PITNEY BOWES INC /DE/
Form 10-K
February 23, 2012

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, 2011 — 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 marks whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files)
Yes 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, 2011, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was $4,647,239,292 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 13, 2012: 199,787,708 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 April 29, 2012 and to be delivered to stockholders in connection with the 2012 Annual Meeting of Stockholders to be held May 14, 2012, 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. (we, us, our, or Company), was incorporated in the state of Delaware on April 23, 1920, as the Pitney Bowes Postage Met Company. Today we are a global provider of software, hardware and services to enable both physical and digital communications and to integrate those physical and digital communications channels. Our growth strategies focus on leveraging our historic leadership in physical communication with our expanding capabilities in digital and hybrid communications. We see long-term opportunities in delivering products, software, services and solutions that help customers grow their business by more effectively managing their physical and digital communications with their customers.

For more information about us, our products, services and solutions, visit www.pb.com. Also, our annual reports on Form10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments or exhibits to those reports are available, free of charge, through the 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 Securities and Exchange Commission (the SEC). The information found on our website is not part of this or any other report we file with or furnish to the SEC.

Our annual, quarterly and current reports, proxy statements and other information can also be obtained from the SEC s website at www.sec.gov. This uniform resource locator is an inactive textual reference only and is not intended to incorporate the contents of the SEC website into this Form 10-K.

You may read and copy any document we file with the SEC at the SEC s Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. You may also request copies of these documents by writing to the SEC s Office of Public Reference at the above address, at prescribed rates. Please call the SEC at (800) 732-0330 for further information on the operations of the Public Reference Room and copying charges.

Business Segments

We organize and report our business activities within two groups based on the customers they primarily serve, Small & Medium Business Solutions and Enterprise Business Solutions. See Note 18 to the Consolidated Financial Statements for financial information concerning our reporting segments. The principal products and services of each of our reporting segments are as follows:

Small & Medium Business Solutions:

North America Mailing: Includes the U.S. and Canadian 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 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 outside North America.

Enterprise Business Solutions:

Production Mail: Includes the worldwide revenue and related expenses from the sale, 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; and litigation support and eDiscovery services.

Mail Services: Includes the worldwide revenue and related expenses from presort mail services and cross-border mail services.

Marketing Services: Includes the revenue and related expenses from direct marketing services for targeted customers.

Support Services

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

Marketing

We market our products and services through our sales force, direct mailings, outbound telemarketing, independent distributors and the Internet. 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 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 for certain leases. This program is designed to facilitate low dollar transactions by utilizing historical payment patterns and losses realized for customers with common credit characteristics. The program defines the criteria under which we will accept a customer without performing a more detailed credit investigation, such as maximum equipment cost, a customer s time in business and payment experience.

We closely monitor the portfolio by analyzing industry sectors and delinquency trends by product line, industry and customer to ensure reserve levels and credit policies reflect current trends. Management continues to closely monitor credit lines, collection resources, and revise credit policies as necessary to be more selective in managing the portfolio.

Competition

We are a leading supplier of products and services in the large majority of our business segments and our long experience, 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. All of our segments face competition from a number of companies. In particular, we face competition from companies that offer products and services as alternative means of message communications, including from postage meter and mailing machine suppliers for new placements of mailing equipment and from companies that offer alternatives to our mailing products, services and software. As we expand our activities in managing and integrating physical and digital communications, we will face competition from other companies looking to digitize mail, as well as those providing on-line payment services. We finance the majority of our equipment sales through our captive financing business. Our financing operations face competition, in varying degrees, from leasing companies, commercial finance companies, commercial banks and other financial institutions. 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 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.

Research, Development and Intellectual Property

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 license or any group of related patents or group of related licenses. Our expenditures for research and development were $149 million, $156 million and $182 million in 2011, 2010 and 2009, respectively.

Material Suppliers

We depend on third-party suppliers for a variety of services, components, supplies and a large portion of our product manufacturing. In certain instances, we rely on single sourced or limited sourced suppliers around the world because the relationship is advantageous due to quality, price, or there are no alternative sources. We have not historically experienced shortages in services, components or products and believe that our available sources for materials, components, services and supplies are adequate.

Regulatory Matters

We are subject to the regulations of postal authorities worldwide related to product specifications and business practices involving our postage meters. From time to time, we will work with these governing bodies to help in the enhancement and growth of mail and the mail channel.

Employees and Employee Relations

At December 31, 2011, we employed approximately 20,100 persons in the U.S. and 8,600 persons outside the U.S. The large majority of our employees are not represented by any labor union, and we believe that our current relations with employees are good. Management follows the policy of keeping employees informed of decisions, and encourages and implements employee suggestions whenever practicable.

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Executive Officers

See Part III, Item 10. Directors, Executive Officers and Corporate Governance of this Form 10-K for information about Executive Officers of the Registrant.

ITEM 1A. RISK FACTORS

In addition to the disclosures and other information discussed in this report, the following risk factors should be considered in evaluating our business. We work to manage and mitigate these risks proactively, including through the use of an enterprise risk management program. Nevertheless, the following risks, some of which may be beyond our control, could materially impact our businesses, our brand and reputation, financial condition and results of operations and may cause future results to be materially different than our current expectations:

Our revenue and profitability could be adversely affected by changes in postal regulations and processes.

The majority of our revenue is directly or indirectly subject to regulation and oversight by postal authorities worldwide. We depend on a healthy postal sector in the geographic markets where we do business, which could be influenced positively or negatively by legislative or regulatory changes in those countries. Our 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.

An accelerated decline in physical mail volumes could have an increasingly adverse effect on our revenues and profitability as we transition to more digital offerings and other services.

An accelerated decline in physical mail volumes could adversely affect our business. An accelerated or sudden decline in physical mail volumes could result from, among other things, changes in our customers communication behavior, including changes in communications technologies; government actions such as executive orders, legislation or regulations that mandate electronic substitution, prohibit certain types of mailings, increase the difficulty of using information or materials in the mail, or impose higher taxes or fees on mailing or postal services; and unexpected events such as the transmission of biological or chemical agents, or acts of terrorism

Customer usage of postal services to send physical mail continues to decline and has had an adverse effect on our revenues and profitability. We do not expect total mail volumes to rebound to prior peak levels. Factors underlying this trend include, among other things, increasing familiarity and comfort with the Internet, expansion of mobile internet access and the growing trend by businesses to incent or require their customers to use alternatives to mail for payments and statement presentment. We have introduced various product and service offerings as alternatives to physical mail; however, there is no guarantee that these product and services offerings will be widely accepted in the marketplace; and if accepted, they will face competition from existing and emerging alternative products and services.

We depend on third-party suppliers and outsource providers and our business could be adversely affected if we fail to manage these constituents effectively.

We depend on third-party suppliers and outsource providers for a variety of services, components, supplies and a large portion of our product manufacturing and we outsource a number of our non-core functions and operations. In certain instances, we rely on single sourced or limited sourced suppliers and outsourcing vendors around the world because the relationship is advantageous due to quality, price, or lack of alternative sources. If production or service was interrupted and we were not able to find alternate third-party suppliers, we could experience disruptions in manufacturing and operations including product shortages, higher freight costs and re-engineering costs. If outsourcing services are interrupted or not performed or the performance is poor, this could impact our ability to process, record and report transactions with our customers and other constituents. Such interruptions in the provision of supplies and/or services could result in our inability to meet customer demand, damage our reputation and customer relationships and adversely affect our business.

Market deteriorations and credit downgrades could adversely affect our cost of funds and related margins, liquidity, competitive position and access to capital markets.

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 consists of deposits held in our wholly owned industrial loan corporation, The Pitney Bowes Bank (the 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.

We have a commercial paper program that is an important source of liquidity for us. While we continue 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. If market conditions deteriorate, there can be no assurance that other funding sources would be available or sufficient, and those funding sources that may be available could result in a significantly higher cost of borrowing and adversely impact our results of operations.

Failure to comply with privacy laws and other related regulations could subject us to significant liability and damage our reputation.

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. These laws are continuing to evolve. We, and our third-party benefits administrators, have security systems and procedures in place that are designed to protect against unauthorized access to such information; however, there is no guarantee that experienced computer programmers or hackers will not be able to gain access to ours, our third-party benefits administrators, security systems and misappropriate confidential information. Any significant violations of data privacy or failure to comply with any of these laws, regulations or contract provisions could damage our reputation and business and subject us to significant remediation costs and/or liability.

A disruption of our information technology systems could adversely impact our operating results.

Our portfolio of product, service and financing solutions is dependent on reliable information technology systems. We maintain secure systems 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. We have disaster recovery plans in place to protect our business operations in the case of adverse acts of nature, security breaches, power or communications failures, computer viruses, vandalism and other unexpected events. Despite our preparations, our disaster recovery plans may not be completely successful and we could be prevented from fulfilling orders and servicing customers and postal services, which could have an adverse effect on our reputation and business.

Our inability to obtain and protect our intellectual property and defend against claims of infringement by others may negatively impact our operating results.

We do not believe our businesses are materially dependent on any one patent or license or group of patents or licenses. However, 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 businesses 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.

If we fail to comply with government contracting regulations, our operating results, brand name and reputation could suffer.

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 is located in Stamford, Connecticut. We have facilities worldwide that are either leased or owned. Our primary manufacturing and assembly operations are located in Danbury, Connecticut and our principal research and development facilities are located in Danbury, Connecticut and Noida, India. We believe that our manufacturing and assembly, administrative and sales office locations are adequate for the needs of all of our operations.

ITEM 3. LEGAL PROCEEDINGS

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 or other disputes with customers; or disputes with employees. Some of these actions may be brought as a purported class action on behalf of a purported class of employees, customers or others.

