

PITNEY BOWES INC /DE/
Form 10-Q
November 05, 2010

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, 2010

OR

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

For the transition period from _____ to _____

Commission file number: 1-3579

PITNEY BOWES INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

06-0495050

(I.R.S. Employer Identification No.)

1 Elmcroft Road, Stamford, Connecticut

(Address of principal executive offices)

06926-0700

(Zip Code)

(203) 356-5000

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes

No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes

No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

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Yes o

No p

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of November 3, 2010.

Class	Outstanding
Common Stock, \$1 par value per share	203,353,768 shares

PITNEY BOWES INC.
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PART I. FINANCIAL INFORMATION

Item 1: Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenue:				
Equipment sales	\$ 248,228	\$ 225,759	\$ 718,399	\$ 714,780
Supplies	77,304	83,464	239,635	253,466
Software	95,850	87,295	265,130	254,401
Rentals	151,399	163,711	456,977	487,992
Financing	157,333	171,228	476,712	528,534
Support services	175,844	177,607	531,176	531,200
Business services	439,784	447,756	1,303,183	1,344,493
Total revenue	1,345,742	1,356,820	3,991,212	4,114,866
Costs and expenses:				
Cost of equipment sales	115,721	106,326	325,120	331,144
Cost of supplies	23,843	23,785	73,381	68,495
Cost of software	21,191	19,413	61,064	60,480
Cost of rentals	36,277	40,508	107,658	114,372
Financing interest expense	22,189	23,975	65,948	73,865
Cost of support services	111,521	119,034	337,822	356,620
Cost of business services	335,588	335,406	1,003,712	1,033,933
Selling, general and administrative	435,292	435,931	1,304,941	1,317,410
Research and development	38,454	45,052	117,487	138,623
Restructuring charges and asset impairments	33,805	12,845	103,039	12,845
Other interest expense	29,310	27,244	86,172	84,548
Interest income	(393)	(668)	(1,851)	(3,153)
Total costs and expenses	1,202,798	1,188,851	3,584,493	3,589,182
Income from continuing operations before income taxes	142,944	167,969	406,719	525,684
Provision for income taxes	46,880	57,691	155,302	192,375
Income from continuing operations	96,064	110,278	251,417	333,309
(Loss) gain from discontinued operations, net of income tax	(2,536)	(2,429)	(8,332)	5,296
Net income before attribution of noncontrolling interests	93,528	107,849	243,085	338,605
Less: Preferred stock dividends of subsidiaries attributable to noncontrolling interests	4,593	4,622	13,730	13,714
Pitney Bowes Inc. net income	\$ 88,935	\$ 103,227	\$ 229,355	\$ 324,891

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Amounts attributable to Pitney Bowes Inc.:								
Income from continuing operations	\$	91,471	\$	105,656	\$	237,687	\$	319,595
(Loss) gain from discontinued operations		(2,536)		(2,429)		(8,332)		5,296
Pitney Bowes Inc. net income	\$	88,935	\$	103,227	\$	229,355	\$	324,891
Basic earnings per share attributable to Pitney Bowes Inc. common stockholders (1):								
Continuing operations	\$	0.44	\$	0.51	\$	1.15	\$	1.55
Discontinued operations		(0.01)		(0.01)		(0.04)		0.03
Net income	\$	0.43	\$	0.50	\$	1.11	\$	1.57
Diluted earnings per share attributable to Pitney Bowes Inc. common stockholders (1):								
Continuing operations	\$	0.44	\$	0.51	\$	1.15	\$	1.54
Discontinued operations		(0.01)		(0.01)		(0.04)		0.03
Net income	\$	0.43	\$	0.50	\$	1.11	\$	1.57
Dividends declared per share of common stock	\$	0.365	\$	0.36	\$	1.095	\$	1.08

