PITNEY BOWES INC /DE/
Form 10-Q
May 05, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2015
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________________ to ________________
Commission file number: 1-3579
PITNEY BOWES INC.
(Exact name of registrant as specified in its charter)

Delaware	06-0495050
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3001 Summer Street, Stamford, Connecticut	06926
(Address of principal executive offices)	(Zip Code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of April 29, 2015, 201,683,304 shares of common stock, par value $1 per share, of the registrant were outstanding.

PITNEY BOWES INC.
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PART I. FINANCIAL INFORMATION
Item 1: Financial Statements
PITNEY BOWES INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited; in thousands, except per share data)

	Three Months Ended March 31,	
	2015	2014
Revenue:		
Equipment sales	$165,964	$189,056
Supplies	73,368	79,517
Software	86,357	91,555
Rentals	113,997	123,579
Financing	105,630	110,050
Support services	139,558	158,252
Business services	205,807	185,488
Total revenue	890,681	937,497
Costs and expenses:		
Cost of equipment sales	75,013	82,534
Cost of supplies	22,659	24,154
Cost of software	29,864	30,164
Cost of rentals	20,701	25,444
Financing interest expense	18,770	19,653
Cost of support services	83,599	98,981
Cost of business services	139,919	128,936
Selling, general and administrative	314,529	351,375
Research and development	26,048	26,192
Restructuring charges, net	(81)	9,841
Interest expense, net	24,064	24,064
Other expense	—	61,657
Total costs and expenses	755,085	882,995
Income from continuing operations before income taxes	135,596	54,502
Provision for income taxes	50,547	8,036
Income from continuing operations	85,049	46,466
Income from discontinued operations, net of tax	157	2,801
Net income	85,206	49,267
Less: Preferred stock dividends attributable to noncontrolling interests	4,594	4,594
Net income attributable to Pitney Bowes Inc.	$80,612	$44,673
Amounts attributable to common stockholders:		
Net income from continuing operations	$80,455	$41,872
Income from discontinued operations, net of tax	157	2,801
Net income attributable to Pitney Bowes Inc.	$80,612	$44,673
Basic earnings per share attributable to common stockholders:		
Continuing operations	$0.40	$0.21
Discontinued operations	—	0.01
Net income attributable to Pitney Bowes Inc.	$0.40	$0.22
Diluted earnings per share attributable to common stockholders:		

Continuing operations	$0.40	$0.21
Discontinued operations	—	0.01
Net income attributable to Pitney Bowes Inc.	$0.40	$0.22
Dividends declared per share of common stock	$0.1875	$0.1875

See Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended March 31,	
	2015	2014
Net income	$85,206	$49,267
Less: Preferred stock dividends attributable to noncontrolling interests	4,594	4,594
Net income attributable to Pitney Bowes Inc.	80,612	44,673
Other comprehensive (loss) income, net of tax:		
Foreign currency translations	(72,179)	(7,351)
Net unrealized gain on cash flow hedges, net of tax of $341 and $238, respectively	549	373
Net unrealized gain on investment securities, net of tax of $1,012 and $1,204, respectively	1,730	2,059
Amortization of pension and postretirement costs, net of tax of $4,167 and $3,641, respectively	7,409	6,142
Other comprehensive (loss) income	(62,491)	1,223
Comprehensive income attributable to Pitney Bowes Inc.	$18,121	$45,896

See Notes to Condensed Consolidated Financial Statements

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

	March 31, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$871,687	$1,079,145
Short-term investments	41,741	32,121
Accounts receivable (net of allowance of $10,166 and $10,742, respectively)	379,578	413,737
Short-term finance receivables (net of allowance of $17,422 and $19,108, respectively)	962,073	1,000,304
Inventories	95,029	84,827
Current income taxes	36,743	40,542
Other current assets and prepayments	67,881	57,173
Assets held for sale	43,750	52,271
Total current assets	2,498,482	2,760,120
Property, plant and equipment, net	288,680	285,091
Rental property and equipment, net	193,369	200,380
Long-term finance receivables (net of allowance of $7,479 and $9,002, respectively)	775,223	819,721
Goodwill	1,635,171	1,672,721
Intangible assets, net	72,172	82,173
Non-current income taxes	85,259	96,377
Other assets	561,087	569,110
Total assets	$6,109,443	$6,485,693
LIABILITIES, NONCONTROLLING INTERESTS AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$1,354,876	$1,558,731
Current income taxes	102,347	90,167
Current portion of long-term debt and notes payable	520,914	324,879
Advance billings	409,381	386,846
Total current liabilities	2,387,518	2,360,623
Deferred taxes on income	66,775	64,839
Tax uncertainties and other income tax liabilities	88,381	86,127
Long-term debt	2,554,317	2,927,127
Other non-current liabilities	661,147	673,348
Total liabilities	5,758,138	6,112,064
Noncontrolling interests (Preferred stockholders’ equity in subsidiaries)	296,370	296,370
Commitments and contingencies (See Note 14)		
Stockholders’ equity:		
Cumulative preferred stock, $50 par value, 4% convertible	1	1
Cumulative preference stock, no par value, $2.12 convertible	543	548
Common stock, $1 par value (480,000,000 shares authorized; 323,337,912 shares issued)	323,338	323,338
Additional paid-in capital	152,869	178,852
Retained earnings	4,940,505	4,897,708

Accumulated other comprehensive loss	(908,647)	(846,156)
Treasury stock, at cost (121,671,755 and 122,309,948 shares, respectively)	(4,453,674)	(4,477,032)
Total stockholders' equity	54,935	77,259
Total liabilities, noncontrolling interests and stockholders' equity	$6,109,443	$6,485,693

See Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended March 31,	
	2015	2014
Cash flows from operating activities:		
Net income	$85,206	$49,267
Restructuring payments	(21,874)	(18,937)
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on disposal of businesses	821	539
Depreciation and amortization	42,496	44,595
Stock-based compensation	5,036	3,886
Restructuring charges, net	(81)	9,841
Changes in operating assets and liabilities:		
Decrease in accounts receivable	25,406	40,135
Decrease in finance receivables	64,590	52,857
Increase in inventories	(12,029)	(447)
Increase in other current assets and prepayments	(13,392)	(4,020)
Decrease in accounts payable and accrued liabilities	(142,957)	(114,327)
Increase in current and non-current income taxes	30,269	5,494
Increase in advance billings	30,971	36,523
Other, net	9,425	210
Net cash provided by operating activities	103,887	105,616
Cash flows from investing activities:		
Purchases of available-for-sale securities	(65,297)	(401,205)
Proceeds from sales/maturities of available-for-sale securities	65,411	381,268
Capital expenditures	(43,908)	(30,143)
Net payments for divested businesses	(2,522)	(539)
Change in reserve account deposits	(20,077)	(15,159)
Other investing activities	1,953	6,690
Net cash used in investing activities	(64,440)	(59,088)
Cash flows from financing activities:		
Proceeds from the issuance of debt, net of fees and discounts of $7,475 in 2014	—	492,525
Principal payments of long-term debt	(274,879)	(499,850)
Increase in notes payable, net	100,000	—
Dividends paid to stockholders	(37,804)	(37,975)
Proceeds from the issuance of common stock under employee stock-based compensation plans	713	3,099
Purchase of subsidiary shares from noncontrolling interest	—	(7,718)
Net cash used in financing activities	(211,970)	(49,919)
Effect of exchange rate changes on cash and cash equivalents	(34,935)	(1,073)
Decrease in cash and cash equivalents	(207,458)	(4,464)
Cash and cash equivalents at beginning of period	1,079,145	907,806
Cash and cash equivalents at end of period	$871,687	$903,342
Cash interest paid	$68,187	$74,374
Cash income tax payments, net of refunds	$21,197	$5,649

See Notes to Condensed Consolidated Financial Statements

PITNEY BOWES INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

1. Description of Business and Basis of Presentation

Pitney Bowes Inc. and its subsidiaries (we, us, our or the Company) is a global technology company offering innovative products and solutions that enable commerce in the areas of customer information management, location intelligence, customer engagement, shipping and mailing, and global ecommerce.

We have prepared the accompanying unaudited Condensed Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In addition, the December 31, 2014 Condensed Consolidated Balance Sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. In management's opinion, all adjustments, consisting only of normal recurring adjustments, considered necessary to fairly state our financial position, results of operations and cash flows for the periods presented have been included. Operating results for the periods presented are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2015.

These statements should be read in conjunction with the financial statements and notes thereto included in our Annual Report to Stockholders on Form 10-K for the year ended December 31, 2014 (2014 Annual Report).

New Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. This standard is effective for fiscal periods beginning after December 15, 2015. Early adoption is permitted. We do not believe this standard will have a significant impact on our consolidated financial statements or disclosures.

In January 2015, the FASB issued ASU 2015-01, Income Statement - Extraordinary and Unusual Items, which removes the concept of extraordinary items, thereby eliminating the need for companies to assess transactions for extraordinary treatment. The standard retained the presentation and disclosure requirements for items that are unusual in nature and/or infrequent in occurrence. The standard is effective for fiscal periods beginning after December 15, 2015. Early adoption is permitted. We do not believe this standard will have a significant impact on our consolidated financial statements or disclosures.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. The standard requires companies to recognize revenue for the transfer of goods and services to customers in amounts that reflect the consideration the company expects to receive in exchange for those goods and services. The standard will also result in enhanced disclosures about revenue. This standard is currently effective for fiscal periods beginning after December 15, 2016; however, in April 2015, the FASB proposed a one-year deferral of the effective date. The standard can be adopted either retrospectively or as a cumulative-effect adjustment and early adoption is prohibited. We are currently assessing the impact this standard will have on our consolidated financial statements and disclosures.

PITNEY BOWES INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

2. Segment Information
Our business is organized around three distinct sets of solutions -- Small and Medium Business (SMB) Solutions, Enterprise Business Solutions and Digital Commerce Solutions (DCS). The principal products and services of each of our reportable segments are as follows:

Small & Medium Business Solutions:
North America Mailing: Includes the revenue and related expenses from the sale, rental, financing and servicing of mailing equipment and supplies for small and medium businesses to efficiently create mail and evidence postage in the U.S. and Canada.
International Mailing: Includes the revenue and related expenses from the sale, rental, financing and servicing of mailing equipment and supplies for small and medium businesses to efficiently create mail and evidence postage in areas outside the U.S. and Canada.

Enterprise Business Solutions:
Production Mail: Includes the worldwide revenue and related expenses from the sale of production mail inserting and sortation equipment, high-speed production print systems, supplies and related support services to large enterprise clients to process inbound and outbound mail.
Presort Services: Includes revenue and related expenses from presort mail services for our large enterprise clients to qualify large mail volumes for postal worksharing discounts.

Digital Commerce Solutions:
Digital Commerce Solutions: Includes the worldwide revenue and related expenses from (i) the sale of non-equipment-based mailing, customer information engagement, location intelligence and customer engagement solutions and related support services; (ii) shipping and global ecommerce solutions; and (iii) direct marketing services for targeted clients.
We determine segment earnings before interest and taxes (EBIT) by deducting the related costs and expenses attributable to the segment from segment revenue. Segment EBIT excludes interest, taxes, general corporate expenses, restructuring charges and other items, which are not allocated to a particular business segment. Management uses segment EBIT to measure profitability and performance at the segment level. Management believes segment EBIT provides a useful measure of our operating performance and underlying trends of the businesses. Segment EBIT may not be indicative of our overall consolidated performance and therefore, should be read in conjunction with our consolidated results of operations.
Revenue and EBIT by business segment is presented below:

	Revenue Three Months Ended March 31,	
	2015	2014
North America Mailing	$361,874	$381,027
International Mailing	116,173	153,268
Small & Medium Business Solutions	478,047	534,295
Production Mail	99,503	105,216
Presort Services	121,531	116,491
Enterprise Business Solutions	221,034	221,707
Digital Commerce Solutions	191,600	181,495
Total revenue	$890,681	$937,497

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PITNEY BOWES INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

	EBIT	
	Three Months Ended March 31,	
	2015	2014
North America Mailing	$163,665	$160,338
International Mailing	11,724	24,819
Small & Medium Business Solutions	175,389	185,157
Production Mail	9,032	7,737
Presort Services	27,494	23,896
Enterprise Business Solutions	36,526	31,633
Digital Commerce Solutions	15,895	9,531
Total EBIT	227,810	226,321
Reconciling items:		
Interest, net	(42,834)	(43,717)
Unallocated corporate expenses	(49,461)	(56,604)
Restructuring charges, net	81	(9,841)
Other expense	—	(61,657)
Income from continuing operations before income taxes	$135,596	$54,502

