

PITNEY BOWES INC /DE/
Form 10-K
February 25, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
For the fiscal year ended December 31, 2012 Commission file number: 1-3579
PITNEY BOWES INC.

Incorporated in Delaware
1 Elmcroft Road, Stamford, CT 06926-0700
(203) 356-5000

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$1 par value per share	New York Stock Exchange
\$2.12 Convertible Cumulative Preference Stock (no par value)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: 4% Convertible Cumulative Preferred Stock (\$50 par value)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 marks whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer 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 Act). Yes No

As of June 30, 2012, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$2,999,131,402 based on the closing sale price as reported on the New York Stock Exchange.

Number of shares of common stock, \$1 par value, outstanding as of close of business on February 12, 2013: 201,346,302 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement to be filed with the Securities and Exchange Commission (the Commission) no later than 120 days after our fiscal year end and to be delivered to stockholders in connection with the Annual Meeting of Stockholders to be held May 13, 2013, are incorporated by reference in Part III of this Form 10-K.

PITNEY BOWES INC.
TABLE OF CONTENTS

	Page Number
PART I	
Item 1. <u>Business</u>	<u>3</u>
Item 1A. <u>Risk Factors</u>	<u>5</u>
Item 1B. <u>Unresolved Staff Comments</u>	<u>7</u>
Item 2. <u>Properties</u>	<u>7</u>
Item 3. <u>Legal Proceedings</u>	<u>7</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>7</u>
PART II	
Item 5. <u>Market for the Company's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>8</u>
Item 6. <u>Selected Financial Data</u>	<u>10</u>
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>11</u>
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>26</u>
Item 8. <u>Financial Statements and Supplementary Data</u>	<u>27</u>
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>27</u>
Item 9A. <u>Controls and Procedures</u>	<u>27</u>
Item 9B. <u>Other Information</u>	<u>27</u>
PART III	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	<u>28</u>
Item 11. <u>Executive Compensation</u>	<u>29</u>
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>29</u>
Item 13. <u>Certain Relationships, Related Transactions and Director Independence</u>	<u>29</u>
Item 14. <u>Principal Accountant Fees and Services</u>	<u>29</u>
PART IV	
Item 15. <u>Exhibits and Financial Statement Schedules</u>	<u>30</u>
<u>Signatures</u>	<u>32</u>
<u>Consolidated Financial Statements and Supplemental Data</u>	<u>33</u>

PART I

ITEM 1. BUSINESS

General

Pitney Bowes Inc. (we, us, our, or the company), was incorporated in the state of Delaware on April 23, 1920, as the Pitney Bowes Postage Meter Company. Today, we are a global provider of software, hardware and services that enables and integrates both physical and digital communications. We offer a full suite of equipment, supplies, software, services and solutions for managing and integrating physical and digital communication channels. Our growth strategies focus on leveraging our expertise in physical communications with our expanding capabilities in digital and hybrid communications. We will continue to develop and invest in products, software, services and solutions that help our clients grow their business by more effectively communicating with their customers across physical, digital and hybrid channels.

For more information about us, our products, services and solutions, visit www.pb.com. Also, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments or exhibits to those reports are available, free of charge, through the Investor Relations section of our website at www.pb.com/investorrelations, as soon as reasonably practicable after these reports are electronically filed with, or furnished to, the Securities and Exchange Commission (the SEC). The information found on our website is not part of this or any other report we file with or furnish to the SEC.

Our Forms 10Ks, 10Qs, 8Ks, proxy statements and other information can also be obtained from the SEC's website at www.sec.gov. You may also read and copy any document we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549 or request copies of these documents by writing to the Office of Public Reference. Call the SEC at (800) 732-0330 for further information on the operations of the Public Reference Room and copying charges.

Business Segments

We organize and report our business activities within two groups based on the clients they primarily serve, Small & Medium Business Solutions and Enterprise Business Solutions. See Note 16 to the Consolidated Financial Statements for financial information concerning our reporting segments. The principal products and services of each of our reporting segments are as follows:

Small & Medium Business Solutions:

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

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

Enterprise Business Solutions:

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

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

Management Services: Includes worldwide revenue and related expenses from facilities management services; secure mail services; reprographic, document management services; print outsourcing services; and litigation support and eDiscovery services.

Mail Services: Includes worldwide revenue and related expenses from presort mail services and cross-border ecommerce solutions.

Marketing Services: Includes the revenue and related expenses from direct marketing services for targeted clients.

Support Services

We maintain extensive field service organizations to provide servicing for our clients' equipment, usually in the form of annual maintenance contracts.

Marketing

We market our products and services through our sales force, direct mailings, outbound telemarketing, independent distributors and the Internet. We sell to a variety of business, governmental, institutional and other organizations. We have a broad base of clients, and we are not dependent upon any one client or type of client for a significant part of our revenue.

Credit Policies

We establish credit approval limits and procedures based on the credit quality of the client and the type of product or service provided to control risk in extending credit to clients. In addition, we utilize an automatic approval program for certain leases. This program is designed to facilitate low dollar transactions by utilizing historical payment patterns and losses realized for clients with common credit characteristics. The program defines the criteria under which we will accept a client without performing a more detailed credit investigation, such as maximum equipment cost, a client's time in business and payment experience.

We closely monitor the portfolio by analyzing industry sectors and delinquency trends by product line, industry and client to ensure reserve levels and credit policies reflect current trends. Management continues to closely monitor credit lines, collection resources and revise credit policies as necessary to be more selective in managing the portfolio.

Competition

We are a major provider of products and services in the majority of our business segments and our long experience, reputation for product quality and our sales and support service organizations are important factors in influencing client choices. All of our segments face competition from a number of companies. In particular, we face competition from companies that offer products and services as alternative means of message communications, including from postage meter and mailing machine suppliers for new placements of mailing equipment and from companies that offer alternatives to our mailing products, services and software. We also face competition from companies looking to digitize mail, as well as those providing on-line payment services. We offer a variety of finance and payment offerings to our clients to finance their equipment purchases through our captive financing business. Our financing operations face competition, in varying degrees, from large, diversified financial institutions, including leasing companies, commercial finance companies and commercial banks, to small, specialized firms. We are a major provider of facilities management and document management services to the corporate, financial services, professional services and government markets and compete against national, regional and local firms offering similar services.

Research, Development and Intellectual Property

We invest in research and development programs to develop new products and service offerings. As a result of our research and development efforts, we have been awarded a number of patents with respect to several of our existing and planned products. We do not believe our businesses are materially dependent on any one patent or license or any group of related patents or group of related licenses. Our expenditures for research and development were \$137 million, \$149 million and \$156 million in 2012, 2011 and 2010, respectively.

Material Suppliers

We depend on third-party suppliers for a variety of services, components, supplies and a large portion of our product manufacturing. In certain instances, we rely on single sourced or limited sourced suppliers around the world because the relationship is advantageous due to quality, price, or there are no alternative sources. We have not historically experienced shortages in services, components or products and believe that our available sources for materials, components, services and supplies are adequate.

Regulatory Matters

We are subject to the regulations of postal authorities worldwide related to product specifications and business practices involving our postage meters. From time to time, we will work with these governing bodies to help in the enhancement and growth of mail and the mail channel.

Employees and Employee Relations

At December 31, 2012, we employed approximately 20,800 persons in the U.S. and 6,600 persons outside the U.S. The large majority of our employees are not represented by any labor union and we believe that our current relations with employees are good. Management follows the policy of keeping employees informed of decisions and

encourages and implements employee suggestions whenever practicable.

Executive Officers

See Part III, Item 10. "Directors, Executive Officers and Corporate Governance" of this Form 10-K for information about Executive Officers of the Registrant.

ITEM 1A. RISK FACTORS

In addition to the disclosures and other information discussed in this report, the following risk factors should be considered in evaluating our business. We work to manage and mitigate these risks proactively, including through the use of an enterprise risk management program. Nevertheless, the following risks, some of which may be beyond our control, could materially impact our businesses, our brand and reputation, financial condition and results of operations and may cause future results to be materially different than our current expectations:

We are subject to postal regulations and processes, which could adversely affect our revenue and profitability. The majority of our revenue is directly or indirectly subject to regulation and oversight by postal authorities worldwide. We depend on a healthy postal sector in the geographic markets where we do business, which could be influenced positively or negatively by legislative or regulatory changes in those countries. Our profitability and revenue in a particular country could be affected by adverse changes in postal regulations, the business processes and practices of individual posts, the decision of a post to enter into particular markets in direct competition with us and the impact of any of these changes on postal competitors that do not use our products or services. These changes could affect product specifications, service offerings, client behavior and the overall mailing industry. Further, if we are found to have violated postal regulations, we could be subject to fines or civil or criminal penalties.

An accelerated decline in physical mail volumes could have an increasingly adverse effect on our revenues and profitability as we transition to more digital offerings and other services. The use of postal services to send physical mail continues to decline, which has had an adverse effect on our revenues and profitability. An accelerated or sudden decline in physical mail volumes could result from, among other things, changes in our clients' communication behavior; changes in communications technologies; expansion of mobile Internet access; the growing trend by businesses to incent or require their clients to use alternatives to mail for payments and statement presentment; government actions such as executive orders, legislation or regulations that mandate electronic substitution, prohibit certain types of mailings, increase the difficulty of using information or materials in the mail, or impose higher taxes or fees on mailing or postal services; and unexpected events such as the transmission of biological or chemical agents or acts of terrorism.

We do not expect total mail volumes to rebound to prior peak levels. We have introduced various product and service offerings as alternatives to physical mail. However, margin on these new product and service offerings are lower than our traditional mailing business; there is no guarantee that these offerings will be widely accepted in the marketplace; and if accepted, they will face competition from existing and emerging alternative products and services.

We may not realize the anticipated benefits of our strategic acquisitions and divestitures, which may harm our financial results.

We have made, and we may continue to make, strategic acquisitions and divestitures that involve significant risks and uncertainties, including:

- challenges in identifying and evaluating the acquisitions and divestitures that best enable our future success;
- inability to complete acquisitions or divestitures on satisfactory terms or time frames or at all;
- loss of key employees or clients of businesses acquired or divested;
- difficulties in integrating newly acquired businesses and operations, including combining product and service offerings and entering new markets;
- difficulties in reducing fixed costs previously associated with divested assets or businesses; and
- difficulties in identifying and separating intellectual property to be divested from intellectual property we wish to keep.

In addition, as we increase our focus towards providing more digital technology and software solutions for businesses while maintaining a leadership role in the mailing industry, restructuring charges, asset impairments and other expenses may result. We may also need to divert and/or dedicate management and other resources to complete the transactions. Furthermore, such transactions often have post-closing arrangements including but not limited to

post-closing adjustments, transition services, escrows or indemnifications, the financial results of which can be difficult to predict. If we do not realize the anticipated benefits or synergies of our acquisitions and divestitures, our consolidated financial position, results of operations, cash flows and stock price could be negatively affected.

We depend on third-party suppliers and outsource providers and our business could be adversely affected if we fail to manage these constituents effectively.