(1) 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, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 386,046	\$ 412,737
Short-term investments	21,351	14,682
Accounts receivables, gross	760,532	859,633
Allowance for doubtful accounts receivables	(34,865)	(42,781)
Accounts receivables, net	725,667	816,852
Finance receivables	1,357,187	1,417,708
Allowance for credit losses	(48,366)	(46,790)
Finance receivables, net	1,308,821	1,370,918
Inventories	187,875	156,502
Current income taxes	112,719	101,248
Other current assets and prepayments	102,838	98,297
Total current assets	2,845,317	2,971,236
Property, plant and equipment, net	458,766	514,904
Rental property and equipment, net	315,489	360,207
Finance receivables	1,266,309	1,380,810
Allowance for credit losses	(20,511)	(25,368)
Finance receivables, net	1,245,798	1,355,442
Investment in leveraged leases	241,125	233,359
Goodwill	2,312,304	2,286,904
Intangible assets, net	304,186	316,417
Non-current income taxes	108,546	108,260
Other assets	484,376	387,182
Total assets	\$ 8,315,907	\$ 8,533,911
LIABILITIES, NONCONTROLLING INTERESTS AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,694,745	\$ 1,748,254
Current income taxes	130,114	144,385
Notes payable and current portion of long-term obligations	135,674	226,022
Advance billings	461,573	447,786
Total current liabilities	2,422,106	2,566,447
Deferred taxes on income	304,765	310,274
Tax uncertainties and other income tax liabilities	546,314	525,253
Long-term debt	4,242,845	4,213,640
Other non-current liabilities	573,447	625,079

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Total liabilities	8,089,477	8,240,693
Noncontrolling interests (Preferred stockholders' equity in subsidiaries)	296,370	296,370
Commitments and contingencies (See Note 18)		
Stockholders' deficit:		
Cumulative preferred stock, \$50 par value, 4% convertible	4	4
Cumulative preference stock, no par value, \$2.12 convertible	804	868
Common stock, \$1 par value (480,000,000 shares authorized; 323,337,912 shares issued)	323,338	323,338
Additional paid-in capital	247,800	256,133
Retained earnings	4,293,549	4,291,393
Accumulated other comprehensive loss	(451,880)	(459,792)
Treasury stock, at cost (119,999,023 and 116,140,084 shares, respectively)	(4,483,555)	(4,415,096)
Total Pitney Bowes Inc. stockholders' deficit	(69,940)	(3,152)
Total liabilities, noncontrolling interests and stockholders' deficit	\$ 8,315,907	\$ 8,533,911

See Notes to Condensed Consolidated Financial Statements

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

	Nine Months Ended September 30,	
	2010	2009
Cash flows from operating activities:		
Net income before attribution of noncontrolling interests	\$ 243,085	\$ 338,605
Restructuring charges and asset impairments, net of tax	67,027	8,300
Restructuring payments	(90,713)	(66,757)
Proceeds (payments) for settlement of derivative instruments	31,774	(20,281)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	231,605	262,683
Stock-based compensation	15,866	16,964
Changes in operating assets and liabilities, excluding effects of acquisitions:		
(Increase) decrease in accounts receivables	109,603	134,789
(Increase) decrease in finance receivables	168,673	203,588
(Increase) decrease in inventories	(31,336)	(6,844)
(Increase) decrease in prepaid, deferred expense and other assets	(792)	(14,787)
Increase (decrease) in accounts payable and accrued liabilities	(68,023)	(195,842)
Increase (decrease) in current and non-current income taxes	3,017	73,457
Increase (decrease) in advance billings	(8,215)	1,002
Increase (decrease) in other operating capital, net	(4,684)	(2,453)
Net cash provided by operating activities	666,887	732,424
Cash flows from investing activities:		
Short-term and other investments	(112,902)	(19,616)
Capital expenditures	(90,177)	(126,509)
Net investment in external financing	(3,117)	(1,216)
Acquisitions, net of cash acquired	(75,500)	-
Reserve account deposits	5,405	(6,236)
Net cash used in investing activities	(276,291)	(153,577)
Cash flows from financing activities:		
Decrease in notes payable, net	(89,232)	(445,460)
Proceeds from long-term obligations	-	297,513
Principal payments on long-term obligations	-	(150,000)
Proceeds from issuance of common stock	8,687	8,984
Stock repurchases	(100,000)	-
Dividends paid to common stockholders	(227,199)	(223,182)
Dividends paid to noncontrolling interests	(9,953)	(13,714)
Net cash used in financing activities	(417,697)	(525,859)
Effect of exchange rate changes on cash and cash equivalents	410	11,469
(Decrease) increase in cash and cash equivalents	(26,691)	64,457