3. Discontinued Operations and Assets Held For Sale

Discontinued Operations
Income from discontinued operations for the three months ended March 31, 2015 consisted of post-closing and purchase price adjustments in connection with the sale of our Management Services business in 2014.
The table below shows selected financial information for discontinued operations for three months ended March 31, 2014:

	Three Months Ended March 31, 2014				
	PBMS	IMS	Nordic furniture business	DIS	Total
Revenue	$—	$—	$—	$16,291	$16,291
(Loss) income from operations before taxes	$(246)	$308	$345	$2,411	$2,818
Gain on sale	130	1,163	—	—	1,293
(Loss) income before taxes	(116)	1,471	345	2,411	4,111
Tax (benefit) provision	(21)	529	97	705	1,310
(Loss) income from discontinued operations	$(95)	$942	$248	$1,706	$2,801

Assets Held for Sale
Assets held for sale at March 31, 2015 and December 31, 2014 includes the fair value of our former corporate headquarters building. The fair value of the building was determined as the estimated selling price less the costs to sell. Assets held for sale at December 31, 2014 also included the value of a lease portfolio, which was sold in January 2015.

PITNEY BOWES INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

4. Earnings per Share
The calculations of basic and diluted earnings per share are presented below:

	Three Months Ended March 31,	
	2015	2014
Numerator:		
Net income from continuing operations	$80,455	$41,872
Income from discontinued operations	157	2,801
Net income - Pitney Bowes Inc. (numerator for diluted EPS)	80,612	44,673
Less: Preference stock dividend	11	14
Income attributable to common stockholders (numerator for basic EPS)	$80,601	$44,659
Denominator (in thousands):		
Weighted-average shares used in basic EPS	201,337	202,339
Effect of dilutive shares:		
Conversion of Preferred stock and Preference stock	334	352
Employee stock plans	1,008	1,194
Weighted-average shares used in diluted EPS	202,679	203,885
Basic earnings per share:		
Continuing operations	$0.40	$0.21
Discontinued operations	—	0.01
Net income	$0.40	$0.22
Diluted earnings per share:		
Continuing operations	$0.40	$0.21
Discontinued operations	—	0.01
Net income	$0.40	$0.22
Anti-dilutive shares not used in calculating diluted weighted-average shares (in thousands):	7,779	9,411

5. Inventories
Inventories are stated at the lower of cost or market. Cost is determined on the last-in, first-out (LIFO) basis for most U.S. inventories and on the first-in, first-out (FIFO) basis for most non-U.S. inventories. Inventories at March 31, 2015 and December 31, 2014 consisted of the following:

	March 31, 2015	December 31, 2014
Raw materials and work in process	$36,982	$37,175
Supplies and service parts	42,818	33,760
Finished products	28,692	26,992
Inventory at FIFO cost	108,492	97,927
Excess of FIFO cost over LIFO cost	(13,463)	(13,100)
Total inventory, net	$95,029	$84,827

PITNEY BOWES INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

6. Finance Assets

Finance Receivables

Finance receivables are comprised of sales-type lease receivables and unsecured revolving loan receivables. Sales-type lease receivables are generally due in monthly, quarterly or semi-annual installments over periods ranging from three to five years. Loan receivables arise primarily from financing services offered to our customers for postage and supplies. Loan receivables are generally due each month; however, customers may rollover outstanding balances. Interest is recognized on loan receivables using the effective interest method and related annual fees are initially deferred and recognized ratably over the annual period covered. Customer acquisition costs are expensed as incurred.
Finance receivables at March 31, 2015 and December 31, 2014 consisted of the following:

	March 31, 2015			December 31, 2014		
	North America	International	Total	North America	International	Total
Sales-type lease receivables						
Gross finance receivables	$ 1,254,166	$ 323,490	$ 1,577,656	$ 1,286,624	$ 366,669	$ 1,653,293
Unguaranteed residual values	102,322	16,289	118,611	105,205	18,291	123,496
Unearned income	(266,176)	(73,869)	(340,045)	(270,196)	(83,110)	(353,306)
Allowance for credit losses	(8,465)	(4,066)	(12,531)	(10,281)	(5,129)	(15,410)
Net investment in sales-type lease receivables	1,081,847	261,844	1,343,691	1,111,352	296,721	1,408,073
Loan receivables						
Loan receivables	359,174	46,801	405,975	376,987	47,665	424,652
Allowance for credit losses	(10,732)	(1,638)	(12,370)	(10,912)	(1,788)	(12,700)
Net investment in loan receivables	348,442	45,163	393,605	366,075	45,877	411,952
Net investment in finance receivables	$ 1,430,289	$ 307,007	$ 1,737,296	$ 1,477,427	$ 342,598	$ 1,820,025

Allowance for Credit Losses and Aging of Receivables

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

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

PITNEY BOWES INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

Activity in the allowance for credit losses for the three months ended March 31, 2015 and 2014 was as follows:

	Sales-type Lease Receivables		Loan Receivables		
	North America	International	North America	International	Total
Balance at January 1, 2015	$10,281	$5,129	$10,912	$1,788	$28,110
Amounts charged to expense	16	(270)	2,431	214	2,391
Write-offs and other	(1,832)	(793)	(2,611)	(364)	(5,600)
Balance at March 31, 2015	$8,465	$4,066	$10,732	$1,638	$24,901

	Sales-type Lease Receivables		Loan Receivables		
	North America	International	North America	International	Total
Balance at January 1, 2014	$14,165	$9,703	$11,165	$1,916	$36,949
Amounts charged to expense	1,052	169	2,492	361	4,074
Write-offs and other	(2,310)	(93)	(2,663)	(336)	(5,402)
Balance at March 31, 2014	$12,907	$9,779	$10,994	$1,941	$35,621

Aging of Receivables

The aging of gross finance receivables at March 31, 2015 and December 31, 2014 was as follows:

	March 31, 2015				
	Sales-type Lease Receivables		Loan Receivables		
	North America	International	North America	International	Total
1 - 30 days	$1,174,381	$301,905	$344,225	$44,992	$1,865,503
31 - 60 days	29,268	7,993	7,769	1,117	46,147
61 - 90 days	20,723	6,699	3,312	306	31,040
> 90 days	29,794	6,893	3,868	386	40,941
Total	$1,254,166	$323,490	$359,174	$46,801	$1,983,631
Past due amounts > 90 days					
Still accruing interest	$9,818	$2,608	$—	$—	$12,426
Not accruing interest	19,976	4,285	3,868	386	28,515
Total	$29,794	$6,893	$3,868	$386	$40,941