We depend on third-party suppliers and outsource providers for a variety of services, components and supplies, including a large portion of our product manufacturing and some non-core functions and operations. In certain instances, we rely on single sourced or limited sourced suppliers and outsourcing vendors around the world because doing so is advantageous due to quality, price or lack of alternative sources. If production or service was interrupted and we were not able to find alternate third-party suppliers, we could experience

disruptions in manufacturing and operations including product shortages, higher freight costs and re-engineering costs. If outsourcing services are interrupted or not performed or the performance is poor, our ability to process, record and report transactions with our clients and other constituents could be impacted. Such interruptions in the provision of supplies and/or services could result in our inability to meet client demand, damage our reputation and client relationships and adversely affect our business.

Market and business deteriorations and credit downgrades could adversely affect our cost of funds and related margins, liquidity, competitive position and access to capital markets.

We provide financing services to our clients for equipment, postage and supplies purchases. Our ability to provide these services is largely dependent upon our continued access to the U.S. capital markets. An additional source of liquidity consists of deposits held in our wholly owned industrial loan corporation, The Pitney Bowes Bank. A credit ratings downgrade, material capital market disruptions, significant withdrawals by depositors at The Pitney Bowes Bank, adverse changes to our industrial loan charter or a significant decline in cash flow could impact our ability to maintain adequate liquidity and provide competitive offerings to our clients. If such events occurred, there can be no assurance that liquidity funding sources would be available or sufficient, and those funding sources that may be available could result in a significantly higher cost of borrowing and adversely impact our ability to fund various discretionary priorities, including business investments, pension contributions and dividend payments.

Failure to comply with privacy laws and other related regulations could subject us to significant liability and damage our reputation.

Several of our businesses use, process and store client information that could include confidential, personal or financial information. We also provide third-party benefits administrators with access to our employees' personal information. Privacy laws and similar regulations in many jurisdictions where we do business, as well as contractual provisions, require that we and our benefits administrators take significant steps to safeguard this information. These laws are continuing to evolve. We, and our third-party benefits administrators, have security systems and procedures in place that are designed to protect against unauthorized access to such information; however, there is no guarantee that experienced computer programmers or hackers will not be able to gain access to our securities systems or the security systems of our third-party benefits administrators and misappropriate confidential information. Any significant violations of data privacy, disclosure of other confidential information or failure to comply with any of these laws, regulations or contract provisions could damage our reputation and business and subject us to significant remediation costs and/or liability.

A disruption of our information technology systems could adversely impact our business and operating results. Our portfolio of product, service and financing solutions is dependent on reliable information technology systems. We maintain secure systems to collect revenue for certain postal services, which is critical to enable both our systems and the postal systems to run reliably. In addition, we rely extensively on our computer systems to manage our business. These systems are subject to adverse acts of nature, targeted or random security breaches, cyber-attacks, computer viruses, vandalism, power loss, computer or communications failures and other unexpected events. Although we have disaster recovery plans in place to protect our business operations in case of such events, those plans may not be successful. If our information technology systems are damaged or cease to function properly, we could be prevented from fulfilling orders and servicing clients and postal services. Also, we may have to make a significant investment to repair or replace these systems, and could suffer loss of critical data and interruptions or delays in our operations. The continuous and uninterrupted performance of our information technology systems is critical to our ability to support and service our clients, to support postal services and to manage our business.

Our inability to obtain and protect our intellectual property and defend against claims of infringement by others may negatively impact our operating results.

We do not believe our businesses are materially dependent on any one patent or license or group of patents or licenses. However, we rely on copyright, trade secret, patent and other intellectual property laws in the United States and similar laws in other countries to establish and protect proprietary rights that are important to our business. If we fail to enforce our intellectual property rights, our businesses may suffer. We, or our suppliers, may be subject to third-party claims of infringement on intellectual property rights. These claims, if successful, may require us to redesign affected products, enter into costly settlement or license agreements, pay damage awards, or face a temporary or permanent injunction prohibiting us from marketing or selling certain of our products.

If we fail to comply with government contracting regulations, our operating results, brand name and reputation could suffer.

Many of our contracts are with governmental entities. Government contracts are subject to extensive and complex government procurement laws and regulations, along with regular audits of contract pricing and our business practices by government agencies. If we are found to have violated some provisions of the government contracts, we could be required to provide a refund, pay significant damages, or be subject to contract cancellation, civil or criminal penalties, fines or debarment from doing business with the government. Any of these events could not only affect us financially, but also adversely affect our brand and reputation.

Our operations expose us to the risk of material environmental liabilities, litigation and violations.

We are subject to numerous foreign, federal, state and local environmental protection and health and safety laws governing, among other things:

the generation, storage, use and transportation of hazardous materials;

emissions or discharges of substances into the environment;

substances that may be subject to regulation in the manufacture, distribution, use or disposal of our products; and

the health and safety of our employees.

If we are found to have violated these laws, we could be fined, criminally charged or otherwise sanctioned by regulators. In addition, private parties could bring personal injury or other claims due to the presence of, or exposure to, hazardous substances. From time to time, we may be involved in litigation over these issues.

Certain environmental laws assess liability on current and previous owners or operators of real property for the cost of removal or remediation of hazardous substances at their property or at properties at which they have disposed of hazardous substances. We may be subject to material liabilities for environmental claims for personal injury or cleanup in the future based on existing environmental conditions resulting from events that happened long ago.

The ultimate cost of cleanup at disposal sites and manufacturing facilities is difficult to predict. Environmental laws are complex, change frequently and have tended to become more stringent over time. There can be no assurance that our costs of complying with environmental protection and health and safety laws, or our liabilities arising from releases of, or exposures to, hazardous substances will not materially adversely affect our financial condition, results of operations or cash flows.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our world headquarters is located in Stamford, Connecticut. We have facilities worldwide that are either leased or owned. Our primary manufacturing and assembly facility is located in Danbury, Connecticut and our principal research and development facilities are located in Danbury, Connecticut and Noida, India. We believe that our manufacturing and assembly, administrative and sales office locations are adequate for the needs of all of our operations.

ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of business, we are routinely defendants in, or party to, a number of pending and threatened legal actions. These may involve litigation by or against us relating to, among other things, contractual rights under vendor, insurance or other contracts; intellectual property or patent rights; equipment, service, payment or other disputes with 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, clients or others.

In October 2009, the company and certain of its current and former officers were named as defendants in NECA-IBEW Health & Welfare Fund v. Pitney Bowes Inc. et al., a class action lawsuit filed in the U.S. District Court for the District of Connecticut. The complaint asserts claims under the Securities Exchange Act of 1934 on behalf of those who purchased the common stock of the company during the period between July 30, 2007 and October 29, 2007 alleging that the company, in essence, missed two financial projections. Plaintiffs filed an amended complaint in September 2010. After briefing on the motion to dismiss was completed, the plaintiffs filed a new amended complaint on February 17, 2012. We have moved to dismiss this new amended complaint. We expect to prevail in this legal action; however, as litigation is inherently unpredictable, there can be no assurance in this regard. If the plaintiffs do prevail, the results may have a material effect on our financial position, results of operations or cash flows. Based upon our current understanding of the facts and applicable laws, we do not believe there is a reasonable possibility that any loss has been incurred.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

7

PART II

ITEM 5. MARKET FOR THE COMPANY'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded under the symbol "PBI" and is principally traded on the New York Stock Exchange (NYSE). At January 31, 2013, we had 20,614 common stockholders of record. The following table sets forth the high and low sales prices, as reported on the NYSE, and the cash dividends paid per share of common stock, for the periods indicated.

	Stock Price		Dividend Per Share
	High	Low	
Year Ended December 31, 2012			
First Quarter	\$19.65	\$17.45	\$0.375
Second Quarter	\$17.87	\$12.81	0.375
Third Quarter	\$15.27	\$12.64	0.375
Fourth Quarter	\$14.73	\$10.34	0.375
			\$1.50
Year Ended December 31, 2011			
First Quarter	\$26.15	\$23.46	\$0.37
Second Quarter	\$26.36	\$22.05	0.37
Third Quarter	\$23.47	\$18.00	0.37
Fourth Quarter	\$21.20	\$17.33	0.37
			\$1.48

Share Repurchases

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. There were no shares repurchased in 2012. At December 31, 2012, we have remaining authorization to repurchase up to \$50 million of our common stock.

Stock Performance Graph

In 2012, we revised our Peer Group. Our previous peer group (Old Peer Group) was weighted towards companies with higher revenues and market capitalization than ours. Our new group (New Peer Group) consists of services, industrial and technology companies and eliminates our previous focus on industrial machinery companies. The New Peer Group consists of companies with revenues between \$2 billion and \$22 billion and market capitalization between \$1 billion and \$14 billion.

The New Peer Group is comprised of the following companies: Agilent Technologies Inc., Alliance Data Systems Corp., Avery Dennison Corp., Diebold Inc., R.R. Donnelley & Sons Co., DST Systems, Inc., Fiserv Inc., Harris Corp., Iron Mountain Inc., Lexmark International, Inc., NCR Corp., Pitney Bowes Inc., Rockwell Automations Inc., Unisys Corp. and Xerox Corporation.

The Old Peer Group is comprised of the following companies: Automatic Data Processing, Inc., Diebold, Inc., R.R. Donnelley & Sons Co., DST Systems, Inc., FedEx Corporation, Hewlett-Packard Company, Lexmark International, Inc., Pitney Bowes Inc., United Parcel Service, Inc., and Xerox Corporation.

All information is based upon data independently provided to us by Standard & Poor's Corporation and is derived from their official total return calculation. Total return for the S&P 500 Composite Index, the New Peer Group and the Old Peer Group is based on market capitalization, weighted for each year.

The accompanying graph compares the most recent five-year share performance of Pitney Bowes, the Standard and Poor's (S&P) 500 Composite Index, the New Peer Group and the Old Peer Group and shows that on a total return basis, assuming reinvestment of all dividends, \$100 invested in the company's common stock, the S&P 500 Composite Index, the New Peer Group and the Old Peer Group on December 31, 2007 would have been worth \$40, \$109, \$90 and \$74, respectively, on December 31, 2012.

Company Name / Index	Indexed Returns December 31,					
	2007	2008	2009	2010	2011	2012
Pitney Bowes	\$100	\$70	\$67	\$76	\$62	\$40
S&P 500	\$100	\$63	\$80	\$92	\$94	\$109
New Peer Group	\$100	\$56	\$72	\$86	\$79	\$90
Old Peer Group	\$100	\$74	\$93	\$95	\$81	\$74

ITEM 6. SELECTED FINANCIAL DATA

The following table of selected financial data should be read in conjunction with the more detailed consolidated financial statements and related notes thereto included under Item 8 of this Form 10-K.

