PITNEY BOWES INC /DE/
Form 10-Q
August 06, 2007

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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2007 — Commission File Number 1-3579

PITNEY BOWES INC.

Incorporated in Delaware — I.R.S. Employer Identification No. 06-0495050

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

(203) 356-5000

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

Indicate by check mark whether the registrant is an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.
Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell Company (as defined in Rule12b-2 of the Exchange Act).
Yes o No þ

There were 218,925,040 shares of common stock outstanding as of July 31, 2007.

PITNEY BOWES INC.
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PART I. FINANCIAL INFORMATION

Item 1: Financial Statements

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

	Three Months Ended June 30,		Six Months Ended Ju	
	2007	2006	**2007**	
Revenue:				
Equipment sales	**$ 360,361**	$ 319,635	**$ 653,971**	$ 6
Supplies	**96,398**	82,873	**196,700**	1
Software	**88,242**	47,640	**131,324**	
Rentals	**180,911**	197,226	**368,981**	3
Financing	**194,837**	174,447	**385,417**	3
Support services	**192,773**	176,339	**379,077**	3
Business services	**429,512**	391,050	**841,801**	7
Total revenue	**1,543,034**	1,389,210	**2,957,271**	2,7
Costs and expenses:				
Cost of equipment sales	**168,958**	159,780	**317,214**	3
Cost of supplies	**24,725**	19,796	**50,848**	
Cost of software	**21,076**	11,103	**32,624**	
Cost of rentals	**43,261**	42,300	**85,682**	
Cost of support services	**107,317**	98,453	**212,821**	1
Cost of business services	**339,972**	303,583	**663,623**	6
Selling, general and administrative	**488,115**	432,531	**913,517**	8
Research and development	**47,104**	40,980	**90,673**	
Restructuring charges	**-**	5,041	**-**	
Interest, net	**62,541**	55,070	**119,268**	1
Total costs and expenses	**1,303,069**	1,168,637	**2,486,270**	2,3
Income from continuing operations before income taxes and minority interest	**239,965**	220,573	**471,001**	4
Provision for income taxes	**81,588**	96,077	**161,294**	1
Minority interest	**4,796**	3,244	**9,542**	
Income from continuing operations	**153,581**	121,252	**300,165**	2
Net loss from discontinued operations, net of tax	**(1,342)**	(477,326)	**(3,130)**	(4
Net income (loss)	**$ 152,239**	$ (356,074)	**$ 297,035**	$ (2
Basic earnings (loss) per share of common stock:				
Continuing operations	**$ 0.70**	$ 0.55	**$ 1.37**	$
Discontinued operations	**(0.01)**	(2.15)	**(0.01)**	
Net income (loss)	**$ 0.69**	$ (1.61)	**$ 1.35**	$

Diluted earnings (loss) per share of common stock:								
Continuing operations	**$**	**0.69**	$	0.54	**$**	**1.35**	$	
Discontinued operations		**(0.01)**		(2.13)		**(0.01)**		
Net income (loss)	**$**	**0.68**	$	(1.59)	**$**	**1.33**	$	
Dividends declared per share of common stock	**$**	**0.33**	$	0.32	**$**	**0.66**	$	

