PITNEY BOWES INC /DE/
Form 10-K
February 26, 2009

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, 2008 Commission file number: 1-3579

PITNEY BOWES INC.

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

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

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

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

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

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

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 o No þ

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 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. 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 definition 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 Act). Yes o No þ

As of June 30, 2008, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was $7,104,955,286 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 23, 2009: 206,320,872 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s proxy statement to be filed with the Securities and Exchange Commission (the Commission) on or before March 31, 2009 and to be delivered to stockholders in connection with the 2009 Annual Meeting of Stockholders to be held May 11, 2009, are incorporated by reference in Part III of this Form 10-K.

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PITNEY BOWES INC.
PART I

ITEM 1. BUSINESS

General

Pitney Bowes Inc. was incorporated in the state of Delaware on April 23, 1920, as the Pitney Bowes Postage Meter Company. Today, Pitney Bowes Inc. is the largest provider of mail processing equipment and integrated mail solutions in the world. In the report, the terms we, us, our, or Company are used to refer collectively to Pitney Bowes Inc. and its subsidiaries.

We offer a full suite of equipment, supplies, software and services for end-to-end mailstream solutions which enable our customers to optimize the flow of physical and electronic mail, documents and packages across their operations.

We operate in two business groups: Mailstream Solutions and Mailstream Services. We operate both inside and outside the United States. See Note 18 to the Consolidated Financial Statements for financial information concerning revenue, earnings before interest and taxes (EBIT) and identifiable assets, by reportable segment and geographic area.

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

Business Segments

We conduct our business activities in seven business segments within the Mailstream Solutions and Mailstream Services business groups. The principal products and services of each of our business segments are as follows:

Mailstream Solutions:

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

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

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

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

Mailstream Services:

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

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

Marketing Services: Includes direct marketing services for targeted customers; web-tools for the customization of promotional mail and marketing collateral; and other marketing consulting services.

Support Services

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

Marketing

Our products and services are marketed through an extensive network of direct sales offices in the U.S. and through a number of our subsidiaries and independent distributors and dealers in many countries throughout the world. We also use direct marketing, outbound telemarketing and the Internet to reach our existing and potential customers. We sell to a variety of business, governmental, institutional and other organizations. We have a broad base of customers, and we are not dependent upon any one customer or type of customer for a significant part of our revenue. We do not have significant backlog or seasonality relating to our businesses.

Credit Policies

We establish credit approval limits and procedures at regional, divisional, subsidiary and corporate levels based on the credit quality of the customer and the type of product or service provided to control risk in extending credit to customers. In addition, we utilize an automatic approval program (AAP) for certain leases within our internal financing operations. The AAP program is designed to facilitate low dollar transactions by utilizing historical payment patterns and losses realized for customers with common credit characteristics. The program dictates the criteria under which we will accept a customer without performing a more detailed credit investigation. The AAP considers criteria such as maximum equipment cost, a customer s time in business and payment experience with us. We base our credit decisions primarily on a customer s financial strength.

We monitor the portfolio closely by analyzing industry sectors, delinquency trends by product line and exposures to ensure reserve levels and credit policies reflect current trends to proactively manage risk. Management has taken additional actions in 2008 such as reducing credit lines, strengthening collection resources, and revising credit policies to be more selective in managing the portfolio in this current economic cycle.

Competition

We are a leading supplier of products and services in the large majority of our business segments. Our meter base and our continued ability to place and finance meters in key markets is a significant contributor to our current and future revenue and profitability. However, all of our segments face competition from a number of companies. In particular, we face competition for new placements of mailing equipment from other postage meter and mailing machine suppliers, and our mailing products, services and software face competition from products and services offered as alternative means of message communications. Leasing companies, commercial finance companies, commercial banks and other financial institutions compete, in varying degrees, in the markets in which our finance operations do business. Our competitors range from very large, diversified financial institutions to many small, specialized firms. We offer a complete line of products and services as well as a variety of finance and payment offerings to our customers. We finance the majority of our products through our captive financing business and we are a major provider of business services to the corporate, financial services, professional services and government markets, competing against national, regional and local firms specializing in facilities and document management throughout the world.

We believe that our long experience and reputation for product quality, and our sales and support service organizations are important factors in influencing customer choices with respect to our products and services.

Research, Development and Intellectual Property

Our significant investment in research and development operations differentiates us from our competitors. We have many research and development programs that are directed toward developing new products and service offerings. As a result of our research and development efforts, we have been awarded a number of patents with respect to several of our existing and planned products. We do not believe our businesses are materially dependent on any one patent or any group of related patents or on any one license or any group of related licenses. Our expenditures for research and development were $206 million, $186 million and $165 million in 2008, 2007 and 2006, respectively.

Material Supplies

We depend on third-party suppliers for a variety of services, components, supplies and a large portion of our product manufacturing. We believe we have adequate sources for our purchases of materials, components, services and supplies for products that we manufacture or assemble. However, as we continue to shift from direct manufacturing to assembly of our products, we rely to an increasing extent on third-party suppliers.

Regulatory Matters

We are subject to the U.S. Postal Service s (USPS) regulations and those of foreign postal authorities, related to product specifications and business practices involving our postage meters. From time to time, we will work with these governing bodies to help in the enhancement and growth of mail and the mail channel. See Legal and Regulatory Matters in Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Form 10-K.

Employees and Employee Relations

At December 31, 2008, we employed 25,327 persons in the U.S. and 9,813 persons outside the U.S. Headcount decreased in 2008 compared to 2007 primarily due to our restructuring initiatives during 2008. We believe that our current relations with employees are very good. The large majority of our employees are not represented by any labor union. Our management follows the policy of keeping employees informed of decisions, and encourages and implements employee suggestions whenever practicable.

ITEM 1A. RISK FACTORS

In addition to other information and risk disclosures contained in this Form 10-K, the risk factors discussed in this section should be considered in evaluating our business. We work to manage and mitigate these risks proactively, including through our use of an enterprise risk management program. In our management of these risks, we also evaluate the potential for additional opportunities to mitigate these risks. Nevertheless, the following risks, some of which may be beyond our control, could materially impact our brand and reputation or results of operations or could cause future results to differ materially from our current expectations:

Postal regulations and processes

The majority of our revenue is directly or indirectly subject to regulation and oversight by the USPS and foreign postal authorities. We also 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 the United States, another country or in the European Union. Our profitability and revenue in a particular country could be affected by adverse changes in postal regulations, the business processes and practices of individual posts, the decision of a post to enter into particular markets in direct competition with us, and the impact of any of these changes on postal competitors that do not use our products or services. These changes could affect product specifications, service offerings, customer behavior and the overall mailing industry.

Accelerated decline in use of physical mail

Changes in our customers communication behavior, including changes in communications technologies, could adversely impact our revenue and profitability. Accelerated decline in physical mail could also result from government actions such as executive orders, legislation or regulations that either 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. While we have introduced various product and service offerings as alternatives to physical mail, we face competition from existing and emerging products and services that offer alternative means of communication, such as email and electronic document transmission technologies. An accelerated increase in the acceptance of electronic delivery technologies or other displacement of physical mail could adversely affect our business.

Reduced confidence in the mail system

Unexpected events such as the transmission of biological or chemical agents, or acts of terrorism could have a negative effect on customer confidence in a postal system and as a result adversely impact mail volume. An unexpected and significant interruption in the use of the mail could have an adverse effect on our business.

Dependence on third-party suppliers

We depend on third-party suppliers for a variety of services, components, supplies and a 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 or price or there are no alternative sources. If production or service was interrupted and we were not able to find alternate suppliers, we could experience disruptions in manufacturing and operations including product shortages, an increase in freight costs, and re-engineering costs. This could result in our inability to meet customer demand, damage our reputation and customer relationships and adversely affect our business.

Access to additional liquidity and current market volatility

We provide financing services to our customers for equipment, postage, and supplies. Our ability to provide these services is largely dependent upon our continued access to the U.S. capital markets. An additional source of liquidity for the company consists of deposits held in our wholly-owned industrial loan corporation, Pitney Bowes Bank (Bank). A significant credit ratings downgrade, material capital market disruptions, significant withdrawals by depositors at the Bank, or adverse changes to our industrial loan charter could impact our ability to maintain adequate liquidity, and impact our ability to provide competitive offerings to our customers.

The capital and credit markets have been experiencing extreme volatility and disruption for more than 12 months. In recent months, the volatility and disruption have reached unprecedented levels. In some cases, the markets have exerted downward pressure on stock prices and credit capacity for certain issuers. A sizeable portion of Pitney Bowes total borrowings has been issued in the commercial paper markets and, although Pitney Bowes has continued to have unencumbered access to the commercial paper markets, there can be no assurance that such markets will continue to be a reliable source of short-term financing for us. Under further deteriorating market conditions, there may be no assurance that other funding sources would be available or sufficient.

Privacy laws and other related regulations

Several of our services and financing businesses use, process and store customer information that could include confidential, personal or financial information. We also provide third party benefits administrators with access to our employees personal information. Privacy laws and similar regulations in many jurisdictions where we do business, as well as contractual provisions, require that we and our benefits administrators take significant steps to safeguard this information. Failure to comply with any of these laws, regulations or contract provisions could adversely affect our reputation and business and subject us to significant liability.

Dependence on information systems

Our portfolio of product, service and financing solutions increases our dependence on information technologies. We maintain a secure system to collect revenue for certain postal services, which is critical to enable both our systems and the postal systems to run reliably. The continuous and uninterrupted performance of our systems is critical to our ability to support and service our customers and to support postal services. Although we maintain back-up systems, these systems could be damaged by acts of nature, power loss, telecommunications failures, computer viruses, vandalism and other unexpected events. If our systems were disrupted, we could be prevented from fulfilling orders and servicing customers and postal services, which could have an adverse effect on our reputation and business.

Intellectual property infringement

We rely on copyright, trade secret, patent and other intellectual property laws in the United States and similar laws in other countries to establish and protect proprietary rights that are important to our business. If we fail to enforce our intellectual property rights, our business may suffer. We, or our suppliers, may be subject to third-party claims of infringement on intellectual property rights. These claims, if successful, may require us to redesign affected products, enter into costly settlement or license agreements, pay damage awards, or face a temporary or permanent injunction prohibiting us from marketing or selling certain of our products.

Litigation and regulation

Our results may be affected by the outcome of legal proceedings and other contingencies that cannot be predicted with certainty. As a large multi-national corporation that does business globally, subsequent developments in legal proceedings, including private civil litigations or proceedings brought by governmental entities, or changes in laws or regulations or their interpretation or administration, including developments in antitrust law or regulation, employment law or regulation, tax law and regulation, class actions, or intellectual property litigations, could result in an adverse effect on our results of operations. For a description of current legal proceedings and regulatory matters, see Legal Proceedings in Item 3 and Legal and Regulatory Matters in Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Form 10-K.

Government contracts

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our world headquarters and certain other facilities are located in Stamford, Connecticut. We have over 500 facilities that are either leased or owned throughout the U.S. and other countries. Our Mailstream Solutions and Mailstream Services businesses utilize these facilities jointly and separately. We continue to have limited manufacturing and assembly of products in our Danbury, Connecticut and Harlow, United Kingdom locations. We also have two principal research and development facilities in our Shelton, Connecticut and Noida, India locations. We believe that our manufacturing, administrative and sales office properties are adequate for the needs of all of our operations.

ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of business, we are routinely defendants in or party to a number of pending and threatened legal actions. These may involve litigation by or against us relating to, among other things:

- contractual rights under vendor, insurance or other contracts
- intellectual property or patent rights
- equipment, service, payment, contractual or other disputes with customers
- disputes with employees

These litigations are on occasion brought on behalf of purported classes of customers, employees or others.

Our wholly-owned subsidiary, Imagitas, Inc., is a defendant in ten purported class actions filed in six different states. These lawsuits have been coordinated in the United States District Court for the Middle District of Florida, In re: Imagitas, Driver s Privacy Protection Act Litigation (Coordinated, May 28, 2007). Each of these lawsuits alleges that the Imagitas DriverSource program violates the federal Drivers Privacy Protection Act (DPPA). Under the DriverSource program, Imagitas enters into contracts with state governments to mail out automobile registration renewal materials along with third party advertisements, without revealing the personal information of any state resident to any advertiser. The DriverSource program assists the state in performing its governmental function of delivering these mailings and funding the costs of them. The plaintiffs in these actions are seeking both statutory damages under the DPPA and an injunction against the continuation of the program. On April 9, 2008, the District Court granted Imagitas motion for summary judgment in one of the coordinated cases, Rine, et al. v. Imagitas, Inc. (United States District Court, Middle District of Florida, filed August 1, 2006). On July 30, 2008, the District Court issued a final judgment in the Rine lawsuit and stayed all of the other cases filed against Imagitas pending an appellate decision in Rine. On August 27, 2008, the Rine plaintiffs filed an appeal of the District Court s decision in the United States Court of Appeals, Eleventh Judicial Circuit. The appellate process in this case is proceeding.

We expect to prevail in the lawsuits against Imagitas; however, as litigation is inherently unpredictable, there can be no assurance in this regard. If the plaintiffs do prevail, the results may have a material effect on our financial position, future results of operations or cash flows, including, for example, our ability to offer certain types of goods or services in the future.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

We did not submit any matters to a vote of our stockholders during the three months ended December 31, 2008.

