

PITNEY BOWES INC /DE/

Form 10-K

February 22, 2017

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 EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016 Commission file number: 1-3579

PITNEY BOWES INC.

Incorporated in Delaware

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

3001 Summer Street, Stamford, CT 06926

(203) 356-5000

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, 2016, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$3.3 billion 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 17, 2017:

186,399,332 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 8, 2017, are incorporated by reference in Part III of this Form 10-K.

PITNEY BOWES INC.
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PART I

Forward-Looking Statements

This Annual Report on Form 10-K (Annual Report) contains statements that are forward-looking. We want to caution readers that any forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 may change based on various factors. These forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties and actual results could differ materially. Words such as "estimate," "target," "project," "plan," "believe," "expect," "anticipate," "intend" and similar expressions may identify such forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Factors which could cause future financial performance to differ materially from the expectations as expressed in any forward-looking statement made by or on our behalf include, without limitation:

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

Risks are more fully described under Item 1A. "Risk Factors" in this Annual Report.

ITEM 1. BUSINESS

General

Pitney Bowes Inc. (we, us, our, or the company), was incorporated in the state of Delaware in 1920. We are a global technology company offering innovative products and solutions that help our clients navigate the complex world of commerce. We offer customer information

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management, location intelligence and customer engagement products and solutions to help our clients market to their customers, and shipping, mailing, and cross border ecommerce products and solutions that enable the sending of parcels and packages across the globe. Clients around the world rely on our products, solutions and services. For more information about us, our products, services and solutions, visit www.pb.com.

Our Strategy and Business Segments

Our business is organized around three distinct sets of solutions -- Small and Medium Business Solutions (SMB), Enterprise Business Solutions and Digital Commerce Solutions (DCS).

Small and Medium Business Solutions

We are a global leader in providing a full range of equipment, software, supplies and services that enable our clients to efficiently create physical and digital mail, evidence postage and print shipping labels for the sending of mail, flats and parcels. We segment the SMB Solutions group between our North America operations, comprising the U.S. and Canadian businesses, and our International operations, comprising all other SMB businesses globally. We are a leading provider of mailing systems globally with about 1.2 million meters installed worldwide. We are also continuing to expand our business to include online offerings without a hardware component. This business is characterized by a high level of recurring revenue driven by rental, lease and loan arrangements, contract support services and supplies sales.

Enterprise Business Solutions

Our Enterprise Business Solutions group includes equipment and services that enable large enterprises to process inbound and outbound mail. The Enterprise Business Solutions group includes our Production Mail operations and Presort Services operations.

Production Mail

Our product and service offerings enable clients to integrate all areas of print and mail into an end-to-end production environment from message creation to dispatch while realizing cost savings on postage. The core products within this segment include high-speed, high-volume inserting equipment, customized sortation products for mail and parcels and high-speed digital color printing systems that create high-value, relevant and timely communications targeted to our clients' customers. In 2017, we expect to expand our cloud connectivity solutions currently available for our inserter equipment into our print and sortation machines.

Presort Services

We are a national outsource provider of mail presort services for First-Class, Standard, flat and parcels in the U.S. and a workshare partner of the United States Postal Service (USPS). Our Presort Services network and fully-customized proprietary technology provides our clients with end-to-end solutions from pick up at their location to delivery into the postal system network. We process approximately 15 billion pieces of mail annually through our network of operating centers throughout the United States and are able to expedite mail delivery and optimize postage savings for our clients. In 2016, we began offering sortation services for parcel mail and expect to expand this offering in 2017.

Digital Commerce Solutions

Within the Digital Commerce Solutions group, we provide a broad range of solutions, including customer information management, location intelligence, customer engagement software and shipping management and cross border ecommerce solutions for businesses of all sizes. These solutions are delivered as traditional software licenses, enterprise platforms, software-as-a-service (SaaS) or on-demand applications. Our Digital Commerce Solutions group includes Software Solutions and Global Ecommerce.

Software Solutions

Customer information management solutions help businesses harness and develop a deep and broad understanding of their customers and their context, such as location, relationships, propensity, sentiment and influence. The trusted data

and associated insights allow our clients to deliver a personalized customer experience across multiple channels, manage risk and compliance, and improve sales, marketing and service effectiveness. We are one of the market leaders in the data quality segment. Large corporations and government agencies rely on our products in complex, high-volume, transactional environments to support their business processes.