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

See Notes to Condensed Consolidated Financial Statements

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

		June 30, 2007	
ASSETS			
Current assets:			
Cash and cash equivalents	$	**251,967**	$
Short-term investments		**97,842**	
Accounts receivables, less allowances of $46,736 and $50,052 at June 30, 2007 and December 31, 2006, respectively		**795,873**	
Finance receivables, less allowances of $40,923 and $45,643 at June 30, 2007 and December 31, 2006, respectively		**1,453,391**	
Inventories		**248,588**	
Other current assets and prepayments		**246,650**	
Total current assets		**3,094,311**	
Property, plant and equipment, net		**626,576**	
Rental property and equipment, net		**504,213**	
Long-term finance receivables, less allowances of $33,179 and $36,856 at June 30, 2007 and December 31, 2006, respectively		**1,557,005**	
Investment in leveraged leases		**226,824**	
Goodwill		**2,140,810**	
Intangible assets, net		**492,795**	
Other assets		**548,341**	
Total assets	$	**9,190,875**	$
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	$	**1,613,887**	$
Income taxes payable		**107,202**	
Notes payable and current portion of long-term obligations		**1,180,815**	
Advance billings		**556,004**	
Total current liabilities		**3,457,908**	
Deferred taxes on income		**507,671**	
Long-term debt		**3,636,998**	
Other noncurrent liabilities		**436,090**	
Total liabilities		**8,038,667**	
Preferred stockholders equity in a subsidiary company		**384,165**	
Stockholders equity:			
Cumulative preferred stock, $50 par value, 4% convertible		**7**	
Cumulative preference stock, no par value, $2.12 convertible		**1,043**	
Common stock, $1 par value (480,000,000 shares authorized 323,337,912 shares issued)		**323,338**	
Capital in excess of par value		**244,700**	
Retained earnings		**4,207,572**	
Accumulated other comprehensive income		**(53,770)**	
Treasury stock, at cost (104,084,764 and 102,724,590 shares at June 30, 2007			

and December 31, 2006, respectively)	**(3,954,847)**	
Total stockholders equity	**768,043**	
Total liabilities and stockholders equity	**$ 9,190,875**	$

See Notes to Condensed Consolidated Financial Statements

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

		Six Months Ended	
		2007	
Cash flows from operating activities:			
Net income (loss)	$	297,035	$
Loss on sale of Capital Services, net of tax		-	
Gain on sale of Imagistics, net of tax		-	
Non-cash charge from FSC tax law change		-	
Non-cash tax charge		-	
Restructuring and other charges, net of tax		-	
Restructuring and other payments		(18,907)	
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization		188,883	
Stock-based compensation		12,338	
Changes in operating assets and liabilities, excluding effects of acquisitions:			
Accounts receivable		28,080	
Net investment in internal finance receivables		(55,925)	
Inventories		(4,107)	
Other current assets and prepayments		1,138	
Accounts payable and accrued liabilities		(113,060)	
Deferred taxes on income and income taxes payable		64,817	
Advanced billings		33,522	
Other, net		(26,838)	
Net cash provided by operating activities		406,976	
Cash flows from investing activities:			
Short-term investments		9,055	
Capital expenditures		(128,421)	
Net investment in external financing		(3,269)	
Net proceeds from sale of Imagistics lease portfolio		-	
Advance against COLI cash surrender value		-	
Acquisitions, net of cash acquired		(522,544)	
Reserve account deposits		9,504	
Net cash (used in) provided by investing activities		(635,675)	
Cash flows from financing activities:			
Proceeds from notes payable, net		487,061	
Principal payments on long-term obligations		(8,104)	
Proceeds from issuance of stock		79,902	
Stock repurchases		(175,000)	
Dividends paid		(145,228)	
Net cash provided by (used in) financing activities		238,631	
Effect of exchange rate changes on cash		2,933	

Increase (decrease) in cash and cash equivalents		**12,865**	
Cash and cash equivalents at beginning of period		**239,102**	
Cash included in assets of discontinued operations		**-**	
Cash and cash equivalents at end of period	**$**	**251,967**	$
Interest paid	**$**	**108,550**	$
Income taxes paid, net	**$**	**89,641**	$

See Notes to Condensed Consolidated Financial Statements

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

1. *Basis of Presentation*

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

The accompanying unaudited Condensed Consolidated Financial Statements of Pitney Bowes Inc. have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In addition, the December 31, 2006 Condensed Consolidated Balance Sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. In our opinion, all adjustments (consisting of only normal recurring adjustments) considered necessary to present fairly our financial position at June 30, 2007 and December 31, 2006, our results of operations for the three and six months ended June 30, 2007 and 2006 and our cash flows for the six months ended June 30, 2007 and 2006 have been included. Operating results for the three and six months ended June 30, 2007 are not necessarily indicative of the results that may be expected for any other interim period or the year ending December 31, 2007.