Our wholly owned subsidiary, Imagitas, Inc., is a defendant in several purported class actions initially 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 violated the federal Drivers Privacy Protection Act (DPPA). Under the DriverSource program, Imagitas entered 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 assisted the state in performing its governmental function of delivering these mailings and funding the costs of them. The plaintiffs in these actions were seeking statutory damages under the DPPA. On December 21, 2009, the Eleventh Circuit Court affirmed the District Court s summary judgment decision in Rine, et al. v. Imagitas, Inc. (United States District Court, Middle District of Florida, filed August 1, 2006) which ruled in Imagitas favor and dismissed that litigation. That decision is now final, with no further appeals available. With respect to the remaining state cases, on December 30, 2011, the District Court ruled in Imagitas favor and dismissed the litigation. Plaintiff has filed a notice of appeal to the Court of Appeals for the Eleventh Circuit. Based upon our current understanding of the facts and applicable laws, we do not believe there is a reasonable possibility that any loss has been incurred.

On October 28, 2009, the Company and certain of its current and former officers were named as defendants in NECA-IBEW Health & Welfare Fund v. Pitney Bowes Inc. et al., a class action lawsuit filed in the U.S. District Court for the District of Connecticut. The complaint asserts claims under the Securities Exchange Act of 1934 on behalf of those who purchased the common stock of the Company during the period between July 30, 2007 and October 29, 2007 alleging that the Company, in essence, missed two financial projections. Plaintiffs filed an amended complaint on September 20, 2010. After briefing on the motion to dismiss was completed, the plaintiffs filed a new amended complaint on February 17, 2012. We intend to move to dismiss this new amended complaint. Based upon our current understanding of the facts and applicable laws, we do not believe there is a reasonable possibility that any loss has been incurred.

We expect to prevail in the legal actions above; 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. MINE SAFETY DISCLOSURES

Not applicable

PART II

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

Our common stock is traded under the symbol PBI and is principally traded on the New York Stock Exchange (NYSE). Our stock is also traded on the Boston, Chicago, Philadelphia, Pacific and Cincinnati stock exchanges. At January 31, 2012, we had 21,270 common stockholders of record. The following table sets forth the high and low sales prices, as reported on the NYSE, and the cash dividends paid per share of common stock, for the periods indicated.

	Stock Price		Dividend
	High	**Low**	**Per Share**
For the year ended December 31, 2011			
First Quarter	**$ 26.15**	**$ 23.46**	**$ 0.37**
Second Quarter	**$ 26.36**	**$ 22.05**	**0.37**
Third Quarter	**$ 23.47**	**$ 18.00**	**0.37**
Fourth Quarter	**$ 21.20**	**$ 17.33**	**0.37**
			$ 1.48
For the year ended December 31, 2010			
First Quarter	$ 24.76	$ 20.80	$ 0.365
Second Quarter	$ 26.00	$ 21.28	0.365
Third Quarter	$ 25.00	$ 19.06	0.365
Fourth Quarter	$ 24.79	$ 21.19	0.365
			$ 1.46

In February 2012, our Board of Directors authorized the payment of a cash dividend of $0.375 per share for the first quarter. There are no material restrictions on our ability to declare dividends and we expect to continue to pay quarterly cash dividends.

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.

Share Repurchases

We periodically repurchase shares of our common stock to manage the dilution created by shares issued under employee stock plans and for other purposes in the open market. During 2011, we repurchased 4,692,200 shares of our common stock at a total cost of $100 million. At December 31, 2011, we have remaining authorization to repurchase up to $50 million of our common stock. There were no share repurchases during the fourth quarter.

Stock Performance Graph

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

The Peer Group Index is comprised of the following companies: Automatic Data Processing, Inc., Diebold, Inc., R.R. Donnelley & Sons Co., DST Systems, Inc., FedEx Corporation, Hewlett-Packard Company, Lexmark International, Inc., Pitney Bowes Inc., United Parcel Service, Inc., and Xerox Corporation.

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

All information is based upon data independently provided to us by Standard & Poor s Corporation and is derived from their official total return calculation. The graph and table below show that on a total return basis, assuming reinvestment of all dividends, $100 invested in the Company s common stock, the S&P 500 Composite Index and the Peer Group on December 31, 2006 would have been worth $53, $99 and $85, respectively, on December 31, 2011.

	Indexed Returns December 31,					
Company Name / Index	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Pitney Bowes	$ 100	$ 85	$ 59	$ 57	$ 64	$ 53
S&P 500	$ 100	$ 105	$ 66	$ 84	$ 97	$ 99
Peer Group	$ 100	$ 104	$ 77	$ 97	$ 99	$ 85

ITEM 6. SELECTED FINANCIAL DATA

The following table of selected financial data 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,				
	2011	2010	2009	2008	2007
Total revenue	**$ 5,277,974**	$ 5,425,254	$ 5,569,171	$ 6,262,305	$ 6,129,795
Amounts attributable to common stockholders:					
Income from continuing operations	**$ 351,321**	$ 310,483	$ 431,554	$ 447,493	$ 361,247
Gain (loss) from discontinued operations	**266,159**	(18,104)	(8,109)	(27,700)	5,534
Net income	**$ 617,480**	$ 292,379	$ 423,445	$ 419,793	$ 366,781
Basic earnings per share attributable to common stockholders (1)					
Continuing operations	**$ 1.74**	$ 1.51	$ 2.09	$ 2.15	$ 1.65
Discontinued operations	**1.32**	(0.09)	(0.04)	(0.13)	0.03
Net income - Pitney Bowes Inc.	**$ 3.06**	$ 1.42	$ 2.05	$ 2.01	$ 1.68
Diluted earnings per share attributable to common stockholders (1)					
Continuing operations	**$ 1.73**	$ 1.50	$ 2.08	$ 2.13	$ 1.63
Discontinued operations	**1.31**	(0.09)	(0.04)	(0.13)	0.03
Net income - Pitney Bowes Inc.	**$ 3.05**	$ 1.41	$ 2.04	$ 2.00	$ 1.66
Cash dividends paid per share of common stock	**$ 1.48**	$ 1.46	$ 1.44	$ 1.40	$ 1.32
Balance sheet					
Total assets	**$ 8,147,104**	$ 8,444,023	$ 8,571,039	$ 8,810,236	$ 9,465,731
Long-term debt	**$ 3,683,909**	$ 4,239,248	$ 4,213,640	$ 3,934,865	$ 3,802,075
Total debt	**$ 4,233,909**	$ 4,289,248	$ 4,439,662	$ 4,705,366	$ 4,755,842
Noncontrolling interests (Preferred stockholders equity in subsidiaries)	**$ 296,370**	$ 296,370	$ 296,370	$ 374,165	$ 384,165

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

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

Forward-Looking Statements

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

- 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
- changes in postal or banking regulations
- declining physical mail volumes
- impact on mail volume resulting from current concerns over the use of the mail for transmitting harmful biological agents
- mailers utilization of alternative means of communication or competitors products
- our success at managing costs associated with our strategy of outsourcing functions and operations not central to our business
- our success at managing customer credit risk
- third-party suppliers ability to provide product components, assemblies or inventories
- negative developments in economic conditions, including adverse impacts on customer demand
- changes in international or national political conditions, including any terrorist attacks
- interrupted use of key information systems
- intellectual property infringement claims
- changes in privacy laws
- significant increases in pension, health care and retiree medical costs
- changes in interest rates and foreign currency fluctuations
- regulatory approvals and satisfaction of other conditions to consummate and integrate any acquisitions
- income tax adjustments or other regulatory levies for prior audit years and changes in tax laws or regulations
- acts of nature

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements contained in this report.

Overview

In 2011, revenue decreased 3% to $5,278 million compared to the prior year. Foreign currency translation had a 2% favorable impact on revenue. Excluding the effects of foreign currency translation, the decrease in overall revenue was caused by lower equipment sales (6%), supplies revenue (5%), rental and financing revenue (7%) and services revenue (4%). Software revenue increased 6% compared to the prior year.

Net income from continuing operations attributable to common stockholders was $351 million, or $1.73 per diluted share for 2011 compared to $310 million or $1.50 per diluted share for 2010. These results include the following items:

- In February 2011, our largest mail presort facility located in Dallas, Texas was destroyed by a fire and we were unable to process customer mail at full capacity for a significant part of the year. We estimate that lost revenue from the fire was approximately $20 million. Through December 31, 2011, we received $42 million of insurance proceeds, which primarily relates to the reimbursement of lost revenue, replacement cost of equipment and additional expenses incurred as a result of the fire. We recognized $27 million of insurance recoveries in other income. The new Dallas presort facility has now reached operational efficiency comparable to the previous facility;

- Due to the continuing underperformance and long-term outlook of the International Mailing Services operations (IMS) of our Mail Services segment, we recorded aggregate pre-tax goodwill and intangible asset impairment charges of $46 million and $12 million, respectively;

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Further, based on the results of our annual goodwill impairment review process, we recorded additional pre-tax goodwill and intangible asset impairment charges of $84 million and $5 million, respectively related to the international operations of our Management Services segment (PBMSi);

In September 2011, we completed a sale of non-U.S. leveraged lease assets resulting in cash proceeds of $102 million and an after-tax gain of $27 million.

During the year, we entered into a series of settlements with the IRS in connection with its examinations of our tax years 2001-2008 under which we agreed upon both the tax treatment of a number of disputed issues, including issues related to our Capital Services business that was sold in 2006, and revised tax calculations. As a result of these settlements, we recognized tax benefits of $90 million in income from continuing operations and $264 million in discontinued operations. Our additional liability for tax and interest arising from the 2001-2008 IRS examinations was approximately $400 million, which was previously paid through the purchase of tax bonds.

We generated $920 million in cash from operations, which was used primarily to reduce debt by $50 million, repurchase $100 million of our common stock, pay $300 million of dividends to our common stockholders and fund capital investments of $156 million.

Net income attributable to Pitney Bowes was $617 million, or $3.05 per diluted share and included $266 million, or $1.31 per diluted share from discontinued operations.