PART II

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

Pitney Bowes common stock is traded under the symbol PBI . The principal market is the New York Stock Exchange (NYSE). Our stock is also traded on the Boston, Chicago, Philadelphia, Pacific and Cincinnati stock exchanges. At January 31, 2009, we had 23,337 common stockholders of record.

On February 3, 2009, our Board of Directors authorized a one-cent increase of our quarterly common stock dividend to $0.36 per share, marking the 27th consecutive year that we have increased the dividend on our common stock. This represents a 3 percent increase and applies to the dividend with a record date of February 20, 2009.

See Equity Compensation Plan Information Table in Item 12 of this Form 10-K for information regarding securities for issuance under our equity compensation plans.

Stock Information

Dividends per common share:

Quarter	2008	2007
First	**$ 0.35**	$ 0.33
Second	**0.35**	0.33
Third	**0.35**	0.33
Fourth	**0.35**	0.33
Total	**$ 1.40**	$ 1.32

Quarterly price ranges of common stock as reported on the NYSE:

	2008		2007	
Quarter	High	Low	High	Low
First	**$ 38.35**	**$ 32.64**	$ 48.95	$ 44.61
Second	**$ 39.39**	**$ 33.56**	$ 49.70	$ 45.22
Third	**$ 39.98**	**$ 31.20**	$ 48.91	$ 43.04
Fourth	**$ 33.44**	**$ 20.83**	$ 47.07	$ 36.40

Share Repurchases

We repurchase shares of our common stock under a systematic program to manage the dilution created by shares issued under employee stock plans and for other purposes. This program authorizes repurchases in the open market. We have not repurchased or acquired any other shares of our common stock during 2008 in any other manner.

In March 2006, our Board of Directors authorized $300 million for repurchases of outstanding shares of our common stock in the open market of which $141.2 million remained for future purchases at December 31, 2006. We repurchased 3.0 million shares during the first five months of 2007 under this program for a total price of $141.2 million. There are no further funds available under this authorization for the repurchase of outstanding shares.

In March 2007, our Board of Directors authorized $300 million for repurchases of outstanding shares of our common stock in the open market. In November 2007, our Board of Directors increased this share repurchase authorization by $365.4 million. We repurchased 6.1 million shares at a total price of $258.8 million during 2007 under this program. During the first nine months of 2008, we repurchased 9.2 million shares at a total price of $333.2 million. No shares were purchased during the fourth quarter of 2008, leaving $73.4 million available for future repurchases under this program at December 31, 2008.

For the combined 2006 and 2007 programs, we repurchased a total of 9.1 million shares for a total price of $400.0 million during 2007.

Stock Performance Graph

The accompanying graph compares the most recent five-year performance of Pitney Bowes common stock with the Standard and Poor s (S&P) 500 Composite Index, and Peer Group Index.

The Peer Group Index is comprised of the following companies: Automatic Data Processing, Inc. (ADP), Diebold, Inc., R.R. Donnelley & Sons Co., DST Systems, Inc., Fedex Corporation, Hewlett-Packard Company, Ikon Office Solutions, Inc. (acquired by Ricoh Company, Ltd. on November 3, 2008), Lexmark International, Inc., Pitney Bowes Inc., United Parcel Service, Inc., and Xerox Corporation.

Total return for the Peer Group and the S&P 500 Composite Index is based on market capitalization, weighted for each year.

All information is based upon data independently provided to the Company by the Standard & Poor s Corporation and is derived from their official total return calculation.

The graph shows that on a total return basis, assuming reinvestment of all dividends, $100 invested in the company s common stock on December 31, 2003 would have been worth $74 on December 31, 2008. By comparison, $100 invested in the S&P 500 Composite Index on December 31, 2003 would have been worth $90 on December 31, 2008. An investment of $100 in the Peer Group on December 31, 2003 would have been worth $106 on December 31, 2008.

	Indexed Returns December 31,					
Company Name / Index	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Pitney Bowes	100	117	110	124	105	74
S&P 500	100	111	116	135	142	90
Peer Group	100	112	115	137	143	106

ITEM 6. SELECTED FINANCIAL DATA

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

Summary of Selected Financial Data
(Dollars in thousands, except per share amounts)

	Years ended December 31,				
	2008	**2007**	**2006**	**2005**	**2004**
Total revenue	**$ 6,262,305**	$ 6,129,795	$ 5,730,018	$ 5,366,936	$ 4,832,304
Total costs and expenses	**5,549,128**	5,469,084	4,815,528	4,555,268	4,223,914
Income from continuing operations before income taxes and minority interest	**713,177**	660,711	914,490	811,668	608,390
Provision for income taxes	**244,929**	280,222	335,004	328,597	197,317
Minority interest (preferred stock dividends of subsidiaries)	**20,755**	19,242	13,827	9,828	5,634
Income from continuing operations	**447,493**	361,247	565,659	473,243	405,439
(Loss) income from discontinued operations, net income tax	**(27,700)**	5,534	(460,312)	35,368	56,557
Net income	**$ 419,793**	$ 366,781	$ 105,347	$ 508,611	$ 461,996
Basic earnings per share of common stock: (1)					
Continuing operations	**$ 2.15**	$ 1.65	$ 2.54	$ 2.07	$ 1.76
Discontinued operations	**(0.13)**	0.03	(2.07)	0.15	0.24
Net income	**$ 2.01**	$ 1.68	$ 0.47	$ 2.22	$ 2.00
Diluted earnings per share of common stock:					
Continuing operations	**$ 2.13**	$ 1.63	$ 2.51	$ 2.04	$ 1.73
Discontinued operations	**(0.13)**	0.03	(2.04)	0.15	0.24
Net income	**$ 2.00**	$ 1.66	$ 0.47	$ 2.19	$ 1.97
Total cash dividends on common, preference and preferred stock	**$ 291,611**	$ 288,790	$ 285,051	$ 284,348	$ 282,265
Cash dividends per share of common stock	**$ 1.40**	$ 1.32	$ 1.28	$ 1.24	$ 1.22
Average common and potential common shares outstanding	**209,699,471**	221,219,746	225,443,060	232,089,178	234,229,987
Depreciation and amortization	**$ 379,117**	$ 383,141	$ 363,258	$ 331,963	$ 306,750
Capital expenditures	**$ 237,308**	$ 264,656	$ 327,877	$ 291,550	$ 316,982
Balance sheet					
Total assets	**$ 8,736,431**	$ 9,465,731	$ 8,527,331	$ 10,553,957	$ 10,161,682
Long-term debt	**$ 3,934,865**	$ 3,802,075	$ 3,847,617	$ 3,849,623	$ 3,164,688
Total debt	**$ 4,705,366**	$ 4,755,842	$ 4,338,157	$ 4,707,365	$ 4,375,163
Preferred stockholders equity in subsidiary companies	**$ 374,165**	$ 384,165	$ 384,165	$ 310,000	$ 310,000
Stockholders (deficit) equity (see Note 9)	**$ (187,879)**	$ 660,169	$ 716,055	$ 1,381,115	$ 1,366,018
Other					
Common stockholders of record	**21,914**	21,574	22,923	23,639	26,129

Total employees	**35,140**	36,165	34,454	34,165	35,183

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

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) contains statements that are forward-looking. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially because of factors discussed in Forward-Looking Statements and elsewhere in this report.

Overview

Revenue grew 2% in 2008 to $6.3 billion, of which acquisitions contributed 3%.

Income from continuing operations was $447.5 million in 2008 compared with $361.2 million in 2007 and diluted earnings per share from continuing operations was $2.13 compared with $1.63 in 2007. Diluted earnings per share from continuing operations was reduced by restructuring charges and asset impairment charges of 69 cents and 87 cents, in 2008 and 2007, respectively. In 2008, diluted earnings per share from continuing operations also included positive tax adjustments of 4 cents related primarily to deferred tax assets associated with certain U.S. leasing transactions. In 2007, diluted earnings per share from continuing operations was also reduced by 5 cents for the purchase accounting alignment of MapInfo, and 16 cents for tax adjustments related principally to a valuation allowance for net operating losses outside the U.S.

Despite volatile economic conditions, particularly in the second half of 2008, certain of our business segments produced solid results, including both revenue and EBIT growth at International Mailing, Mail Services and Marketing Services. In addition, International Mailing, worldwide Production Mail, and Marketing Services improved their EBIT margins as well. These strong performances were offset by revenue declines at U.S. Mailing due to lower equipment sales due in part from the prior year stimulus from sales of shape-based kits, lower financing and rental revenues. Also, declines in worldwide Production Mail were due to the effects of a slowdown in U.S. sales as large enterprises curtailed large-ticket capital expenditures due to ongoing credit constraints and global economic uncertainty.

In late 2007, we announced a plan to lower our cost structure, accelerate efforts to improve operational efficiencies, enhance our customer experience, and to transition our product line. On completion of this program, which continued throughout 2008, we reduced our global workforce by roughly eight percent and improved margins in many of our business segments.

In addition, we generated $990 million in cash from operations during 2008.

See Results of Operations for 2008, 2007 and 2006 for a more detailed discussion of our results of operations.

Outlook

Our business model and the actions we have taken to significantly reduce costs and streamline our operations, will help mitigate, but do not eliminate the effects of prolonged global economic weakness and unanticipated currency fluctuations. Two external factors in particular, the strengthening of the U.S. dollar and the Japanese yen last year and the significant increase in pension costs related to recent changes in capital markets and other assumptions, will negatively impact 2009 reported results.

We expect our mix of revenue to continue to change, with a greater percentage of revenue coming from diversified revenue streams associated with fully featured smaller systems and a smaller percentage from larger system sales. In addition, we expect to derive further synergies from our recent acquisitions. We will continue to remain focused on enhancing our productivity and to allocate capital in order to optimize our returns.

Results of Operations 2008 Compared to 2007

Business segment revenue

The following table shows revenue in 2008 and 2007 by business segment.

Prior year results have been reclassified to conform to the current year presentation. Refer to Note 18 to the Consolidated Financial Statements for further detail on these changes.

(Dollars in millions)	2008	2007	% change	% contribution from acquisitions
Revenue:				
U.S. Mailing	**$ 2,207**	$ 2,364	(7)%	0%
International Mailing	**1,133**	1,070	6%	1%
Production Mail	**616**	623	(1)%	0%
Software	**400**	326	23%	20%
Mailstream Solutions	**4,356**	4,383	(1)%	2%
Management Services	**1,172**	1,135	3%	6%
Mail Services	**542**	441	23%	10%
Marketing Services	**192**	171	12%	5%
Mailstream Services	**1,906**	1,747	9%	7%
Total Revenue	**$ 6,262**	$ 6,130	2%	3%

Mailstream Solutions revenue decreased 1% to $4.4 billion. Within Mailstream Solutions:

U.S. Mailing s revenue decreased 7% due to lower equipment placements, rental revenue, and lower financing revenue. The lower equipment revenues were driven in part by the prior year benefits from the sale of mailing equipment shape-based upgrade kits and by customer buying decisions influenced by uncertainty created by weak economic conditions. International Mailing s revenue grew by 6% and benefited 2% from favorable foreign currency translation and 1% from acquisitions. Revenue growth benefited from strong growth in France, Germany, Norway and other parts of Europe as well as in Latin America; and continued growth in supplies. Worldwide revenue for Production Mail decreased 1% due to lower equipment sales in the U.S., parts of Europe and Latin America as economic uncertainty slowed large-ticket capital expenditures by many large enterprises worldwide. This decrease was partly offset by continued strong demand in the U.K. and France for high-speed, intelligent inserting systems. Software revenue increased 23% from prior year, driven by the positive impact of acquisitions of 20%. Software sales increased outside of the U.S., but declined within the U.S. driven by the economic uncertainty, which has resulted in fewer large-ticket licensing deals than in the prior year as customers assess the overall business environment.

Mailstream Services revenue grew 9% to $1.9 billion. Within Mailstream Services:

Management Services revenue grew 3% driven by acquisitions, which contributed 6% to segment revenue growth. The segment s revenue growth was partially offset by lower print and transaction volumes for some customers, especially in the U.S. financial services sector. Mail Services revenue grew 23% due to continued growth in presort and international mail services of 14% and acquisitions, which contributed 10% to segment revenue growth. Marketing Services revenue grew 12% driven primarily by higher volumes in our mover-source program, partially offset by the company s planned phased exit from the motor vehicle registration services program.

Business segment earnings before interest and taxes (EBIT)

We use EBIT as a measure of our segment profitability.

Refer to the reconciliation of segment amounts to income from continuing operations before income taxes and minority interest in Note 18 to the Consolidated Financial Statements.

The following table shows EBIT in 2008 and 2007 by business segment.

Prior year results have been reclassified to conform to the current year presentation. Refer to Note 18 to the Consolidated Financial Statements for further detail on these changes.