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Cash and cash equivalents at beginning of period	412,737	376,671
Cash and cash equivalents at end of period	\$ 386,046	\$ 441,128
Cash interest paid	\$ 169,042	\$ 169,219
Cash income taxes paid, net	\$ 186,079	\$ 133,808

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 accompanying unaudited Condensed Consolidated Financial Statements of Pitney Bowes Inc. and its subsidiaries (PBI, the company, we, us, and our) 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, 2009 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, 2010 and December 31, 2009, our results of operations for the three and nine months ended September 30, 2010 and 2009 and our cash flows for the nine months ended September 30, 2010 and 2009 have been included. Operating results for the three and nine months ended September 30, 2010 are not necessarily indicative of the results that may be expected for any other interim period or the year ending December 31, 2010.

These statements should be read in conjunction with the financial statements and notes thereto included in our 2009 Annual Report to Stockholders on Form 10-K (2009 Annual Report).

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

2. Nature of Operations

We are the largest provider of mail processing equipment and integrated mail solutions in the world. 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 conduct our business activities in seven reporting segments within two business groups: Small & Medium Business Solutions and Enterprise Business Solutions. See Note 7 to the Condensed Consolidated Financial Statements for details of our reporting segments and a description of their activities.

3. Recent Accounting Pronouncements

In July 2010, new guidance was introduced which would increase disclosures regarding the credit quality of an entity's financing receivables and its allowance for credit losses. In addition, the guidance would require an entity to disclose credit quality indicators, past due information, and modifications of its financing receivables. The guidance will be effective for our 2010 Annual Report. The adoption of this guidance will not have an impact on our consolidated financial statements, but will result in additional disclosures.

In September 2009, new guidance was introduced addressing the accounting for revenue arrangements with multiple elements and certain revenue arrangements that include software. This guidance will allow companies to allocate consideration in a multiple element arrangement in a way that better reflects the economics of the transaction and will result in the elimination of the residual method. In addition, tangible products that have software components that are essential to the functionality of the tangible product will be scoped out of the software revenue guidance. The new guidance may also result in more expansive disclosures. The new guidance will be effective on January 1, 2011. We do not expect the adoption of this guidance to have a material impact on our financial position, results of operations, or cash flows.

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

4. Acquisitions

On July 5, 2010, we acquired Portrait Software plc (Portrait) for \$65.2 million in cash, net of cash acquired. Portrait provides software to enhance existing customer relationship management systems, enabling clients to achieve improved customer retention and profitability. The preliminary allocation of the purchase price to the fair values of the assets acquired and liabilities assumed is shown below. The primary items that generated goodwill are the anticipated synergies from the compatibility of the acquired technology with our existing product and service offerings, and employees of Portrait, neither of which qualify as an amortizable intangible asset. None of the goodwill will be deductible for tax purposes.

Purchase price allocation:

Current assets	\$ 7,919
Other non-current assets	2,352
Intangible assets	31,332
Goodwill (1)	47,354
Current liabilities	(13,014)
Non-current liabilities	(10,793)
Purchase price, net of cash acquired	\$ 65,150

Intangible assets:

Customer relationships	\$ 18,744
Software and technology	11,497
Trademarks and trade names	1,091
Total intangible assets	\$ 31,332

Intangible assets amortization period:

Customer relationships	10 years
Software and technology	5.8 years
Trademarks and trade names	5.7 years
Total weighted average	8.3 years

(1) Goodwill was assigned to the Software segment.

During the second quarter of 2010, we also completed a smaller acquisition for a purchase price of \$11.5 million in cash, of which \$10.3 million was paid at closing. The acquisition did not have a material impact on our financial results.