Outlook

The worldwide economy and business environment continued to be uncertain during 2011 and we believe it will continue to be uncertain in 2012. We anticipate physical mail volumes will continue their gradual decline as alternative means of communications evolve and gain further acceptance. As a result, Small and Medium Business Solutions (SMB) revenue growth should continue to be challenged. We anticipate a gradual improvement in equipment sales in 2012 due, in part; to sales of Connect+™ communications systems, but a recovery in SMB revenues will lag any recovery in equipment sales. We anticipate revenue growth from increased demand for multi-year software licensing agreements, increased placements of production print equipment and continued expansion in Mail Services operations will help offset the anticipated decline in SMB revenues.

We will continue our focus on streamlining our business operations and creating more flexibility in our cost structure. Our growth strategies will focus on leveraging our expertise in physical communications with our expanding capabilities in digital and hybrid communications. We will continue to develop and invest in products, software, services and solutions that help customers grow their business by more effectively managing their physical and digital communications with their customers. Over time, we expect our mix of revenue to change, with a greater percentage of revenue coming from enterprise related products and solutions. We also expect to roll out other digitally-based products and services but do not expect them to have a significant impact on our revenues for 2012.

RESULTS OF OPERATIONS - 2011 Compared to 2010

Business segment results

We conduct our business activities in seven reporting segments within two business groups, Small & Medium Business Solutions (SMB Solutions) and Enterprise Business Solutions (EB Solutions). The following table shows revenue and EBIT for each segment in 2011 and 2010. Segment EBIT, a non-GAAP measure, is determined by deducting from segment revenue the related costs and expenses attributable to the segment. Segment EBIT excludes interest, taxes, general corporate expenses not allocated to a particular business segment, restructuring charges, asset impairments, and goodwill charges, which are recognized on a consolidated basis. Management uses segment EBIT to measure profitability and performance at the segment level. Segment EBIT may not be indicative of our overall consolidated performance and therefore, should be read in conjunction with our consolidated results of operations. Refer to Note 18 to the Consolidated Financial Statements for a reconciliation of segment EBIT to income from continuing operations before income taxes. All table amounts are presented in millions of dollars, unless otherwise stated. Amounts in the tables below may not sum to the total due to rounding.

	Revenue			**EBIT**		
	2011	2010	% change	**2011**	2010	% change
North America Mailing	**$ 1,961**	$ 2,101	(7)%	**$ 728**	$ 755	(4)%
International Mailing	**707**	675	5%	**99**	79	25%
SMB Solutions	**2,669**	2,775	(4)%	**827**	834	(1)%
Production Mail	**544**	561	(3)%	**33**	61	(47)%
Software	**407**	375	9%	**38**	40	(5)%
Management Services	**949**	999	(5)%	**76**	93	(18)%
Mail Services	**567**	573	(1)%	**88**	63	39%
Marketing Services	**142**	142	%	**26**	26	%
EB Solutions	**2,609**	2,650	(2)%	**261**	283	(8)%
Total	**$ 5,278**	$ 5,425	(3)%	**$ 1,088**	$ 1,117	(3)%

<u>Small & Medium Business Solutions</u>

Small & Medium Business Solutions revenue decreased 4% to $2,669 million and EBIT decreased 1% to $827 million, compared to the prior year. Foreign currency translation had a favorable impact of 2% on revenue. Within the Small & Medium Business Solutions group:

North America Mailing revenue decreased 7% to $1,961 million and EBIT decreased 4% to $728 million, compared to the prior year. Foreign currency translation had a less than 1% favorable impact on revenue. Excluding the effects of foreign currency, equipment sales declined 7% as increased concerns about economic conditions resulted in customers delaying purchases of new equipment and extending leases of existing equipment. Lease extensions are profitable transactions but generate less revenue in the current period than new equipment sales. The lagging effects of lower equipment sales in prior periods, fewer meter placements and declining mail volumes contributed to declines in financing revenue (8%), rental revenue (7%), supplies revenue (8%) and service revenue (4%). The decrease in EBIT was primarily due to lower revenues; however, EBIT margin improved as a result of continued productivity improvements and lower credit losses.

International Mailing revenue increased 5% to $707 million compared to the prior year, but included a favorable impact of 6% from foreign currency translation. Excluding the effects of foreign currency, the underlying decrease was primarily due to lower equipment sales in the U.K., Germany, the Asia Pacific region and Latin America due to increased concerns about economic conditions throughout the regions. EBIT increased 25% to $99 million compared to the prior year due to continued productivity improvements. Foreign currency translation favorably impacted EBIT by 5%.

<u>Enterprise Business Solutions</u>

Enterprise Business Solutions revenue decreased 2% to $2,609 million and EBIT decreased 8% to $261 million, compared to the prior year. Foreign currency translation had a favorable impact of 1% on revenue. Within the Enterprise Business Solutions group:

Production Mail revenue decreased 3% to $544 million compared to the prior year. Foreign currency translation had a positive impact of 2%. Excluding the effects of foreign currency, equipment sales decreased 11% as many enterprise accounts worldwide, especially in Europe, delayed capital investment commitments. EBIT decreased 47% to $33 million compared to last year due to lower revenue and the expenses incurred in the development of Volly™, our secure digital mail delivery service.

Software revenue increased 9% to $407 million compared to the prior year. Foreign currency translation had a 3% favorable impact on revenue and prior year acquisitions accounted for 3% of the increase. The remaining increase was primarily due to higher licensing revenue in most regions, particularly North America and Asia Pacific. We continue to enter into multi-year software licensing agreements, which will provide improved recurring revenue streams in future periods. EBIT decreased 5% to $38 million compared to last year due to higher selling costs as a percentage of revenue. Foreign currency had a favorable impact of 7% on EBIT.

Management Services revenue decreased 5% to $949 million compared to the prior year. Foreign currency translation had a positive impact of 1%. EBIT decreased 18% to $76 million compared to the prior year. The decrease in revenue and EBIT was primarily due to account contractions and terminations in the U.S. last year and pricing pressure on new business and contract renewals.

Mail Services revenue decreased 1% to $567 million compared to the prior year primarily due to a reduction in cross-border mail and package shipments. EBIT increased 39% to $88 million compared to the prior year. EBIT in 2011 includes a benefit of $7 million related to the Dallas mail presort facility fire from the insurance recoveries of $27 million recognized in other income net of the lost revenue of approximately $20 million. We expect higher depreciation costs in future years related to the new equipment. The 2010 results include a one-time out of period adjustment that reduced revenue by $21 million and EBIT by $16 million. Excluding the impacts of these items, EBIT increased 2%.

Marketing Services revenue of $142 million and EBIT of $26 million was flat compared to the prior year.

Revenue and Cost of revenue by source

The following tables show revenue and cost of revenue by source for the years ended December 31, 2011 and 2010:

Revenue by source

	2011	2010	% change
Equipment sales	**$ 986**	$ 1,023	(4)%
Supplies	**308**	318	(3)%
Software	**427**	390	9%
Rentals	**564**	601	(6)%
Financing	**603**	638	(6)%
Support services	**707**	712	(1)%
Business services	**1,684**	1,744	(3)%
Total revenue	**$ 5,278**	$ 5,425	(3)%

Cost of revenue by source

			Percentage of Revenue	
	2011	2010	**2011**	2010
Cost of equipment sales	**$ 449**	$ 469	**45.6%**	45.9%
Cost of supplies	**97**	97	**31.6%**	30.5%
Cost of software	**99**	93	**23.2%**	23.9%
Cost of rentals	**125**	141	**22.2%**	23.6%
Financing interest expense	**88**	88	**14.5%**	13.8%
Cost of support services	**453**	452	**64.1%**	63.5%
Cost of business services	**1,304**	1,337	**77.4%**	76.7%
Total cost of revenue	**$ 2,615**	$ 2,678	**49.6%**	49.4%

Equipment sales

Equipment sales revenue decreased 4% to $986 million compared to the prior year. Foreign currency translation had a positive impact of 2%. Equipment sales continue to be impacted by many customers delaying capital investment commitments and extending leases of existing equipment. Cost of equipment sales as a percentage of revenue improved to 45.6% compared with 45.9% in the prior year due to the mix of higher margin product sales and lease extensions.

Supplies

Supplies revenue decreased 3% to $308 million compared to the prior year due to reduced mail volumes and fewer installed meters worldwide. Foreign currency translation had a 2% favorable impact. Cost of supplies as a percentage of revenue was 31.6% compared with 30.5% in the prior year primarily due to the mix of lower margin supply sales worldwide.

Software

Software revenue increased 9% to $427 million compared to the prior year, with prior year acquisitions and foreign currency translation each contributing 3% of the increase. The remaining underlying increase of 3% was due to higher licensing revenue. Cost of software as a percentage of revenue improved to 23.2% compared with 23.9% in the prior year due to the increase in high margin licensing revenue.

Rentals

Rentals revenue decreased 6% to $564 million compared to the prior year as customers in the U.S. continue to downsize to smaller, fully featured machines and fewer installed meters worldwide. Foreign currency translation had a 1% positive impact. Cost of rentals as a percentage of revenue improved to 22.2% compared with 23.6% in the prior year primarily due to lower depreciation associated with higher levels of lease extensions.

Financing

Financing revenue decreased 6% to $603 million compared to the prior year due to lower equipment sales in prior periods. Foreign currency translation had a 1% positive impact. Financing interest expense as a percentage of revenue was 14.5% compared with 13.8% in the prior year due to higher overall effective interest rates. In computing financing interest expense, which represents the cost of borrowing associated with the generation of financing revenues, we assume a 10:1 leveraging ratio of debt to equity and apply our overall effective interest rate to the average outstanding finance receivables.

