PITNEY BOWES INC /DE/
Form 10-Q
November 07, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2008

Commission File Number 1-3579

PITNEY BOWES INC.

Incorporated in Delaware

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

World Headquarters
1 Elmcroft Road, Stamford, Connecticut 06926-0700

(203) 356-5000

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

Indicate by check mark whether the registrant 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 Rule12b-2 of the Exchange Act).
Yes o No þ

There were 206,128,495 shares of common stock outstanding as of October 30, 2008.

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PART I. FINANCIAL INFORMATION

Item 1: Financial Statements

PITNEY BOWES INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited; in thousands, except per share data)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Revenue:				
Equipment sales	**$ 296,520**	$ 307,897	**$ 910,883**	$ 961,868
Supplies	**96,864**	95,497	**305,750**	292,197
Software	**100,092**	92,256	**314,617**	223,580
Rentals	**182,850**	183,452	**553,658**	552,433
Financing	**195,632**	201,241	**591,834**	586,658
Support services	**193,516**	185,520	**579,996**	564,597
Business services	**482,199**	442,414	**1,452,978**	1,284,215
Total revenue	**1,547,673**	1,508,277	**4,709,716**	4,465,548
Costs and expenses:				
Cost of equipment sales	**157,593**	164,659	**484,988**	481,873
Cost of supplies	**26,382**	27,061	**80,673**	77,909
Cost of software	**25,917**	21,749	**80,107**	54,373
Cost of rentals	**36,252**	42,630	**114,227**	128,312
Cost of support services	**113,581**	108,011	**343,507**	320,832
Cost of business services	**375,949**	345,024	**1,138,249**	1,008,647
Selling, general and administrative	**478,914**	479,772	**1,473,098**	1,393,289
Research and development	**53,008**	47,691	**156,176**	138,364
Interest, net	**54,560**	60,386	**167,464**	179,654
Restructuring charges and asset impairments	**49,229**	4,300	**85,137**	4,300
Other expense (income)	**-**	(380)	**-**	(380)
Total costs and expenses	**1,371,385**	1,300,903	**4,123,626**	3,787,173
Income from continuing operations before income taxes and minority interest	**176,288**	207,374	**586,090**	678,375
Provision for income taxes	**69,456**	73,272	**215,389**	234,566
Minority interest (preferred stock dividends of subsidiaries)	**6,540**	4,862	**16,134**	14,404
Income from continuing operations	**100,292**	129,240	**354,567**	429,405
Loss from discontinued operations, net of tax	**(2,063)**	(1,565)	**(8,726)**	(4,695)
Net income	**$ 98,229**	$ 127,675	**$ 345,841**	$ 424,710

Basic earnings per share of common stock:								
Continuing operations	**$**	**0.48**	$	0.59	**$**	**1.70**	$	1.96
Discontinued operations		**(0.01)**		(0.01)		**(0.04)**		(0.02)
Net income	**$**	**0.47**	$	0.58	**$**	**1.65**	$	1.94
Diluted earnings per share of common stock:								
Continuing operations	**$**	**0.48**	$	0.58	**$**	**1.68**	$	1.93
Discontinued operations		**(0.01)**		(0.01)		**(0.04)**		(0.02)
Net income	**$**	**0.47**	$	0.58	**$**	**1.64**	$	1.91
Dividends declared per share of common stock	**$**	**0.35**	$	0.33	**$**	**1.05**	$	0.99

Note: The sum of the earnings per share amounts may not equal the totals above due to rounding.