(Dollars in millions)	2008	2007	% change
EBIT			
U.S. Mailing	**$ 896**	$ 965	(7)%
International Mailing	**185**	162	14%
Production Mail	**81**	74	10%
Software	**28**	37	(23)%
Mailstream Solutions	**1,190**	1,238	(4)%
Management Services	**70**	76	(8)%
Mail Services	**69**	57	22%
Marketing Services	**16**	9	76%
Mailstream Services	**155**	142	9%
Total EBIT	**$ 1,345**	$ 1,380	(3)%

Mailstream Solutions EBIT decreased 4% to $1.2 billion. Within Mailstream Solutions:

U.S. Mailing s EBIT decreased 7% principally due to the lower revenue growth, but was partly offset by positive impacts of our ongoing actions to reduce costs and streamline operations. International Mailing s EBIT grew 14% as improved EBIT margins resulted from the Company s actions over the last two years to reduce costs through the outsourcing of manufacturing and the consolidation of back office operations. Production Mail s EBIT increased 10% due to ongoing actions to reduce administrative costs and improve gross margins in anticipation of a slowing capital investment environment. Software s EBIT decreased 23% primarily due to the lower revenues in the U.S., product mix and the planned investments in the expansion of the Company s distribution channel and globalization of its research and development infrastructure.

Mailstream Services EBIT increased 9% to $155 million. Within Mailstream Services:

Management Services EBIT decreased 8% due to weakness in the Company s management services businesses outside the U.S., particularly in the U.K. and Germany. These decreases were partially offset by actions taken to reduce the fixed cost structure of its U.S. operations. Mail Services EBIT increased 22% as a result of operating leverage from an increase in mail volume and increased operating efficiency, partly offset by the integration costs associated with acquisitions in the U.S. and U.K. Marketing Services EBIT increased by 76% driven by higher volumes in the Company s mover-source program and its phased exit from the motor vehicle registration services program.

Revenue by source

(Dollars in millions)	2008	2007	% change
Equipment sales	**$ 1,252**	$ 1,336	(6)%
Supplies	**392**	393	0%
Software	**424**	346	23%
Rentals	**728**	739	(1)%
Financing	**773**	790	(2)%
Support services	**769**	761	1%
Business services	**1,924**	1,765	9%
Total revenue	**$ 6,262**	$ 6,130	2%

Equipment sales revenue decreased 6% compared to the prior year. Lower sales of equipment in U.S. Mailing were primarily due to the postal rate case in 2007, which resulted in incremental sales of mailing equipment shape-based upgrade kits during that period and pulled sales forward from 2008, weakening global economic conditions, and product shift toward smaller, fully featured postage machines. International sales revenue, excluding the positive impact from foreign currency of 2% and acquisitions of 2%, increased 2% principally due to a postal rate change in the first quarter of 2008 in France, combined with higher equipment placements throughout Europe. Foreign currency translation contributed an overall favorable impact of 1% to equipment sales revenue.

Supplies revenue in 2008 was flat compared to the prior year. The decline of supplies revenue in the U.S was due to lower volumes, offset by an increase in supplies revenue in Europe as our customers continue to migrate to digital technology. Foreign currency translation contributed 1% to supplies revenue.

Software revenue increased by 23% from the prior year primarily driven by acquisitions which contributed 19% to revenue growth and strong international demand for our location intelligence and customer communication software solutions. Foreign currency translation had a negative impact of 2%.

Rentals revenue decreased 1% compared to the prior year. Favorable foreign currency translation of 1% and higher demand in France were offset by lower revenue in the U.S., as our customers continue to downsize to smaller, fully featured machines.

Financing revenue decreased 2% compared to the prior year. Lower equipment sales have resulted in a corresponding decline in the U.S. lease portfolio.

Support services revenue increased 1% from the prior year primarily due to the favorable impact of foreign currency translation of 1%. Renewals and pricing increases offset the impact of customers down-sizing their equipment.

Business services revenue increased 9% from the prior year, of which acquisitions contributed 7%. The additional growth was driven by higher revenues in Mail Services and Marketing Services, partly offset by lower transaction volumes in Management Services.

Costs of revenue

			Percentage of Revenue	
(Dollars in millions)	**2008**	**2007**	**2008**	**2007**
Cost of equipment sales	**$ 663**	$ 697	**53.0%**	52.2%
Cost of supplies	**$ 104**	$ 107	**26.5%**	27.1%
Cost of software	**$ 101**	$ 82	**23.9%**	23.7%
Cost of rentals	**$ 154**	$ 171	**21.1%**	23.2%
Cost of support services	**$ 448**	$ 433	**58.3%**	56.9%
Cost of business services	**$ 1,508**	$ 1,381	**78.4%**	78.2%

Cost of equipment sales as a percentage of revenue increased to 53.0% in 2008 compared with 52.2% in the prior year, primarily due to the increase in mix of lower margin equipment sales outside the U.S. and the prior year sales of high margin upgrade kits.

Cost of supplies as a percentage of revenue decreased to 26.5% in 2008 compared with 27.1% in the prior year. This variance is driven by a change in the mix of business.

Cost of software as a percentage of revenue increased to 23.9% in 2008 compared with 23.7% in the prior year primarily due to a change in the mix of business.

Cost of rentals as a percentage of revenue decreased to 21.1% in 2008 compared with 23.2% in the prior year primarily due to lower depreciation costs related to the transition of our product line.

Cost of support services as a percentage of revenue increased to 58.3% in 2008 compared with 56.9% in the prior year. Improvements in our Production Mail segment due to the impact of our transition initiatives were more than offset by higher service costs in our U.S. and International Mailing businesses.

Cost of business services as a percentage of revenue was 78.4% in 2008 compared with 78.2% in the prior year. For Mail Services, continued integration costs associated with the current year acquisitions of a multi-site presort operation in the U.S. and U.K. were more than offset by the successful integration of other recently acquired sites and productivity improvements.

Selling, general and administrative expenses

			Percentage of Revenue	
(Dollars in millions)	**2008**	**2007**	**2008**	**2007**
	$ 1,948	$ 1,907	**31.1%**	31.1%

Selling, general and administrative expenses, as a percentage of total revenue, remained flat at 31.1%. The benefits gained from our transition initiatives were offset by lower revenue growth and a shift in the mix of our business as well as higher credit loss expenses in the U.S. Software, which is continuing to become a larger portion of our overall business, has a relatively higher selling, general and administrative expense ratio.

Research and development expenses

(Dollars in millions)	2008	2007	% change
	$ 206	$ 186	11%

Research and development expenses increased $20 million, or 11%, as we continue to invest in developing new technologies, enhancing our products, and expanding our offshore development capabilities. R&D expenses as a percentage of total revenue increased to 3.3% in 2008 from 3.0% in 2007.

Net interest expense

(Dollars in millions)	2008	2007	% change
	$ 216	$ 242	(11)%

Net interest expense decreased $25 million or 11%, from prior year due to lower average interest rates during the year. Our variable and fixed rate debt mix, after adjusting for the effect of interest rate swaps, was 22% and 78%, respectively, at December 31, 2008.

We do not allocate interest costs to our business segments.

Income taxes / effective tax rate

2008	2007
34.3%	42.4%

The effective tax rate declined 8.1% in 2008 primarily as a result of a $54 million tax charge in 2007 related principally to a valuation allowance for certain deferred tax assets and tax rate changes outside the U.S.

Minority interest (preferred stock dividends of subsidiaries)

(Dollars in millions)	2008	2007	% change
	$ 21	$ 19	8%

Minority interest includes dividends paid to preferred stockholders in subsidiary companies. In August 2008, we redeemed 100% of the outstanding Cumulative Preferred Stock issued previously by a subsidiary company for $10 million. This redemption resulted in a net loss of $1.8 million accounting for the year over year increase.

Discontinued operations

(Dollars in millions)	2008	2007
Revenue	**$**	$
Pretax income	**$**	$
Net income	**$ (28)**	$ 6
Total discontinued operations, net of tax	**$ (28)**	$ 6

Net loss in 2008 includes accruals of tax and interest on uncertain tax positions. 2007 includes a gain of $11.3 million from uncertain tax positions, net of an interest accrual for uncertain tax positions of $5.8 million. See Note 2 to the Consolidated Financial Statements for further discussion and details of discontinued operations.

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Results of Operations 2007 Compared to 2006

Business segment revenue

The following table shows revenue in 2007 and 2006 by business segment.

Results have been reclassified to conform to the current year presentation. Refer to Note 18 to the Consolidated Financial Statements for further detail on these changes.

(Dollars in millions)	2007	2006	% change	% contribution from acquisitions
Revenue:				
U.S. Mailing	**$ 2,364**	$ 2,362	0%	1%
International Mailing	**1,070**	1,013	6%	0%
Production Mail	**623**	596	5%	2%
Software	**326**	182	79%	31%
Mailstream Solutions	**4,383**	4,153	6%	3%
Management Services	**1,135**	1,074	6%	3%
Mail Services	**441**	358	23%	4%
Marketing Services	**171**	145	18%	14%
Mailstream Services	**1,747**	1,577	11%	5%
Total Revenue	**$ 6,130**	$ 5,730	7%	4%

Mailstream Solutions revenue increased 6% to $4.4 billion. Within Mailstream Solutions:

U.S. Mailing s revenue remained flat. Revenue benefited from growth in supplies, payment solutions, and the sale of equipment related to shape-based rating. However, results were unfavorably impacted by lower equipment sales due to the wind-down of meter migration and weak economic conditions. International Mailing s revenue grew by 6%, including favorable foreign currency translation of 8%. The segment s results were negatively impacted by lower sales and rentals in Europe as delays in postal liberalization across Europe affected customer purchases. Worldwide revenue for Production Mail grew by 5%, primarily driven by favorable foreign currency of 3% and acquisitions as higher equipment placements in the U.S. were offset by lower sales in Europe. Software s revenue grew by 79% driven by continued strong worldwide demand for our software solutions, the acquisition of MapInfo, and favorable foreign currency translation of 4%.

Mailstream Services revenue increased 11% to $1.7 billion. Within Mailstream Services:

Management Services revenue increased by 6% due to the acquisition of Asterion SAS and favorable foreign currency translation of 2%. The segment s revenue growth was negatively impacted by weakness in our legal solutions vertical as well as print contracts in 2006 that did not repeat in 2007. Mail Services revenue increased by 23% due to continued growth in presort and cross-border mail services. Marketing Services revenue increased by 18% driven primarily by acquisitions. Revenue growth for this segment was negatively affected by lower revenue from our motor vehicle registration services program.

Business segment earnings before interest and taxes (EBIT)

We use EBIT as a measure of our segment profitability.

Refer to the reconciliation of segment amounts to income from continuing operations before income taxes and minority interest in Note 18 to the Consolidated Financial Statements.

The following table shows EBIT in 2007 and 2006 by business segment.

Results have been reclassified to conform to the current year presentation. Refer to Note 18 to the Consolidated Financial Statements for further detail on these changes.

(Dollars in millions)	2007	2006	% change
EBIT			
U.S. Mailing	**$ 965**	$ 950	2%
International Mailing	**162**	179	(10)%
Production Mail	**74**	69	9%
Software	**37**	30	22%
Mailstream Solutions	**1,238**	1,228	1%
Management Services	**76**	83	(9)%
Mail Services	**57**	37	53%
Marketing Services	**9**	20	(55)%
Mailstream Services	**142**	140	1%
Total EBIT	**$ 1,380**	$ 1,368	1%

Mailstream Solutions EBIT increased 1% to $1.2 billion. Within Mailstream Solutions:

U.S. Mailing s EBIT grew 2% due to the increase in mix of higher margin revenue from payment solutions and supplies as well as our continued focus on controlling operating expenses. International Mailing EBIT decreased 10%. The segment s profitability was adversely impacted by lower equipment sales and rentals in Europe, and incremental costs in 2007 related to back office operations, including the outsourcing of our European order and financial processing. Production Mail EBIT increased 9% driven primarily by revenue growth and net legal recoveries of approximately $4 million in Europe. Software EBIT increased 22%, driven by revenue growth partially offset by integration costs for the MapInfo acquisition.

Mailstream Services EBIT increased 1% to $142 million. Within Mailstream Services:

Management Services EBIT decreased 9% due to continued weakness in our legal solutions vertical. Mail Services EBIT grew by 53% driven by revenue growth, successful integration of acquired sites, and increased operating efficiencies. Marketing Services EBIT decreased 55%, principally due to lower revenue in our motor vehicle registration services program.

Revenue by source

(Dollars in millions)	2007	2006	% change
Equipment sales	**$ 1,336**	$ 1,373	(3)%
Supplies	**393**	340	16%
Software	**346**	202	71%
Rentals	**739**	785	(6)%
Financing	**790**	725	9%
Support services	**761**	717	6%
Business services	**1,765**	1,588	11%
Total revenue	**$ 6,130**	$ 5,730	7%

Equipment sales revenue decreased 3% from the prior year, primarily due to lower sales of mailing equipment in the U.S. and Europe, partially offset by favorable foreign currency translation of 3%.

Supplies revenue increased 16% from the prior year due to the continued transition of our meter base to digital technology. Acquisitions and foreign currency translation contributed 4% and 3% to this growth, respectively.

Software revenue increased 71% from the prior year primarily driven by strong worldwide demand for our software solutions, acquisitions which contributed 50%, and currency translation which contributed 4%.

Rentals revenue decreased 6% from the prior year due to the continued downsizing by customers to smaller machines.

Financing revenue increased 9% from the prior year primarily due to higher revenue from payment solutions and equipment leases. Foreign currency translation accounted for 2% of this growth.

Support services revenue increased 6% from the prior year due primarily to acquisitions, which contributed 2%, and foreign currency translation, which contributed 3% to this growth.