	Years Ended December 31,				
	2012	2011 ⁽¹⁾	2010 ⁽¹⁾	2009 ⁽¹⁾	2008 ⁽¹⁾
Total revenue	\$4,904,015	\$5,122,596	\$5,260,356	\$5,373,163	\$6,070,552
Amounts attributable to common stockholders:					
Net income from continuing operations	\$435,932	\$400,556	\$324,267	\$415,149	\$435,529
Income (loss) from discontinued operations	9,231	216,924	(31,888)	8,296	(15,736)
Net income - Pitney Bowes Inc.	\$445,163	\$617,480	\$292,379	\$423,445	\$419,793
Basic earnings per share attributable to common stockholders ⁽²⁾ :					
Continuing operations	\$2.18	\$1.98	\$1.57	\$2.01	\$2.10
Discontinued operations	0.05	1.07	(0.15)	0.04	(0.08)
Net income - Pitney Bowes Inc.	\$2.22	\$3.06	\$1.42	\$2.05	\$2.01
Diluted earnings per share attributable to common stockholders ⁽²⁾ :					
Continuing operations	\$2.16	\$1.98	\$1.57	\$2.00	\$2.08
Discontinued operations	0.05	1.07	(0.15)	0.04	(0.08)
Net income - Pitney Bowes Inc.	\$2.21	\$3.05	\$1.41	\$2.04	\$2.00
Cash dividends paid per share of common stock	\$1.50	\$1.48	\$1.46	\$1.44	\$1.40
Balance sheet data:					
	December 31,				
	2012	2011	2010	2009	2008
Total assets	\$7,859,891	\$8,147,104	\$8,444,023	\$8,571,039	\$8,810,236
Long-term debt	\$3,642,375	\$3,683,909	\$4,239,248	\$4,213,640	\$3,934,865
Total debt	\$4,017,375	\$4,233,909	\$4,289,248	\$4,439,662	\$4,705,366
Noncontrolling interests (Preferred stockholders' equity in subsidiaries)	\$296,370	\$296,370	\$296,370	\$296,370	\$374,165

(1) Amounts have been revised to reflect the results of IMS as a discontinued operation.

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

ITEM 7. 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 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 in this Form 10-K 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
 - mailers' utilization of alternative means of communication or competitors' products
- access to capital at a reasonable cost to continue to fund various discretionary priorities, including business investments, pension contributions and dividend payments
- timely development and acceptance of new products and services
- successful entry into new markets
- success in gaining product approval in new markets where regulatory approval is required
- changes in postal or banking regulations
- interrupted use of key information systems
- 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
- changes in privacy laws
- intellectual property infringement claims
- regulatory approvals and satisfaction of other conditions to consummate and integrate any acquisitions
- negative developments in economic conditions, including adverse impacts on customer demand
- our success at managing customer credit risk
 - significant changes in pension, health care and retiree medical costs
- changes in interest rates, foreign currency fluctuations or credit ratings
- income tax adjustments or other regulatory levies for prior audit years and changes in tax laws, rulings or regulations
- impact on mail volume resulting from concerns over the use of the mail for transmitting harmful biological agents
- changes in international or national political conditions, including any terrorist attacks
- acts of nature

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements contained in this report. Certain amounts and discussions below have been changed to reflect the reclassification of our International Mailing Services (IMS) operations, previously included in our Mail Services segment, as a discontinued operation. All table amounts are presented in millions of dollars, unless otherwise stated. Table amounts may not sum to the total due to rounding.

Overview

Revenue for 2012 decreased 4% to \$4,904 million compared to \$5,123 million in 2011 as worldwide economic conditions, pricing pressures, declining mail volumes and constrained public sector spending in Europe all contributed to the decline. Worldwide economic conditions continue to impact equipment sales, which declined 5% compared to last year. Declining equipment sales in prior periods also impacts financing revenue, which declined 10% in 2012 compared to 2011. Rentals and supplies revenue both declined 8% due to a decline in mail volumes and our installed

meter base. Software revenue declined 3% mainly due to an overall economic uncertainty in our global markets, particularly in our European and Asia Pacific markets.

Net income from continuing operations and earnings per diluted share for 2012 were \$436 million and \$2.16, respectively, compared to \$401 million and \$1.98, respectively, in 2011. The improvement in 2012 was primarily due to lower restructuring charges and goodwill impairment charges partially offset by higher tax expense due to tax benefits recognized from tax settlements in 2011.

As a result of the continuing under-performance of our IMS operations, and to enable us to better focus on higher growth cross-border ecommerce parcel opportunities, we began exploring strategic alternatives to exit the IMS operations related to the international delivery

of mail and catalogs. During the year, we recorded goodwill and asset impairment charges of \$35 million to write down the net assets of IMS to their estimated fair value less costs to sell. These charges and the operating results of IMS for all periods presented have been classified as discontinued operations.

For the year, cash flow from operations declined to \$660 million compared to \$949 million in 2011. Lower cash flow in 2012 was primarily due to higher tax payments and a lower cash impact from net collections of finance and accounts receivables. Also in 2012, we received \$106 million from the sale of leveraged lease assets and \$340 million from the issuance of new debt, while uses of cash included \$550 million to redeem maturing debt, \$319 million to pay dividends and \$177 million to fund capital investments. At December 31, 2012, cash and cash equivalents and short-term investments were \$950 million.

Outlook

Worldwide economic conditions continue to create a challenging business environment causing many of our clients to remain cautious about spending and therefore impact the performance of our business segments. Our growth initiatives continue to focus on leveraging our expertise in physical communications with our expanding capabilities in digital and hybrid communications and developing products, software, services and solutions that help our clients grow their businesses by more effectively communicating with their customers. We expect to make continued investments in these growth initiatives during the first half of 2013, which are expected to lead to greater revenue and margin contribution in the second half of 2013.

We expect revenue growth in certain of our Enterprise Business Solutions segments in 2013 from our ecommerce, print outsourcing and software solutions. We expect our mix of business will continue to shift to more enterprise related products and solutions and that these new revenue streams will have lower margins than our traditional Mailing business.

Small and Medium Business Solutions revenues will continue to be challenged by the decline in physical mail volumes. However, in 2013, we expect revenue will benefit from an improvement in equipment sales trends, due in part to global sales of our Connect+™ communications systems and SendSuite Live™ shipping solutions, and that this improvement will lead to a moderation in the decline of rentals, financing and supplies revenue in the second half of 2013.

RESULTS OF OPERATIONS

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

Revenue

	Year Ended December 31,			% change	
	2012	2011	2010	2012	2011
Equipment sales	\$938	\$986	\$1,023	(5)%	(4)%
Supplies	284	308	318	(8)%	(3)%
Software	413	427	390	(3)%	9%
Rentals	570	619	651	(8)%	(5)%
Financing	495	547	587	(10)%	(7)%
Support services	690	707	712	(2)%	(1)%
Business services	1,515	1,529	1,579	(1)%	(3)%
Total revenue	\$4,904	\$5,123	\$5,260	(4)%	(3)%

Cost of revenue

	Year Ended December 31,					
	2012		2011		2010	
	\$	% of revenue	\$	% of revenue	\$	% of revenue
Cost of equipment sales	\$459	48.9 %	\$449	45.6 %	\$469	45.9 %
Cost of supplies	88	30.9 %	97	31.6 %	97	30.5 %
Cost of software	93	22.5 %	99	23.2 %	93	23.9 %
Cost of rentals	115	20.3 %	139	22.4 %	155	23.9 %
Financing interest expense	81	16.4 %	88	16.0 %	88	15.0 %
Cost of support services	440	63.8 %	453	64.1 %	452	63.5 %
Cost of business services	1,157	76.4 %	1,161	76.0 %	1,173	74.3 %
Total cost of revenue	\$2,433	49.6 %	\$2,486	48.5 %	\$2,529	48.1 %

Equipment sales

Equipment sales revenue decreased 5% to \$938 million in 2012 compared to 2011 as worldwide economic conditions continue to impact customer purchasing behavior. Foreign currency translation had an unfavorable impact on revenue of 2%. Cost of equipment sales as a percentage of revenue increased to 48.9% compared to 45.6% in the prior year primarily due to a higher mix of lower margin product sales, pricing pressure on competitive placements and a decline in the number of lease extensions relative to prior year.

In 2011, equipment sales revenue decreased 4% to \$986 million compared to 2010, including a positive impact of 2% from foreign currency translation. Equipment sales were adversely impacted as many customers delayed capital investment commitments and extended leases of existing equipment. Cost of equipment sales as a percentage of revenue improved to 45.6% compared with 45.9% in the prior year due to the mix of higher margin product sales and lease extensions.

Supplies

Supplies revenue decreased 8% to \$284 million in 2012 compared to 2011 primarily due to reduced mail volumes, fewer installed meters worldwide and lower ink and toner sales. Foreign currency translation had a 2% unfavorable impact on revenue. Cost of supplies as a percentage of revenue was 30.9% compared to 31.6% in the prior year primarily due to a favorable mix of higher margin core supplies sales.

Supplies revenue in 2011 decreased 3% to \$308 million compared to 2010 due to reduced mail volumes and fewer installed meters worldwide. Foreign currency translation had a 2% favorable impact. Cost of supplies as a percentage of revenue was 31.6% compared with 30.5% in the prior year primarily due to the mix of lower margin supply sales worldwide.

Software

Software revenue decreased 3% to \$413 million in 2012 compared to 2011. Foreign currency translation had a 1% unfavorable impact on revenue. The decrease was primarily attributable to weak economic conditions and constrained public sector spending in Europe and lower sales in Asia Pacific. Cost of software as a percentage of revenue improved to 22.5% compared with 23.2% in the prior year primarily due to reduced headcount.

Software revenue in 2011 increased 9% to \$427 million compared to 2010 driven by higher licensing revenue (3%), the full year impact of 2010 acquisitions (3%) and foreign currency translation (3%). Cost of software as a percentage of revenue improved to 23.2% compared with 23.9% in the prior year due to the increase in high margin licensing revenue.

Rentals

Rentals revenue decreased 8% to \$570 million in 2012 compared to 2011 primarily due to declines in North America from fewer meters in service and lower rentals in France due to a change in mix from rental to equipment sales.

Foreign currency translation had an unfavorable impact on revenue of 1%. Cost of rentals as a percentage of revenue improved to 20.3% compared with 22.4% in the prior year mainly due to lower depreciation expense. Rentals revenue decreased 5% to \$619 million in 2011 compared to 2010 as customers in the U.S. continued to downsize to smaller, fully featured machines and fewer installed meters worldwide. Foreign currency translation had a 1% positive impact. Cost of rentals as a percentage of revenue improved to 22.4% compared with 23.9% in the prior year primarily due to lower depreciation associated with higher levels of lease extensions.

Financing

Financing revenue decreased 10% in 2012 compared to 2011 and 7% in 2011 compared to 2010 primarily due to declining equipment sales in prior periods. Financing interest expense as a percentage of revenue was 16.4%, 16.0% and 15.0% in 2012, 2011 and 2010, respectively. The year-over-year increases were due to higher effective interest rates. Financing interest expense represents our cost of borrowing associated with the generation of financing revenue. In computing financing interest expense, we assume a 10:1 leverage ratio of debt to equity and apply our overall effective interest rate to the average outstanding finance receivables.

Support Services

Support services revenue decreased 2% to \$690 million in 2012 compared to 2011 primarily due to foreign currency translation. Cost of support services as a percentage of revenue was 63.8% in 2012, a slight improvement versus 64.1% in 2011.

Support services revenue decreased 1% to \$707 million in 2011 compared to 2010 driven by lower new equipment placements worldwide. Foreign currency translation had a positive impact of 2%. Cost of support services as a percentage of revenue increased to 64.1% compared with 63.5% in the prior year primarily due to an increase in installations of high-end integrated mailing systems.

Business Services

Business services revenue decreased 1% to \$1,515 million in 2012 compared to 2011 primarily due to lower facilities management volumes, account contractions and pricing pressures on new business and contract renewals. Revenue in 2012 benefited from the recovery during the year of \$20 million in revenue lost in 2011 as a result of a fire at our Dallas presort facility. Cost of business services as a percentage of revenue was 76.4% in 2012 and 76.0% in 2011 due to lower revenues and pricing pressure on new business and contract renewals.