Support Services

Support services revenue decreased 1% to $707 million compared to the prior year driven by lower new equipment placements worldwide. Foreign currency translation had a positive impact of 2%. Cost of support services as a percentage of revenue increased to 64.1% compared with 63.5% in the prior year primarily due to an increase in installations of high-end integrated mailing systems.

Business Services

Business services revenue decreased 3% to $1,684 million compared to the prior year primarily due to the loss of several large contracts in 2010. Foreign currency translation had a 1% favorable impact. Cost of business services as a percentage of revenue increased to 77.4% compared with 76.7% in the prior year primarily due to lower revenues, higher shipping costs in the International Mail Services operations, and pricing pressure on new business and contract renewals.

Selling, general and administrative (SG&A)

SG&A expenses decreased $29 million; however, excluding the impacts of foreign currency translation and prior year acquisitions, SG&A expenses decreased $72 million, or 4% primarily due to process improvements and cost saving initiatives. As a percentage of revenue, SG&A expenses were 32.8% compared to 32.5% in the prior year.

Research and development

Research and development expenses decreased $8 million, or 5% from the prior year due to lower cost of offshore development, cost reduction initiatives and a reduction in development work for Connect+™.

Goodwill and intangible asset impairment

Aggregate goodwill and intangible asset impairment charges were $130 million and $17 million, respectively. The intangible asset impairment charges are included in restructuring charges and asset impairments in the Consolidated Statements of Income. See Critical Accounting Estimates in this MD&A and Note 1 to the Consolidated Financial Statements for further details.

Other income, net

Other income, net of $20 million reflects the $27 million of insurance reimbursements recognized in other income in connection with claims associated with the fire at the Dallas presort mail facility and a pre-tax loss of $7 million on the sale of non-U.S. leveraged lease assets.

Income taxes / effective tax rate

The effective tax rates for 2011 and 2010 were 10.8% and 38.5%, respectively. The effective tax rate for 2011 includes $90 million of tax benefits arising from the IRS tax settlements, a $34 million tax benefit from the aforementioned sale of non-U.S. leveraged lease assets and a $4 million charge from the write-off of deferred tax assets associated with the expiration of out-of-the-money vested stock options and the vesting of restricted stock units previously granted to our employees. In addition, the effective tax rate for 2011 was increased due to a reduced tax benefit associated with the goodwill impairment charges.

The effective tax rate for 2010 includes $16 million of tax benefits associated with previously unrecognized deferred taxes on outside basis differences, a $15 million charge for the write-off of deferred tax assets associated with the expiration of out-of-the-money vested stock options and the vesting of restricted stock units previously granted to our employees and a $9 million charge for the write-off of deferred tax assets related to the U.S. health care reform legislation that eliminated the tax deduction for retiree health care costs to the extent of federal subsidies received by companies that provide retiree prescription drug benefits equivalent to Medicare Part D coverage.

Discontinued operations

See Note 2 to the Consolidated Financial Statements.

Preferred stock dividends of subsidiaries attributable to noncontrolling interests

See Note 10 to the Consolidated Financial Statements.

RESULTS OF OPERATIONS - 2010 Compared to 2009

Business segment results

The following table shows revenue and EBIT in 2010 and 2009 by business segment.

	Revenue			EBIT		
	2010	2009	% change	2010	2009	% change
North America Mailing	$ 2,101	$ 2,211	(5)%	$ 755	$ 770	(2)%
International Mailing	675	698	(3)%	79	99	(20)%
SMB Solutions	2,775	2,909	(5)%	834	869	(4)%
Production Mail	561	531	6%	61	52	18%
Software	375	356	5%	40	34	18%
Management Services	999	1,061	(6)%	93	72	28%
Mail Services	573	571	%	63	88	(28)%
Marketing Services	142	141	%	26	23	14%
EB Solutions	2,650	2,660	%	283	268	5%
Total	$ 5,425	$ 5,569	(3)%	$ 1,117	$ 1,138	(2)%

Small & Medium Business Solutions

Small & Medium Business Solutions revenue decreased 5% to $2,775 million and EBIT decreased 4% to $834 million, compared to the prior year. Within the Small & Medium Business Solutions group:

North America Mailing revenue decreased 5% to $2,101 million and EBIT decreased 2% to $755 million, compared to the prior year. The revenue decrease was driven primarily by lower financing, rental, service and supplies revenues. The decrease in financing revenue is due to a decline in our leasing portfolio from reduced equipment sales in recent years. Rental, supplies and service revenues were lower than prior year due to fewer placements of new meters. Equipment sales and supplies revenue were lower than prior year due to business consolidations, lease extensions and reduced volumes of mail processed. Lease extensions have a positive impact on profit margins longer-term but negatively impact equipment sales revenue in the current year. Revenue was also adversely affected by the ongoing changing mix to more fully featured smaller systems. Foreign currency translation had a 1% favorable impact on revenue. The lower EBIT was due to the decline in higher margin financing, rental and supplies revenues, which more than offset the 1% impact from a favorable adjustment related to certain leveraged lease transactions in Canada.

International Mailing revenue decreased 3% to $675 million compared to the prior year, including a favorable impact from foreign currency translation of 1%. While equipment sales were up slightly in certain parts of Europe, this increase was offset by continued declines in financing and rental revenues due to reduced equipment sales in recent years. EBIT decreased 20% to $79 million compared to prior year primarily due to the lower revenue and shift to lower margin equipment and supplies sales.

Enterprise Business Solutions

Enterprise Business Solutions revenue was flat at $2,650 million and EBIT increased 5% to $283 million, compared to the prior year. Within the Enterprise Business Solutions group:

Production Mail revenue increased 6% over the prior year to $561 million due to increased demand in the U.S. for inserting equipment and our first installations of production print equipment. Demand for inserting equipment continued to experience a delayed recovery in certain countries outside of North America as many large enterprises in these regions delayed capital expenditures due to economic uncertainty. EBIT increased 18% to $61 million compared to last year due to the higher revenue and our initiatives to improve productivity and consolidate administrative functions. Foreign currency translation had a 1% favorable impact on EBIT.

Software revenue increased 5% over last year to $375 million, driven by the acquisition of Portrait Software (4%) and the favorable impact of foreign currency translation (1%). We continue to build more recurring revenue streams through multi-year licensing agreements, which have the effect of deferring some revenue to future periods. EBIT increased 18% over last year to $40 million due to business integration and productivity initiatives. EBIT was negatively impacted by transaction-related fees of approximately $2 million associated with the Portrait acquisition. Foreign currency translation had a less than 1% favorable impact on EBIT.

Management Services revenue decreased 6% compared to last year to $999 million due to the loss of several large postal contracts and decreased print volumes. Despite the lower revenues, EBIT increased 28% over the prior year to $93 million primarily due to our actions to align costs with changing volumes through a more variable cost infrastructure, ongoing productivity initiatives and a focus on more profitable contracts. Foreign currency translation had a less than 1% impact on both revenue and EBIT.

Mail Services revenue was flat compared to last year at $573 million, while EBIT decreased 28% to $63 million. Mail Services revenue and EBIT were adversely impacted by $21 million and $16 million, respectively, due to a one-time out of period adjustment in the International Mail Services portion of the business primarily related to a correction to the rates used to estimate earned but unbilled revenue for the periods 2007 through the first quarter of 2010. The impact of this adjustment was not material on any individual quarter or year during these periods. Excluding the impact of this adjustment, revenue increased 4% over the prior year, but EBIT decreased 11%. The revenue increase was driven partially by increased volumes of presort mail and Standard Class mail processed and acquisitions (2%). The decrease in EBIT was driven by higher shipping rates charged by international carriers for our International Mail Services business, which more than offset the favorable margin impacts in our Presort business.

Marketing Services revenue of $142 million was flat compared to the prior year. Revenue was impacted by increased vendor advertising for Movers Source kits offset by a decline in household moves compared to prior year. EBIT increased 14% over last year due to more profitable vendor revenue per transaction.

Revenues and cost of revenues by source

The following tables show revenues and costs of revenues by source for the years ended December 31, 2010 and 2009:

Revenue by source

	2010	2009	% change
Equipment sales	$ 1,023	$ 1,000	2%
Supplies	318	336	(5)%
Software	390	372	5%
Rentals	601	647	(7)%
Financing	638	694	(8)%
Support services	712	714	%
Business services	1,744	1,805	(3)%
Total revenue	$ 5,425	$ 5,569	(3)%

Cost of revenue by source

			Percentage of Revenue	
	2010	2009	2010	2009
Cost of equipment sales	$ 469	$ 450	45.9%	45.0%
Cost of supplies	97	94	30.5%	27.9%
Cost of software	93	88	23.9%	23.7%
Cost of rentals	141	159	23.6%	24.5%
Financing interest expense	88	98	13.8%	14.1%
Cost of support services	452	467	63.5%	65.4%
Cost of business services	1,337	1,382	76.7%	76.6%
Total cost of revenue	$ 2,678	$ 2,738	49.4%	49.2%

Equipment sales

Equipment sales revenue increased 2% to $1,023 million compared to the prior year. Foreign currency translation had a positive impact of 1%. The growth was primarily driven by higher sales of production mail equipment in the U.S. and higher equipment sales in Canada and parts of Europe. Period revenue was adversely affected by lease extensions. Cost of equipment sales as a percentage of revenue was 45.9% compared with 45.0% in the prior year, primarily due to the higher mix of lower margin production mail equipment sales, which more than offset the positive impacts of higher levels of lease extensions and ongoing productivity improvements.

Supplies

Supplies revenue decreased 5% to $318 million compared to the prior year due to lower supplies usage resulting from lower mail volumes and fewer installed meters due to customer consolidations worldwide. Foreign currency translation had less than a 1% favorable impact. Cost of supplies as a percentage of revenue was 30.5% compared with 27.9% in the prior year primarily due to the increasing mix of lower margin non-compatible supplies sales worldwide.