Business services revenue increased 11% over the prior year. This increase was driven by strong growth in our presort and cross-border mail services. Acquisitions contributed 5% and foreign currency translation contributed 1% to this growth.

Costs of revenue

(Dollars in millions)			Percentage of Revenue	
	2007	2006	2007	2006
Cost of equipment sales	**$ 697**	$ 694	**52.2%**	50.5%
Cost of supplies	**$ 107**	$ 90	**27.1%**	26.5%
Cost of software	**$ 82**	$ 43	**23.7%**	21.3%
Cost of rentals	**$ 171**	$ 171	**23.2%**	21.8%
Cost of support services	**$ 433**	$ 400	**56.9%**	55.8%
Cost of business services	**$ 1,381**	$ 1,242	**78.2%**	78.2%

Cost of equipment sales as a percentage of revenue increased to 52.2% in 2007 compared with 50.5% in the prior year, primarily due to the decrease in mix of higher margin equipment sales in the U.S.

Cost of supplies as a percentage of revenue increased to 27.1% in 2007 compared with 26.5% in the prior year, primarily due to increased sales of private label toner, ink and other supplies which have lower margins than our meter-related supplies.

Cost of software as a percentage of revenue increased to 23.7% in 2007 compared with 21.3% in the prior year, primarily due to the acquisition of MapInfo.

Cost of rentals as a percentage of revenue increased to 23.2% in 2007 compared with 21.8% in the prior year, primarily due to higher depreciation costs from placements of new digital meters.

Cost of support services as a percentage of revenue increased to 56.9% in 2007 compared with 55.8% in the prior year, primarily due to an increase in mix of production mail and international mailing revenue.

Cost of business services as a percentage of revenue remained flat at 78.2%. Improving margins in our presort and cross-border services were offset by lower margins in our legal solutions business.

Selling, general and administrative expenses

(Dollars in millions)			Percentage of Revenue	
	2007	2006	2007	2006
	$ 1,907	$ 1,764	**31.1%**	30.8%

Selling, general and administrative expenses, as a percentage of total revenue, increased to 31.1% compared with 30.8% in the prior year. This increase was due to the impact of acquisitions which offset the benefits from productivity initiatives.

Research and development expenses

(Dollars in millions)	2007	2006	% change
	$ 186	$ 165	12%

Research and development expenses increased 12% over the prior year, primarily due to the acquisition of MapInfo. Our investment in research and development reflects higher expenses for software development and our continued focus on developing new technologies and enhancing features for all of our different products.

Net interest expense

(Dollars in millions)	2007	2006	% change
	$ 242	$ 213	14%

Net interest expense increased 14% in 2007 due to higher average interest rates and higher average borrowings during the year. Also, in 2006 we had interest income on the cash balance that resulted from the Capital Services divestiture. Our variable and fixed rate debt mix, after adjusting for the effect of interest rate swaps, was 19% and 81%, respectively, at December 31, 2007.

We do not allocate interest costs to our business segments.

Income taxes / effective tax rate

2007	2006
42.4%	36.6%

The effective tax rate for continuing operations for 2007 included $54 million of tax charges related principally to a valuation allowance for certain deferred tax assets and tax rate changes outside the U.S. The effective tax rate for 2006 included a $20 million charge related to the IRS settlement discussed in Note 9 to the Consolidated Financial Statements.

Minority interest (preferred stock dividends of subsidiaries)

(Dollars in millions)	2007	2006	% change
	$ 19	$ 14	39%

Minority interest includes dividends paid to preferred stockholders in subsidiary companies. Minority interest increased by $5 million compared with the prior year, primarily due to an increase in the average outstanding preferred shares and a higher weighted average dividend rate.

Discontinued operations

(Dollars in millions)	2007	2006
Revenue	**$**	$ 81
Pretax income	**$**	$ 29
Net income	**$ 6**	$ 31
Gain on sale of Imagistics, net of $7 tax expense		11
FSC tax law change		(16)
Additional tax on IRS settlement		(41)
Loss on sale of Capital Services, net of $285 tax benefit		(445)
Total discontinued operations, net of tax	**$ 6**	$ (460)

Net income in 2007 includes a gain of $11.3 million from the conclusion of certain tax issues net of an interest accrual for uncertain tax positions of $5.8 million. In 2006, we completed the sale of our Capital Services external financing business and our Imagistics lease portfolio. See Note 2 to the Consolidated Financial Statements for further discussion and details of discontinued operations.

Other (Income) Expense

In 2007 and 2006, we recorded pre-tax gains of approximately $3 million and $5 million, respectively, related to a revised liability estimate associated with the settlement of a previous lawsuit and net pre-tax charges of approximately $3 million in 2007 and $2 million in 2006 for other legal matters. These amounts are included in other (income) expense in the Consolidated Statements of Income.

Restructuring Charges and Asset Impairments

We recorded pre-tax restructuring charges and asset impairments of $200.3 million and $264.0 million for the years ended December 31, 2008 and 2007, respectively. These charges primarily relate to a program we announced in November 2007 to lower our cost structure, accelerate efforts to improve operational efficiencies, and transition our product line. For the year ended December 31, 2008, the asset impairment charges included in restructuring activities relate to older technology equipment of $28.5 million and other assets of $2.2 million. For the year ended December 31, 2007, the asset impairment charges included in restructuring activities related to the write-off of inventory of $48.1 million, rental assets of $61.5 million, lease residual values of $46.1 million and other assets of $8.8 million.

Additional asset impairments, unrelated to restructuring, were also recorded in 2008 and 2007. For 2008, these other impairment charges are related to intangible assets of $16.0 million principally due to a loss of a customer in our Marketing Services business and the ongoing shift in market conditions for the litigation support vertical in our Management Services business. For 2007, additional asset impairment charges included the write-down of certain intangible assets for $8.5 million.

Other exit costs of $35.3 million and $5.8 million in 2008 and 2007, respectively, relate primarily to lease termination fees, facility closing costs, contract cancellation costs and outplacement costs.

As of December 31, 2008, 1,926 terminations have occurred under the restructuring program and approximately 300 additional unfilled positions have been eliminated. The majority of the liability at December 31, 2008 is expected to be paid by the end of 2009 from cash generated from operations.

The pre-tax restructuring charges and asset impairments are composed of:

(Dollars in millions)	**Balance at December 31, 2007**	**2008 Expense**	**Cash payments**	**Non-cash Charges**	**Balance at December 31, 2008**
Severance and benefit costs	$ 81	**$ 118**	**$ (91)**	**$**	**$ 108**
Asset impairments		**47**		**(47)**	
Other exit costs	6	**35**	**(8)**		**33**
Total	$ 87	**$ 200**	**$ (99)**	**$ (47)**	**$ 141**

(Dollars in millions)	**Balance at December 31, 2006**	**2007 Expense**	**Cash payments**	**Non-cash Charges**	**Balance at December 31, 2007**
Severance and benefit costs	$	$ 85	$ (4)	$	$ 81
Asset impairments		173		(173)	
Other exit costs		6			6
Total	$	$ 264	$ (4)	$ (173)	$ 87

In January 2003, we undertook restructuring initiatives related to realigned infrastructure requirements and reduced manufacturing needs for digital equipment. In connection with this plan, we recorded pre-tax restructuring charges of $36 million for the year ended December 31, 2006. The program was completed during 2006 and, therefore, there were no additional restructuring charges related to this plan after December 31, 2006. We made restructuring payments of $3 million, $29 million and $51 million during 2008, 2007 and 2006, respectively. See Note 1 to the Consolidated Financial Statements for our accounting policy related to restructuring charges and asset impairments.

Acquisitions

On April 21, 2008, we acquired Zipsort, Inc. for $39 million in cash, net of cash acquired. Zipsort, Inc. acts as an intermediary between customers and the U.S. Postal Service. Zipsort, Inc. offers mailing services that include presorting of first class, standard class, flats, permit and international mail as well as metering services. We assigned the goodwill to the Mail Services segment.

On September 12, 2007, we acquired Asterion SAS for $29 million in cash, net of cash acquired. Asterion is a leading provider of outsourced transactional print and document process services in France. We assigned the goodwill to the Management Services segment.

On May 31, 2007, we acquired the remaining shares of Digital Cement, Inc. for a total purchase price of $52 million in cash, net of cash acquired. Digital Cement, Inc. provides marketing management strategy and services to help companies acquire, retain, manage, and grow their customer relationships. We assigned the goodwill to the Marketing Services segment.

On April 19, 2007, we acquired MapInfo Corporation for $436 million in cash, net of cash acquired. Included in the assets and liabilities acquired were short-term investments of $46 million and debt assumed of $14 million. MapInfo is a global company and a leading provider of location intelligence software and solutions. We assigned the goodwill to the Software segment. As part of the purchase accounting for MapInfo, we aligned MapInfo s accounting policies for software revenue recognition with ours. Accordingly, certain software revenue that was previously recognized by MapInfo on a periodic basis has now been recognized over the life of the contract.

We accounted for these acquisitions using the purchase method of accounting and accordingly, the operating results of these acquisitions have been included in our consolidated financial statements since the date of acquisition. Acquisitions made in 2008 did not materially impact our diluted earnings per share for the year. As a result of the purchase accounting alignment, the acquisition of MapInfo reduced our diluted earnings per share by 5 cents in 2007.

During 2008 and 2007, we also completed several smaller acquisitions, the costs of which were $29.7 million and $86.6 million, respectively. These acquisitions did not have a material impact on our financial results. See Note 3 to the Consolidated Financial Statements for further details.

Liquidity and Capital Resources

We believe that cash flow from operations, existing cash and liquid investments, as well as borrowing capacity under our commercial paper program, the existing credit facility and debt capital markets should be sufficient to finance our capital requirements and to cover our customer deposits. Our potential uses of cash include but are not limited to the following: growth and expansion opportunities; internal investments; customer financing; tax payments; interest and dividend payments; share repurchase program; pension and other benefit plan funding; and acquisitions.

In light of recent market events, we have conducted an extensive review of our liquidity provisions. We have carefully monitored for material changes in the creditworthiness of those banks acting as derivative counterparties, depository banks or credit providers to us through credit ratings and the credit default swap market. We have determined that there has not been a material variation in the underlying sources of cash flows currently used to finance the operations of the company. To date, we have had consistent access to the commercial paper market.

Cash Flow Summary

The change in cash and cash equivalents is as follows:

(Dollars in millions)

	2008	2007
Cash provided by operating activities	**$ 990**	$ 1,060
Cash used in investing activities	**(234)**	(726)
Cash used in financing activities	**(742)**	(204)
Effect of exchange rate changes on cash	**(15)**	8
(Decrease) increase in cash and cash equivalents	**$ (1)**	$ 138

2008 Cash Flows

Net cash provided by operations consisted primarily of net income adjusted for non-cash items and changes in operating assets and liabilities. The strong cash flow provided by operations for 2008 is primarily due to the timing of tax payments, which favorably contributed $122 million, and the receipt of $44 million related to the unwind of an interest rate swap, which is described in further detail in Note 8 to the Consolidated Financial Statements. Partially offsetting these positive impacts was a reduction in accounts payable and accrued liabilities of $77 million, primarily due to timing of these payments.

Net cash used in investing activities consisted of capital expenditures of $237 million primarily for rental assets and acquisitions of $68 million partially offset by proceeds from short-term and other investments of $36 million, and increased reserve account balances for customer deposits of $33 million.

Net cash used in financing activities was $742 million and consisted primarily of stock repurchases of $333 million, dividends paid of $292 million, and a net payment of debt of $125 million, which was partly offset by proceeds of $20 million from the issuance of common stock associated with employee stock plans. We also paid $12 million associated with the redemption of 100% of the outstanding Cumulative Preferred Stock issued previously by a subsidiary company.

2007 Cash Flows

Net cash provided by operations consisted primarily of net income adjusted for non-cash items and changes in operating assets and liabilities. The strong cash flow provided by operations for 2007 is primarily driven by tax refunds and lower tax payments, lower investment in finance receivables, and increased management attention on working capital which resulted in lower accounts receivable, inventory and accounts payable balances.

Net cash used in investing activities consisted of acquisitions of $594 million and capital expenditures of $265 million partially offset by proceeds from the sale of a training facility for $30 million, proceeds from short-term investments of $42 million, and increased reserve account balances for customer deposits of $63 million.

Net cash used in financing activities was $204 million and consisted primarily of stock repurchases of $400 million and dividends paid of $289 million, primarily offset by a net borrowing of debt of $377 million and proceeds from stock issuance of $108 million.

Capital Expenditures

During 2008, capital expenditures included net additions of $122.0 million to property, plant and equipment and $115.3 million in net additions to rental equipment and related inventories compared with $142.1 million and $122.6 million, respectively, in 2007. The decrease in property, plant and equipment is due mostly to the continuing shift toward leased equipment in our Management Services segment.

Financings and Capitalization

We have a commercial paper program that is a significant source of liquidity for the Company. During 2008, we have continued to have consistent access to the commercial paper market. As of December 31, 2008, we had $610 million of outstanding commercial paper issuances. We also have a committed line of credit of $1.5 billion which supports commercial papers issuance and is provided by a syndicate of 14 banks until 2011. As of December 31, 2008, this line of credit had not been drawn down. In addition, we filed a Well-known Seasoned Issuer registration statement with the SEC in June 2008 which permits the issuance of debt securities, preferred stock, preference stock, common stock, purchase contracts, depositary shares, warrants and units.