Location intelligence solutions enable our clients to organize and understand the complex relationships between location, geographic and other forms of data to drive business decisions and customer experiences. Our location intelligence solutions use predictive analytics, location, geographic and socio-demographic characteristics, which enable our clients to harness the power of location to better serve their customers, solve business problems, deliver location-based services and ultimately drive business growth.

Customer engagement solutions provide clients with insight and understanding into customer behavior and interactions across the entire customer lifecycle, enabling them to orchestrate impactful, relevant and timely physical and digital interactions. When coupled with our inserting, sortation and digital print products, we are able to provide clients an all-inclusive solution that enables them to create, print and distribute wide-spread targeted customer communications. Our customer engagement solutions enable our clients to create connected experiences that positively influence future consumer behavior and generate business growth.

Global Ecommerce

Global Ecommerce includes our cross-border ecommerce solutions and retail and warehouse shipping management solutions. Global Ecommerce provides a full suite of domestic and cross-border solutions that help businesses of all sizes conduct commerce and participate in the parcel journey from “Anywhere to Everywhere™.” It is our technology, services and industry expertise that have made us an industry leader in global commerce. We offer a unified commerce platform of capabilities for cross-border, marketplaces and shipping that center around the consumer. With our proprietary technology, we are able to manage all aspects of the international shopping and shipping experience, including multi-currency pricing, payment processing, fraud management, calculation of fully landed costs by quoting duty, taxes and shipping at checkout, compliance with product restrictions, export complexities and documentation requirements for customs clearance and brokerage and global logistics services. Our cross-border ecommerce software platforms are currently utilized by direct merchants as well as a major online marketplace enabling millions of parcels to be shipped to countries and territories worldwide. Our platform also connects retailers to marketplaces around the world, opening new markets and expanding existing markets for their goods.

Our shipping management solutions enable clients to reduce transportation and logistics costs, to select the best carrier based on need and cost, to improve delivery times and to track packages in real-time. Our Shipping API technology, an integral part of the Pitney Bowes Commerce Cloud, provides easy access to shipping and tracking services that can be easily integrated into any web application such as online shopping carts or ecommerce sites. We also offer scalable shipping solutions that can be integrated into mail centers for the office market.

See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 2 to the Consolidated Financial Statements for additional segment and geographic information.

Client Service

We have a client care service organization that provides telephone, online and on-site support to diagnose and repair our increasingly complex mailing equipment, production printers and sophisticated software solutions. Most of our support services are provided under annual contracts.

Sales and Marketing

We market our products and services through a direct and inside sales force, direct mailings, telemarketing, independent dealers and distributors and web channels. We sell to a variety of business, governmental, institutional and other organizations, and in our Ecommerce business only, we also sell to consumers. We have a broad base of clients and are not dependent upon any one client or type of client for a significant part of our total revenue.

We have made, and are continuing to make significant investments in the rebranding of the company. These investments include marketing and advertising designed to build market awareness and client demand for our products and services, and enhance our operational and go-to-market changes, including how we sell to and service clients.

Competition

All of our businesses face competition from a number of companies. Our competitors range from large, multinational companies that compete against many of our businesses to smaller, more narrowly focused regional and local firms. We compete on the basis of technology and innovation; breadth of product offerings; our ability to design and tailor solutions to specific client needs; performance; client service and support; price; quality and brand.

We must continue to invest in our current technologies, products and solutions, and in the development of new technologies, products and solutions in order to maintain and improve our competitive position. We will encounter new competitors as we transition to higher value markets and offerings and enter new markets.

A summary of the competitive environment for each of our business segments is as follows:

North America Mailing and International Mailing

We face significant competition from other mail equipment and software companies, companies that offer products and services as alternative means of message communications and non-traditional competitors that offer shipping and mailing products and services through online solutions. The principal competitive factors include the composition of offerings between software and hardware solutions, pricing, available financing and payment offerings, product reliability, support services, industry knowledge and expertise and attractiveness of alternative communication methods. Our competitive advantage includes our breadth of physical and web-based digital offerings, customer service and our extensive knowledge of the shipping and mailing industry.