Software
Software revenue increased 5% to $390 million compared to the prior year. The acquisition of Portrait accounted for 4% of the increase and foreign currency translation accounted for 1% of the increase. Period revenue growth was also negatively impacted by the shift to recurring revenue streams through multi-year licensing agreements. Cost of software as a percentage of revenue was 23.9% compared to 23.7% in the prior year.

Rentals
Rentals revenue decreased 7% to $601 million compared to the prior year as customers in the U.S. continue to downsize to smaller, fully featured machines. The weak economic conditions have also impacted our international rental markets, specifically in France. Foreign currency translation had less than a 1% positive impact. Cost of rentals as a percentage of revenue was 23.6% compared with 24.5% in the prior year. Rental margins have been positively impacted by lower depreciation associated with higher levels of lease extensions.

Financing
Financing revenue decreased 8% to $638 million compared to the prior year as lower equipment sales in previous years have resulted in a net decline in both our U.S. and international lease portfolios. Foreign currency translation had a 1% positive impact. Financing interest expense as a percentage of revenue was 13.8% compared with 14.1% in the prior year due to lower interest rates and lower average borrowings. In computing financing interest expense, we assume a 10:1 leveraging ratio of debt to equity and apply our overall effective interest rate to the average outstanding finance receivables.

Support Services
Support services revenue of $712 million was flat compared to the prior year. Growth has been negatively impacted by lower placements of mailing equipment, primarily in the U.S., U.K. and France. Foreign currency translation had a positive impact of 1%. Cost of support services as a percentage of revenue improved to 63.5% compared with 65.4% in the prior year due to margin improvements from our ongoing productivity investments in the U.S. and International Mailing and Production Mail businesses.

Business Services
Business services revenue decreased 3% to $1,744 million compared to the prior year primarily due to the loss of several large postal contracts and print volumes at Management Services. Foreign currency translation had less than a 1% negative impact. Cost of business services as a percentage of revenue was 76.7% compared with 76.6% in the prior year. Positive impacts of cost reduction programs at our Management Services and Presort businesses were offset by higher shipping costs in International Mail Services.

Selling, general and administrative (SG&A)

SG&A expenses decreased $40 million, or 2% primarily as a result of our cost reduction initiatives. Businesses acquired in 2010 increased SG&A by $15 million and foreign currency translation had a less than 1% unfavorable impact. As a percentage of revenue, SG&A expenses were 32.5% compared to 32.3% in the prior year.

Research and development

Research and development expenses decreased $26 million, or 14%from the prior year due to the wind-down of redundant costs related to our transition to offshore development activities and the launch of the new Connect+™ mailing system. Foreign currency translation had an unfavorable impact of 1%. As a percentage of revenue, research and development expenses were 2.9% compared to 3.3% in the prior year.

Income taxes / effective tax rate

The effective tax rates for 2010 and 2009 were 38.5% and 34.6%, respectively. The effective tax rate for 2010 included $16 million of tax benefits associated with previously unrecognized deferred taxes on outside basis differences, a $15 million charge for the write-off of deferred tax assets associated with the expiration of out-of-the-money vested stock options and the vesting of restricted stock units previously granted to our employees and a $9 million charge for the write-off of deferred tax assets related to the U.S. health care reform legislation that eliminated the tax deduction for retiree health care costs to the extent of federal subsidies received by companies that provide retiree prescription drug benefits equivalent to Medicare Part D coverage.

The effective tax rate for 2009 included $13 million of tax charges related to the write-off of deferred tax assets associated with the expiration of out-of-the-money vested stock options and the vesting of restricted stock, offset by $13 million of tax benefits from retirement of intercompany obligations and the repricing of leveraged lease transactions.

Discontinued operations

See Note 2 to the Consolidated Financial Statements.

Preferred stock dividends of subsidiaries attributable to noncontrolling interests

See Note 10 to the Consolidated Financial Statements for further discussion.

Restructuring Charges and Asset Impairments

Restructuring charges and asset impairments were $148 million, $182 million and $49 million for the years ended December 31, 2011, 2010 and 2009, respectively. See Note 14 to the Consolidated Financial Statements for further discussion.

In 2009, we announced that we were undertaking a series of strategic transformation initiatives designed to transform and enhance the way we operate as a global company (the 2009 Program). The program aims to enhance our responsiveness to changing market conditions and create improved processes and systems to further enable us to invest in future growth in areas such as our global customer interactions and product development processes. Total pre-tax costs for this program were approximately $385 million. At the end of 2011, the 2009 Program is substantially completed and annualized run-rate net benefits of this program are projected to be approximately $300 million in 2012. We do not anticipate any further significant charges under this program. Most of the costs were cash-related charges. The majority of the remaining restructuring payments are expected to be paid over the next 12 24 months. Due to certain international labor laws and long-term lease agreements, some payments will extend beyond 24 months. We expect that cash flows from operations will be sufficient to fund these payments.

LIQUIDITY AND CAPITAL RESOURCES

We believe that cash flow from operations, existing cash and investments, as well as borrowing capacity under our commercial paper program should be sufficient to support our business operations, interest and dividend payments, share repurchases, capital expenditures, and to cover customer deposits. We have the ability to supplement this short-term liquidity, if necessary, and fund the long-term needs of our business through broad access to capital markets, a credit line facility, and our effective shelf registration statement. At December 31, 2011, cash and cash equivalents and short-term investments on hand were $869 million.

Cash and cash equivalents held by our foreign subsidiaries are generally used to support the liquidity needs of these subsidiaries. Most of these amounts could be repatriated to the United States but would be subject to additional taxes. Repatriation of some foreign balances is restricted by local laws. It is our intention to permanently reinvest substantially all of these funds in our foreign operations. Cash and cash equivalents held by our foreign subsidiaries at December 31, 2011 and 2010 were $538 million and $166 million, respectively.

We continuously review our liquidity profile through published credit ratings and the credit default swap market. We monitor the creditworthiness of those banks acting as derivative counterparties, depository banks or credit providers. 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:

	2011	2010	2009
Net cash provided by operating activities	**$ 920**	$ 952	$ 824
Net cash used in investing activities	**(89)**	(301)	(172)
Net cash used in financing activities	**(455)**	(580)	(626)
Effect of exchange rate changes on cash	**(5)**	1	10
Increase in cash and cash equivalents	**$ 372**	$ 72	$ 36

<u>*2011 Cash Flows*</u>

Net cash provided by operating activities consists primarily of net income adjusted for non-cash items and changes in operating assets and liabilities. A decrease in finance receivables contributed $190 million of cash as cash collections exceeded the financing of new business and a decrease in accounts receivables contributed $59 million in cash primarily due to improved cash collections in excess of new billings. The decrease in current and non-current income taxes of $258 million includes the tax benefits recognized in connection with the 2001-2008 IRS tax settlements. Cash flow from operations also includes a special contribution to our U.S. pension plan of $123 million and restructuring payments of $107 million.

Net cash used in investing activities consisted of capital expenditures of $156 million for property, plant and equipment and rental equipment and related inventories and the net purchase of investment securities of $68 million partially offset by the proceeds from the sale of non-U.S. leveraged lease assets of $102 million.

Net cash used in financing activities consisted primarily of dividends paid to common stockholders of $300 million, a net decrease in commercial paper borrowings of $50 million and the repurchase of $100 million of our common stock.

2010 Cash Flows
Net cash provided by operating activities included $180 million and $43 million from decreases in finance receivables and accounts receivables, respectively. Finance receivables declined as strong cash collections exceed the financing of new business and equipment sales have declined. Accounts receivables declined primarily due to strong cash collections in excess of new billings. Cash flow also benefited from the proceeds of $32 million from the unwinding of interest rate swaps and by $29 million due to the timing of payments of accounts payable and accrued liabilities. Partially offsetting these benefits were restructuring payments of $120 million and an increase in inventory of $12 million.

Net cash used in investing activities consisted primarily of the net purchase of investment securities of $122 million, capital expenditures of $120 million for property, plant and equipment and rental equipment and related inventories and acquisitions of $78 million.

Net cash used in financing activities primarily included a net decrease in commercial paper borrowings of $171 million, stock repurchases of $100 million and dividends paid to common stockholders of $302 million.

2009 Cash Flows
Net cash flow provided by operating activities included $207 million and $84 million from decreases in finance receivables and accounts receivables, respectively, primarily due to lower sales volumes, and an increase in current and non-current income taxes of $80 million due to the timing of tax payments. These cash inflows were partially offset by a reduction in accounts payable and accrued liabilities of $127 million, primarily due to timing of payments, voluntary pension plan contributions of $125 million and restructuring payments of $105 million.

Net cash used in investing activities consisted primarily of capital expenditures of $167 million for property, plant and equipment and rental equipment and related inventories.

Net cash used in financing activities consisted primarily of dividends paid to common stockholders of $298 million, a net reduction in debt of $242 million, and a net cash outflow associated with the issuance and redemption of preferred stock issued by a subsidiary of $79 million.

Financings and Capitalization

We are a Well-Known Seasoned Issuer with the SEC, which allows us to issue debt securities, preferred stock, preference stock, common stock, purchase contracts, depositary shares, warrants and units in an expedited fashion. We have a commercial paper program that is an important source of liquidity for us and a committed line of credit of $1.25 billion to support our commercial paper issuances. The line of credit expires in 2013. We have not experienced any problems to date in accessing the commercial paper market. As of December 31, 2011, we have not drawn upon the line of credit.

During the year, we entered into two interest rate swap agreements with an aggregate notional value of $450 million to effectively convert the fixed rate interest payments on our $450 million 4.875% notes due in 2014 into variable rates. Under the terms of these agreements, we pay a weighted-average variable rate based on three-month LIBOR plus 305 basis points and receive fixed rate payments of 4.875%.