Business services revenue decreased 3% to \$1,529 million in 2011 compared to 2010 primarily due to the loss of several large contracts in 2010 and the lost revenue from the fire at the Dallas presort facility. Foreign currency translation had a 1% favorable impact. Cost of business services as a percentage of revenue increased to 76.0% compared with 74.3% in the prior year primarily due to lower revenues and pricing pressure on new business and contract renewals.

Selling, general and administrative (SG&A)

SG&A expense decreased 5% in 2012 to \$1,598 million compared to 2011 primarily driven by lower employee-related costs due to prior restructuring actions and productivity initiatives, and to a lesser extent, lower intangible asset amortization expense and credit loss and bad debt provisions.

SG&A expense decreased 2% in 2011 to \$1,690 million compared to 2010 primarily driven by a 4% decrease in employee-related costs due to prior restructuring actions and productivity initiatives and a 27% decrease in credit loss and bad debt provisions.

Restructuring charges and asset impairments

Restructuring charges and asset impairments were \$23 million, \$137 million and \$182 million, in 2012, 2011 and 2010, respectively. During 2012, we announced actions to further streamline our business operations and reduce our cost structure. These actions consisted primarily of workforce reductions and resulted in a pre-tax restructuring charge of \$38 million. During the year, we also reversed a net \$15 million of restructuring reserves based on a review of our remaining obligations under prior programs.

Restructuring charges in 2011 and 2010 represent charges taken in connection with a series of strategic transformation initiatives announced in 2009. These initiatives were designed to transform and enhance the way we operate as a global company, enhance our responsiveness to changing market conditions and create improved processes and systems and were implemented over a three year period through 2011. Restructuring charges and asset impairments also include asset impairment charges unrelated to restructuring actions of \$5 million in both 2011 and 2010. Restructuring charges associated with our IMS operations have been reclassified as discontinued operations.

During 2012 and 2011, we also recorded asset impairment charges of \$10 million and \$12 million, respectively, associated with our IMS operations. These charges are included in discontinued operations in the Consolidated Statements of Income. See Critical Accounting Estimates section below for further details.

Goodwill impairment

During 2012 and 2011, we recorded goodwill impairment charges of \$18 million and \$46 million, respectively, associated with our IMS operations. These charges are included in discontinued operations in the Consolidated Statements of Income. In 2011, we also recorded a goodwill impairment charge of \$84 million associated with the international operations of our Management Services segment (PBMSi). This charge was included as Goodwill impairment in the Consolidated Statements of Income. See Critical Accounting Estimates section below for further details of these charges.

Other expense (income), net

Other expense, net in 2012 includes income of \$11 million from insurance proceeds received in connection with the February 2011 fire at our Dallas presort facility offset by a loss of \$6 million on a forward rate swap agreement, a loss of \$2 million on the early redemption of debt and a pre-tax loss of \$4 million on the sale of leveraged lease assets. We do not anticipate receiving any further insurance proceeds relating to the Dallas fire.

Other income, net in 2011 includes income of \$27 million from insurance proceeds received in connection with the fire at our Dallas presort facility and a pre-tax loss of \$7 million on the sale of leveraged lease assets.

Income taxes

See Note 8 to the Consolidated Financial Statements.

Discontinued operations

See Note 18 to the Consolidated Financial Statements.

Preferred stock dividends of subsidiaries attributable to noncontrolling interests

See Note 9 to the Consolidated Financial Statements.

Business Segments

We conduct our business activities in seven reporting segments within two business groups, Small & Medium Business Solutions and Enterprise Business Solutions. The following tables show revenue and EBIT by business segment for 2012, 2011 and 2010. The IMS business, now reported as a discontinued operation, was previously included in our Mail Services segment. Segment EBIT, a non-GAAP measure, is determined by deducting from segment revenue the related costs and expenses attributable to the segment. Segment EBIT excludes interest, taxes, general corporate expenses not allocated to a particular business segment, restructuring charges, asset impairments and goodwill charges, which are recognized on a consolidated basis. Management uses segment EBIT to measure profitability and performance at the segment level. Segment EBIT may not be indicative of our overall consolidated performance and therefore, should be read in conjunction with our consolidated results of operations. Refer to Note 16 to the Consolidated Financial Statements for a reconciliation of segment EBIT to income from continuing operations before income taxes.

Revenue	Year Ended December 31,			% change	
	2012	2011	2010	2012	2011
North America Mailing	\$1,819	\$1,961	\$2,101	(7)%	(7)%
International Mailing	676	707	675	(4)%	5%
Small & Medium Business Solutions	2,495	2,669	2,775	(7)%	(4)%
Production Mail	512	544	561	(6)%	(3)%
Software	393	407	375	(3)%	9%
Management Services	921	949	999	(3)%	(5)%
Mail Services	445	412	408	8%	1%
Marketing Services	138	142	142	(3)%	—%
Enterprise Business Solutions	2,409	2,454	2,485	(2)%	(1)%
Total	\$4,904	\$5,123	\$5,260	(4)%	(3)%

EBIT	Year Ended December 31,			% change	
	2012	2011	2010	2012	2011
North America Mailing	\$689	\$728	\$755	(5)%	(4)%
International Mailing	79	99	79	(20)%	25%
Small & Medium Business Solutions	768	827	834	(7)%	(1)%
Production Mail	26	33	61	(21)%	(47)%
Software	38	38	40	(1)%	(5)%
Management Services	55	76	93	(28)%	(18)%
Mail Services	101	103	85	(2)%	22%
Marketing Services	28	26	26	7%	—%
Enterprise Business Solutions	248	276	304	(10)%	(9)%
Total	\$1,016	\$1,103	\$1,139	(8)%	(3)%

Small & Medium Business Solutions

Small & Medium Business Solutions revenue decreased 7% to \$2,495 million in 2012 compared to \$2,669 million in 2011. EBIT decreased 7% to \$768 million compared to \$827 million in 2011. Small and Medium Business Solutions revenue in 2011 decreased 4% compared to \$2,775 million in 2010 and EBIT decreased 1% compared to \$834 million in 2010. Within the Small & Medium Business Solutions group:

North America Mailing

North America Mailing revenue decreased 7% to \$1,819 million in 2012 compared to 2011. Equipment sales declined 6% due to continued uncertain economic conditions and declining mail volumes. Financing revenue was 9% lower than last year due to the declining equipment sales in prior periods. Rentals revenue declined 7% primarily due to fewer meters in service and supplies revenue declined 11% due to lower mail volumes, a declining installed meter base and lower ink and toner sales. EBIT decreased 5% to \$689 million in 2012 compared to \$728 million in 2011 primarily due to the decline in revenue; however, EBIT margin was slightly improved over last year due in part to prior strategic initiatives, productivity improvements and lower credit losses.

North America Mailing revenue in 2011 decreased 7% to \$1,961 million compared to \$2,101 million in 2010. Foreign currency translation had a less than 1% favorable impact on revenue. Excluding the effects of foreign currency, equipment sales declined 7% as increased concerns about economic conditions resulted in customers delaying purchases of new equipment and extending leases of existing equipment. Lease extensions are profitable transactions but generate less revenue in the current period than new equipment sales. The lagging effects of lower equipment sales in prior periods, fewer meter placements and declining mail volumes contributed to declines in financing revenue (11%), rental revenue (6%), supplies revenue (8%) and service revenue (4%). EBIT decreased 4% to \$728 million in 2011 compared to \$755 million in 2010 primarily due to lower revenues; however, EBIT margin improved as a result of continued productivity improvements and lower credit losses.

International Mailing

International Mailing revenue decreased 4% to \$676 million in 2012 compared to \$707 million in 2011; however, excluding the effects of foreign currency translation, revenue was flat compared to last year. Excluding the effects of foreign currency, equipment sales increased 3% due to higher sales in the Nordics and France, partially offset by lower sales in the U.K. Equipment sales in France increased due to the launch of the Connect+™ mailing system in 2012 and a change in mix from rentals to equipment sales. The decline in the U.K. was due to overall economic condition. Rental revenue declined 6% primarily due to the change in mix from rentals to equipment sales in France and lower rentals in the U.K. EBIT decreased 20% to \$79 million compared to \$99 million in 2011 primarily due to an increase in the mix of lower margin product sales, including the equipment sales in the Nordics. Foreign currency translation unfavorably impacted EBIT by 5%.

International Mailing revenue increased 5% in 2011 to \$707 million compared to \$675 million in 2010, but included a favorable impact of 6% from foreign currency translation. Excluding the effects of foreign currency, the underlying decrease was primarily due to lower equipment sales in the U.K., Germany, Asia Pacific and Latin America due to increased concerns about economic conditions throughout the regions. EBIT increased 25% to \$99 million in 2011 compared to \$79 million in 2010 primarily due to continued productivity improvements. Foreign currency translation favorably impacted EBIT by 5%.

Enterprise Business Solutions

Enterprise Business Solutions revenue decreased 2% in 2012 to \$2,409 million compared to \$2,454 million in 2011. EBIT decreased 10% in 2012 to \$248 million compared to \$276 million in 2011. Enterprise Business Solutions revenue in 2011 decreased 1% to \$2,454 million compared to \$2,485 million in 2010 and EBIT decreased 9% to \$276 million compared to \$304 million in 2010. Within the Enterprise Business Solutions group:

Production Mail

Production Mail revenue decreased 6% in 2012 to \$512 million compared to \$544 million in 2011 primarily due to global economic uncertainty that existed throughout the year. Foreign currency translation had an unfavorable impact on revenue of 2%. EBIT decreased 21% to \$26 million in 2012 compared to \$33 million in 2011 primarily due to the decline in revenue and higher mix of lower margin sales.

Production Mail revenue decreased 3% in 2011 to \$544 million compared to \$561 million in 2010. Foreign currency translation had a favorable impact of 2% on revenue. Excluding the effects of foreign currency, equipment sales decreased 11% as many enterprise accounts worldwide, especially in Europe, delayed capital investment commitments. EBIT decreased 47% to \$33 million compared to \$61 million in 2010 due to lower revenue and the expenses incurred in the development of Volly™, our future secure digital mail delivery service offering.

Software

Software revenue decreased 3% in 2012 to \$393 million compared to \$407 million in 2011 primarily attributable to weak economic conditions and constrained public sector spending in Europe and lower sales in Asia Pacific. Foreign currency translation had a 1% unfavorable impact on revenue. EBIT for 2012 and 2011 was \$38 million.

In 2011, Software revenue increased 9% to \$407 million compared to \$375 million in 2010. Foreign currency translation had a 3% favorable impact on revenue and the full year impact of 2010 acquisitions accounted for 3% of the increase. The remaining increase was primarily due to higher licensing revenue in most regions, particularly North America and Asia Pacific. EBIT decreased 5% in 2011 to \$38 million compared to \$40 million in 2010 due to higher selling costs as a percentage of revenue. Foreign currency had a favorable impact of 7% on EBIT.

Management Services

Management Services revenue decreased 3% in 2012 to \$921 million compared to \$949 million in 2011 and EBIT decreased 28% to \$55 million compared to \$76 million in 2011. The decline in revenue and EBIT was primarily due to lower document volumes, account contractions and reduced pricing on new business and contract renewals. Foreign currency translation had an unfavorable impact on revenue of 1%.