Through our wholly owned subsidiary, The Pitney Bowes Bank (the Bank), we offer a revolving credit solution to our clients in the United States that enables them to pay for postage, the rental of certain mailing equipment and purchase products, supplies and services. The Bank also provides an interest-bearing deposit solution to those clients in the United States who prefer to prepay postage. We also provide similar revolving credit solutions to our clients in Canada and the U.K. but do not offer these through the Bank. Our financing operations face competition, in varying degrees, from large, diversified financial institutions, including leasing companies, commercial finance companies and commercial banks, as well as small, specialized firms. Not all our competitors are able to offer these financing and payment solutions to their customers and we believe these solutions differentiate us from our competitors and are a source of competitive advantage. The Bank is chartered as an Industrial Bank under the laws of the State of Utah, and regulated by the Federal Deposit Insurance Corporation (FDIC) and the Utah Department of Financial Institutions.

Production Mail

We face competition from other companies that offer large production printers, inserters or sorters. We also face competition from the fact that some companies choose to outsource although those outsource providers can also be our customers. Our primary competitive advantage lies in our ability to offer all of these products and services and integrate them into an end-to-end solution. The principal competitive factors include functionality, reliability, productivity, price and support.

Presort Services

We face competition from regional and local presort providers and service bureaus that offer presort solutions as part of a larger bundle of outsourcing services, and large entities that have the capability to presort their own mailings in-house. The principal competitive factors include innovative service, delivery speed, industry expertise and economies of scale. Our competitive advantage includes our extensive network of presort facilities capable of processing significant volumes of mail and our innovative and proprietary technology that enables us to provide our clients with reliable and accurate services at maximum discounts.

Software Solutions

We operate in several highly competitive and rapidly evolving markets and face competition ranging from large global companies that offer a broad suite of solutions to smaller, more narrowly-focused companies that can design very targeted solutions. The principal competitive factors include reliability, functionality, ease of integration and use, scalability, innovation, support services and price. We compete based on the accuracy and processing speed of our solutions, particularly those used in our location intelligence solutions, the breadth and scalability of our products and solutions, our geocoding and reverse geocoding capabilities, and our ability to identify rapidly changing customer needs and develop technologies and solutions to meet these changing needs.

Global Ecommerce

The market for international ecommerce software and fulfillment services is highly fragmented and includes competitors of various sizes, including companies with greater financial resources than us. Some of these competitors specialize in point solutions or freight forwarding services, are full-service ecommerce business process outsourcers

and online marketplaces with international logistic support, or major global delivery services companies. The principal competitive factors include reliability, functionality, ease of integration and use, scalability of our platform and our logistics services, innovation, support services and price. We compete based on the accuracy, reliability and scalability of our platform, and our ability to provide our clients and their customers a one-stop full-service cross border ecommerce experience. In our shipping solutions business, we compete with a wide range of technology providers who help make shipping easier and more cost-effective for the retailer, warehouse, or office shipper. There are established players in the marketplace who are set-up to compete against their client base. The remainder of the shipping market is very fragmented with many small companies offering negotiated carrier rates (primarily with the USPS). The principal competitive factors include technology stability and reliability, innovation, access to preferred shipping rates, and ease of integration with existing systems.

Financing Solutions

We offer a variety of finance and payment solutions to clients to finance their equipment and product purchases, rental and lease payments, postage replenishment and supplies purchases. As our other product and service offerings evolve, we continually evaluate whether there are appropriate financing solutions for us to offer our clients. 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 a systematic decision 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 and collection resources and revise credit policies as necessary to be more selective in managing the portfolio.

Research, Development and Intellectual Property

We invest in research and development programs to develop new products and solutions, enhance the effectiveness and functionality of existing products and solutions and deliver high value technology, innovative software and differentiated services in high value segments of the market. 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. The continued evolution of patent law and the nature of our innovation work may affect the number of patents we are able to receive for our internal development efforts. However, our businesses are not materially dependent on any one patent or license or group of related patents or licenses. Research and development expenditures were \$121 million in 2016 and \$110 million, in both 2015 and 2014.

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. We are further subject to the regulations of the Utah Department of Financial Institutions and the FDIC with respect to the operations of the Bank and certain company affiliates that provide services to the Bank. We are also subject to the regulations of transportation, customs and other trade authorities worldwide related to the cross-border shipment of equipment, materials and parcels. In addition, we are subject to regulations worldwide concerning data privacy and security for our businesses that use, process and store certain personal, confidential or proprietary data.

Employees and Employee Relations

At December 31, 2016, we have approximately 14,200 employees worldwide. We believe that we maintain strong relationships with our employees. Management keeps employees informed of decisions and encourages and implements employee suggestions whenever practicable.