In 2010, we unwound two interest rate swaps that effectively converted the fixed rate payments on the $250 million 5.6% notes due in 2018 into variable rates, and received $32 million, excluding accrued interest. This amount is being recognized as a reduction in interest expense over the remaining term of the notes. The transaction was not undertaken for liquidity purposes, but rather to fix our effective interest rate at 3.7% for the remaining term of the notes.

During the fourth quarter of 2012, $550 million of long-term debt is scheduled to mature. We are currently evaluating available options, including using available cash to repay some of this debt. We may also refinance some or all of this amount with short-term borrowings under our commercial paper program or through the issuance of long-term debt.

At December 31, 2011, there was no outstanding commercial paper. During the year, commercial paper borrowings averaged $138 million at a weighted-average interest rate of 0.22% and the maximum amount of commercial paper outstanding at any point in time was $450 million. In 2010, commercial paper borrowings averaged $347 million at a weighted-average interest rate of 0.23% and the maximum amount of commercial paper outstanding at any point in time was $552 million.

In January 2012, we contributed $85 million to our U.S. pension plan and $10 million to our foreign pension plans. We anticipate making additional contributions of approximately $15 million and $20 million to our U.S. and foreign pension plans, respectively during 2012. We will reassess our funding alternatives as the year progresses.

In February 2012, we signed an agreement to sell certain leveraged lease assets to the lessee for $105 million. We expect to recognize an after-tax gain, which will be finalized in the first quarter of 2012.

Contractual Obligations and Off-Balance Sheet Arrangements

The following summarizes our known contractual obligations and off-balance sheet arrangements at December 31, 2011 and the effect that such obligations are expected to have on our liquidity and cash flow in future periods:

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt	**$ 4,175**	$ 550	$ 825	$ 900	$ 1,900
Interest payments on debt (1)	**1,392**	189	330	239	634
Non-cancelable operating lease obligations	**259**	92	103	42	22
Capital lease obligations	**6**	3	3		
Purchase obligations (2)	**271**	197	64	10	
Other non-current liabilities (3)	**738**		120	50	568
Total	**$ 6,841**	**$ 1,031**	**$ 1,445**	**$ 1,241**	**$ 3,124**

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

(1) Interest payments on debt includes interest on our $500 million 5.25% notes due in 2037. This note contains an option that gives bondholders the right to redeem the notes, in whole or in part, at par plus accrued interest, in January 2017. If all $500 million of the notes are redeemed, interest payments in the more than five years column would be $525 million lower than the amount shown in the table above.

(2) 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.

(3) Other non-current liabilities relate primarily to our postretirement benefits. See Note 19 to the Consolidated Financial Statements.

Critical Accounting Estimates

The preparation of our financial statements in conformity with GAAP requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and accompanying disclosures, including the disclosure of contingent assets and liabilities. These estimates and assumptions are based on management s best knowledge of current events, historical experience, and other information available when the financial statements are prepared.

The accounting policies below have been identified by management as those accounting policies that are critical to our business operations and to the understanding of our results of operations. Management believes that the estimates and assumptions used in the accounting policies below are reasonable and appropriate based on the information available at the time the financial statements were prepared; however, actual results could differ from those estimates and assumptions. See Note 1 to the Consolidated Financial Statements for a summary of our accounting policies.

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 sale or non-cancelable lease of equipment, 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, revenue is recognized for each of the elements based on their respective fair values. We recognize revenue for delivered elements only when the fair values of undelivered elements are known and uncertainties regarding customer acceptance are resolved. The allocation of 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 using their respective fair values, which are determined based on prices charged in standalone and renewal transactions. For a sale transaction, revenue is allocated to the equipment based on a range of selling prices in standalone transactions. For a lease transaction, revenue is allocated to the equipment based on the present value of the remaining minimum lease payments. We then compare the allocated equipment fair value to the range of selling prices in standalone transactions during the period to ensure the allocated equipment fair value approximates average selling prices.

We provide lease financing for our products primarily through sales-type leases. The vast majority of our leases qualify as sales-type leases using the present value of minimum lease payments classification criteria. We believe that our sales-type lease portfolio contains only normal collection risk. 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 finance receivables. The difference between the finance receivable and the equipment fair value is recorded as unearned income and is amortized as income over the lease term using the interest method.

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.

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 believe that our credit risk for accounts receivable is limited because of our large number of customers, small account balances for most of our customers and customer geographic and industry diversification. We evaluate the adequacy of the allowance for doubtful accounts based on historical loss experience, length of time receivables are past due, adverse situations that may affect a customer s ability to pay and prevailing economic conditions, and make adjustments to the reserves as necessary. This evaluation is inherently subjective and actual results may differ significantly from estimated reserves.

Allowance for credit losses

We estimate our finance receivable risks and provide allowances for credit losses accordingly. We establish credit approval limits based on the credit quality of the customer and the type of equipment financed. We believe that our concentration of credit risk for finance receivables is limited because of our large number of customers, small account balances for most of our customers and customer geographic and industry diversification. Our policy is to discontinue revenue recognition for lease receivables that are more than 120 days past due and for unsecured loan receivables that are more than 90 days past due. We resume revenue recognition when payments reduce the account to 60 days or less past due. We evaluate the adequacy of the allowance for credit losses based on historical loss experience, the nature and volume of our portfolios, adverse situations that may affect a customer s ability to pay and prevailing economic conditions, and make adjustments to the reserves as necessary. This evaluation is inherently subjective and actual results may differ significantly from estimated reserves.

Accounting for income taxes

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Our annual tax rate is based on our income, statutory tax rates, tax reserve changes and tax planning opportunities available to us in the various jurisdictions in which we operate. Significant judgment is required in determining our annual tax rate and in evaluating our tax positions.

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 laws. The amount of reserves is adjusted 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.

Significant judgment is also required in determining any valuation allowance recorded against deferred tax assets. In assessing the need for a valuation allowance, we consider all available evidence for each jurisdiction including past operating results, estimates of future taxable income and the feasibility of ongoing tax planning strategies. As new information becomes available that would alter our determination as to the amount of deferred tax assets that will ultimately be realized, we adjust the valuation allowance with a corresponding impact to income tax expense in the period in which such determination is made.

Useful lives of long-lived assets

We depreciate property, plant and equipment and rental property and equipment principally using the straight-line method over the estimated useful lives of up to 50 years for buildings, three to 15 years for machinery and equipment, four to six years for rental equipment and three to five years for computer equipment. We amortize properties leased under capital leases on a straight-line basis

over the primary lease term. We amortize capitalized costs related to internally developed software using the straight-line method over the estimated useful life, which is principally three to 10 years. Intangible assets with finite lives are amortized using the straight-line method or an accelerated attrition method over their estimated useful lives, which are principally three to 15 years. Our estimates of useful lives could be affected by changes in regulatory provisions, technology or business plans. Changes to the assets estimated useful lives could have a material impact on our results of operations.

Impairment review

Long-lived and intangible assets are reviewed for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. If such a change in circumstances occurs, the related estimated future undiscounted cash flows expected to result from the use of the asset and its eventual disposition is compared to the carrying amount. We derive the cash flow estimates from our future long-term business plans and historical experience. If the sum of the expected cash flows is less than the carrying amount, an impairment charge is recorded. The impairment charge is measured as the amount by which the carrying amount exceeds the fair value of the asset. The fair value of the impaired asset is determined using probability weighted expected discounted cash flow estimates, quoted market prices when available and appraisals, as appropriate. Changes in the estimates and assumptions incorporated in our impairment assessment could materially affect the determination of fair value and the associated impairment charge.

Goodwill is tested annually for impairment, during the fourth quarter, or sooner when circumstances indicate an impairment may exist at the reporting unit level. The impairment test for goodwill is a two-step approach. In the first step, the fair value of each reporting unit is compared to the reporting unit s carrying value, including goodwill. If the fair value of a reporting unit is less than its carrying value, the second step of the goodwill impairment test is performed to measure the amount of impairment, if any. In the second step, the fair value of the reporting unit is allocated to the assets and liabilities of the reporting unit as if it had been acquired in a business combination and the purchase price was equivalent to the fair value of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is referred to as the implied fair value of goodwill. The implied fair value of the reporting unit s goodwill is then compared to the actual carrying value of goodwill. If the implied fair value of goodwill is less than the carrying value of goodwill, an impairment loss is recognized for the difference.

Significant estimates and assumptions used in our goodwill impairment review include 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. The fair value of each reporting unit is determined based on a combination of techniques, including the present value of future cash flows, applicable multiples of competitors and multiples from sales of like businesses, and requires us to make estimates and assumptions regarding discount rates, growth rates, and our future long-term business plans. Changes in any of these estimates or assumptions could materially affect the determination of fair value and the associated goodwill impairment charge for each reporting unit.

Due to continuing underperformance of our IMS operations and based on information that was received during the early stages of our annual budgeting and long-term planning process started in the third quarter, management concluded that it was appropriate to perform a goodwill impairment review for IMS. We determined the fair value of IMS using a combination of techniques including the present value of future cash flows, multiples of competitors and multiples from sales of like businesses, and determined that the IMS reporting unit was impaired. We performed step two of the goodwill impairment test and determined that the implied fair value of goodwill for IMS was less than its carrying value and a goodwill impairment charge of $46 million was recognized. Our analysis indicated that certain identifiable intangible assets of IMS were also impaired and an impairment charge of $12 million was recognized. At December 31, 2011, the remaining carrying value of intangible assets and goodwill for IMS was $5 million and $18 million, respectively.

Based on the results of our annual goodwill impairment review process, we determined that our PBMSi operations were impaired. Similar to IMS, the fair value of PBMSi was determined using a combination of techniques including the present value of future cash flows, derived from our long-term plans and historical experience, multiples of competitors and multiples from sales of like businesses and the estimated fair value was allocated to the assets and liabilities of PBMSi. Our analysis showed that the implied fair value of goodwill for PBMSi was less than its carrying value and a goodwill impairment charge of $84 million was recognized. In addition, the impairment review indicated that certain identifiable intangible assets were also impaired and an impairment charge of $5 million was recognized. At December 31, 2011, there are no intangible assets carried on PBMSi and the remaining carrying value of goodwill is $39 million.