	December 31, 2014				
	Sales-type Lease Receivables		Loan Receivables		
	North America	International	North America	International	Total
1 - 30 days	$1,217,623	$347,236	$359,672	$45,678	$1,970,209
31 - 60 days	23,242	6,207	9,245	1,201	39,895
61 - 90 days	24,198	4,494	3,498	413	32,603
> 90 days	21,561	8,732	4,572	373	35,238
Total	$1,286,624	$366,669	$376,987	$47,665	$2,077,945
Past due amounts > 90 days					
Still accruing interest	$5,931	$2,517	$—	$—	$8,448
Not accruing interest	15,630	6,215	4,572	373	26,790
Total	$21,561	$8,732	$4,572	$373	$35,238

PITNEY BOWES INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

Credit Quality

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

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

The table below shows the North America portfolio at March 31, 2015 and December 31, 2014 by relative risk class (low, medium, high) based on the relative scores of the accounts within each class. The relative scores are determined based on a number of factors, including the company type, ownership structure, payment history and financial information. A fourth class is shown for accounts that are not scored. Absence of a score is not indicative of the credit quality of the account. The degree of risk, as defined by the third party, refers to the relative risk that an account in the next 12 month period may become delinquent.

- Low risk accounts are companies with very good credit scores and are considered to approximate the top 30% of all commercial borrowers.
- Medium risk accounts are companies with average to good credit scores and are considered to approximate the middle 40% of all commercial borrowers.
- High risk accounts are companies with poor credit scores, are delinquent or are at risk of becoming delinquent and are considered to approximate the bottom 30% of all commercial borrowers.

	March 31, 2015	December 31, 2014
Sales-type lease receivables		
Low	$934,494	$936,979
Medium	220,809	230,799
High	44,232	45,202
Not Scored	54,631	73,644
Total	$1,254,166	$1,286,624
Loan receivables		
Low	$246,071	$259,436
Medium	91,725	96,243
High	10,730	10,913
Not Scored	10,648	10,395
Total	$359,174	$376,987

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7. Intangible Assets and Goodwill
Intangible Assets
Intangible assets consisted of the following:

	March 31, 2015			December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	$329,064	$(262,406)	$66,658	$337,438	$(263,121)	$74,317
Supplier relationships	29,000	(28,638)	362	29,000	(27,913)	1,087
Software & technology	157,430	(152,701)	4,729	160,825	(154,610)	6,215
Trademarks & other	31,045	(30,622)	423	33,079	(32,525)	554
Total intangible assets	$546,539	$(474,367)	$72,172	$560,342	$(478,169)	$82,173

Amortization expense for intangible assets was $8 million and $6 million for the three months ended March 31, 2015 and 2014, respectively.

Future amortization expense for intangible assets as of March 31, 2015 was as follows:

Remaining for year ending December 31, 2015	$20,228
Year ending December 31, 2016	21,512
Year ending December 31, 2017	10,720
Year ending December 31, 2018	8,124
Year ending December 31, 2019	5,066
Thereafter	6,522
Total	$72,172

Actual amortization expense may differ from the amounts above due to, among other things, fluctuations in foreign currency exchange rates, impairments, acquisitions and accelerated amortization.
Goodwill
The changes in the carrying value of goodwill for the three months ended March 31, 2015 were as follows:

	Gross value before accumulated impairment	Accumulated impairment	December 31, 2014	Foreign currency translation	March 31, 2015
North America Mailing	$309,448	$—	$ 309,448	$(13,871)	$295,577
International Mailing	162,146	—	162,146	(12,110)	150,036
Small & Medium Business Solutions	471,594	—	471,594	(25,981)	445,613
Production Mail	110,837	—	110,837	(5,337)	105,500
Presort Services	195,140	—	195,140	—	195,140
Enterprise Business Solutions	305,977	—	305,977	(5,337)	300,640
Digital Commerce Solutions	895,150	—	895,150	(6,232)	888,918
Total goodwill	$1,672,721	$—	$ 1,672,721	$(37,550)	$1,635,171

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8. Fair Value Measurements and Derivative Instruments

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

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

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

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

The following tables show, by level within the fair value hierarchy, our financial assets and liabilities that are accounted for at fair value on a recurring basis at March 31, 2015 and December 31, 2014. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect its placement within the fair value hierarchy.

	March 31, 2015			
	Level 1	Level 2	Level 3	Total
Assets:				
Investment securities				
Money market funds / commercial paper	$305,145	$222,614	$—	$527,759
Equity securities	—	27,625	—	27,625
Commingled fixed income securities	—	23,868	—	23,868
U.S. Government, federal agencies and municipalities	114,396	22,399	—	136,795
Corporate notes and bonds	—	66,308	—	66,308
Mortgage-backed / asset-backed securities	—	165,243	—	165,243
Derivatives				
Foreign exchange contracts	—	2,834	—	2,834
Total assets	$419,541	$530,891	$—	$950,432
Liabilities:				
Derivatives				
Foreign exchange contracts	$—	$(4,705)	$—	$(4,705)
Total liabilities	$—	$(4,705)	$—	$(4,705)

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	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Assets:				
Investment securities				
Money market funds / commercial paper	$505,643	$193,986	$—	$699,629
Equity securities	—	27,409	—	27,409
Commingled fixed income securities	—	24,077	—	24,077
U.S. Government, federal agencies and municipalities	113,974	24,006	—	137,980
Corporate notes and bonds	—	67,448	—	67,448
Mortgage-backed / asset-backed securities	—	156,614	—	156,614
Derivatives				
Foreign exchange contracts	—	1,386	—	1,386
Total assets	$619,617	$494,926	$—	$1,114,543
Liabilities:				
Derivatives				
Foreign exchange contracts	$—	$(2,988)	$—	$(2,988)
Total liabilities	$—	$(2,988)	$—	$(2,988)