Management Services revenue in 2011 decreased 5% to \$949 million compared to \$999 million in 2010. Foreign currency translation had a positive impact of 1% on revenue. EBIT decreased 18% to \$76 million compared to \$93 million in 2010. The decrease in revenue and EBIT was primarily due to the full year impact of account contractions and terminations in the U.S. during 2010 and pricing pressure on new business and contract renewals.

Mail Services

Mail Services revenue increased 8% to \$445 million in 2012 compared to \$412 million in 2011; however, 5% of the increase was due to lost revenue of \$20 million in 2011 caused by the February 2011 fire at our Dallas presort facility. The remaining increase of 3% was primarily due to higher standard mail volumes processed in our Presort business. EBIT decreased 2% to \$101 million in 2012 compared to \$103 million in 2011. EBIT in 2012 includes a benefit of \$11 million from insurance recoveries while EBIT in 2011 includes a benefit of \$27 million from insurance recoveries, partially offset by the adverse impact of \$20 million from lost revenues (net benefit of \$7 million). Excluding the fire-related benefits, underlying EBIT decreased 6% primarily due to start-up costs related to our partnership with eBay to provide cross-border ecommerce solutions.

Mail Services revenue increased 1% to \$412 million in 2011 compared to \$408 million in 2010 and EBIT increased 22% to \$103 million compared to \$85 million in 2010. However, taking into account the lost revenue of \$20 million and EBIT benefit of \$7 million in 2011, revenue and EBIT increased 6% and 14%, respectively. The increase in revenue and EBIT was primarily due to the full year impact of a 2010 acquisition, higher standard mail volumes processed in our Presort business and lower costs from productivity initiatives.

Marketing Services

Marketing Services revenue decreased 3% to \$138 million compared to \$142 million in 2011 in part due to a decline in household moves but EBIT increased 7% to \$28 million compared to \$26 million in 2011 due to lower print production costs and administrative costs. We expect segment revenue in 2013 to decline 10-15% and EBIT to decline by about a third due to lower fees for certain renegotiated contracts. Marketing Services revenue and EBIT for 2011 were flat compared to 2010.

LIQUIDITY AND CAPITAL RESOURCES

We believe that cash generated from operations, existing cash and investments and borrowing capacity under our commercial paper program are currently sufficient to support our cash needs, including items like business operations, debt repayments and customer deposits as well as discretionary uses such as capital investments, dividends and share repurchases. Cash and cash equivalents and short-term investments were \$950 million at December 31, 2012 and \$869 million at December 31, 2011.

We have had the ability to supplement short-term liquidity through our consistent and uninterrupted access to the commercial paper market to date. We have the ability to fund the long-term needs of our business through broad access to capital markets, cash flow, proceeds from divestitures, a credit line facility and our effective shelf registration statement.

During the year, the rating agencies reduced our credit ratings. There can be no assurances that one or more of the rating agencies will not take additional adverse actions in the future.

We continuously review our liquidity 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 Flow Summary

During the fourth quarter of 2012, we determined that, beginning with the three month period ended December 31, 2011 and each subsequent three month period through September 30, 2012, changes in certain investment-related working capital accounts that were classified in the Consolidated Statement of Cash Flows as cash flows from operating activities should have been classified as cash flows from investing activities. The cash flow amounts in the table below for the year ended December 31, 2011 have been revised to reflect the correct classification of cash flows, resulting in an increase in cash provided by operating activities and an increase in cash used in investing activities of \$29 million.

The change in cash and cash equivalents is as follows:

	Year Ended December 31,			Change	
	2012	2011	2010	2012	2011
Net cash provided by operating activities	\$660	\$949	\$952	\$(289)	\$(3)
Net cash used in investing activities	(87)	(117)	(301)	30	184
Net cash used in financing activities	(520)	(455)	(580)	(65)	125
Effect of exchange rate changes on cash and cash equivalents	3	(5)	1	8	(6)
Change in cash and cash equivalents	\$57	\$372	\$72	\$(316)	\$300

Net cash provided by operating activities was \$660 million in 2012 compared to \$949 million in 2011. The decrease in cash provided by operations was primarily due to higher tax payments in 2012 resulting from the sale of leveraged lease assets, the loss of bonus depreciation and higher income tax refunds received in 2011. The cash impact of finance and accounts receivables were also \$105 million lower in 2012 compared to 2011.

Net cash provided by operating activities of \$949 million in 2011 was relatively unchanged from cash provided by operating activities of \$952 million in 2010. Cash flow in 2011 benefited from lower tax payments of \$187 million and higher net collections of finance and accounts receivables of \$26 million but these benefits were offset by a special pension plan contribution of \$123 million and higher payments of accounts payable and accrued liabilities of \$42 million. Cash flow in 2010 benefited from proceeds of \$32 million received from the unwinding of interest rate swaps. The decrease in current and non-current income taxes of \$258 million in 2011 includes the tax benefits recognized in connection with the 2001-2008 IRS tax settlements.

Net cash used in investing activities was \$87 million in 2012 and \$117 million in 2011. The improvement in cash used in 2012 was due to lower net purchases of investment securities partially offset by higher capital expenditures and lower growth in customer deposits.

Net cash used in investing activities was \$117 million in 2011 compared to \$301 million in 2010. The decrease in cash used was primarily due to proceeds of \$102 million from the sale of leveraged lease assets, lower net purchases of investment securities of \$26 million and acquisitions of \$78 million in 2010. These improvements were partially offset by higher capital expenditures of \$36 million.

Net cash used in financing activities was \$520 million in 2012 compared to \$455 million in 2011. The increase in cash used was due to higher debt reduction partially offset by lower share repurchases. During the year, \$550 million of debt matured and was repaid and we issued \$340 million of new debt. In 2011, the reduction in debt was \$50 million. During 2012, we did not repurchase any shares of our common stock compared to \$100 million of share repurchases in 2011.

Net cash used in financing activities was \$455 million in 2011 compared to \$580 million in 2010. The decrease in cash used was primarily due to lower repayments of notes payable due to an overall decline in commercial paper borrowings in 2011 compared to 2010.

Dividends

We paid dividends to our common stockholders of \$301 million (\$1.50 per share), \$300 million (\$1.48 per share) and \$301 million (\$1.46 per share) in 2012, 2011 and 2010, respectively.

Going forward, each quarter our Board of Directors will continue to consider our recent and projected earnings and other capital needs and priorities in deciding whether to approve the amount and payment of a dividend.

On January 31, 2013, our Board of Directors declared a cash dividend of \$0.375 cent per share for the first quarter of 2013. There are no material restrictions on our ability to declare dividends.

Financings and Capitalization

We are a Well-Known Seasoned Issuer with the SEC, 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 \$1.0 billion to support our commercial paper issuances. The credit facility expires in April 2016. We have not drawn upon the credit facility.

At December 31, 2012, there were no outstanding commercial paper borrowings. During the year, commercial paper borrowings averaged \$221 million at a weighted-average interest rate of 0.39% and the maximum amount outstanding at any time was \$709 million. In 2011,

commercial paper borrowings averaged \$138 million at a weighted-average interest rate of 0.22% and the maximum amount of commercial paper outstanding at any point in time was \$450 million.

In October 2012, we borrowed \$230 million under term loan agreements. The loans bear interest at the applicable London Interbank Offered Rate (LIBOR) plus 2.25% or Prime Rate plus 1.25%, at our option. Interest is payable quarterly and the loans mature in 2015 and 2016. The proceeds from the loans are for general corporate purposes, including the repayment of 2013 debt maturities.

In November 2012, we issued \$110 million of 10-year notes with a coupon rate of 5.25%. Interest is paid quarterly beginning February 2013. The notes mature in November 2022; however, we may redeem some or all of the notes at anytime on or after November 2015 at a redemption price equal to 100% of the principal amount, plus accrued and unpaid interest. The proceeds from the notes are for general corporate purposes, including the repayment of 2013 debt maturities.

Cash and cash equivalents held by our foreign subsidiaries were \$219 million at December 31, 2012 and \$538 million at December 31, 2011. 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.

Contractual Obligations and Off-Balance Sheet Arrangements

The following summarizes our known contractual obligations and off-balance sheet arrangements at December 31, 2012 and the effect that such obligations are expected to have on our liquidity and cash flow in future periods:

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt	\$3,965	\$375	\$900	\$1,180	\$1,510
Interest payments on debt (1)	1,254	174	309	211	560
Non-cancelable operating lease obligations	284	91	120	51	22
Purchase obligations (2)	274	225	48	1	—
Pension plan contributions (3)	30	30	—	—	—
Retiree medical payments (4)	218	26	49	45	98
Total	\$6,025	\$921	\$1,426	\$1,488	\$2,190

The amount and period of future payments related to our income tax uncertainties cannot be reliably estimated and are not included in the above table. See Note 8 to the Consolidated Financial Statements for further details.

(1) Interest payments on debt includes interest on our \$500 million 5.25% notes due in 2037. Bondholders may redeem these notes, in whole or in part, at par plus accrued interest, in January 2017. If all \$500 million of the notes are redeemed in January 2017, total interest payments would be reduced by \$524 million. Interest payments on debt also include interest on the \$110 million 5.25% notes due in 2022. These notes may be redeemed by us, in whole or in part, at anytime on or after November 2015 at par plus accrued interest. If we redeem all the notes in November 2015, total interest payments would be reduced by \$40 million.

(2) Purchase obligations include unrecorded agreements to purchase goods or services that are enforceable and legally binding upon us and that specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Purchase obligations exclude agreements that are cancelable without penalty.

(3) Pension plan contributions represent the amount we anticipate making to our pension plans during 2013; however, we will assess our funding alternatives as the year progresses.

(4) Our retiree health benefit plans are non-funded plans and cash contributions are made each year to cover medical claims costs incurred. The amounts reported in the above table represent our estimate of future benefits payments.

Critical Accounting Estimates

The preparation of our financial statements in conformity with GAAP requires management to make estimates and assumptions about certain items that affect the reported amounts of assets, liabilities, revenues, expenses and accompanying disclosures, including the disclosure of contingent assets and liabilities. The accounting policies below have been identified by management as those accounting policies that are most critical to our financial statements due to the estimates and assumptions required. Management believes that the estimates and assumptions used are reasonable and appropriate based on the information available at the time the financial statements were prepared; however, actual results could differ from those estimates and assumptions. See Note 1 to the Consolidated Financial Statements for a summary of our accounting policies.

Revenue recognition - Multiple element arrangements

We derive our revenue from multiple sources including sales, rentals, financing and services. Certain of our transactions are consummated at the same time and can therefore generate revenue from multiple sources. The most common form of these transactions involves a sale of non-cancelable lease of equipment, a meter rental and an equipment maintenance agreement. As a result, we are required to determine whether the deliverables in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes, and if so, how the price should be allocated among the delivered elements and when to recognize revenue for each element.

In multiple element arrangements, revenue is recognized for each of the elements based on their respective fair values. We recognize revenue for delivered elements only when the fair values of undelivered elements are known and uncertainties regarding customer acceptance are resolved. Revenue is allocated to the meter rental and equipment maintenance agreement elements using their respective fair values, which are determined based on prices charged in standalone and renewal transactions. For a sale transaction, revenue is allocated to the equipment based on a range of selling prices in standalone transactions. For a lease transaction, revenue is allocated to the equipment based on the present value of the remaining minimum lease payments. We then compare the allocated equipment fair value to the range of selling prices in standalone transactions during the period to ensure the allocated equipment fair value approximates average selling prices. The allocation of fair values to the various elements does not change the total revenue recognized from a transaction, but impacts the timing of revenue recognition.