On March 4, 2008, we issued $250 million of 10 year fixed rate notes with a coupon rate of 5.60%. The interest is paid semi-annually beginning September 2008. The notes mature on March 15, 2018. We simultaneously entered into two interest rate swaps for a total notional amount of $250 million to convert the fixed rate debt to a floating rate obligation bearing interest at 6 month LIBOR plus 111.5 basis points. The proceeds from these notes were used for general corporate purposes, including the repayment of commercial paper and repurchase of our stock.

In December 2007, we entered into a $150 million syndicated bank transaction priced at 3 month LIBOR plus 35 basis points. The proceeds from this credit facility, due 2012, were used to pay off the $150 million variable rate debt that was due in 2010.

In September 2007, we issued $500 million of unsecured fixed rate notes maturing in September 2017. These notes bear interest at an annual rate of 5.75% and pay interest semi-annually beginning in March 2008. The proceeds from these notes were used for general corporate purposes, including the repayment of commercial paper, the financing of acquisitions and repurchase of our stock.

We believe our financing needs in the short and long-term can be met from cash generated internally, borrowing capacity from existing credit agreements, available debt issuances under existing shelf registration statements and our existing commercial paper program. Information on debt maturities is presented in Note 8 to the Consolidated Financial Statements.

The following summarizes our known contractual obligations at December 31, 2008 and the effect that such obligations are expected to have on our liquidity and cash flow in future periods:

Contractual Obligations	**Payments due by period**				
(Dollars in millions)	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Commercial paper borrowings	**$ 610**	$ 610	$	$	$
Long-term debt and current portion of long-term debt	**4,025**	150		925	2,950
Non-cancelable operating lease obligations	**267**	81	107	54	25
Capital lease obligations	**19**	6	10	2	1
Purchase obligations (1)	**367**	283	60	20	4
Other non-current liabilities (2)	**809**		172	46	591
Total	**$ 6,097**	$ 1,130	$ 349	$ 1,047	$ 3,571

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

(2) Other non-current liabilities relate primarily to our postretirement benefits. See Note 13 to the Consolidated Financial Statements.

The amount and period of future payments related to our FIN 48 income tax uncertainties cannot be reliably estimated and, therefore, is not included in the above table. See Note 9 to the Consolidated Financial Statements for further details.

Critical Accounting Estimates

We have identified the policies below as critical to our business operations and to the understanding of our results of operations. We have discussed the impact and any associated risks on our results of operations related to these policies throughout the MD&A. For a detailed discussion on the application of these and other accounting policies, see Note 1 to the Consolidated Financial Statements.

The preparation of our financial statements in conformity with GAAP requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. These estimates include, but are not limited to, customer cancellations, bad debts, inventory obsolescence, residual values of leased assets, useful lives of long-lived assets and intangible assets, warranty obligations, restructuring, pensions and other postretirement benefits, contingencies and litigation, and allocation of purchase price to tangible and intangible assets acquired in business combinations. Our actual results could differ from those estimates and assumptions. We believe the assumptions and estimates used are reasonable and appropriate in accordance with GAAP.

Revenue recognition

Multiple element and internal financing arrangements

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

In multiple element arrangements, we recognize revenue for each of the elements based on their respective fair values in accordance with Emerging Issues Task Force (EITF) Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables.* We recognize revenue for delivered elements only when the fair values of undelivered elements are known and uncertainties regarding customer acceptance are resolved. Our allocation of the fair values to the various elements does not change the total revenue recognized from a transaction, but impacts the timing of revenue recognition. Revenue is allocated to the meter rental and equipment maintenance agreement elements first using their respective fair values, which are determined based on prices charged in standalone and renewal transactions. Revenue is then allocated to the equipment based on the present value of the remaining minimum lease payments. We then compare

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the allocated equipment fair value to the range of cash selling prices in standalone transactions during the period to ensure the allocated equipment fair value approximates average cash selling prices.

We provide lease financing for our products primarily through sales-type leases. We classify our leases in accordance with SFAS No. 13, *Accounting for Leases.* The vast majority of our leases qualify as sales-type leases using the present value of minimum lease payments classification criteria outlined in SFAS No. 13. We believe that our sales-type lease portfolio contains only normal collection risk with no important uncertainties with respect to future costs. Accordingly, we record the fair value of equipment as sales revenue, the cost of equipment as cost of sales and the minimum lease payments plus the estimated residual value as gross finance receivables. The difference between the gross finance receivable and the equipment fair value is recorded as unearned income and is amortized as income over the lease term using the interest rate implicit in the lease.

Equipment residual values are determined at inception of the lease using estimates of equipment fair value at the end of the lease term. Estimates of future equipment fair value are based primarily on our historical experience. We also consider forecasted supply and demand for our various products, product retirement and future product launch plans, end of lease customer behavior, regulatory changes, remanufacturing strategies, used equipment markets, if any, competition and technological changes. We evaluate residual values on an annual basis or as changes to the above considerations occur. In 2007, we recorded an impairment charge of $46 million related to the transition of our product line. See Note 14 to the Consolidated Financial Statements for further details.

See Note 1 to the Consolidated Financial Statements for our accounting policies on revenue recognition.

Allowances for doubtful accounts and credit losses

Allowance for doubtful accounts

We estimate our accounts receivable risks and provide allowances for doubtful accounts accordingly. We evaluate the adequacy of the allowance for doubtful accounts on a periodic basis. Our evaluation includes historical loss experience, length of time receivables are past due, adverse situations that may affect a customer s ability to repay and prevailing economic conditions. We make adjustments to our allowance if our evaluation of allowance requirements differs from our actual aggregate reserve. This evaluation is inherently subjective because our estimates may be revised as more information becomes available. Based on historical experience, we have not had any material revisions to our recorded allowance for doubtful accounts.

Allowance for credit losses

We estimate our finance receivables risks and provide allowances for credit losses accordingly. We establish credit approval limits based on the credit quality of our customers and the type of equipment financed. We charge finance receivables to the allowance for credit losses after collection efforts are exhausted and we deem the account uncollectible. We base credit decisions primarily on a customer s financial strength. We believe that our concentration of credit risk for finance receivables in our internal financing division is limited because of our large number of customers, small account balances and customer geographic and industry diversification. Our general policy for finance receivables contractually past due for over 120 days is to discontinue revenue recognition. We resume revenue recognition when payments reduce the account to 60 days or less past due.

We evaluate the adequacy of allowance for credit losses on a periodic basis. Our evaluation includes historical loss experience, the nature and volume of our portfolios, adverse situations that may affect a customer s ability to repay, estimated value of any underlying collateral and prevailing economic conditions. We make adjustments to our allowance for credit losses if the evaluation of reserve requirements differs from the actual aggregate reserve. This evaluation is inherently subjective because our estimates may be revised as more information becomes available.

Accounting for income taxes

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. When we prepare our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. We record this amount as a provision for our taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*.

In June 2006, the Financial Accounting Standards Board issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which supplements Statement of Financial Accounting Standard No. 109, *Accounting for Income Taxes,* by defining the confidence level that a tax position must meet in order to be recognized in the financial statements. FIN 48 requires a two-step approach under which the tax effect of a position is recognized only if it is more-likely-than-not to be sustained and the amount of the tax benefit recognized is equal to the largest tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement of the tax position. This is a different standard for recognition than the approach previously required. Both approaches require us to exercise considerable judgment and estimates are inherent in both processes.

We regularly assess the likelihood of tax adjustments in each of the tax jurisdictions in which we operate and account for the related financial statement implications. We have established tax reserves which we believe to be appropriate given the possibility of tax adjustments. Determining the appropriate level of tax reserves requires us to exercise judgment regarding the uncertain application of tax law. We adjust the amount of reserves when information becomes available or when an event occurs indicating a change in the reserve is appropriate. Future changes in tax reserve requirements could have a material impact on our results of operations.

Based on our 2008 income from continuing operations before income taxes and minority interest, a 1% change in our effective tax rate would impact income from continuing operations by approximately $7 million.

Long-lived assets

Useful lives of long-lived assets

We depreciate property, plant and equipment and rental property and equipment principally using the straight-line method over estimated useful lives: machinery and equipment principally 3 to 15 years and buildings up to 50 years. We depreciate other depreciable assets using either the straight-line method or accelerated methods. We amortize properties leased under capital leases on a straight-line basis over the primary lease terms. We amortize capitalized costs related to internally developed software using the straight-line method over the estimated useful life, which is principally 3 to 10 years. Intangible assets with finite lives are amortized over their estimated useful lives, which are principally 4 to 15 years. Our estimates of useful lives could be affected by changes in regulatory provisions, technology or business plans.

Impairment review

We evaluate the recoverability of our long-lived assets, including goodwill and intangible assets, on an annual basis or as circumstances warrant. Our goodwill impairment review requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units and determining the fair value of each reporting unit. Significant judgments required to estimate the fair value of reporting units include estimating future cash flows, determining appropriate discount rates and other assumptions. We use internal discounted cash flow estimates, quoted market prices when available and appraisals as appropriate to determine fair value. We derive the cash flow estimates from our historical experience and our future long-term business plans and apply an appropriate discount rate. When available and as appropriate, we use comparative market multiples to corroborate discounted cash flow results. Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment for each reporting unit.

See Note 14 to the Consolidated Financial Statements for further details on our transition initiatives and asset impairments recorded in 2008. We believe that we have no unrecorded asset impairments at December 31, 2008. However, future events and circumstances, some of which are described below, may result in an impairment charge:

- Changes in postal regulations governing the types of meters allowable for use.
- New technological developments that provide significantly enhanced benefits over current technology.
- Significant ongoing negative economic or industry trends.
- Changes in our business strategy that alters the expected usage of the related assets.
- Future economic results that are below our expectations used in the current assessments.

Pension benefits

Assumptions and estimates

The valuation and calculation of our net pension expense, assets and obligations are dependent on various assumptions and estimates. We make assumptions relating to discount rate, rate of compensation increase, expected return on plan assets and other factors. These assumptions are evaluated and updated annually and are described in further detail in Note 13 to the Consolidated Financial Statements. The following assumptions relate to our U.S. qualified pension plan, which is our largest plan. We determine our discount rate for the U.S. retirement benefit plan by using a model that discounts each year s estimated benefit payments by an applicable spot rate. These spot rates are derived from a yield curve created from a large number of high quality corporate bonds. Accordingly, our discount rate assumption was 6.05% at December 31, 2008 and 6.15% at December 31, 2007. The rate of compensation increase assumption reflects our actual experience and best estimate of future increases. Our estimate of the rate of compensation increase was 4.25% at December 31, 2008 and 4.5% at December 31, 2007. Our expected return on plan assets is determined based on historical portfolio results, the plan s asset mix and future expectations of market rates of return on the types of assets in the plan. Our expected return on plan assets assumption was 8.0% in 2008 and 8.5% at December 31, 2007.

Sensitivity to changes in assumptions:

U.S. Pension Plan

Discount rate a 0.25% increase in the discount rate would decrease annual pension expense by approximately $2.8 million and would lower the projected benefit obligation by $39.8 million.

Rate of compensation increase a 0.25% increase in the rate of compensation increase would increase annual pension expense by approximately $2.5 million.

Expected return on plan assets a 0.25% increase in the expected return on assets of our principal plans would decrease annual pension expense by approximately $3.8 million.

The following assumptions relate to our U.K. qualified pension plan, which is our largest foreign plan. We determine our discount rate for the U.K. retirement benefit plan by using a model that discounts each year s estimated benefit payments by an applicable spot rate. These spot rates are derived from a yield curve created from a large number of high quality corporate bonds. Accordingly, our discount rate assumption was 6.3% at December 31, 2008 and 5.8% at December 31, 2007. The rate of compensation increase assumption reflects our actual experience and best estimate of future increases. Our estimate of the rate of compensation increase was 4.3% at December 31, 2008 and 4.7% at December 31, 2007. Our expected return on plan assets is determined based on historical portfolio results, the plan s asset mix and future expectations of market rates of return on the types of assets in the plan. Our expected return on plan assets assumption was 7.25% in 2008 and 7.75% at December 31, 2007.

U.K. Pension Plan

Discount rate a 0.25% increase in the discount rate would decrease annual pension expense by approximately $2.0 million and would lower the projected benefit obligation by $12.3 million.

Rate of compensation increase a 0.25% increase in the rate of compensation increase would increase annual pension expense by approximately $0.7 million.

Expected return on plan assets a 0.25% increase in the expected return on assets of our principal plans would decrease annual pension expense by approximately $0.9 million.

Delayed recognition principles

In accordance with SFAS No. 87, *Employers Accounting for Pensions*, actual pension plan results that differ from our assumptions and estimates are accumulated and amortized over the estimated future working life of the plan participants and will therefore affect pension expense recognized and obligations recorded in future periods. We also base our net pension expense primarily on a market related valuation of plan assets. In accordance with this approach, we recognize differences between the actual and expected return on plan assets primarily over a five-year period and as a result future pension expense will be impacted when these previously deferred gains or losses are recorded. See the new accounting pronouncements below for the effect of SFAS No. 158, *Employers Accounting for Defined Pension and Other Post Retirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R).*

Investment related risks and uncertainties

We invest our pension plan assets in a variety of investment securities in accordance with our strategic asset allocation policy. The composition of our U.S. pension plan assets at December 31, 2008 was approximately 50% equity securities, 39% fixed income securities, 7% real estate investments and 4% private equity investments. The composition of our U.K. pension plan assets at December 31, 2008 was approximately 63% equity securities, 33% fixed income securities and 4% cash. Investment securities are exposed to various risks such as interest rate, market and credit risks. In particular, due to the level of risk associated with equity securities, it is reasonably possible that changes in the values of such investment securities will occur and that such changes could materially affect our future results.

New Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which supplements Statement of Financial Accounting Standard No. 109, *Accounting for Income Taxes*, by defining the confidence level that a tax position must meet in order to be recognized in the financial statements. FIN 48 requires the tax effect of a position to be recognized only if it is more-likely-than-not to be sustained based solely on its technical merits as of the reporting date. If a tax position is not considered more-likely-than-not to be sustained based solely on its technical merits, no benefits of the position are recognized. This is a different standard for recognition than was previously required. The more-likely-than-not threshold must continue to be met in each reporting period to support continued recognition of a benefit. At adoption, companies adjusted their financial statements to reflect only those tax positions that were more-likely-than-not to be sustained as of the adoption date. Any necessary adjustment was recorded directly to opening retained earnings in the period of adoption and reported as a change in accounting principle. We adopted the provisions of FIN 48 on January 1, 2007 which resulted in a decrease to opening retained earnings of $84.4 million, with a corresponding increase in our tax liabilities.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157), to define how the fair value of assets and liabilities should be measured in accounting standards where it is allowed or required. In addition to defining fair value, the Statement established a framework within GAAP for measuring fair value and expanded required disclosures surrounding fair value measurements. In February 2008, the FASB issued FASB Staff Position (FSP). FAS 157-2, *Effective Date of FASB Statement No. 157,* which delayed the effective date by one year for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. In October 2008, the FASB issued FSP FAS 157-3*, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active.* This FSP is effective immediately and includes those periods for which financial statements have not been issued. We adopted this Statement for financial assets and financial liabilities on January 1, 2008, and the adoption did not have a material impact on our financial position, results of operations, or cash flows. We do not expect the adoption of this Statement for nonfinancial items effective January 1, 2009 to have a material impact on our financial position, results of operations, or cash flows. We currently do not have any financial assets that are valued using inactive markets, and as such are not impacted by the issuance of FSP 157-3. See Note 19 to the Consolidated Financial Statements for additional discussion on fair value measurements.

In September 2006, the FASB issued SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R)* (SFAS 158), which required recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. Under SFAS 158, gains and losses, prior service costs and credits, and any remaining transition amounts under SFAS No. 87 and SFAS No. 106 that have not yet been recognized through net periodic benefit cost were recognized in accumulated other comprehensive income, net of tax effects, until they are amortized as a component of net periodic cost. Our adoption of the provisions of SFAS 158 reduced stockholders equity by $297 million at December 31, 2006. SFAS 158 did not affect our results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS 141(R)). SFAS 141(R) establishes principles and requirements for how a company (a) recognizes and measures in their financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest (previously referred to as minority interest); (b) recognizes and measures the goodwill acquired in a business combination or a gain from a bargain purchase; and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of a business combination. SFAS 141(R) requires fair value measurements at the date of acquisition, with limited exceptions specified in the Statement. Some of the major impacts of this new standard include expense recognition for transaction costs and restructuring costs. SFAS 141(R) is effective for fiscal years beginning on or after December 15, 2008 and will be applied prospectively. We do not expect the adoption of this Statement to have a material impact on our financial position, results of operations, or cash flows.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* (SFAS 160). SFAS 160 addresses the accounting and reporting for the outstanding noncontrolling interest (previously referred to as minority interest) in a subsidiary and for the deconsolidation of a subsidiary. It also establishes additional disclosures in the consolidated financial statements that identify and distinguish between the interests of the parent s owners and of the noncontrolling owners of a subsidiary. SFAS 160 requires changes in ownership interest that do not result in deconsolidation to be accounted for as equity transactions. This Statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. This gain or loss is measured using the fair value of the noncontrolling equity investment. This Statement is effective for fiscal years beginning on or after December 15, 2008. SFAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements of SFAS 160 are applied prospectively. We do not expect the adoption of this Statement to have a material impact on our financial position, results of operations, or cash flows.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS 161). SFAS 161 requires enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The adoption of this Statement will require us to present currently disclosed information in a tabular format and will also expand our disclosures concerning where derivatives are reported on the balance sheet and where gains/losses are recognized in the results of operations. The Company will comply with the disclosure requirements of this Statement beginning in the first quarter of 2009.

In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets (* FSP FAS 142-3 *).* FSP FAS 142-3 removed the requirement of SFAS No. 142*, Goodwill and Other Intangible Assets* (SFAS 142)*,* for an entity to consider, when determining the useful life of an acquired intangible asset, whether the intangible asset can be renewed without substantial cost or material modification to the existing terms and conditions associated with the intangible asset. FSP FAS 142-3 replaces the previous useful life assessment criteria with a requirement that an entity considers its own experience in renewing similar arrangements. If the entity has no relevant experience, it would consider market participant assumptions regarding renewal. This should lead to greater consistency between the useful life of recognized intangibles under SFAS 142 and the period of expected cash flows used to measure fair value of such assets under SFAS No. 141(R), *Business Combinations*. FSP FAS 142-3 will be applied prospectively beginning January 1, 2009. We do not expect the adoption of this Statement to have a material impact on our financial position, results of operations, or cash flows.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS 162). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with U.S. GAAP. SFAS 162 is effective for fiscal years beginning after November 15, 2008. The adoption of this Statement did not result in a change in current practice.

In September 2008, the FASB issued FSP FAS 133-1 and FASB Interpretation (FIN) No. 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161*. The FSP amends SFAS No. 133 to require a seller of credit derivatives, including credit derivatives embedded in a hybrid instrument, to provide certain disclosures for each statement of financial position presented. These disclosures are required even if the likelihood of having to make payments is remote. To make the disclosures consistent with the disclosures that will now be required for credit derivatives, FIN No. 45-4 was issued to require guarantors to disclose the current status of the payment/performance risk of the guarantee. This FSP also clarifies that SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The FSP is effective for reporting periods ending after November 15, 2008. The Company does not sell credit derivatives. The Company has complied with the additional disclosure requirement for guarantees in the fourth quarter of 2008.

In December 2008, the FASB issued FSP FAS 132(R)-1, *Employers Disclosures about Postretirement Benefit Plan Assets*, which amends Statement No. 132(R) to require more detailed disclosures about employer s plan assets, including investment strategies, major categories of assets, concentrations of risk within plan assets and valuation techniques used to measure the fair value of assets. The FSP is effective for fiscal years ending after December 15, 2009. The Company will comply with the additional disclosure requirements.

Legal and Regulatory Matters

Legal

See Legal Proceedings in Item 3 of this Form 10-K for information regarding our legal proceedings.

Income taxes

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

We are continually under examination by tax authorities in the United States, other countries and local jurisdictions in which we have operations. The years under examination vary by jurisdiction. The current IRS exam of tax years 2001-2004 is estimated to be completed within the next two years. In connection with this exam, we have recently received notices of proposed adjustments to our filed returns. We have accrued our best estimate of the tax, interest and penalties that may result from these proposed adjustments in accordance with FIN 48. We are disputing a formal request from the IRS in the form of a civil summons to provide certain company workpapers. We believe that certain documents being sought should not be produced because they are privileged. In a similar case, the U.S. Court of Appeals for the First Circuit ruled that certain company workpapers were privileged, however, the case was remanded to the lower court to consider other related issues. Also in connection with the 2001-2004 audits, we have entered into a settlement with the IRS regarding the tax treatment of certain lease transactions related to the Capital Services business that we sold in 2006. Prior to 2007, we accrued and paid the IRS the additional tax and interest associated with this settlement. A variety of post-1999 tax years remain subject to examination by other tax authorities, including the U.K., Canada, France, Germany and various U.S. states. We have accrued our best estimate of the tax, interest and penalties that may result from these tax uncertainties in these and other jurisdictions in accordance with FIN 48. However, the resolution of such matters could have a material impact on our results of operations, financial position and cash flows.

In August 2006, we reached a settlement with the IRS governing all outstanding tax audit issues in dispute for the tax years through 2000. Accordingly, in 2006 we recorded $61 million of additional tax expense. Of the $61 million, $41 million related to the Capital

Services business and was included in discontinued operations and $20 million was included in continuing operations. The federal statute of limitations for these years has now expired. In 2006, we accrued in discontinued operations an additional tax expense of $16.2 million to record the impact of the Tax Increase Prevention and Reconciliation Act (TIPRA). The TIPRA legislation repealed the exclusion from federal income taxation of a portion of the income generated from certain leveraged leases of aircraft by foreign sales corporations. See Note 2 to the Consolidated Financial Statements for further discussion of the discontinued operations.

During 2009, we expect to reverse tax benefits of approximately $11 to $13 million associated with the expiration of vested stock options and the vesting of restricted stock units previously granted to our employees. This write-off of deferred tax assets will not increase the amount of tax to be paid.

Effects of Inflation and Foreign Exchange

Inflation, although moderate in recent years, continues to affect worldwide economies and the way companies operate. It increases labor costs and operating expenses, and raises costs associated with replacement of fixed assets such as rental equipment. Despite these growing costs and the USPS meter migration initiatives, we have generally been able to maintain profit margins through productivity and efficiency improvements, continual review of both manufacturing capacity and operating expense levels, and, where applicable, price increases.

Currency translation increased our 2008 revenue by approximately 0.5%. Also, currency translation gains increased our income before taxes by $2 million. Based on the current contribution from our international operations, a 1% increase in the value of the U.S. dollar would result in a decline in revenue of approximately $19 million and a decline in income from continuing operations before income taxes and minority interest of approximately $2 million.

Although not affecting income, balance sheet related deferred translation losses of $305 million were recorded in 2008 resulting primarily from the strengthening U.S. dollar as compared to the British pound, Euro and Canadian dollar. During 2007, we recorded deferred translation gains of $165 million resulting primarily from the stronger British pound, Euro and Canadian dollar, as compared to the U.S. dollar. During 2006, we recorded deferred translation gains of $83 million resulting primarily from the stronger British pound, Euro and Canadian dollar, as compared to the U.S. dollar.

The results of our international operations are subject to currency fluctuations. We enter into foreign exchange contracts primarily to reduce our risk of loss from such fluctuations. Exchange rates can also impact settlement of our intercompany receivables and payables that result from transfers of finished goods inventories between our affiliates in different countries, and intercompany loans. See Note 19 to the Consolidated Financial Statements for further details.

At December 31, 2008, we had $250 million of foreign exchange contracts outstanding, all maturing in 2009, to buy or sell various currencies. As a result of the use of derivative instruments, we are exposed to counterparty risk. To mitigate such risks, we enter into contracts with only those financial institutions that meet stringent credit requirements as set forth in our derivative policy. We regularly review our credit exposure balances as well as the creditworthiness of our counterparties. Maximum risk of loss on these contracts is limited to the amount of the difference between the spot rate at the date of the contract delivery and the contracted rate.

Dividends

It is a general practice of our Board of Directors to pay a cash dividend on common stock each quarter. In setting dividend payments, our board considers the dividend rate in relation to our recent and projected earnings and our capital investment opportunities and requirements. We have paid a dividend each year since 1934.

Forward-Looking Statements

We want to caution readers that any forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 in this Form 10-K, other reports or press releases or made by our management involve risks and uncertainties which may change based on various important factors. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. These forward-looking statements are those which talk about our current expectations as to the future and include, but are not limited to, statements about the amounts, timing and results of possible restructuring charges and future earnings. Words such as estimate, project, plan, believe, expect, anticipate, intend, and simila expressions may identify such forward-looking statements. Some of the 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:

- changes in international or national political conditions, including any terrorist attacks
- negative developments in economic conditions, including adverse impacts on customer demand
- changes in postal regulations
- timely development and acceptance of new products
- success in gaining product approval in new markets where regulatory approval is required
- successful entry into new markets
- mailers utilization of alternative means of communication or competitors products
- our success at managing customer credit risk
- our success at managing costs associated with our strategy of outsourcing functions and operations not central to our business
- changes in interest rates
- foreign currency fluctuations
- cost, timing and execution of our transition plans including any potential asset impairments
- regulatory approvals and satisfaction of other conditions to consummation of any acquisitions and integration of recent acquisitions
- interrupted use of key information systems
- changes in privacy laws
- intellectual property infringement claims
- impact on mail volume resulting from current concerns over the use of the mail for transmitting harmful biological agents
- third-party suppliers ability to provide product components, assemblies or inventories
- negative income tax adjustments for prior audit years and changes in tax laws or regulations
- changes in pension and retiree medical costs
- acts of nature

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

We manage our exposure to changes in interest rates by limiting its impact on earnings and cash flows and lowering our overall borrowing costs. We use a balanced mix of debt maturities and variable and fixed rate debt together with interest rate swaps to execute our strategy.

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

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

We utilize a Value-at-Risk (VaR) model to determine the maximum potential loss in fair value from changes in market conditions. The VaR model utilizes a variance/co-variance approach and assumes normal market conditions, a 95% confidence level and a one-day holding period. The model includes all of our debt and all interest rate and foreign exchange derivative contracts. The model excludes anticipated transactions, firm commitments, and receivables and accounts payable denominated in foreign currencies, which certain of these instruments are intended to hedge.