Investment Securities

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

- Money market funds / commercial paper: Money market funds typically invest in government securities, certificates of deposit, commercial paper and other highly liquid, low-risk securities. Money market funds are principally used for overnight deposits and are classified as Level 1 when unadjusted quoted prices in active markets are available and as Level 2 when they are not actively traded on an exchange. Direct investments in commercial paper are not listed on an exchange in an active market and are classified as Level 2.
- Equity securities: Equity securities are comprised of mutual funds investing in U.S. and foreign common stock. These mutual funds are classified as Level 2 as they are not separately listed on an exchange.
- Commingled fixed income securities: Mutual funds that invest in a variety of fixed income securities including securities of the U.S. government and its agencies, corporate debt, mortgage-backed securities and asset-backed securities. The value of the funds is based on the market value of the underlying investments owned by each fund, minus its liabilities, divided by the number of shares outstanding, as reported by the fund manager. These commingled funds are not listed on an exchange in an active market and are classified as Level 2.
- U.S. Government, federal agencies and municipalities: Securities are classified as Level 1 where active, high volume trades for identical securities exist. Valuation adjustments are not applied to these securities. Securities valued using quoted market prices for similar securities or benchmarking model derived prices to quoted market prices and trade data for identical or comparable securities are classified as Level 2.
- Corporate notes and bonds: Corporate notes and bonds are valued using recently executed transactions, market price quotations where observable, or bond spreads. The spread data used are for the same maturity as the security. These securities are classified as Level 2.
- Mortgage-backed / asset-backed securities: These securities are valued based on external pricing indices. When external index pricing is not observable, these securities are valued based on external price/spread data. These securities are classified as Level 2.

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Available-For-Sale Securities
Certain investment securities are classified as available-for-sale and recorded at fair value in the unaudited Condensed Consolidated Balance Sheets as cash and cash equivalents, short-term investments and other assets depending on the type of investment and maturity. Unrealized holding gains and losses are recorded, net of tax, in accumulated other comprehensive income (AOCI).
Available-for-sale securities at March 31, 2015 and December 31, 2014 consisted of the following:

	March 31, 2015			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
U.S. Government, federal agencies and municipalities	$133,904	$3,342	$(452)	$136,794
Corporate notes and bonds	64,169	2,224	(85)	66,308
Mortgage-backed / asset-backed securities	162,841	3,147	(745)	165,243
Total	$360,914	$8,713	$(1,282)	$368,345
	December 31, 2014			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
U.S. Government, federal agencies and municipalities	$135,839	$2,905	$(764)	$137,980
Corporate notes and bonds	66,170	1,569	(291)	67,448
Mortgage-backed / asset-backed securities	155,330	2,362	(1,078)	156,614
Total	$357,339	$6,836	$(2,133)	$362,042

Investment securities that were in a loss position for 12 or more continuous months at March 31, 2015 had aggregate unrealized holding losses of $1 million and an estimated fair value of $35 million. Investment securities that were in a loss position for less than 12 continuous months at March 31, 2015 had aggregate unrealized holding losses of less than $1 million and an estimated fair value of $76 million.

Investment securities that were in a loss position for 12 or more continuous months at December 31, 2014 had aggregate unrealized holding losses of $1 million and an estimated fair value of $42 million. Investment securities that were in a loss position for less than 12 continuous months at December 31, 2014 had aggregate unrealized holding losses of $1 million and an estimated fair value of $88 million.

We have not recognized an other-than-temporary impairment on any of the investment securities in an unrealized loss position because we do not intend to sell these securities, it is more likely than not that we will not be required to sell these securities before recovery of the unrealized losses and we expect to receive the contractual principal and interest on these investment securities.

Scheduled maturities of available-for-sale securities at March 31, 2015 were as follows:

	Amortized cost	Estimated fair value
Within 1 year	$62,578	$62,641
After 1 year through 5 years	61,094	62,380
After 5 years through 10 years	63,198	65,364
After 10 years	174,044	177,960
Total	$360,914	$368,345

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

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

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Derivative Instruments
In the normal course of business, we are exposed to the impact of changes in foreign currency exchange rates and interest rates. We limit these risks by following established risk management policies and procedures, including the use of derivatives. We use derivative instruments to limit the effects of exchange rate fluctuations on financial results and manage the related cost of debt. We do not use derivatives for trading or speculative purposes. We record our derivative instruments at fair value and the accounting for changes in the fair value depends on the intended use of the derivative, the resulting designation and the effectiveness of the instrument in offsetting the risk exposure it is designed to hedge.
The valuation of foreign exchange derivatives is based on the market approach using observable market inputs, such as foreign currency spot and forward rates and yield curves. As required by the fair value measurements guidance, we also incorporate counterparty credit risk and our credit risk into the fair value measurement of our derivative assets and liabilities, respectively. We derive credit risk from observable data in the credit default swap market. We have not seen a material change in the creditworthiness of those banks acting as derivative counterparties.
The fair value of derivative instruments at March 31, 2015 and December 31, 2014 was as follows:

Designation of Derivatives	Balance Sheet Location	March 31, 2015	December 31, 2014
Derivatives designated as hedging instruments			
Foreign exchange contracts	Other current assets and prepayments	$1,144	$762
Derivatives not designated as hedging instruments			
Foreign exchange contracts	Other current assets and prepayments	1,690	624
	Accounts payable and accrued liabilities:	(4,705)	(2,988)
	Total derivative assets	$2,834	$1,386
	Total derivative liabilities	(4,705)	(2,988)
	Total net derivative liabilities	$(1,871)	$(1,602)

Foreign Exchange Contracts
We enter into foreign exchange contracts to mitigate the currency risk associated with the anticipated purchase of inventory between affiliates and from third parties. These contracts are designated as cash flow hedges. The effective portion of the gain or loss on cash flow hedges is included in AOCI in the period that the change in fair value occurs and is reclassified to earnings in the period that the hedged item is recorded in earnings. At March 31, 2015 and December 31, 2014, we had outstanding contracts associated with these anticipated transactions with notional amounts of $17 million and $18 million, respectively.