Pension benefits

The valuation of our pension assets and obligations and the calculation of net periodic pension expense are dependent on assumptions and estimates relating to, among other things, the interest rate used to discount the future estimated liability (discount rate) and the expected rate of return on plan assets. These assumptions are evaluated and updated annually and are described in further detail in Note 17 to the Consolidated Financial Statements.

The discount rate for our largest plan, the U.S. Qualified Pension Plan (the U.S. Plan) is determined by matching the expected cash flows associated with our benefit obligations to a yield curve based on long-term, high quality fixed income debt instruments available as of the measurement date. The discount rate for our largest foreign plan, the U.K. Qualified Pension Plan (the U.K. Plan), is determined by using a model that discounts each year's estimated benefit payments by an applicable spot rate derived from a yield curve created from a large number of high quality corporate bonds. The discount rate used in the determination of net periodic pension expense for 2012 for both the U.S. Plan and the U.K. Plan was 4.95%. For 2013, the discount rate to be used in the determination of net periodic pension expense for the U.S. Plan and the U.K. Plan will be 4.05% and 4.55%, respectively. A 0.25% increase in the discount rate would decrease annual pension expense by approximately \$1 million for both the U.S. Plan and the U.K. Plan, and lower the projected benefit obligation of the U.S. Plan and U.K. Plan by \$42 million and \$21 million, respectively.

The expected return on plan assets is based on historical and expected future returns for current and targeted asset allocations for each asset class in the plans' investment portfolio, adjusted for historical and expected experience of active portfolio management results, as compared to the benchmark returns. When assessing the expected future

returns for the portfolio, management places more emphasis on the expected future returns than historical returns. The expected rate of return used in the determination of net periodic pension expense for 2012 was 7.75% for the U.S. Plan and 7.25% for the U.K. Plan. For 2013, the expected rate of return to be used in the determination of net periodic pension expense for the U.S. Plan and the U.K. Plan will be 7.25%. A 0.25% increase in the expected rate of return on plan return on assets would decrease annual pension expense for the U.S. Plan and U.K. Plan by \$4 million and \$1 million, respectively.

Actual pension plan results that differ from our assumptions and estimates are accumulated and amortized over the estimated future working life of the plan participants and affect future pension expense. Net pension expense is also based on a market-related valuation of plan assets where differences between the actual and expected return on plan assets are amortized to pension expense over a five-year period.

We invest our pension plan assets in a variety of investment securities in accordance with our strategic asset allocation policy. The allocations of our U.S. and U.K. pension plan assets at December 31, 2012 and target allocations for 2013 are as follows:

	U.S. Pension Plan		U.K. Pension Plan		
	Allocation of plan assets at December 31, 2012	2013 Target allocation	Allocation of plan assets at December 31, 2012	2013 Target allocation	
Equity securities	29	% 28	% 63	% 65	%
Fixed income	61	% 62	% 36	% 35	%
Real estate	4	% 2	% —	% —	%
Private equity	6	% 8	% —	% —	%
Cash	—	% —	% 1	% —	%
Total	100	% 100	% 100	% 100	%

Investment securities are exposed to various risks such as interest rate, market and credit risks, which could cause a change in the value of such investment securities. Such a change could have a material impact on our future results.

Residual value of leased assets

We provide lease financing for our products primarily through sales-type leases. Equipment residual values are determined at inception of the lease using estimates of equipment fair value at the end of the lease term. Residual value estimates impact the determination of whether a lease is classified as an operating lease or sales-type lease. Estimates of future equipment fair value are based primarily on our historical experience. We also consider forecasted supply and demand for our various products, product retirement and future product launch plans, end of lease customer behavior, regulatory changes, remanufacturing strategies, used equipment markets, if any, competition and technological changes.

We evaluate residual values on an annual basis or as changes to the above considerations occur and declines in estimated residual values considered "other-than-temporary" are recognized immediately. Estimated increases in future residual values are not recognized until the equipment is remarketed. If the actual residual value of lease assets were 10% lower than management's current estimates, pre-tax income would be lower by \$17 million.

Allowances for doubtful accounts and credit losses

We estimate our credit risk for accounts and finance receivables and provide allowances for estimated losses. We believe that our credit risk is limited because of our large number of customers, small account balances for most of our customers and customer geographic and industry diversification. We continuously monitor collections and payments from our customers and evaluate the adequacy of the applicable allowance based on historical loss experience, past due status, adverse situations that may affect a customer's ability to pay and prevailing economic conditions. We make adjustments to the reserves as deemed necessary. This evaluation is inherently subjective and actual results may differ significantly from estimated reserves.

Total allowance for credit losses as a percentage of finance receivables was 1.8% and 2.6% at December 31, 2012 and 2011, respectively. Holding all other assumptions constant, a 0.25% increase or decrease in the allowance rate at December 31, 2012 would have changed the 2012 provision by approximately \$6 million.

The allowance for doubtful accounts as a percentage of trade receivables was 2.7% and 3.4% at December 31, 2012 and 2011, respectively. Holding all other assumptions constant, a 0.25% increase or decrease in the allowance rate at December 31, 2012 would have changed the 2012 provision by approximately \$2 million.

Accounting for income taxes

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Our annual tax rate is based on our income, statutory tax rates, tax reserve changes and tax planning opportunities available to us in the various jurisdictions in which we operate. Significant judgment is required in determining our annual tax rate and in evaluating our tax positions.

We regularly assess the likelihood of tax adjustments in each of the tax jurisdictions in which we have operations and account for the related financial statement implications. Tax reserves have been established which we believe to be appropriate given the possibility of tax adjustments. Determining the appropriate level of tax reserves requires us to exercise judgment regarding the uncertain application of tax laws. The amount of reserves is adjusted when information becomes available or when an event occurs indicating a change in the

reserve is appropriate. Future changes in tax reserve requirements could have a material impact on our financial condition or results of operations.

Significant judgment is also required in determining the amount of valuation allowance to be recorded against deferred tax assets. In assessing whether a valuation allowance is necessary, and the amount of such allowance, we consider all available evidence for each jurisdiction including past operating results, estimates of future taxable income and the feasibility of ongoing tax planning strategies. As new information becomes available that would alter our determination as to the amount of deferred tax assets that will ultimately be realized, we adjust the valuation allowance with a corresponding impact to income tax expense in the period in which such determination is made.

Useful lives of long-lived assets

We depreciate property, plant and equipment and rental property and equipment principally using the straight-line method over the estimated useful lives of up to 50 years for buildings, three to 15 years for machinery and equipment, four to six years for rental equipment and three to five years for computer equipment. Leasehold improvements are amortized over the shorter of the estimated useful life or the remaining lease term. We amortize capitalized costs related to internally developed software using the straight-line method over the estimated useful life, which is principally three to 10 years. Intangible assets with finite lives are amortized using the straight-line method or an accelerated attrition method over their estimated useful lives, which are principally three to 15 years. Our estimates of useful lives could be affected by changes in regulatory provisions, technology or business plans and changes to the assets' estimated useful lives could have a material impact on our results of operations.

Impairment review

Long-lived and intangible assets are reviewed for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. The related estimated future undiscounted cash flows expected to result from the use and eventual disposition of the asset is compared to the asset's carrying amount. We derive the cash flow estimates from our future long-term business plans and historical experience. If the sum of the expected cash flows is less than the carrying amount, an impairment charge is recorded for an amount by which the carrying amount exceeds the fair value of the asset. The fair value of the asset is determined using probability weighted expected discounted cash flow estimates, quoted market prices when available and appraisals, as appropriate. Changes in the estimates and assumptions incorporated in our impairment assessment could materially affect the determination of fair value and the associated impairment charge.

Goodwill is tested annually for impairment, during the fourth quarter, or sooner when circumstances indicate an impairment may exist at the reporting unit level. The impairment test for goodwill is a two-step approach. In the first step, the fair value of each reporting unit is compared to the reporting unit's carrying value, including goodwill. If the fair value of a reporting unit is less than its carrying value, the second step of the goodwill impairment test is performed to measure the amount of impairment, if any. In the second step, the fair value of the reporting unit is allocated to the assets and liabilities of the reporting unit as if it had been acquired in a business combination and the purchase price was equivalent to the fair value of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is referred to as the implied fair value of goodwill. The implied fair value of the reporting unit's goodwill is then compared to the actual carrying value of goodwill. If the implied fair value of goodwill is less than the carrying value of goodwill, an impairment loss is recognized for the difference.

Significant estimates and assumptions are used in our goodwill impairment review and include the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units and determining the fair value of each reporting unit. The fair value of each reporting unit is determined based on a combination of techniques, including the present value of future cash flows, applicable multiples of competitors and multiples from sales of like businesses, and requires us to make estimates and assumptions regarding discount rates, growth rates and our future long-term business plans. Changes in any of these estimates or assumptions could materially affect the determination of fair value and the associated goodwill impairment charge for each reporting unit.

During the third quarter of 2012, as a result of the continuing under-performance of our IMS operations, and to enable us to better focus on higher growth cross-border ecommerce parcel opportunities, we began exploring strategic alternatives to exit the IMS operations related to the international delivery of mail and catalogs and concluded it was appropriate to conduct a goodwill impairment review. We determined the fair value of IMS based on negotiations with potential buyers and preliminary indications of interests and written offers received for the IMS business, as well as applying an income approach with revised cash flow projections. The inputs used to determine the fair value of the IMS operations were classified as Level 3 in the fair value hierarchy. Based on our review, we recorded a goodwill impairment charge of \$18 million and additional impairment charges of \$10 million to write-down the carrying values of certain intangible and fixed assets associated with the IMS business to their respective fair values. At December 31, 2012, the assets and liabilities of IMS were classified as held-for-sale and all historical amounts related to the IMS operations, including the above mentioned goodwill, intangible asset and fixed asset impairment charges, were included in discontinued operations.

In 2011, due to the under-performance of our IMS operations, management concluded that it was appropriate to perform a goodwill impairment review for IMS. We determined the fair value of IMS using a combination of techniques including the present value of future cash flows, multiples of competitors and multiples from sales of like businesses, and determined that the IMS reporting unit was impaired. The inputs used to determine the fair value of the IMS operations were classified as Level 3 in the fair value hierarchy. We allocated the implied fair value to the assets and liabilities of IMS and determined the implied fair value of goodwill. Based on our review, we recorded a goodwill impairment charge of \$46 million and identifiable intangible asset impairment charges of \$12 million to write-down the carrying values of goodwill and intangible assets associated with the IMS business to their respective fair values. These charges are recorded in discontinued operations in the Consolidated Statements of Income.

Also in 2011, based on the results of our annual goodwill impairment review process, we determined that the international operations of our Management Services segment (PBMSi) were impaired. We determined the fair value of PBMSi using a combination of techniques including the present value of future cash flows, derived from our long-term plans and historical experience, multiples of competitors and multiples from sales of like businesses and allocated the estimated fair value of the assets and liabilities of PBMSi. The inputs used to determine the fair value of PBMSi were classified as Level 3 in the fair value hierarchy. Based on our review, we recorded a goodwill impairment charge of \$84 million and intangible asset impairment charge of \$5 million to write down the carrying value of goodwill and intangible assets to their respective estimated fair values.