Available Information

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments thereto filed with, or furnished to, the Securities and Exchange Commission (the SEC), are available, free of charge, through the Investor Relations section of our website at www.pb.com/investorrelations or from the

SEC's website at www.sec.gov, as soon as reasonably practicable after these reports are electronically filed with, or furnished to, the SEC. The other information found on our website is not part of this or any other report we file with or furnish to the SEC.

You may also read and copy any document we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, 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.

Executive Officers of the Registrant

Our executive officers are as follows:

Name	Age	Title	Executive Officer Since
Marc B. Lautenbach	55	President and Chief Executive Officer	2012
Daniel J. Goldstein	55	Executive Vice President and Chief Legal Officer and Corporate Secretary	2010
Robert Guidotti	59	Executive Vice President and President, Software Solutions	2016
Abby F. Kohnstamm	63	Executive Vice President and Chief Marketing Officer	2013
Michael Monahan	56	Executive Vice President and Chief Operating Officer	2005
Roger J. Pilc	49	Executive Vice President and Chief Innovation Officer	2013
Mark L. Shearer	60	Executive Vice President and President, Pitney Bowes SMB Mailing Solutions	2013
Lila Snyder	44	Executive Vice President and President, Global Ecommerce	2016
Christoph Stehmann	54	Executive Vice President and President, Enterprise Solutions Group	2016
Stanley J. Sutula III	51	Executive Vice President and Chief Financial Officer ⁽¹⁾	2017
Johnna G. Torsonone	66	Executive Vice President and Chief Human Resources Officer	1993

⁽¹⁾ Effective February 1, 2017, Mr. Sutula assumed the responsibilities of Executive Vice President and Chief Financial Officer. Prior to that date, Mr. Monahan had the responsibilities of Chief Financial Officer.

There are no family relationships among the above officers. All of the officers have served in various executive 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 from 2010-2012.

Mr. Guidotti was appointed Executive Vice President and President, Software Solutions in January 2016. Before joining Pitney Bowes, Mr. Guidotti has been in the software industry for over 20 years and held a series of executive positions at IBM including General Manager, Software Sales where he was responsible for sales, technical sales, and channels for the \$23 billion Software portfolio worldwide.

Ms. Kohnstamm joined the company as Executive Vice President and Chief Marketing Officer in June 2013. Before joining Pitney Bowes, Ms. Kohnstamm served as President of Abby F. Kohnstamm & Associates, Inc., a marketing and consulting firm.

Mr. Pilc joined the company as Executive Vice President and Chief Innovation Officer in June 2013. Before joining Pitney Bowes, Mr. Pilc served as General Manager at CA Technologies, where he was responsible for the company's Industries, Solutions and Alliances unit.

Mr. Shearer joined the company as Executive Vice President and President, Pitney Bowes SMB Mailing Solutions in April 2013. Before joining Pitney Bowes, Mr. Shearer held numerous positions during his 30 year career at IBM, including general management, business and product strategy, and marketing. Before his retirement from IBM in 2010, he served as Vice President, Marketing and Strategy for IBM's hardware business.

Ms. Snyder was elected to the office of Executive Vice President by the board of directors in January 2016. She joined the company in November 2013 as President, Document Messaging Technologies (DMT) and became President, Global Ecommerce in June 2015. Prior to joining Pitney Bowes, Ms. Snyder was a Partner at McKinsey & Company, Inc. In her 15 years at McKinsey, she focused on serving clients in the technology, media and communications

sectors and was the leader of McKinsey's Stamford office.

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Mr. Sutula joined the company as Executive Vice President and Chief Financial Officer in February 2017. Prior to joining the company, Mr. Sutula was employed at IBM for 28 years where he held several leadership positions in the United States and in Europe. Most recently, Mr. Sutula was Vice President and Controller.

ITEM 1A. RISK FACTORS

Our operations face certain risks that should be considered in evaluating our business. We manage and mitigate these risks on a proactive basis, including through the use of an enterprise risk management program. Nevertheless, the following risk factors, some of which may be beyond our control, could materially impact our business, financial condition, results of operations, brand and reputation, and may cause future results to be materially different than our current expectations. These risk factors are not intended to be all inclusive.

We are subject to postal regulations and processes, which could adversely affect our revenue and profitability. A significant portion of our revenue and profitability 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 revenue and profitability 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.

If we are not able to respond to the continuing decline in the volume of physical mail delivered via traditional postal services, our results of operations and profitability could be adversely impacted.