The following table provides unaudited pro forma consolidated revenue for the three and nine months ended September 30, 2010 and 2009 as if the above acquisitions had occurred on January 1 of each year. The pro forma earnings results of these acquisitions were not material to net income or earnings per share. The pro forma consolidated amounts do not purport to be indicative of actual results that would have occurred had the acquisitions been completed on January 1, 2010 and 2009, nor do they purport to be indicative of the results that will be obtained in the future.

Three Months Ended September 30,		Nine Months Ended September 30,	
2010	2009	2010	2009

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Total revenue	\$ 1,345,742	\$ 1,367,206	\$ 4,015,036	\$ 4,144,840
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PITNEY BOWES INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited; tabular dollars in thousands, except for per share data)

5. Discontinued Operations

The following table shows selected financial information included in discontinued operations for the three and nine months ended September 30, 2010 and 2009, respectively:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Pre-tax income	\$ -	\$ -	\$ 754	\$ 20,624
Tax provision	(2,536)	(2,429)	(9,086)	(15,328)
(Loss) gain from discontinued operations	\$ (2,536)	\$ (2,429)	\$ (8,332)	\$ 5,296

The loss for the three and nine months ended September 30, 2010 and three months ended September 30, 2009 primarily relates to the accrual of interest on uncertain tax positions. The gain for the nine months ended September 30, 2009 includes \$10.9 million (\$6.7 million after tax) from the release of reserves related to the expiration of an indemnity agreement associated with our former Capital Services business and \$9.8 million (\$6.0 million after tax) for a bankruptcy settlement. We received a bankruptcy settlement for unsecured claims pertaining to the lease of certain aircraft originally executed by the Capital Services business. At the time of the Capital Services sale, we retained the rights to the bankruptcy claims. These amounts were partially offset by the accrual of interest on uncertain tax positions.

6. Earnings per Share

The calculation of basic and diluted earnings per share (EPS) for the three and nine months ended September 30, 2010 and 2009 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Numerator:				
Amounts attributable to Pitney Bowes Inc.:				
Income from continuing operations attributable to Pitney Bowes Inc., net of tax	\$ 91,471	\$ 105,656	\$ 237,687	\$ 319,595
(Loss) gain from discontinued operations, net of tax	(2,536)	(2,429)	(8,332)	5,296
Pitney Bowes Inc. net income (numerator for diluted EPS)	88,935	103,227	229,355	324,891
Less: Preference stock dividend	(17)	(17)	(50)	(55)
Income attributable to Pitney Bowes Inc. common stockholders (numerator for basic EPS)	\$ 88,918	\$ 103,210	\$ 229,305	\$ 324,836
Denominator (in thousands):				
Weighted-average shares used in basic EPS	205,761	207,076	206,745	206,610
Effect of dilutive shares:				
Preferred stock	2	3	2	3
Preference stock	498	554	511	578
Stock options and stock purchase plans	13	5	20	2

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Other stock plans	8	6	13	5
Weighted-average shares used in diluted EPS	206,282	207,644	207,291	207,198
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PITNEY BOWES INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited; tabular dollars in thousands, except for per share data)

Basic earnings per share:

Income from continuing operations	\$ 0.44	\$ 0.51	\$ 1.15	\$ 1.55
(Loss) gain from discontinued operations	(0.01)	(0.01)	(0.04)	0.03
Net income	\$ 0.43	\$ 0.50	\$ 1.11	\$ 1.57

Diluted earnings per share:

Income from continuing operations	\$ 0.44	\$ 0.51	\$ 1.15	\$ 1.54
(Loss) gain from discontinued operations	(0.01)	(0.01)	(0.04)	0.03
Net income	\$ 0.43	\$ 0.50	\$ 1.11	\$ 1.57

Anti-dilutive shares (in thousands):

Anti-dilutive shares not used in calculating diluted weighted-average shares	16,107	18,032	15,704	18,701
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Note: The sum of the earnings per share amounts may not equal the totals above due to rounding.