The VaR model is a risk analysis tool and does not purport to represent actual losses in fair value that will be incurred by us, nor does it consider the potential effect of favorable changes in market factors.

During 2008 and 2007, our maximum potential one-day loss in fair value of our exposure to foreign exchange rates and interest rates, using the variance/co-variance technique described above, was not material.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Index to Consolidated Financial Statements and Supplemental Data on Page 38 of this Form 10-K.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the direction of our Chief Executive Officer and Chief Financial Officer, we evaluated our disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) and internal control over financial reporting. The CEO and CFO concluded that such disclosure controls and procedures were effective as of December 31, 2008, based on the evaluation of these controls and procedures required by paragraph (b) of Rule 13a-15 or Rule 15d-15 under the Exchange Act. In addition, no change in internal control over financial reporting occurred during the year ended December 31, 2008, that has materially affected, or is reasonably likely to materially affect, such internal control over financial reporting. It should be noted that any system of controls is based in part upon certain assumptions designed to obtain reasonable (and not absolute) assurance as to its effectiveness, and there can be no assurance that any design will succeed in achieving its stated goals. Notwithstanding this caution, the CEO and CFO have reasonable assurance that the disclosure controls and procedures were effective as of December 31, 2008.

Management s Report on Internal Control Over Financial Reporting

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

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

Management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control - Integrated Framework*. Management s assessment included evaluating the design of the Company s internal control over financial reporting and testing of the operational effectiveness of the Company s internal control over financial reporting. Based on our assessment, we concluded that, as of December 31, 2008, the Company s internal control over financial reporting was effective based on the criteria issued by COSO in *Internal Control Integrated Framework.*

PricewaterhouseCoopers LLP, the independent accountants that audited the Company s financial statements included in this Form 10-K, has issued an attestation report on the Company s internal control over financial reporting, which report is included on page 39 of this Form 10-K.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information pertaining to Directors of the Company and the Audit Committee of the Board of Directors is incorporated herein by reference to the sections entitled Compensation Committee Interlocks and Insider Participation, Election of Directors, Security Ownership of Directors and Executive Officers, Beneficial Ownership, Report of the Audit Committee and Corporate Governance of the Definitive Proxy Statement to be filed with the Commission pursuant to Regulation 14A in connection with the Company s 2009 Annual Meeting of Stockholders, which is scheduled to be held on May 11, 2009. Such Definitive Proxy Statement will be filed with the Commission not later than 120 days after the conclusion of the Company s fiscal year ended December 31, 2008 and is incorporated herein by reference. Executive officers of the Company are as follows:

Executive Officers of the Registrant as of February 26, 2009

Name	Age	Title	Executive Officer Since
Murray D. Martin	61	Chairman, President and Chief Executive Officer	1998
Leslie Abi-Karam	50	Executive Vice President and President, Mailing Solutions Management	2005
Gregory E. Buoncontri	61	Executive Vice President and Chief Information Officer	2000
Elise R. DeBois	53	Executive Vice President and President, Global Financial Services	2005
Vincent R. De Palma	51	Executive Vice President and President, Pitney Bowes Management Services	2005
David C. Dobson	46	Executive Vice President and Chief Strategy and Innovation Officer	2008
Patrick J. Keddy	54	Executive Vice President and President, Mailstream International	2005
Michael Monahan	48	Executive Vice President and Chief Financial Officer	2005
Vicki A. O Meara	51	Executive Vice President and Chief Legal and Compliance Officer	2008
Johnna G. Torsone	58	Executive Vice President and Chief Human Resources Officer	1993

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

Mr. De Palma joined the Company in June 2005 as President, Pitney Bowes Management Services. Prior to joining the Company, Mr. De Palma was with Automatic Data Processing (ADP) where he was a Corporate Officer and served as President of ADP Benefit Services. Mr. De Palma has also held senior management positions at Petroleum Heat & Power Company and McKinsey & Company.

Mr. Dobson joined the Company in July 2008 as Executive Vice President and Chief Strategy and Innovation Officer. Mr. Dobson previously served as the Chief Executive Officer of Corel Corporation, a leading global packaged software company, since June 2005. From February 2004 to June 2005, Mr. Dobson served as Corporate Vice President, Strategy at IBM Corporation, a leading developer and manufacturer of information technologies.

Ms. O Meara joined the Company in June 2008 as Executive Vice President and Chief Legal and Compliance Officer. Prior to joining the Company, she was President - U.S. Supply Chain Solutions for Ryder System, Inc., a leading transportation and supply chain solutions company. Ms. O Meara joined Ryder System, Inc. as Executive Vice President and General Counsel in June 1997.

ITEM 11. EXECUTIVE COMPENSATION

The sections entitled Directors Compensation, Compensation Discussion and Analysis , and Executive Compensation Tables and Related Narrative of the Pitney Bowes Inc. Definitive Proxy Statement to be filed with the Commission on or before March 31, 2009 in connection with the Company s 2009 Annual Meeting of Stockholders are incorporated herein by reference.

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

EQUITY COMPENSATION PLAN INFORMATION TABLE

The following table provides information as of December 31, 2008 regarding the number of shares of the Company s common stock that may be issued under the Company s equity compensation plans.

Plan Category	**(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights**	**(b) Weighted-average exercise price of outstanding options, warrants and rights**	**(c) Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (a)**
Equity compensation plans approved by security holders	19,599,351	$ 42.42	14,677,468
Equity compensation plans not approved by security holders			
Total	19,599,351	$ 42.42	14,677,468

The sections entitled How much stock is owned by directors and executive officers? and Security Ownership of the Pitney Bowes Inc. Definitive Proxy Statement to be filed with the Commission on or before March 31, 2009 in connection with the Company s 2009 Annual Meeting of Stockholders are incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The sections entitled Corporate Governance and Certain Relationships and Related-Person Transactions of the Pitney Bowes Inc. Definitive Proxy Statement to be filed with the Commission on or before March 31, 2009 in connection with the Company s 2009 Annual Meeting of Stockholders are incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The section entitled Principal Accountant Fees and Services of the Pitney Bowes Inc. Definitive Proxy Statement to be filed with the Commission on or before March 31, 2009 in connection with the Company s 2009 Annual Meeting of Stockholders is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial statements - see Item 8 on page 31 and Index to Consolidated Financial Statements and Supplemental Data on page 38 of this Form 10-K.

2. Financial statement schedules - see Index to Consolidated Financial Statements and Supplemental Data on page 38 of this Form 10-K.

3. Exhibits (numbered in accordance with Item 601 of Regulation S-K).

Reg. S-K exhibits	Description	Status or incorporation by reference
(3)(a)	Restated Certificate of Incorporation, as amended	Incorporated by reference to Exhibit (3) to Form 10-Q as filed with the Commission on August 14, 1996. (Commission file number 1-3579)
(a.1)	Certificate of Amendment to the Restated Certificate of Incorporation (as amended May 29, 1996)	Incorporated by reference to Exhibit (a.1) to Form 10-K as filed with the Commission on March 27, 1998. (Commission file number 1-3579)
(b)	Pitney Bowes Inc. Amended and Restated By-laws	Incorporated by reference to Exhibit (3)(ii) to Form 10-Q as filed with the Commission on August 6, 2007. (Commission file number 1-3579)
(4)(a)	Preference Share Purchase Rights Agreement dated December 11, 1995 between the Company and Chemical Mellon Shareholder Services, LLC, as Rights Agent, as amended	Incorporated by reference to Exhibit (4) to Form 8-K as filed with the Commission on March 13, 1996. (Commission file number 1-3579)
(a.1)	Certificate of amendment to the Preference Share Purchase Rights Agreement dated December 11, 1995 between the Company and Chemical Mellon Shareholder Services, LLC, as Rights Agent, as amended December 8, 1998	Incorporated by reference to Exhibit (4.4) to Form 8-A/A as filed with the Commission on December 19, 2003. (Commission file number 1-3579)
(b)	Form of Indenture between the Company and SunTrust Bank, as Trustee	Incorporated by reference to Exhibit 4.4 to Registration Statement on Form S-3 (No. 333-72304) as filed with the Commission on October 26, 2001.
(c)	Supplemental Indenture No. 1 dated April 18, 2003 between the Company and SunTrust Bank, as Trustee	Incorporated by reference to Exhibit 4.1 to Form 8-K as filed with the Commission on August 18, 2004.
(d)	Form of Indenture between the Company and Citibank, N.A., as Trustee, dated as of February 14, 2005	Incorporated by reference to Exhibit 4(a) to Registration Statement on Form S-3ASR (No. 333-151753) as filed with the Commission on June 18, 2008.
(e)	First Supplemental Indenture, by and among Pitney Bowes Inc., The Bank of New York, and Citibank, N.A., to the Indenture, dated as of February 14, 2005, by and between the Company and Citibank	Incorporated by reference to Exhibit 4.1 to Form 8-K as filed with the Commission on October 24, 2007. (Commission file number 1-3579)
(f)	Pitney Bowes Inc. Global Medium-Term Note (Fixed Rate), issue date March 7, 2008	Incorporated by reference to Exhibit 4(d)(1) to Form 8-K as filed with the Commission on March 7, 2008. (Commission file number 1-3579)

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

Executive Compensation Plans:

(10)(a)	Retirement Plan for Directors of Pitney Bowes Inc.	Incorporated by reference to Exhibit (10a) to Form 10-K as filed with the Commission on March 30, 1993. (Commission

		file number 1-3579)
(b)	Pitney Bowes Inc. Directors Stock Plan (as amended and restated 1999)	Incorporated by reference to Exhibit (i) to Form 10-K as filed with the Commission on March 30, 2000. (Commission file number 1-3579)
(b.1)	Pitney Bowes Inc. Directors Stock Plan (Amendment No. 1, effective as of May 12, 2003)	Incorporated by reference to Exhibit (10) to Form 10-Q as filed with the Commission on August 11, 2003. (Commission file number 1-3579)
(b.2)	Pitney Bowes Inc. Directors Stock Plan (Amendment No. 2 effective as of May 1, 2007)	Incorporated by reference to Exhibit (10.(b.2)) to Form 10-K as filed with the Commission on March 1, 2007 (Commission file number 1-3579)
(c)	Pitney Bowes 1991 Stock Plan (as amended and restated)	Incorporated by reference to Exhibit (10) to Form 10-Q as filed with the Commission on May 14, 1998. (Commission file number 1-3579)
(c.1)	Pitney Bowes 1998 Stock Plan (as amended and restated)	Incorporated by reference to Exhibit (ii) to Form 10-K as filed with the Commission on March 30, 2000. (Commission file number 1-3579)
(c.2)	Pitney Bowes Stock Plan (as amended and restated as of January 1, 2002)	Incorporated by reference to Annex 1 to the Definitive Proxy Statement for the 2002 Annual Meeting of Stockholders filed with the Commission on March 26, 2002. (Commission file number 1-3579)
(c.3)	Pitney Bowes Inc. 2007 Stock Plan	Incorporated by reference to Exhibit 10.1 to Form 10-Q as filed with the Commission on August 6, 2007 (Commission file number 1-3579)
(d)	Pitney Bowes Inc. Key Employees Incentive Plan (as amended and restated October 1, 2007)	Exhibit (i)
(e)	Pitney Bowes Severance Plan (as amended, and restated effective January 1, 2008)	Incorporated by reference to Exhibit (10)(e) to Form 10-K as filed with the Commission on February 29, 2008. (Commission file number 1-3579)
(f)	Pitney Bowes Senior Executive Severance Policy (amended and restated as of January 1, 2008)	Incorporated by reference to Exhibit (10)(f) to Form 10-K as filed with the Commission on February 29, 2008. (Commission file number 1-3579)
(g)	Pitney Bowes Inc. Deferred Incentive Savings Plan for the Board of Directors, as amended and restated effective January 1, 2009	Exhibit (ii)
(g.1)	Pitney Bowes Inc. Deferred Incentive Savings Plan for the Board of Directors (as amended and restated 1999)	Incorporated by reference to Exhibit (iii) to Form 10-K as filed with the Commission on March 30, 2000. (Commission file number 1-3579)
(h)	Pitney Bowes Inc. Deferred Incentive Savings Plan as amended and restated effective January 1, 2009	Exhibit (iii)
(i)	Pitney Bowes Inc. 1998 U.K. S.A.Y.E. Stock Option Plan	Incorporated by reference to Annex II to the Definitive Proxy Statement for the 2006 Annual Meeting of Stockholders filed with the Commission on March 23, 2006. (Commission file number 1-3579)
(j)	Form of Equity Compensation Grant Letter	Incorporated by reference to Exhibit (10)(n) to Form 10-Q as filed with the Commission on May 4, 2006. (Commission file number 1-3579)

(k)	Service Agreement between Pitney Bowes Limited and Patrick S. Keddy dated January 29, 2003	Incorporated by reference to Exhibit 10.2 to Form 8-K as filed with the Commission on February 17, 2006. (Commission file number 1-3579)
(l)	Separation Agreement and General Release dated April 14, 2008 by and between Pitney Bowes Inc. and Bruce P. Nolop	Incorporated by reference to Exhibit 10.1 to Form 8-K as filed with the Commission on April 15, 2008. (Commission file number 1-3579)