Declining mail volumes has had an adverse impact on our revenues and profitability and is expected to continue to influence our revenue and profitability in the future. We continue to employ strategies for stabilizing the mailing business which include new product and service offerings, transitioning our current products and services to more digital offerings and providing our clients broader access to products and services through online and direct sales channels. There is no guarantee that these offerings will be widely accepted in the marketplace, and they will likely face competition from existing and emerging alternative products and services.

Further, an accelerated or sudden decline in physical mail volumes could have an adverse effect on our mailing business. An accelerated or sudden decline could result from, among other things, changes in our clients' communication behavior, changes in communication technologies or 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.

If we are not successful at meeting the continuing challenges faced in our mailing business, or if physical mail volumes were to experience an accelerated or sudden decline, our financial results could be negatively impacted.

If we are unable to protect our information technology systems against service interruptions, misappropriation of data, or breaches of security resulting from cyberattacks or other events, or we encounter other unforeseen difficulties in the operation of our information technology systems, our operations could be disrupted, our reputation may be harmed and we could be subject to legal liability or regulatory enforcement action.

We rely on the continuous and uninterrupted performance of our information technology systems to support numerous business processes and activities, to support and service our clients, to support consumer transactions and to support postal services. Several of our businesses use, process and store proprietary information and sensitive or confidential data relating to our businesses, our clients, consumers and our employees. Privacy laws and similar regulations in many jurisdictions where we do business require that we take significant steps to safeguard such information, and such legal requirements continue to evolve. In today's environment there are numerous risks to cybersecurity and privacy, including individual and groups of criminal hackers, industrial espionage, employee errors and/or malfeasance and technological errors. These cyber threats are constantly evolving, thereby increasing the difficulty of detecting and successfully defending against them. We have security systems and procedures in place designed to ensure the continuous and uninterrupted performance of our information technology systems and protect against unauthorized access to such information. However, there is no guarantee that these security measures will prevent or

detect the unauthorized access by experienced computer programmers, hackers or others. Successful breaches could, among other things, result in the unauthorized disclosure, theft and misuse of company, client, consumer and employee sensitive and confidential information, disrupt the performance of our information technology systems and deny services to our clients. Additionally, we could be exposed to potential liability, litigation, governmental inquiries, investigations or regulatory enforcement actions, our brand and reputation damaged, and we could be subject to the payment of fines or other penalties, legal claims by our clients and significant remediation costs. Our systems are also subject to adverse acts of nature, computer viruses, vandalism, power loss, computer or communications failures and other unexpected events. We have business continuity and disaster recovery plans in place to protect our business operations in case of such events; however, there can be no guarantee that these plans will function as designed. 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.

We depend on third-party suppliers and outsource providers and our business could be adversely affected if we fail to manage these vendors 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, the hosting of our software-as-a-service offerings, as well as the logistics portion of our cross-border ecommerce business, 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 services were 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 were interrupted, not performed, or the performance was poor, our ability to process, record and report transactions with our clients, consumers and other constituents could be impacted. Such interruptions in the provision of supplies and/or services could impact our ability to meet client demand, damage our reputation and client relationships and adversely affect our revenue and profitability.

Capital market disruptions and credit rating downgrades could adversely affect our ability to provide competitive financing services to our clients and to fund various discretionary priorities.

Our financing activities include, among other things, providing competitive financing offerings to our clients and funding various discretionary priorities, such as business investments, strategic acquisitions, share repurchases and dividend payments. We fund these activities through a combination of cash generated from operations, deposits held in the Bank, commercial paper borrowings and long-term borrowings.

Our ability to fund these activities is dependent, in part, upon our ability to borrow and the cost of borrowing in U.S. capital markets. This ability and the cost, in turn, is dependent upon our credit ratings and is subject to capital market volatility. Credit rating downgrades, an increase in our credit default swap spread, material capital market disruptions, significant withdrawals by depositors at the Bank, adverse changes to our industrial loan charter or a significant decline in cash flow could impact our ability to provide competitive finance offerings to our clients and fund other financing activities, which in turn, could adversely affect our revenue, profitability and financial condition.

The international nature of our Global Ecommerce business subjects us to increased customs and regulatory risks from cross-border transactions, and fluctuations in foreign currency exchange rates. Further, the loss of any of our largest clients in our Global Ecommerce segment could have a material adverse effect on the segment.

International sales generated by our clients processin