The amounts included in AOCI at March 31, 2015 will be recognized in earnings within the next 12 months. No amount of ineffectiveness was recorded in earnings for these designated cash flow hedges.
The following represents the results of cash flow hedging relationships for the three months ended March 31, 2015 and 2014:

	Three Months Ended March 31, Derivative Gain (Loss) Recognized in AOCI (Effective Portion)		Location of Gain (Loss) (Effective Portion)	Gain (Loss) Reclassified from AOCI to Earnings (Effective Portion)	
Derivative Instrument	2015	2014		2015	2014

Foreign exchange contracts	$(409)	$(69)	Revenue	$(396)	$(234)
			Cost of sales	(395)	199
				$(791)	$(35)

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We also enter into foreign exchange contracts to minimize the impact of exchange rate fluctuations on short-term intercompany loans and related interest that are denominated in a foreign currency. The revaluation of the intercompany loans and interest and the mark-to-market adjustment on the derivatives are both recorded in earnings. All outstanding contracts at March 31, 2015 mature within 12 months.

The following represents the results of our non-designated derivative instruments for the three months ended March 31, 2015 and 2014:

		Three Months Ended March 31, Derivative Gain (Loss) Recognized in Earnings	
Derivatives Instrument	Location of Derivative Gain (Loss)	2015	2014
Foreign exchange contracts	Selling, general and administrative expense	$(208)	$(682)

Credit-Risk-Related Contingent Features

Certain derivative instruments contain credit-risk-related contingent features that would require us to post collateral based on a combination of our long-term senior unsecured debt ratings and the net fair value of our derivatives. At March 31, 2015, the maximum amount of collateral that we would have been required to post had the credit-risk-related contingent features been triggered was $3 million.

Fair Value of Financial Instruments

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

The fair value of our debt is estimated based on recently executed transactions and market price quotations. These inputs used to determine the fair value of our debt were classified as Level 2 in the fair value hierarchy. The carrying value and estimated fair value of our debt at March 31, 2015 and December 31, 2014 were as follows:

	March 31, 2015	December 31, 2014
Carrying value	$3,075,231	$3,252,006
Fair value	$3,294,522	$3,440,383

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9. Restructuring Charges

The tables below show the activity in our restructuring reserves for our Operational Excellence plan, implemented in 2014, and our other plans for the three months ended March 31, 2015 and 2014 and includes amounts for both continuing operations and discontinued operations.

Operational Excellence

	Severance and benefits costs	Other exit costs	Total
Balance at January 1, 2015	$78,105	$8,154	$86,259
Expenses, net	20	(30)	(10)
Cash payments	(18,383)	(1,912)	(20,295)
Balance at March 31, 2015	$59,742	$6,212	$65,954
Balance at January 1, 2014	$42,427	$7,622	$50,049
Expenses, net (1)	7,272	1,103	8,375
Cash payments	(15,216)	(2,671)	(17,887)
Balance at March 31, 2014	$34,483	$6,054	$40,537

Other Plans

	Severance and benefits costs	Other exit costs	Total
Balance at January 1, 2015	$3,731	$189	$3,920
Expenses, net	(71)	—	(71)
Cash payments	(1,501)	(78)	(1,579)
Balance at March 31, 2015	$2,159	$111	$2,270
Balance at January 1, 2014	$16,131	$392	$16,523
Expenses, net	(1,084)	—	(1,084)
Cash payments	(1,023)	(27)	(1,050)
Balance at March 31, 2014	$14,024	$365	$14,389

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

(1) See Note 11 for additional restructuring charge.

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10. Debt

Commercial Paper

At March 31, 2015, we had $100 million of commercial paper outstanding at an effective interest rate of 0.54%. This amount is included in current portion of long-term debt and notes payable in the Condensed Consolidated Balance Sheets.

Long-term Debt

	Interest rate	March 31, 2015	December 31, 2014
Notes due March 2015	5.0%	$—	$274,879
Notes due January 2016	4.75%	370,914	370,914
Notes due September 2017	5.75%	385,109	385,109
Notes due March 2018	5.6%	250,000	250,000
Notes due May 2018	4.75%	350,000	350,000
Notes due March 2019	6.25%	300,000	300,000
Notes due November 2022	5.25%	110,000	110,000
Notes due March 2024	4.625%	500,000	500,000
State of CT DECD loan due November 2024	2.0%	16,000	16,000
Notes due January 2037	5.25%	115,041	115,041
Notes due March 2043	6.7%	425,000	425,000
Term loans	Variable	130,000	130,000
Principal amount		2,952,064	3,226,943
Less: unamortized discount		6,269	6,653
Plus: unamortized interest rate swap proceeds		29,436	31,716
Total debt		2,975,231	3,252,006
Less: current portion long-term debt		420,914	324,879
Long-term debt		$2,554,317	$2,927,127

During the quarter, we repaid the $275 million, 5% notes that matured in March.

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11. Pensions and Other Benefit Programs
The components of net periodic benefit cost (income) were as follows:

	Defined Benefit Pension Plans				Nonpension Postretirement Benefit Plans	
	United States		Foreign			
	Three Months Ended March 31,		Three Months Ended March 31,		Three Months Ended March 31,	
	2015	2014	2015	2014	2015	2014
Service cost	$38	$2,415	$565	$908	$679	$728
Interest cost	18,859	19,416	6,063	7,169	2,375	2,462
Expected return on plan assets	(26,044)	(25,956)	(8,839)	(9,825)	—	—
Amortization of transition credit	—	—	(2)	(2)	—	—
Amortization of prior service cost (credit)	2	2	(17)	(15)	74	40
Amortization of net actuarial loss	7,648	6,160	1,480	2,076	2,391	1,522
Settlement / curtailment (1)	—	2,550	—	—	—	—
Net periodic benefit cost (income)	$503	$4,587	$(750)	$311	$5,519	$4,752

(1) Included in Restructuring charges, net in the Condensed Consolidated Statements of Income.
Through March 31, 2015 and March 31, 2014, contributions to our U.S. pension plans were $3 million and $10 million, respectively, and contributions to our foreign plans were $9 million and $12 million, respectively. Nonpension postretirement benefit plan contributions were $6 million and $7 million through March 31, 2015 and March 31, 2014, respectively.