Based on the results of our annual impairment review conducted in 2012, the estimated fair values of our reporting units were substantially in excess of their respective carrying values, except for PBMSi, whose estimated fair value exceeded its carrying value by approximately 4%. At December 31, 2012, the goodwill allocated to PBMSi was \$5 million. The assumptions used to estimate fair value were based on projections incorporated in our current operating plans as well as other available information. The current operating plans included significant assumptions and estimates associated with sales growth, profitability and related cash flows, along with cash flows associated with taxes and capital spending. The discount rate used to estimate fair value was risk adjusted in consideration of the economic conditions of the reporting unit. We also considered other assumptions that market participants may use. The inputs used to determine the fair value of PBMSi were classified as Level 3 in the fair value hierarchy. By their nature, projections are uncertain. Potential events and circumstances, such as declining volumes, loss of client contracts and inability to acquire new clients could have an adverse effect on our assumptions. We will continue to monitor and evaluate the carrying values of goodwill and intangible assets of PBMSi, and should actual results differ significantly from our estimates and assumptions, additional non-cash impairment charges for goodwill could be recorded in 2013.

Stock-based compensation expense

We recognize compensation cost for stock-based awards based on the estimated fair value of the award, net of an estimated forfeiture rate. We recognize compensation costs for those shares expected to vest on a straight-line basis over the requisite service period.

We estimate the fair value of stock awards using a Black-Scholes valuation model or Monte Carlo simulation model. These models require assumptions be made regarding the expected stock price volatility, risk-free interest rate, expected life of the award and dividend yield. The estimate of stock price volatility is based on historical price changes of our stock. The risk-free interest rate is based on U.S. treasuries with a term equal to the expected life of the stock award. The expected life of the award and expected dividend yield are based on historical experience.

We believe that the valuation techniques and the approach utilized to develop the underlying assumptions are appropriate in estimating the fair value of our stock-based awards. If factors change and we use different assumptions, our stock-based compensation expense could be different in the future. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by employees who receive equity awards, and subsequent

events are not indicative of the reasonableness of the original estimates of fair value. In addition, we are required to estimate the expected forfeiture rate and recognize expense only for those shares expected to vest. If our actual forfeiture rate is materially different from our estimate, the stock-based compensation expense could be significantly different from what we have recorded in the current period.

Restructuring

We have undertaken restructuring actions which require management to utilize certain estimates related to the amount and timing of expenses. If the actual amounts differ from our estimates, the amount of the restructuring charges could be impacted. On a quarterly basis, we update our estimates of future remaining obligations and costs associated with all restructuring actions and compare these updated estimates to our current restructuring reserves, and make adjustments if necessary.

Loss contingencies

In the ordinary course of business, we are routinely defendants in, or party to, a number of pending and threatened legal actions. On a quarterly basis, we review the status of each significant matter and assess the potential financial exposure. If the potential loss from any claim or legal action is considered probable and can be reasonably estimated, we establish a liability for the estimated loss. The assessment of the ultimate outcome of each claim or legal action and the determination of the potential financial exposure requires significant judgment. Estimates of potential liabilities for claims or legal actions are based only on information that is available at that time. As additional information becomes available, we may revise our estimates, and these revisions could have a material impact on our results of operations and financial position.

Legal and Regulatory Matters

Legal

See Legal Proceedings in Item 3 for information regarding our legal proceedings.

Other regulatory matters

As is the case with other large corporations, we are continually under examination by tax authorities in the United States, other countries and local jurisdictions in which we have operations. The years under examination vary by jurisdiction. Except for a dispute arising out of a partnership investment, the IRS examinations of tax years prior to 2009 are now closed to audit. We have other domestic and international tax filings currently under examinations or subject to examination. Tax reserves have been established which we believe to be appropriate given the possibility of tax adjustments. However, the resolution of such matters could have a material impact on our results of operations, financial position and cash flows. See Note 8 to the Consolidated Financial Statements.

We are currently undergoing unclaimed property audits, which are being conducted by various state authorities. The property subject to review in this audit process generally includes unclaimed wages, vendor payments and customer receipts. State escheat laws generally require entities to report and remit abandoned and unclaimed property. Failure to timely report and remit the property can result in the assessments of additional escheat liability, interest and penalties. It is too early to determine the ultimate outcome of such audits.

Foreign Currency Exchange

Over the last three years, approximately one-third of our consolidated revenue was derived from operations outside of the United States. The functional currency for most of our foreign operations is the local currency. Our largest foreign currency exposure is to fluctuations in the British pound, Euro and Canadian dollar, and to a lesser extent, the Australian dollar. Changes in the value of the U.S. dollar relative to the currencies of countries in which we operate impact our reported assets, liabilities, revenue and expenses. Exchange rate fluctuations can also impact the settlement of intercompany receivables and payables between our subsidiaries in different countries. For the years ended December 31, 2012, 2011 and 2010, currency rate movements increased/(decreased) revenue by (1.2)%, 1.6% and 0.4%, respectively. Based on the revenue contribution from our international operations in 2012, a 1% increase in the value of the U.S. dollar would have reduced revenue by \$15 million.

We use foreign exchange contracts to mitigate the risk of foreign currency exchange rate fluctuations. We enter into foreign exchange contracts with only those financial institutions that meet stringent credit requirements as set forth in our derivative policy to mitigate our exposure to counterparty credit risk. We regularly review our credit exposure balances as well as the creditworthiness of our counterparties. Maximum risk of loss on these contracts is limited to the amount of the difference between the spot rate at the date of the contract delivery and the contracted rate. At December 31, 2012, the fair value of our outstanding foreign exchange contracts was a net asset of \$1 million.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to the impact of interest rate changes and foreign currency fluctuations due to our investing and funding activities and our operations denominated in different foreign currencies.

Our objective in managing our exposure to changing interest rates is to limit the volatility and impact of changing interest rates on earnings and cash flows. To achieve these objectives, we use a balanced mix of debt maturities and interest rate swaps that convert the fixed rate interest payments on certain debt issuances to variable rates. At December 31, 2012, approximately 17% of our debt was at variable rates, including the fixed rate debt that has been swapped to variable rate through interest rate swaps. A one-percentage point increase/decrease in the effective interest rate of our variable rate debt in 2012 would have reduced/increased 2012 pre-tax income by \$7 million.

Our objective in managing our exposure to foreign currency fluctuations is to reduce the volatility in earnings and cash flows associated with the effect of foreign exchange rate changes on transactions that are denominated in foreign currencies. Accordingly, we enter into various contracts, which change in value as foreign exchange rates change, to protect the value of external and intercompany transactions. The principal currencies actively hedged are the British pound, Canadian dollar and Euro.

We employ established policies and procedures governing the use of financial instruments to manage our exposure to such risks. We do not enter into foreign currency or interest rate transactions for speculative purposes. The gains and losses on these contracts offset changes in the value of the related exposures.

We utilize a "Value-at-Risk" (VaR) model to determine the potential loss in fair value from changes in market conditions. The VaR model utilizes a "variance/co-variance" approach and assumes normal market conditions, a 95% confidence level and a one-day holding period. The model includes all of our debt, interest rate derivative contracts and foreign exchange derivative contracts associated with forecasted transactions. The model excludes all anticipated transactions and firm commitments and account receivables and payables denominated in foreign currencies, which certain of these instruments are intended to hedge. The VaR model is a risk analysis tool and does not purport to represent actual losses in fair value that will be incurred by us, nor does it consider the potential effect of favorable changes in market factors.

During 2012 and 2011, our maximum potential one-day loss in fair value of our exposure to foreign exchange rates and interest rates, using the variance/co-variance technique described above, was not material.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See "Index to Consolidated Financial Statements and Supplemental Data" on page 33 of this Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the direction of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), we evaluated our disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) and internal control over financial reporting. Our CEO and CFO concluded that such disclosure controls and procedures were effective as of December 31, 2012, based on the evaluation of these controls and procedures required by paragraph (b) of Rule 13a-15 or Rule 15d-15 under the Exchange Act. 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 December 31, 2012.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with internal control policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2012. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. Management's assessment included evaluating the design of our internal control over financial reporting and testing of the operational effectiveness of our internal control over financial reporting. Based on its assessment, management concluded that, as of December 31, 2012, our internal control over financial reporting was effective based on the criteria issued by COSO in Internal Control - Integrated Framework.

The effectiveness of our internal control over financial reporting as of December 31, 2012 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears in this Form 10-K.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the three months ended December 31, 2012, that have materially affected, or are reasonably likely to materially affect, such internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

27

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information pertaining to our Directors and the members of the Audit Committee of the Board of Directors is incorporated herein by reference to the sections entitled "Compensation Committee Interlocks and Insider Participation," "Election of Directors," "Security Ownership of Directors and Executive Officers," "Beneficial Ownership," "Report of the Audit Committee" and "Corporate Governance" of the Definitive Proxy Statement to be filed with the Commission pursuant to Regulation 14A in connection with our Annual Meeting of Stockholders to be held on May 13, 2013. Such Definitive Proxy Statement will be filed with the Commission within 120 days of our fiscal year ended December 31, 2012. Our executive officers are as follows:

Name	Age	Title	Executive Officer Since
Marc B. Lautenbach	51	President and Chief Executive Officer	2012
Leslie Abi-Karam	54	Executive Vice President and President, Pitney Bowes Communications Solutions	2005
Gregory E. Buoncontri	65	Executive Vice President and Chief Information Officer	2000
Daniel J. Goldstein	51	Executive Vice President and Chief Legal and Compliance Officer	2010
Michael Monahan	52	Executive Vice President and Chief Financial Officer	2005
John E. O'Hara	54	Executive Vice President and President, Pitney Bowes Software Solutions	2011
Vicki A. O'Meara	55	Executive Vice President and President, Pitney Bowes Services Solutions	2008
Joseph H. Timko	52	Executive Vice President and Chief Technology and Strategy Officer	2010
Johnna G. Torson	62	Executive Vice President and Chief Human Resources Officer	1993

There is no family relationship among the above officers. All of the officers have served in various corporate, division or subsidiary positions with the Company for at least the past five years except as described below:

Mr. Lautenbach was appointed President and Chief Executive Officer of the Company in December 2012. Before joining Pitney Bowes, Mr. Lautenbach held numerous positions during his career at IBM, which he joined in 1985. His leadership roles at IBM included serving as Vice President Small and Medium Business in Asia Pacific from 1998-2000, General Manager of IBM Global Small and Medium Business from 2000-2005, General Manager of IBM North America from 2005-2010, and Managing Partner, North America, for IBM Global Business Services.

Mr. Goldstein re-joined the Company in October 2010 as Executive Vice President and Chief Legal and Compliance Officer. From September 2008 until October 2010, Mr. Goldstein served as the Senior Vice President and General Counsel for GAF Materials Corporation, International Specialty Products, and ISP Minerals, a group of privately held, commonly owned companies in the building materials, chemicals and mining industries. Mr. Goldstein originally joined Pitney Bowes in 1999 as Associate General Counsel and was appointed Vice President, Deputy General Counsel in 2005.