See Notes to Condensed Consolidated Financial Statements

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

	September 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ **458,786**	$ 377,176
Short-term investments	**22,597**	63,279
Accounts receivables, less allowances of $47,871 and $49,324 at September 30, 2008 and December 31, 2007, respectively	**829,963**	841,072
Finance receivables, less allowances of $42,227 and $45,859 at September 30, 2008 and December 31, 2007, respectively	**1,450,981**	1,498,486
Inventories	**204,606**	197,962
Current income taxes	**76,633**	83,227
Other current assets and prepayments	**256,346**	258,411
Total current assets	**3,299,912**	3,319,613
Property, plant and equipment, net	**591,940**	627,918
Rental property and equipment, net	**407,220**	435,927
Long-term finance receivables, less allowances of $26,189 and $32,512 at September 30, 2008 and December 31, 2007, respectively	**1,459,957**	1,533,773
Investment in leveraged leases	**237,417**	249,191
Goodwill	**2,311,588**	2,299,858
Intangible assets, net	**411,086**	457,188
Non-current income taxes	**43,580**	28,098
Other assets	**611,678**	598,377
Total assets	$ **9,374,378**	$ 9,549,943
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ **1,876,174**	$ 1,965,567
Current income taxes	**159,939**	96,851
Notes payable and current portion of long-term obligations	**985,196**	953,767
Advance billings	**547,401**	540,254
Total current liabilities	**3,568,710**	3,556,439
Deferred taxes on income	**470,506**	472,240
FIN 48 uncertainties and other income tax liabilities	**303,881**	285,505
Long-term debt	**3,872,580**	3,802,075
Other non-current liabilities	**408,823**	406,216
Total liabilities	**8,624,500**	8,522,475
Preferred stockholders equity in subsidiaries	**374,165**	384,165
Stockholders equity:		
Cumulative preferred stock, $50 par value, 4% convertible	**7**	7
Cumulative preference stock, no par value, $2.12 convertible	**977**	1,003

Common stock, $1 par value (480,000,000 shares authorized & 323,337,912 shares issued)		**323,338**		323,338
Capital in excess of par value		**253,993**		252,185
Retained earnings		**4,260,150**		4,133,756
Accumulated other comprehensive (loss) income		**(7,112)**		88,656
Treasury stock, at cost (117,197,935 and 108,822,953, respectively)		**(4,455,640)**		(4,155,642)
Total stockholders equity		**375,713**		643,303
Total liabilities and stockholders equity	**$**	**9,374,378**	$	9,549,943

See Notes to Condensed Consolidated Financial Statements

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

	Nine Months Ended September 30, 2008	2007
Cash flows from operating activities:		
Net income	$ **345,841**	$ 424,710
Restructuring and other charges, net of tax	**61,864**	2,472
Restructuring and other payments	**(65,858)**	(24,445)
Loss on redemption of preferred stock issued by a subsidiary	**1,777**	-
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**288,589**	285,322
Stock-based compensation	**19,563**	18,482
Changes in operating assets and liabilities, excluding effects of acquisitions:		
Accounts receivable	**(2,634)**	44,621
Net investment in internal finance receivables	**74,288**	(76,366)
Inventories	**(17,035)**	(4,523)
Other current assets and prepayments	**2,383**	1,785
Accounts payable and accrued liabilities	**(94,858)**	(56,510)
Current and non-current income taxes	**93,471**	85,968
Advanced billings	**16,259**	8,358
Other, net	**18,052**	(13,106)
Net cash provided by operating activities	**741,702**	696,768
Cash flows from investing activities:		
Short-term and other investments	**21,682**	727
Capital expenditures	**(169,978)**	(202,013)
Net investment in leveraged leases	**(831)**	(5,011)
Acquisitions, net of cash acquired	**(68,976)**	(559,907)
Reserve account deposits	**16,617**	26,506
Net cash used in investing activities	**(201,486)**	(739,698)
Cash flows from financing activities:		
Increase in notes payable, net	**423,899**	58,896
Proceeds from long-term obligations	**245,582**	490,765
Principal payments on long-term obligations	**(574,585)**	(14,044)
Proceeds from issuance of stock	**16,561**	99,020
Payments to redeem preferred stock issued by a subsidiary	**(11,777)**	-
Stock repurchases	**(333,231)**	(279,996)
Dividends paid	**(219,447)**	(217,199)
Net cash (used in) provided by financing activities	**(452,998)**	137,442
Effect of exchange rate changes on cash	**(5,608)**	5,149
Increase in cash and cash equivalents	**81,610**	99,661
Cash and cash equivalents at beginning of period	**377,176**	239,102

Cash and cash equivalents at end of period	**$**	**458,786**	$	338,763
Interest paid	**$**	**209,601**	$	195,481
Income taxes paid	**$**	**125,745**	$	139,036

See Notes to Condensed Consolidated Financial Statements

PITNEY BOWES INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited; tabular dollars in thousands, except for per share data)

1. *Basis of Presentation*

The terms "we", "us", and "our" are used in this report to refer collectively to Pitney Bowes Inc. and its subsidiaries.