12. Income Taxes
The effective tax rate for the three months ended March 31, 2015 and 2014 was 37.3% and 14.7%, respectively. The effective tax rate for 2015 includes a $3 million charge from the write-off of deferred tax assets associated with the expiration of out-of-the-money vested stock options and the vesting of restricted stock units previously granted to our employees. The effective tax rate for 2014 includes a net incremental tax benefit associated with the early extinguishment of debt and a benefit of $6 million from the resolution of tax examinations.
As is the case with other large corporations, our tax returns are examined each year by tax authorities in the U.S., other countries and local jurisdictions in which we have operations. The Internal Revenue Service examinations of tax years prior to 2011 are closed to audit. Other than the pending application of legal principles to specific issues arising in earlier years, only post-2009 Canadian tax years are subject to examination. Other significant tax filings subject to examination include various post-2004 U.S. state and local, post-2007 German, and post-2010 French and U.K. tax filings. We have other less significant tax filings currently under examination or subject to examination.
13. Noncontrolling Interests (Preferred Stockholders’ Equity in Subsidiaries)
Pitney Bowes International Holdings, Inc. (PBIH), a subsidiary of the Company, has 300,000 shares, or $300 million, of outstanding perpetual voting preferred stock (PBIH Preferred Stock) held by certain institutional investors. The holders of PBIH Preferred Stock are entitled as a group to 25% of the combined voting power of all classes of capital stock of PBIH. All outstanding common stock of PBIH, representing the remaining 75% of the combined voting power of all classes of capital stock, is owned directly or indirectly by the Company. The PBIH Preferred Stock is entitled to cumulative dividends at a rate of 6.125% through April 30, 2016. Commencing October 30, 2016, the PBIH Preferred Stock is redeemable, in whole or in part, at the option of PBIH. If the PBIH Preferred Stock is not redeemed in whole on October 30, 2016, the dividend rate increases 50% and will increase 50% every six months thereafter. No

dividends were in arrears at March 31, 2015 or December 31, 2014.

14. Commitments and Contingencies

In the ordinary course of business, we are routinely defendants in, or party to a number of pending and threatened legal actions. These may involve litigation by or against us relating to, among other things, contractual rights under vendor, insurance or other contracts; intellectual property or patent rights; equipment, service, payment or other disputes with clients; or disputes with employees. Some of these actions may be brought as a purported class action on behalf of a purported class of employees, customers or others. In management's opinion, the potential liability, if any, that may result from these actions, either individually or collectively, is not reasonably expected to

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have a material effect on our financial position, results of operations or cash flows. However, as litigation is inherently unpredictable, there can be no assurances in this regard.

In December 2013, we received a Civil Investigative Demand (CID) from the Department of Justice (DOJ) pursuant to the False Claims Act requesting documents and information relating to compliance with certain postal regulatory requirements in our Presort Services business. We have provided information to the DOJ in response to letter requests and the CID, and we are in ongoing discussions with the DOJ about the potential resolution of this matter. Given the current stage of this inquiry, we cannot yet predict the ultimate outcome of this matter or its impact, if any, on our business, financial condition or results of operations.

15. Stockholders' Equity

Changes in stockholders' equity for the three months ended March 31, 2015 and 2014 were as follows:

	Preferred stock	Preference stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Total equity
Balance at January 1, 2015	$1	$548	$323,338	$178,852	$4,897,708	$(846,156)	$(4,477,032)	$77,259
Net income	—	—	—	—	80,612	—	—	80,612
Other comprehensive loss	—	—	—	—	—	(62,491)	—	(62,491)
Cash dividends								
Common	—	—	—	—	(37,804)	—	—	(37,804)
Preference	—	—	—	—	(11)	—	—	(11)
Issuance of common stock	—	—	—	(30,914)	—	—	23,248	(7,666)
Conversion to common stock		(5)	—	(105)	—	—	110	—
Stock-based compensation expense	—	—	—	5,036	—	—	—	5,036
Balance at March 31, 2015	$1	$543	$323,338	$152,869	$4,940,505	$(908,647)	$(4,453,674)	$54,935

	Preferred stock	Preference stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Total equity
Balance at January 1, 2014	$4	$591	$323,338	$196,977	$4,715,564	$(574,556)	$(4,456,742)	$205,176
Net income	—	—	—	—	44,673	—	—	44,673
Other comprehensive loss	—	—	—	—	—	1,223	—	1,223
Cash dividends								
Common	—	—	—	—	(37,975)	—	—	(37,975)
Preference	—	—	—	—	(14)	—	—	(14)

Issuance of common stock	—	—	—	(22,655)	—	—	19,757	(2,898)
Conversion to common stock	(3)	(28)	—	(650)	—	—	681	—
Stock-based compensation expense	—	—	—	3,886	—	—	—	3,886
Purchase of subsidiary shares from noncontrolling interest	—	—	—	(7,520)	—	—	—	(7,520)
Balance at March 31, 2014	$ 1	$ 563	$ 323,338	$ 170,038	$ 4,722,248	$ (573,333)	$ (4,436,304)	$ 206,551

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16. Accumulated Other Comprehensive Loss

Reclassifications out of accumulated other comprehensive loss for the three months ended March 31, 2015 and 2014 were as follows:

	Amount Reclassified from AOCI (a) Three Months Ended March 31,	
	2015	2014
Gains (losses) on cash flow hedges		
Revenue	$(396)	$(234)
Cost of sales	(395)	199
Interest expense	(507)	(507)
Total before tax	(1,298)	(542)
Tax benefit	(502)	(210)
Net of tax	$(796)	$(332)
Gains (losses) on available for sale securities		
Unrealized losses	$(24)	$(347)
Tax benefit	(9)	(128)
Net of tax	$(15)	$(219)
Pension and Postretirement Benefit Plans (b)		
Transition credit	$2	$2
Prior service costs	(59)	(27)
Actuarial losses	(11,519)	(9,758)
Total before tax	(11,576)	(9,783)
Tax benefit	(4,167)	(3,641)
Net of tax	$(7,409)	$(6,142)

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

(b) These items are included in the computation of net periodic costs of defined benefit pension plans and nonpension postretirement benefit plans (see Note 11 for additional details).

