  | 32.2                                |
| 101.INS           | XBRL Report Instance Document  |                                     |
| 101.SCH           | XBRL Taxonomy Extension Schema Document  |                                     |
| 101.CAL           | XBRL Taxonomy Calculation Linkbase Document  |                                     |
| 101.DEF           | XBRL Taxonomy Definition Linkbase Document   |                                     |
| 101.LAB           | XBRL Taxonomy Label Linkbase Document  |                                     |
| 101.PRE           | XBRL Taxonomy Presentation Linkbase Document   |                                     |

Signatures

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

PITNEY BOWES INC.

Date: November 7,  
2016

/s/ Michael Monahan

Michael Monahan  
Executive Vice President, Chief Operating Officer and Chief Financial Officer (Principal  
Financial Officer)

/s/ Steven J. Green

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

Exhibit Index

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