On February 8, 2010, we made our annual stock compensation grant which consisted of approximately 1.7 million stock options and 0.8 million restricted stock units.

7. Segment Information

We conduct our business activities in seven reporting segments within two business groups, Small & Medium Business Solutions and Enterprise Business Solutions, based on the customers they primarily serve. The principal products and services of each of our reporting segments are as follows:

Small & Medium Business 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.

Enterprise Business 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, sorting and production print equipment.

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

Management Services: Includes worldwide revenue and related expenses from facilities management services; secure mail services; reprographic, document management services; secure document destruction; 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.

We manage, measure and analyze the operational profitability of each reporting segment based on earnings before interest and taxes (EBIT), a non-GAAP measure. EBIT is determined by deducting from segment revenue the related expenses attributable to the segment. Segment EBIT excludes interest and taxes, which are generally managed across the entire company on a consolidated basis, and general corporate expenses, restructuring charges and asset impairments.

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

Revenue and EBIT by business segment for the three and nine months ended September 30, 2010 and 2009 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenue:				
U.S. Mailing	\$ 461,787	\$ 491,036	\$ 1,406,464	\$ 1,517,377
International Mailing	227,844	224,681	678,961	679,893
Small & Medium Business Solutions	689,631	715,717	2,085,425	2,197,270
Production Mail	134,943	126,434	380,114	366,000
Software	91,544	82,361	251,877	240,559
Management Services	245,113	259,370	748,538	789,635
Mail Services (1)	144,988	134,042	416,245	413,891
Marketing Services	39,523	38,896	109,013	107,511
Enterprise Business Solutions	656,111	641,103	1,905,787	1,917,596
Total revenue	\$ 1,345,742	\$ 1,356,820	\$ 3,991,212	\$ 4,114,866
EBIT:				
U.S. Mailing	\$ 169,871	\$ 178,066	\$ 507,921	\$ 561,232
International Mailing	38,931	29,193	105,469	87,201
Small & Medium Business Solutions	208,802	207,259	613,390	648,433
Production Mail	15,243	11,494	35,111	26,974
Software	7,996	8,241	18,136	16,064
Management Services	23,508	19,517	65,781	49,294
Mail Services (1)	15,139	23,024	44,813	63,322
Marketing Services	8,571	7,448	20,430	17,323
Enterprise Business Solutions	70,457	69,724	184,271	172,977
Total EBIT	279,259	276,983	797,661	821,410
Unallocated amounts:				
Interest, net (2)	(51,106)	(50,551)	(150,269)	(155,260)
Corporate expenses	(51,404)	(45,618)	(137,634)	(127,621)
Restructuring charges and asset impairments	(33,805)	(12,845)	(103,039)	(12,845)

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Income from continuing operations before income taxes	\$	142,944	\$	167,969	\$	406,719	\$	525,684
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- (1) The Mail Services segment for the nine month period ended September 30, 2010 includes a one-time out of period adjustment primarily to correct rates used to estimate earned but unbilled revenue for the periods 2007 through first quarter 2010. The adjustment reduced 2010 year-to-date revenue and EBIT by \$21 million and \$16 million, respectively. The impact of this adjustment was not material to any individual quarter or year during these periods and is not material to anticipated 2010 results.
- (2) Interest, net includes financing interest expense, other interest expense and interest income.

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

8. Inventories

	September 30, 2010	December 31, 2009
Raw materials and work in process	\$ 50,820	\$ 36,331
Supplies and service parts	73,224	69,506
Finished products	63,831	50,665
Total	\$ 187,875	\$ 156,502

9. Fixed Assets

	September 30, 2010	December 31, 2009
Property, plant and equipment	\$ 1,819,355	\$ 1,820,797
Accumulated depreciation	(1,360,589)	(1,305,893)
Property, plant and equipment, net	\$ 458,766	\$ 514,904
Rental property and equipment	\$ 662,927	\$ 728,537
Accumulated depreciation	(347,438)	(368,330)