Further, based on the results of our annual impairment review, the estimated fair values of our other reporting units were considered substantially in excess of their respective carrying values, except for the U.S. operations of our Management Services segment (PBMS-US). The estimated fair value of PBMS-US exceeded its carrying value by approximately 13%. At December 31, 2011, the net identifiable intangible assets of PBMS-US were $14 million and goodwill allocated to PBMS-US was $364 million.

As noted in the Outlook section above, the worldwide economy and business environment continue to be uncertain and impact our current and expected future financial performance, and as a result have increased the possibility of future non-cash impairment

charges for goodwill and/or identifiable intangible assets. Accordingly, we will continue to monitor and evaluate the carrying values of goodwill and intangible assets for all our reporting units.

Business combinations

We account for business combinations using the acquisition method of accounting, which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. The fair value of intangible assets is estimated using a cost, market or income approach. Goodwill represents the excess of the purchase price over the estimated fair values of net tangible and intangible assets acquired.

Stock-based compensation expense

We recognize compensation cost for stock-based expense based on the estimated fair value of the award, net of an estimated forfeiture rate. We recognize compensation costs for those shares expected to vest on a straight-line basis over the requisite service period.

We estimate the fair value of stock options using a Black-Scholes valuation model. The use of this valuation model requires assumptions be made regarding the expected stock price volatility, risk-free interest rate, expected life of the award and dividend yield. The estimate of stock price volatility is based on historical price changes of our stock. The risk-free interest rate is based on U.S. treasuries with a term equal to the expected option term. The expected life, or holding period, of the award, and the expected dividend yield, is based on historical experience.

We believe that the valuation technique and the approach utilized to develop the underlying assumptions are appropriate in estimating the fair value of our stock-based awards. If factors change and we use different assumptions, our stock-based compensation expense could be different in the future. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by employees who receive equity awards, and subsequent events are not indicative of the reasonableness of the original estimates of fair value. In addition, we are required to estimate the expected forfeiture rate and recognize expense only for those shares expected to vest. If our actual forfeiture rate is materially different from our estimate, the stock-based compensation expense could be significantly different from what we have recorded in the current period.

Restructuring

We have undertaken restructuring actions which require management to utilize certain estimates related to the amount and timing of expenses. If the actual amounts differ from our estimates, the amount of the restructuring charges could be impacted.

Pension benefits

Assumptions and estimates
The valuation and calculation of our net pension expense, assets and obligations are dependent on assumptions and estimates relating to discount rate, rate of compensation increase and expected return on plan assets. These assumptions are evaluated and updated annually and are described in further detail in Note 19 to the Consolidated Financial Statements.

The weighted-average assumptions for our largest plan, the U.S. Qualified Pension Plan, and our largest foreign plan, the U.K. Qualified Pension Plan, used to determine net periodic pension costs for 2012 are as follows:

	U.S. Plan	**U.K. Plan**
Discount rate	**4.95%**	**4.95%**
Rate of compensation increase	**3.50%**	**3.40%**
Expected return on plan assets	**7.75%**	**7.25%**

<u>*U.S. Plan*</u>
The discount rate for our U.S pension plan is determined by matching the expected cash flows associated with our benefit obligations to a yield curve based on long-term, high quality fixed income debt instruments available as of the measurement date. The rate of compensation increase assumption reflects our actual experience and best estimate of future increases. Our expected return on plan assets is based on historical and projected rates of return for current and planned asset classes in the plans investment portfolio after analyzing historical experience and future expectations of the returns and volatility of the various asset classes. The overall expected rate of return for the portfolio is determined based on

the target asset allocations for each asset class, adjusted for historical and expected experience of active portfolio management results, when compared to the benchmark returns. When assessing the expected future returns for the portfolio, we place more emphasis on the expected future returns than historical returns.

U.K. 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. The rate of compensation increase assumption reflects our actual experience and best estimate of future increases. 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.

Changes to the above assumptions can have an impact on annual pension expense and recorded pension liabilities. For instance:

- a 0.25% increase in the discount rate would decrease annual pension expense by approximately $2 million for both the U.S. and U.K. pension plans, and lower the projected benefit obligation of the U.S. and U.K. pension plans by $38 million and $18 million, respectively;
- a 0.25% increase in the rate of compensation increase would increase annual pension expense by less than $1 million for both the U.S. and U.K. pension plans;
- a 0.25% increase in the expected return on assets would decrease annual pension expense for the U.S. and U.K. pension plans by approximately $4 million and $1 million, respectively.

Delayed recognition principles

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 affect future pension expense. Net pension expense is also based on a market-related valuation of plan assets where differences between the actual and expected return on plan assets are amortized to pension expense over a five-year period.

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, 2011 was approximately 34% equity securities, 56% fixed income securities and 10% real estate and private equity investments. The composition of our U.K. pension plan assets at December 31, 2011 was approximately 62% equity securities, 32% fixed income securities and 6% 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 investment securities, it is reasonably possible that change in the value of such investment securities will occur and that such change could materially affect our future results.

New Accounting Pronouncements

On January 1, 2011, new accounting guidance became effective addressing the accounting for revenue arrangements with multiple elements and certain revenue arrangements that include software. This guidance allows companies to allocate consideration in a multiple element arrangement in a way that better reflects the economics of the transaction and results 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 were scoped out of the software revenue guidance. The adoption of this guidance did not have a material impact on our financial position, results of operations or cash flows.

In 2011, new guidance was introduced that would eliminate the current option to report other comprehensive income and its components in the statement of stockholders equity, and require an entity to present items of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive, statements. This guidance would be effective in the first quarter of 2012, with early adoption permitted. We have elected to early adopt this guidance effective December 31, 2011 and have presented the components of other comprehensive income in two separate, but consecutive, statements. The adoption of this guidance only changed the way we present other comprehensive income and its components, and did not impact our results of operations, financial position or cash flows.

Legal and Regulatory Matters

Legal

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

Other regulatory matters

As is the case with other large corporations, 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. Except for a dispute arising out of a partnership investment, the IRS examination of tax years 2001-2004 is closed to audit and the examination of years 2005-2008 is estimated to be closed to audit within the next 12 months. We have other domestic and international tax filings currently under examination or subject to examination. Tax reserves have been established which we believe to be appropriate given the possibility of tax adjustments. However, the resolution of such matters could have a material impact on our results of operations, financial position and cash flows. See Note 9 to the Consolidated Financial Statements.

We are currently undergoing unclaimed property audits, which are being conducted by various state authorities. The property subject to review in this audit process generally includes unclaimed wages, vendor payments and customer receipts. State escheat laws generally require entities to report and remit abandoned and unclaimed property. Failure to timely report and remit the property can result in the assessments of additional escheat liability, interest and penalties. It is too early to determine the ultimate outcome of such audits.

Effects of Inflation and Foreign Exchange

Inflation

Inflation, although minimal 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, we have generally been able to maintain profit margins through productivity and efficiency improvements, introduction of new products and expense reductions.

Foreign Exchange

During 2011, 32% of our revenue was derived from operations outside of the United States. Currency translation increased our 2011 revenue by 2%. 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 $17 million.

Changes in the value of the U.S. dollar relative to the currencies of countries in which we operate impact our reported assets, liabilities, revenue and expenses. Exchange rate fluctuations can also impact the settlement of intercompany receivables and payables between our subsidiaries in different countries. Our largest foreign currency exposure is to fluctuations in the British pound, Euro and Canadian dollar, and to a lesser extent, the Australian dollar.

We use foreign exchange contracts to mitigate the risk of foreign currency exchange rate fluctuations. We enter into foreign exchange contracts with only those financial institutions that meet stringent credit requirements as set forth in our derivative policy to mitigate our exposure to counterparty credit risk. 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. At December 31, 2011, the fair value of our outstanding foreign exchange contracts was a net asset of $3 million.

During 2011, deferred translation losses of $54 million were recorded primarily from the strengthening of the U.S. dollar as compared to the British pound, Euro, Canadian dollar and Australian dollar. In 2010, deferred translation losses of $16 million were recorded primarily resulting from the strengthening of the U.S. dollar as compared to the British pound and Euro, partially offset by a weakening of the U.S. dollar as compared to the Canadian dollar. Net deferred translation gains and losses are included in accumulated other comprehensive loss in stockholders deficit in the Consolidated Balance Sheets and do not affect earnings.

Dividends

It is a general practice of our Board of Directors to approve the payment of a cash dividend on our 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.

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.

Our objective in managing our exposure to changing interest rates is to limit the volatility and impact of changing interest rates on earnings and cash flows. To achieve these objectives, we use a balanced mix of debt maturities and interest rate swaps that convert the fixed rate interest payments on certain debt issuances to variable rates.

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 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 derivative contracts as well as our foreign exchange derivative contracts associated with forecasted transactions. 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 2011 and 2010, 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 34 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 (CEO) and Chief Financial Officer (CFO), we evaluated our disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) and internal control over financial reporting. Our CEO and CFO concluded that such disclosure controls and procedures were effective as of December 31, 2011, 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. 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, 2011.

Management s Report on Internal Control over Financial Reporting

Management 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. Our 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 all 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 our internal control over financial reporting as of December 31, 2011. 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 our internal control over financial reporting and testing of the operational effectiveness of our internal control over financial reporting. Based on its assessment, management concluded that, as of December 31, 2011, our internal control over financial reporting was effective based on the criteria issued by COSO in *Internal Control Integrated Framework*.