The accompanying unaudited Condensed Consolidated Financial Statements of Pitney Bowes Inc. have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In addition, the December 31, 2007 condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. In our opinion, all adjustments (consisting of only normal recurring adjustments) considered necessary to present fairly our financial position at September 30, 2008 and December 31, 2007, our results of operations for the three and nine months ended September 30, 2008 and 2007 and our cash flows for the nine months ended September 30, 2008 and 2007 have been included. Operating results for the three and nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for any other interim period or the year ending December 31, 2008.

These statements should be read in conjunction with the financial statements and notes thereto included in our 2007 Annual Report to Stockholders on Form 10-K.

Certain prior year amounts have been reclassified to conform with the current period presentation.

2. *Nature of Operations*

We are a provider of leading-edge, global, integrated mail and document management solutions for organizations of all sizes. We operate in two business groups: Mailstream Solutions and Mailstream Services. Mailstream Solutions includes worldwide revenue and related expenses from the sale, rental, and financing of mail finishing, mail creation, shipping equipment and software; production mail equipment; supplies; mailing support and other professional services; payment solutions; and mailing, customer communication and location intelligence software. Mailstream Services includes worldwide revenue and related expenses from facilities management services; secure mail services; reprographics, document management, and other value-added services for targeted customer markets; mail services operations, which include presort mail services and international mail services; and marketing services. See Note 7, "Segment Information," to the Condensed Consolidated Financial Statements for details of our reporting segments and a description of their activities.

3. *Recent Accounting Pronouncements*

In September 2006, the Financial Accounting Standards Board ("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) No. 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 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 16, "Fair Value Measurements," to the Condensed Consolidated Financial Statements for additional discussion on fair value measurements.

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

PITNEY BOWES INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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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. The most significant impacts of adopting SFAS 141 (R) will be the requirement for us to expense transaction and restructuring costs. 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 FASB FSP No. 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, *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 will be effective 60 days after the SEC approves the Public Company Accounting Oversight Board (PCAOB) amendments to auditing standards (AU Section 411). We do not expect the adoption of this Statement to result in a change in current practice.

In September 2008, the FASB issued FSP FAS 133-1 and FIN 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 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 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

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FSP is effective for reporting periods after November 15, 2008 for the amendments and on September 12, 2008 for the effective date of SFAS 161. The Company does not sell credit derivatives. The Company will comply with the additional disclosure requirement for guarantees beginning in the fourth quarter of 2008.

4. *Discontinued Operations*

The following table shows selected financial information included in discontinued operations for the three and nine months ended September 30, 2008 and 2007, respectively:

Discontinued Operations	Three Months Ended September, 2008	2007	Nine Months Ended September 30, 2008	2007
Loss from discontinued operations, net of tax	**$ 2,063**	$ 1,565	**$ 8,726**	$ 4,695

Net loss for the three and nine months ended September 30, 2008 and 2007 relates to the accrual of interest on uncertain tax positions.

5. *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.

PITNEY BOWES INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited; tabular dollars in thousands, except for per share data)

The following table summarizes selected financial data for the opening balance sheet of acquisitions in 2008 and 2007:

	2008	**2007**		
		Asterion	**Digital**	**MapInfo**
	Zipsort, Inc.	**SAS**	**Cement, Inc.**	**Corporation**
Purchase price allocation:				
Short-term investments	**$ -**	$ -	$ -	$ 46,308
Current assets	**156**	52,309	2,146	40,121
Other non-current assets	**12,617**	34,228	932	35,826
Intangible assets	**8,613**	8,285	6,600	113,000
Goodwill	**23,985**			