Ms. O'Meara joined the Company in June 2008 as Executive Vice President and Chief Legal and Compliance Officer. In July 2010, Ms. O'Meara became Executive Vice President and President, Pitney Bowes Management Services & Government and Postal Affairs, relinquishing her responsibilities as the Chief Legal and Compliance Officer. Prior to joining the Company, she was President - U.S. Supply Chain Solutions for Ryder System, Inc., a leading transportation and supply chain solutions company. Ms. O'Meara joined Ryder System, Inc. as Executive Vice President and General Counsel in June 1997.

Mr. Timko joined the Company in February 2010 as Executive Vice President and Chief Strategy and Innovation Officer. Prior to joining the Company, Mr. Timko was a partner in the technology / telecom and industrial sector practice at McKinsey & Company.

Code of Ethics

We have adopted a Code of Ethics that applies to all of our directors, officers and employees, including our principal executive, financial and accounting officers, or persons performing similar functions. Our Code of Ethics is posted on our corporate governance website located at www.pb.com/Our-Company/Leadership-and-Governance/Corporate-Governance. In addition, amendments to the Code of Ethics and any grant of a waiver from a provision of the Code of Ethics requiring disclosure under applicable SEC rules will be disclosed at the same location as the Code of Ethics.

ITEM 11. EXECUTIVE COMPENSATION

The sections entitled "Directors' Compensation," "Compensation Discussion and Analysis", and "Executive Compensation Tables and Related Narrative" of our Definitive Proxy Statement to be filed with the Commission within 120 days of our fiscal year ended December 31, 2012 are incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

EQUITY COMPENSATION PLAN INFORMATION TABLE

The following table provides information as of December 31, 2012 regarding the number of shares of common stock that may be issued under our equity compensation plans.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (a)
Equity compensation plans approved by security holders	15,760,550	\$32.93	16,644,439
Equity compensation plans not approved by security holders	—	—	—
Total	15,760,550	\$32.93	16,644,439

The sections entitled "Security Ownership of Directors and Executive Officers" and "Beneficial Ownership" of our Definitive Proxy Statement to be filed with the Commission within 120 days of our fiscal year ended December 31, 2012 are incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The sections entitled "Corporate Governance" and "Certain Relationships and Related-Person Transactions" of our Definitive Proxy Statement to be filed with the Commission within 120 days of our fiscal year ended December 31, 2012 are incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The section entitled "Principal Accountant Fees and Services" of our Definitive Proxy Statement to be filed with the Commission within 120 days of our fiscal year ended December 31, 2012 are incorporated herein by reference.

PART IV

ITEM 15. - EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

- (a) 1. Financial statements - see "Index to Consolidated Financial Statements and Supplemental Data" on page 33 of this Form 10-K.
2. Financial statement schedules - see "Index to Consolidated Financial Statements and Supplemental Data" on page 33 of this Form 10-K.
3. Index to Exhibits

Reg. S-K exhibits	Description	Status or incorporation by reference
3(a)	Restated Certificate of Incorporation of Pitney Bowes Inc.	Incorporated by reference to Exhibit 3(c) to Form 8-K as filed with the Commission on May 12, 2011 (Commission file number 1-3579)
3(b)	Pitney Bowes Inc. Amended and Restated By-laws (effective May 10, 2011)	Incorporated by reference to Exhibit 3(d) to Form 8-K as filed with the Commission on May 12, 2011 (Commission file number 1-3579)
4(a)	Form of Indenture between the Company and SunTrust Bank, as Trustee	Incorporated by reference to Exhibit 4.4 to Registration Statement on Form S-3 (No. 333-72304) as filed with the Commission on October 26, 2001
4(b)	Supplemental Indenture No. 1 dated April 18, 2003 between the Company and SunTrust Bank, as Trustee	Incorporated by reference to Exhibit 4.1 to Form 8-K as filed with the Commission on August 18, 2004
4(c)	Form of Indenture between the Company and Citibank, N.A., as Trustee, dated as of February 14, 2005	Incorporated by reference to Exhibit 4(a) to Registration Statement on Form S-3ASR (No. 333-151753) as filed with the Commission on June 18, 2008.
4(d)	First Supplemental Indenture, by and among Pitney Bowes Inc., The Bank of New York, and Citibank, N.A., to the Indenture, dated as of February 14, 2005, by and between the Company and Citibank	Incorporated by reference to Exhibit 4.1 to Form 8-K as filed with the Commission on October 24, 2007 (Commission file number 1-3579)
10(a) *	Retirement Plan for Directors of Pitney Bowes Inc.	Incorporated by reference to Exhibit 10(a) to Form 10-K as filed with the Commission on March 30, 1993 (Commission file number 1-3579)
10(b) *	Pitney Bowes Inc. Directors' Stock Plan (as amended and restated 1999)	Incorporated by reference to Exhibit (i) to Form 10-K as filed with the Commission on March 30, 2000 (Commission file number 1-3579)
10(b.1) *	Pitney Bowes Inc. Directors' Stock Plan (Amendment No. 1, effective as of May 12, 2003)	Incorporated by reference to Exhibit 10 to Form 10-Q as filed with the Commission on August 11, 2003 (Commission file number 1-3579)
10(b.2) *	Pitney Bowes Inc. Directors' Stock Plan (Amendment No. 2 effective as of May 1, 2007)	Incorporated by reference to Exhibit 10(b.2) to Form 10-K as filed with the Commission on March 1, 2007 (Commission file number 1-3579)
10(c) *	Pitney Bowes Stock Plan (as amended and restated as of January 1, 2002)	Incorporated by reference to Annex 1 to the Definitive Proxy Statement for the 2002 Annual Meeting of Stockholders filed with the Commission on March 26, 2002 (Commission file number 1-3579)
10(d) *		

Edgar Filing: PITNEY BOWES INC /DE/ - Form 10-K

	Pitney Bowes Inc. 2007 Stock Plan (as amended November 7, 2009)	Incorporated by reference to Exhibit (v) to Form 10-K as filed with the Commission on February 26, 2010 (Commission file number 1-3579)
10(e) *	Pitney Bowes Inc. Key Employees' Incentive Plan (as amended and restated October 1, 2007) (as amended November 7, 2009)	Incorporated by reference to Exhibit (iv) to Form 10-K as filed with the Commission on February 26, 2010 (Commission file number 1-3579)
10(f) *	Pitney Bowes Severance Plan (as amended and restated as of January 1, 2008)	Incorporated by reference to Exhibit 10(e) to Form 10-K as filed with the Commission on February 29, 2008 (Commission file number 1-3579)
10(g) *	Pitney Bowes Senior Executive Severance Policy (as amended and restated as of January 1, 2008)	Incorporated by reference to Exhibit 10(f) to Form 10-K as filed with the Commission on February 29, 2008 (Commission file number 1-3579)
10(h) *	Pitney Bowes Inc. Deferred Incentive Savings Plan for the Board of Directors, as amended and restated effective January 1, 2009	Incorporated by reference to Exhibit 10(g) to Form 10-K as filed with the Commission on February 26, 2009 (Commission file number 1-3579)
10(i) *	Pitney Bowes Inc. Deferred Incentive Savings Plan as amended and restated effective January 1, 2009	Incorporated by reference to Exhibit 10(h) to Form 10-k as filed with the Commission on February 26, 2009 (Commission file number 1-3579)

Edgar Filing: PITNEY BOWES INC /DE/ - Form 10-K

Reg. S-K exhibits	Description	Status or incorporation by reference
10(j) *	Pitney Bowes Inc. 1998 U.K. S.A.Y.E. Stock Option Plan	Incorporated by reference to Annex II to the Definitive Proxy Statement for the 2006 Annual Meeting of Stockholders filed with the Commission on March 23, 2006 (Commission file number 1-3579)
10(k) *	Form of Long Term Incentive Award Agreement	Exhibit 10(k)
10(l) *	Compensation arrangement for Vicki O'Meara dated June 1, 2010	Incorporated by reference to Exhibit 10(a) to Form 10-Q as filed with the Commission on August 5, 2010 (Commission file number 1-3579)
12	Computation of ratio of earnings to fixed charges	Exhibit 12
21	Subsidiaries of the registrant	Exhibit 21
23	Consent of experts and counsel	Exhibit 23
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.	Exhibit 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.	Exhibit 31.2
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350	Exhibit 32.1
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350	Exhibit 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	

* The Exhibits identified above with an asterisk (*) are management contracts or compensatory plans or arrangements.

The Company has outstanding certain other long-term indebtedness. Such long-term indebtedness does not exceed 10% of the total assets of the Company; therefore, copies of instruments defining the rights of holders of such indebtedness are not included as exhibits. The Company agrees to furnish copies of such instruments to the SEC upon request.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 22, 2013 PITNEY BOWES INC.
Registrant

By: /s/ Marc B. Lautenbach
Marc B. Lautenbach
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Marc B. Lautenbach Marc B. Lautenbach	President and Chief Executive Officer - Director	February 22, 2013
/s/ Michael Monahan Michael Monahan	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 22, 2013
/s/ Steven J. Green Steven J. Green	Vice President-Finance and Chief Accounting Officer (Principal Accounting Officer)	February 22, 2013
/s/ Michael I. Roth Michael I. Roth	Non-Executive Chairman - Director	February 22, 2013
/s/ Rodney C. Adkins Rodney C. Adkins	Director	February 22, 2013
/s/ Linda G. Alvarado Linda G. Alvarado	Director	February 22, 2013
/s/ Anne M. Busquet Anne M. Busquet	Director	February 22, 2013
/s/ Roger Fradin Roger Fradin	Director	February 22, 2013
/s/ Anne Sutherland Fuchs Anne Sutherland Fuchs	Director	February 22, 2013
/s/ S. Douglas Hutcheson S. Douglas Hutcheson	Director	February 22, 2013
/s/ James H. Keyes James H. Keyes	Director	February 22, 2013
/s/ Eduardo R. Menascé Eduardo R. Menascé	Director	February 22, 2013
/s/ David L. Shedlarz David L. Shedlarz	Director	February 22, 2013
/s/ David B. Snow, Jr. David B. Snow, Jr.	Director	February 22, 2013
<hr/> Robert E. Weissman	Director	February 22, 2013

PITNEY BOWES INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

	Page Number
<u>Report of Independent Registered Public Accounting Firm</u>	<u>34</u>
Consolidated Financial Statements of Pitney Bowes Inc.	
<u>Consolidated Statements of Income for the Years Ended December 31, 2012, 2011 and 2010</u>	<u>35</u>
<u>Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2012, 2011 and 2010</u>	<u>36</u>
<u>Consolidated Balance Sheets at December 31, 2012 and 2011</u>	<u>37</u>
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2012, 2011 and 2010</u>	<u>38</u>
<u>Consolidated Statements of Stockholders' Equity (Deficit) for the Years Ended December 31, 2012, 2011 and 2010</u>	<u>39</u>
<u>Notes to Consolidated Financial Statements</u>	<u>40</u>
Financial Statement Schedule	
<u>Schedule II - Valuation and Qualifying Accounts and Reserves</u>	<u>86</u>

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of Pitney Bowes Inc.

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Pitney Bowes Inc. and its subsidiaries at December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Stamford, Connecticut

February 22, 2013

34

PITNEY BOWES INC.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)

	Years Ended December 31,		
	2012	2011	2010
Revenue:			