The effectiveness of the Company s internal control over financial reporting as of December 31, 2011 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears on page 35 of this Form 10-K.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the three months ended December 31, 2011, that have materially affected, or are reasonably likely to materially affect, such internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information pertaining to our Directors and the members of 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 our 2012 Annual Meeting of Stockholders, which is scheduled to be held on May 14, 2012. Such Definitive Proxy Statement will be filed with the Commission on or before April 29, 2012 and is incorporated herein by reference. Our executive officers are as follows:

Executive Officers of the Registrant as of February 15, 2012

Name	Age	Title	Executive Officer Since
Murray D. Martin	64	Chairman, President and Chief Executive Officer	1998
Leslie Abi-Karam	53	Executive Vice President and President, Pitney Bowes Communications Solutions	2005
Gregory E. Buoncontri	64	Executive Vice President and Chief Information Officer	2000
Daniel J. Goldstein	50	Executive Vice President and Chief Legal and Compliance Officer	2010
Michael Monahan	51	Executive Vice President and Chief Financial Officer	2005
John E. O Hara	53	Executive Vice President and President, Pitney Bowes Software Solutions	2011
Vicki A. O Meara	54	Executive Vice President and President, Pitney Bowes Services & Solutions	2008
Joseph H. Timko	51	Executive Vice President and Chief Strategy and Innovation Officer	2010
Johnna G. Torsone	61	Executive Vice President and Chief Human Resources Officer	1993

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

Mr. Goldstein re-joined the Company in October 2010 as Executive Vice President and Chief Legal and Compliance Officer. From September 2008 until October 2010, Mr. Goldstein served as the Senior Vice President and General Counsel for GAF Materials Corporation, International Specialty Products, and ISP Minerals, a group of privately held, commonly owned companies in the building materials, chemicals and mining industries. Mr. Goldstein originally joined Pitney Bowes in 1999 as Associate General Counsel and was appointed Vice President, Deputy General Counsel in 2005.

Mr. O Hara was appointed Executive Vice President and President, Pitney Bowes Software Solutions in May 2011. He joined the Company in April 2007 as a result of the Company s acquisition of MapInfo and served as Executive Vice President and General Manager International for Pitney Bowes Business Insight. He joined MapInfo in October 2006 and prior to that he served as General Manager, Enterprise and Partner Group for Microsoft UK. Prior to Microsoft, he served as Executive Vice President of Worldwide Sales and Operations at Pivotal Corporation, a leader in CRM for mid-market enterprises.

Ms. O Meara joined the Company in June 2008 as Executive Vice President and Chief Legal and Compliance Officer. In July 2010, Ms. O Meara became Executive Vice President and President, Pitney Bowes Management Services & Government and Postal Affairs, relinquishing her responsibilities as the 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.

Mr. Timko joined the Company in February 2010 as Executive Vice President and Chief Strategy and Innovation Officer. Prior to joining the Company, Mr. Timko was a partner in the technology / telecom and industrial sector practice at McKinsey & Company.

Code of Ethics

We have adopted a Code of Ethics that applies to all of our directors, officers and employees, including our principal executive, financial and accounting officers, or persons performing similar functions. Our Code of Ethics is posted on our corporate governance website located at www.pb.com/Our-Company. In addition, amendments to the Code of Ethics and any grant of a waiver from a provision of the Code of Ethics requiring disclosure under applicable SEC rules will be disclosed at the same location as the Code of Ethics.

ITEM 11. EXECUTIVE COMPENSATION

The sections entitled Directors Compensation, Compensation Discussion and Analysis , and Executive Compensation Tables and Related Narrative of our Definitive Proxy Statement to be filed with the Commission on or before April 29, 2012 in connection with our 2012 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, 2011 regarding the number of shares of common stock that may be issued under our 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	16,100,519	$ 34.99	16,903,013
Equity compensation plans not approved by security holders			
Total	16,100,519	$ 34.99	16,903,013

The sections entitled Security Ownership of Directors and Executive Officers and Beneficial Ownership of our Definitive Proxy Statement to be filed with the Commission on or before April 29, 2012 in connection with our 2012 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 our Definitive Proxy Statement to be filed with the Commission on or before April 29, 2012 in connection with our 2012 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 our Definitive Proxy Statement to be filed with the Commission on or before April 29, 2012 in connection with our 2012 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 28 and Index to Consolidated Financial Statements and Supplemental Data on page 34 of this Form 10-K

2. Financial statement schedules - see Index to Consolidated Financial Statements and Supplemental Data on page 34 of this Form 10-K.

3. The exhibits filed herewith or incorporated herein by reference are set forth in the Index of Exhibits included herein.

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 23, 2012	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 23, 2012
/s/ Michael Monahan Michael Monahan	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 23, 2012
/s/ Steven J. Green Steven J. Green	Vice President Finance and Chief Accounting Officer (Principal Accounting Officer)	February 23, 2012
/s/ Rodney C. Adkins Rodney C. Adkins	Director	February 23, 2012
/s/ Linda G. Alvarado Linda G. Alvarado	Director	February 23, 2012
/s/ Anne M. Busquet Anne M. Busquet	Director	February 23, 2012
/s/ Roger Fradin Roger Fradin	Director	February 23, 2012
/s/ Anne Sutherland Fuchs Anne Sutherland Fuchs	Director	February 23, 2012
/s/ James H. Keyes James H. Keyes	Director	February 23, 2012

/s/ Eduardo R. Menascé	Director	February 23, 2012
Eduardo R. Menascé		
/s/ Michael I. Roth	Director	February 23, 2012
Michael I. Roth		
/s/ David L. Shedlarz	Director	February 23, 2012
David L. Shedlarz		
/s/ David B. Snow, Jr.	Director	February 23, 2012
David B. Snow, Jr.		
/s/ Robert E. Weissman	Director	February 23, 2012
Robert E. Weissman		

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, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 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, 2011, 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 Management s Report on Internal Control over Financial Reporting appearing under Item 9A. 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.

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.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Stamford, Connecticut
February 23, 2012

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

	Years ended December 31,		
	2011	2010	2009
Revenue:			
Equipment sales	**$ 986,392**	$ 1,022,563	$ 1,000,153
Supplies	**307,974**	318,430	336,239
Software	**426,606**	390,219	371,574
Rentals	**563,505**	600,759	647,432
Financing	**602,754**	637,948	694,444
Support services	**706,505**	711,519	714,429
Business services	**1,684,238**	1,743,816	1,804,900
Total revenue	**5,277,974**	5,425,254	5,569,171
Costs and expenses:			
Cost of equipment sales	**449,479**	469,158	450,197
Cost of supplies	**97,454**	97,172	93,660
Cost of software	**99,107**	93,391	88,020
Cost of rentals	**125,325**	141,465	158,881
Financing interest expense	**87,698**	88,292	97,586
Cost of support services	**452,582**	451,609	467,279
Cost of business services	**1,303,594**	1,337,236	1,382,401
Selling, general and administrative	**1,731,858**	1,760,677	1,800,714
Research and development	**148,645**	156,371	182,191
Restructuring charges and asset impairments	**148,151**	182,274	48,746
Goodwill impairment	**130,150**		
Other interest expense	**115,363**	115,619	111,269
Interest income	**(5,795)**	(2,587)	(4,949)
Other income, net	**(19,918)**		
Total costs and expenses	**4,863,693**	4,890,677	4,875,995
Income from continuing operations before income taxes	**414,281**	534,577	693,176
Provision for income taxes	**44,585**	205,770	240,154
Income from continuing operations	**369,696**	328,807	453,022
Gain (loss) from discontinued operations, net of tax	**266,159**	(18,104)	(8,109)
Net income before attribution of noncontrolling interests	**635,855**	310,703	444,913
Less: Preferred stock dividends of subsidiaries attributable to noncontrolling interests	**18,375**	18,324	21,468
Net income - Pitney Bowes Inc.	**$ 617,480**	$ 292,379	$ 423,445
Amounts attributable to common stockholders:			
Income from continuing operations	**$ 351,321**	$ 310,483	$ 431,554
Gain (loss) from discontinued operations	**266,159**	(18,104)	(8,109)
Net income - Pitney Bowes Inc.	**$ 617,480**	$ 292,379	$ 423,445
Basic earnings per share attributable to common stockholders:			

Continuing operations	**$ 1.74**	$ 1.51	$ 2.09
Discontinued operations	**1.32**	(0.09)	(0.04)
Net income - Pitney Bowes Inc.	**$ 3.06**	$ 1.42	$ 2.05
Diluted earnings per share attributable to common stockholders:			
Continuing operations	**$ 1.73**	$ 1.50	$ 2.08
Discontinued operations	**1.31**	(0.09)	(0.04)
Net income - Pitney Bowes Inc.	**$ 3.05**	$ 1.41	$ 2.04

See Notes to Consolidated Financial Statements

PITNEY BOWES INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Years ended December 31,		
	2011	2010	2009
Net income - Pitney Bowes Inc.	**$ 617,480**	$ 292,379	$ 423,445
Other comprehensive income, net of tax:			
Foreign currency translations	**(53,569)**	(15,685)	119,820
Net unrealized gain on cash flow hedges, net of tax expense of $1,278, $837 and $4,865, respectively	**2,007**	1,293	7,214
Net unrealized gain (loss) on investment securities, net of tax expense/(benefit) of $1,885, $505 and $(140), respectively	**2,948**	790	(283)
Adjustments to pension and postretirement plans, net of tax (benefit)/expense of $(93,251), $(17,183) and $8,420, respectively	**(173,699)**	(28,710)	(5,116)
Amortization of pension and post retirement costs, net of tax expense of $19,601, $16,028 and $10,627, respectively	**34,474**	28,298	17,328
Other comprehensive (loss) income	**(187,839)**	(14,014)	138,963
Comprehensive income - Pitney Bowes Inc.	**$ 429,641**	$ 278,365	$ 562,408

See Notes to Consolidated Financial Statements

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

	December 31, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 856,238**	$ 484,363
Short-term investments	**12,971**	30,609
Accounts receivables, gross	**755,485**	824,015