Changes in accumulated other comprehensive loss for the three months ended March 31, 2015 and 2014 were as follows:

	Gains (losses) on cash flow hedges	Gains (losses) on available for sale securities	Pension and postretirement benefit plans	Foreign currency items	Total
Balance at January 1, 2015	$(4,689)	$2,966	$(786,079)	$(58,354)	$(846,156)
Other comprehensive income (loss) before reclassifications (a)	(247)	1,715	—	(72,179)	(70,711)
Amounts reclassified from accumulated other comprehensive income (a), (b)	796	15	7,409	—	8,220
	549	1,730	7,409	(72,179)	(62,491)

Net current period other comprehensive income (loss)					
Balance at March 31, 2015	$(4,140)	$4,696	$(778,670)	$(130,533)	$(908,647)

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PITNEY BOWES INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited; table amounts in thousands of dollars, unless otherwise noted)

	Gains (losses) on cash flow hedges	Gains (losses) on available for sale securities	Pension and postretirement benefit plans	Foreign currency items	Total
Balance at January 1, 2014	$(6,380)	$(1,769)	$(601,421)	$35,014	$(574,556)
Other comprehensive income (loss) before reclassifications (a)	41	1,840	—	(7,351)	(5,470)
Amounts reclassified from accumulated other comprehensive income (a), (b)	332	219	6,142	—	6,693
Net current period other comprehensive income (loss)	373	2,059	6,142	(7,351)	1,223
Balance at March 31, 2014	$(6,007)	$290	$(595,279)	$27,663	$(573,333)

(a) Amounts are net of tax. Amounts in parentheses indicate debits to AOCI.
(b) See table above for additional details of these reclassifications.

17. Subsequent Events

On May 5, 2015, we entered into a definitive agreement to acquire Borderfree, Inc. (Borderfree). Under the terms of the definitive agreement, we will commence a tender offer for all outstanding common shares of Borderfree at $14 per share in cash, or approximately $395 million in the aggregate, net of expected cash and investments on Borderfree’s balance sheet at the time of closing. Borderfree provides cross-border ecommerce solutions through a proprietary technology and services platform that enables retailers in the United States and United Kingdom to transact with consumers around the world. The transaction is subject to the completion of customary conditions, and is expected to close in the second quarter of 2015. Once completed, we expect Borderfree will operate as a wholly owned subsidiary within our Digital Commerce Solutions segment.

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

Forward-Looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) contains statements that are forward-looking. We want to caution readers that any forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act) in this Form 10-Q 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", "assume", "anticipate", "intend", and similar expressions may identify such forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Factors which could cause future financial performance to differ materially from the expectations as expressed in any forward-looking statement made by or on our behalf include, without limitation:

- declining physical mail volumes
- competitive factors, including pricing pressures, technological developments and introduction of new products and services by competitors
- our success in developing and transitioning to more digital-based products and services and the market's acceptance of these new products and services
- the success of our investment in rebranding the Company to build the market awareness to create new demand for our businesses
- our ability to gain product approval in new markets where regulatory approval is required
- changes in postal or banking regulations
- the continued availability and security of key information systems
- our ability to successfully implement a new Enterprise Resource Planning (ERP) system without significant disruption to existing operations
- 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
- loss of some of our largest clients or business partners in our Digital Commerce Solutions segment
- the cost to comply with current and any changes in information security requirements and privacy laws
- intellectual property infringement claims
- our success at managing customer credit risk
- significant changes in pension, health care and retiree medical costs
- macroeconomic factors, including global and regional business conditions that adversely impact customer demand, access to capital markets at reasonable costs, changes in interest rates and foreign currency exchange rates
- income tax adjustments or other regulatory levies for prior audit years and changes in tax laws, rulings or regulations
- a disruption of our businesses due to changes in international or national political conditions, including the use of the mail for transmitting harmful biological agents or other terrorist attacks
- acts of nature

The following discussion and analysis should be read in conjunction with our condensed consolidated financial statements contained in this report and in our 2014 Annual Report. All table amounts are shown in thousands of dollars, unless otherwise noted.

Overview

First Quarter 2015 Results

For the first quarter of 2015, revenue decreased 5% to $891 million compared to $937 million in the first quarter of 2014. Net income from continuing operations and earnings per diluted share were $80 million and $0.40, respectively, compared to $42 million and $0.21, respectively, in 2014. The increase was driven by lower selling, general and administrative expenses, the one-time costs associated with the early repayment of debt in the first quarter of 2014 and lower restructuring charges. These items were more than offset by the impact of lower revenue and a higher effective tax rate.

We generated cash from operations of $104 million. We borrowed $100 million of short-term debt and used these proceeds to redeem $275 million of long-term debt. In addition, we funded capital investments of $44 million and paid dividends of $38 million. At March 31, 2015, cash and cash equivalents were $872 million compared to $1,079 million at December 31, 2014.

Our first quarter 2015 results were negatively impacted by the exit of non-core product lines in Norway and the transition in certain European countries to a dealer network in the third quarter of 2014 (Divested Businesses) and foreign currency translation. Foreign currency translation reduced revenue by 4% and Divested Businesses impacted revenue by 1% in the quarter.

Excluding the impacts of Divested Businesses and foreign currency translation, equipment sales declined 6% compared to the prior year quarter due to lower mailing equipment sales in North America as a result of declining mail volumes and clients extending existing leases rather than purchasing new equipment. In addition, sales were lower in France and Germany due to economic conditions and temporary disruptions caused by the initial implementation of our go-to-market strategy in these countries. These declines were partially offset by higher sales of production mail inserter equipment. Support services revenue declined 4% and rentals revenue declined 5% compared to the prior year quarter due to fewer mailing machines in service, a shift to lower cost, less featured mailing machines and lower maintenance revenue on production mail equipment as some in-house mailers moved their mail processing to third-party service bureaus who service some of their own equipment. Supplies revenue decreased 1% primarily due to a decline in the number of installed meters in North America and the temporary disruptions caused by the initial implementation of our go-to-market strategy in France and Germany. Business services revenue increased 11% due to growth in our global ecommerce solutions, Presort Services operations and our marketing services solutions.

Digital Commerce Solutions (DCS) revenue grew 9% due to growth in our global ecommerce solutions, our shipping solutions and our marketing services solutions. Enterprise Business Solutions revenue increased 3% due to increased volumes and operational efficiencies in Presort Services. Small and Medium Business Solutions (SMB) revenue declined 5%. In North America, revenue was impacted by the continuing decline in installed meters, a shift to lower cost, less featured machines and clients extending existing leases rather than purchasing new equipment. Internationally, revenue declined due to macroeconomic conditions in Europe and temporary disruptions caused by the initial implementation of our go-to-market strategy in France and Germany.

Outlook

The U.S. dollar continues to strengthen against other currencies. A strong U.S. dollar could adversely affect our reported revenues and profitability, both from a translation perspective as well as a competitive perspective, as the cost of our international competitors' products and solutions improves relative to our products and solutions. A strengthening dollar could also affect the demand for U.S. goods sold to consumers in other countries through our global ecommerce solutions.