<u>Other</u>:

(m)	Amended and Restated Credit Agreement dated May 19, 2006 between the Company and JPMorgan Chase Bank, N.A., as Administrative Agent	Incorporated by reference to Exhibit 10.1 to Form 8-K as filed with the Commission on May 24, 2006. (Commission file number 1-3579)
(12)	Computation of ratio of earnings to fixed charges	Exhibit (iv)
(21)	Subsidiaries of the registrant	Exhibit (v)
(23)	Consent of experts and counsel	Exhibit (vi)
(31.1)	Certification of Chief Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended.	See page 143
(31.2)	Certification of Chief Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended.	See page 144
(32.1)	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350	See page 145
(32.2)	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350	See page 146

SIGNATURES

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

Date: February 26, 2009	PITNEY BOWES INC.
	Registrant

By: /s/ Murray D. Martin

Murray D. Martin
Chairman, President and Chief Executive Officer

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

Signature	Title	Date
/s/ Murray D. Martin Murray D. Martin	Chairman, President and Chief Executive Officer Director	February 26, 2009
/s/ Michael Monahan Michael Monahan	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 26, 2009
/s/ Steven J. Green Steven J. Green	Vice President Finance and Chief Accounting Officer (Principal Accounting Officer)	February 26, 2009
/s/ Rodney C. Adkins Rodney C. Adkins	Director	February 26, 2009
/s/ Linda G. Alvarado Linda G. Alvarado	Director	February 26, 2009
/s/ Anne M. Busquet Anne M. Busquet	Director	February 26, 2009
/s/ Anne Sutherland Fuchs Anne Sutherland Fuchs	Director	February 26, 2009
/s/ Ernie Green Ernie Green	Director	February 26, 2009
/s/ James H. Keyes James H. Keyes	Director	February 26, 2009

/s/ John S. McFarlane John S. McFarlane	Director	February 26, 2009
/s/ Eduardo R. Menascé Eduardo R. Menascé	Director	February 26, 2009
/s/ Michael I. Roth Michael I. Roth	Director	February 26, 2009
/s/ David L. Shedlarz David L. Shedlarz	Director	February 26, 2009
/s/ David B. Snow, Jr. David B. Snow, Jr.	Director	February 26, 2009
/s/ Robert E. Weissman Robert E. Weissman	Director	February 26, 2009

PITNEY BOWES INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Pitney Bowes Inc. and its subsidiaries at December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for defined benefit pension and other postretirement plans effective December 31, 2006 and the manner in which it accounts for uncertainty in income taxes in 2007.

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

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

PricewaterhouseCoopers LLP
Stamford, Connecticut
February 26, 2009

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

	Years ended December 31,		
	2008	**2007**	**2006**
Revenue:			
Equipment sales	**$ 1,252,058**	$ 1,335,538	$ 1,372,566
Supplies	**392,414**	393,478	339,594
Software	**424,296**	346,020	202,415
Rentals	**728,160**	739,130	785,068
Financing	**772,711**	790,121	725,131
Support services	**768,424**	760,915	716,556
Business services	**1,924,242**	1,764,593	1,588,688
Total revenue	**6,262,305**	6,129,795	5,730,018
Costs and expenses:			
Cost of equipment sales	**663,430**	696,900	693,535
Cost of supplies	**103,870**	106,702	90,035
Cost of software	**101,357**	82,097	42,951
Cost of rentals	**153,831**	171,191	171,491
Cost of support services	**447,745**	433,324	400,089
Cost of business services	**1,508,098**	1,380,541	1,242,226
Selling, general and administrative	**1,948,473**	1,907,160	1,764,260
Research and development	**205,620**	185,665	165,368
Restructuring charges and asset impairments	**200,254**	264,013	35,999
Interest expense	**229,343**	250,540	228,418
Interest income	**(12,893)**	(8,669)	(15,822)
Other income		(380)	(3,022)
Total costs and expenses	**5,549,128**	5,469,084	4,815,528
Income from continuing operations before income taxes and minority interest	**713,177**	660,711	914,490
Provision for income taxes	**244,929**	280,222	335,004
Minority interest (preferred stock dividends of subsidiaries)	**20,755**	19,242	13,827
Income from continuing operations	**447,493**	361,247	565,659
(Loss) income from discontinued operations, net of income tax	**(27,700)**	5,534	(460,312)
Net income	**$ 419,793**	$ 366,781	$ 105,347
Basic earnings per share of common stock: (1)			
Continuing operations	**$ 2.15**	$ 1.65	$ 2.54
Discontinued operations	**(0.13)**	0.03	(2.07)
Net income	**$ 2.01**	$ 1.68	$ 0.47
Diluted earnings per share of common stock:			

Continuing operations	**$ 2.13**	$ 1.63	$ 2.51
Discontinued operations	**(0.13)**	0.03	(2.04)
Net income	**$ 2.00**	$ 1.66	$ 0.47

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

See Notes to Consolidated Financial Statements

PITNEY BOWES INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	December 31, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 376,671**	$ 377,176
Short-term investments	**21,551**	63,279
Accounts receivables, gross	**864,931**	890,396
Allowance for doubtful accounts receivables	**(45,264)**	(49,324)
Accounts receivables, net	**819,667**	841,072
Finance receivables	**1,501,678**	1,544,345
Allowance for credit losses	**(45,932)**	(45,859)
Finance receivables, net	**1,455,746**	1,498,486
Inventories	**161,321**	197,962
Current income taxes	**59,594**	83,227
Other current assets and prepayments	**138,063**	174,199
Total current assets	**3,032,613**	3,235,401
Property, plant and equipment, net	**574,260**	627,918
Rental property and equipment, net	**397,949**	435,927
Finance receivables	**1,445,822**	1,566,285
Allowance for credit losses	**(25,858)**	(32,512)
Finance receivables, net	**1,419,964**	1,533,773
Investment in leveraged leases	**201,921**	249,191
Goodwill	**2,251,830**	2,299,858
Intangible assets, net	**375,822**	457,188
Non-current income taxes	**64,387**	28,098
Other assets	**417,685**	598,377
Total assets	**$ 8,736,431**	$ 9,465,731
LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 1,922,399**	$ 1,965,567
Current income taxes	**108,662**	96,851
Notes payable and current portion of long-term obligations	**770,501**	953,767
Advance billings	**441,556**	456,042
Total current liabilities	**3,243,118**	3,472,227
Deferred taxes on income	**254,353**	455,374
FIN 48 uncertainties and other income tax liabilities	**294,487**	285,505

Long-term debt	**3,934,865**	3,802,075
Other non-current liabilities	**823,322**	406,216
Total liabilities	**8,550,145**	8,421,397
Preferred stockholders equity in subsidiaries	**374,165**	384,165
Commitments and contingencies (see Note 15)		
Stockholders (deficit) equity:		
Cumulative preferred stock, $50 par value, 4% convertible	**7**	7
Cumulative preference stock, no par value, $2.12 convertible	**976**	1,003
Common stock, $1 par value (480,000,000 shares authorized; 323,337,912 shares issued)	**323,338**	323,338
Additional paid-in capital	**259,306**	252,185
Retained earnings	**4,278,804**	4,150,622
Accumulated other comprehensive (loss) income	**(596,341)**	88,656
Treasury stock, at cost (117,156,719 and 108,822,953 shares, respectively)	**(4,453,969)**	(4,155,642)
Total stockholders (deficit) equity	**(187,879)**	660,169
Total liabilities and stockholders (deficit) equity	**$ 8,736,431**	$ 9,465,731

See Notes to Consolidated Financial Statements

PITNEY BOWES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years ended December 31,		
	2008	**2007**	**2006**
Cash flows from operating activities:			
Net income	**$ 419,793**	$ 366,781	$ 105,347
Gain on sale of a facility, net of tax		(1,623)	
Net gain on sale of businesses, net of tax			434,085
Non-cash expense from FSC tax law change			16,209
Non-cash expense related to IRS settlement and sale of a business			61,000
Tax and bond payments related to IRS settlement and Capital Services sale			(1,040,700)
Restructuring charges, net of tax	**144,211**	223,486	23,040
Restructuring payments	**(102,680)**	(31,568)	(51,566)
Gain on interest rate swap	**43,991**		
Loss on redemption of preferred stock issued by a subsidiary	**1,777**		
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	**379,117**	383,141	363,258
Stock-based compensation	**26,402**	24,131	27,375
Changes in operating assets and liabilities, excluding effects of acquisitions:			
(Increase) decrease in accounts receivables	**(20,366)**	35,853	(46,623)
(Increase) decrease in finance receivables	**24,387**	(86,238)	(236,872)
(Increase) decrease in inventories	**2,018**	7,710	(142)
(Increase) decrease in prepaid, deferred expense and other assets	**2,677**	(7,793)	170
Increase (decrease) in accounts payable and accrued liabilities	**(76,880)**	32,789	42,231
Increase (decrease) in current and non-current income taxes	**122,480**	123,636	52,784
Increase (decrease) in advance billings	**2,051**	10,444	(17,559)
Increase (decrease) in other operating capital, net	**21,459**	(20,284)	(18,611)
Net cash provided by (used in) operating activities	**990,437**	1,060,465	(286,574)
Cash flows from investing activities:			
Short-term and other investments	**35,652**	42,367	(1,295)
Proceeds from the sale of facilities		29,608	
Capital expenditures	**(237,308)**	(264,656)	(327,877)
Net investment in external financing	**1,868**	(2,214)	109,050
Proceeds from divestiture of businesses			1,003,062
Advance against COLI cash surrender value			138,381
Acquisitions, net of cash acquired	**(67,689)**	(594,110)	(230,628)
Reserve account deposits	**33,359**	62,666	28,780
Net cash (used in) provided by investing activities	**(234,118)**	(726,339)	719,473
Cash flows from financing activities:			
Increase (decrease) in notes payable, net	**205,590**	(89,673)	(26,790)
Proceeds from long-term obligations	**245,582**	640,765	493,285
Principal payments on long-term obligations	**(576,565)**	(174,191)	(396,755)
Proceeds from issuance of common stock	**20,154**	107,517	101,449
Proceeds from issuance of preferred stock in a subsidiary			74,165
Payments to redeem preferred stock issued by a subsidiary	**(11,777)**		
Stock repurchases	**(333,231)**	(399,996)	(400,000)
Dividends paid	**(291,611)**	(288,790)	(285,051)

Net cash used in financing activities	**(741,858)**	(204,368)	(439,697)
Effect of exchange rate changes on cash and cash equivalents	**(14,966)**	8,316	2,391
(Decrease) increase in cash and cash equivalents	**(505)**	138,074	(4,407)
Cash and cash equivalents at beginning of year	**377,176**	239,102	243,509
Cash and cash equivalents at end of year	**$ 376,671**	$ 377,176	$ 239,102
Cash interest paid	**$ 235,816**	$ 236,697	$ 225,837
Cash income taxes paid, net	**$ 164,354**	$ 178,469	$ 1,315,437

See Notes to Consolidated Financial Statements

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PITNEY BOWES INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS (DEFICIT) EQUITY
(In thousands, except per share data)

	Preferred stock	Preference stock	Common stock	Additional paid-in capital	Comprehensive (loss) income	Retained earnings	Accumulated other comprehensive (loss) income	Treasury stock
Balance, December 31, 2005	$ 17	$ 1,158	$ 323,338	$ 222,908		$ 4,324,451	$ 76,917	$ (3,584,540)
Deferred tax adjustment (see Note 9)						16,866		
Adjusted Retained Earnings						4,341,317		
Adjustment to initially apply SAB 108, net of tax						(4,618)		
Net income					$ 105,347	105,347		
Other comprehensive income, net of tax:								
Foreign currency translations					83,183		83,183	
Net unrealized loss on derivative instruments					(20)		(20)	
Minimum pension liability					5,405		5,405	
Comprehensive income					$ 193,915			
Adjustment to initially apply SFAS 158, net of tax							(297,229)	
Cash dividends:								
Preferred						(1)		
Preference						(86)		
Common						(284,965)		
Issuances of common stock				(11,575)				113,142
Conversions to common stock	(10)	(90)		(2,132)				2,232
Pre-tax stock-based compensation				27,375				
Adjustments to additional paid in capital, tax effect from share-based compensation				(1,018)				
Repurchase of common stock								(400,000)
Balance, December 31, 2006	7	1,068	323,338	235,558		4,156,994	(131,744)	(3,869,166)
Initial adjustment for FIN 48						(84,363)		
Net income					$ 366,781	366,781		
Other comprehensive income, net of tax:								
Foreign currency translations					164,728		164,728	
Net unrealized gain on derivative instruments					2,801		2,801	
Net unrealized gain on on investment securities					352		352	
Net unamortized gain on pension and postretirement plans					30,347		30,347	
					22,172		22,172	

Amortization of pension and postretirement costs								
Comprehensive income					$ 587,181			
Cash dividends:								
Preferred								
Preference						(81)		
Common						(288,709)		
Issuances of common stock				(7,967)				111,925
Conversions to common stock		(65)		(1,530)				1,595
Pre-tax stock-based compensation				24,131				
Adjustments to additional paid in capital, tax effect from share-based compensation				1,993				
Repurchase of common stock								(399,996)
Balance, December 31, 2007	7	1,003	323,338	252,185		4,150,622	88,656	(4,155,642