These statements should be read in conjunction with the financial statements and notes thereto included in our 2006 Annual Report to Stockholders on Form 10-K.

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

2. *Nature of Operations*

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

In 2006, we completed the sale of our Imagistics lease portfolio and our Capital Services external financing business. Both Imagistics and Capital Services results of operations have been reported as discontinued operations for all periods presented. See Note 4 for additional information on the discontinued operations.

3. *Recent Accounting Pronouncements*

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

In July 2006, the FASB issued FASB Staff Position (FSP) No. FAS 13-2, *Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction,* that provides guidance on how a change or a potential change in the timing of cash flows relating to income taxes generated by a leveraged lease transaction affects the accounting by a lessor for the lease. We adopted the provisions of FSP No. FAS 13-2 on January 1, 2007. Our adoption of this FSP did not have a material impact on our financial position, results of operations or cash flows.

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

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157), to define how the fair value of assets and liabilities should be measured in more than 40 other accounting standards where it is allowed or required. In addition to defining fair value, the statement establishes a framework within GAAP for measuring fair value and expands required disclosures surrounding fair-value measurements. While it will change the way companies currently measure fair value, it does not establish any new instances where fair-value measurement is required. SFAS 157 defines fair value as an amount that a company would receive if it sold an asset or paid to transfer a liability in a normal transaction between market participants in the same market where the company does business. It emphasizes that the value is based on assumptions that market participants would use, not necessarily only the company that might buy or sell the asset. SFAS 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, with early adoption allowed. We are currently evaluating the impact of adopting this Statement.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of adopting this Statement.

4. *Discontinued Operations*

During the second quarter of 2006, we completed the sale of our Imagistics lease portfolio to De Lage Landen Operational Services, LLC, a subsidiary of Rabobank Group, and reported the results of the Imagistics lease portfolio in discontinued operations. Imagistics’ results were previously included in our Capital Services segment.

During the third quarter of 2006, we completed the sale of our Capital Services external financing business to Cerberus Capital Management, L.P. and reported the results of the Capital Services business in discontinued operations in the second quarter of 2006. This sale resulted in the disposition of most of the external financing activity in the Capital Services segment. We have retained certain leveraged leases in Canada which are now included in our International Mailing segment.

The following table shows selected financial information included in discontinued operations for the three and six months ended June 30, 2007 and 2006, respectively:

	Three Months Ended June 30,		**Six Mo**
Discontinued Operations	**2007**	2006	**2007**
Revenue	**$ -**	$ 34,523	**$**
Pretax income	**$ -**	$ 17,940	**$**
Net (loss) income	**$ (1,342)**	$ 10,447	**$ (3,**
Gain on sale of Imagistics, net of $7,443 tax	**-**	11,641	
FSC tax law change	**-**	(16,209)	
Additional tax on IRS settlement	**-**	(41,000)	
Loss on sale of Capital Services, net of $282,722 tax benefit	**-**	(442,205)	
Total discontinued operations, net of tax	**$ (1,342)**	$ (477,326)	**S (3,**

Net loss for the three and six months ended June 30, 2007 relates primarily to the accrual of interest on uncertain tax positions. Interest expense included in discontinued operations was $8.7 million and $17.8 million for the three and six months ended June 30, 2006, respectively. Interest recorded in discontinued operations in 2006 includes only interest on third-party debt that was assumed by Cerberus. We have not allocated other consolidated interest expense to discontinued operations.

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

5. *Acquisitions*

On May 31, 2007, we acquired the remaining shares of Digital Cement, Inc. for $38 million in cash, net of cash acquired. Digital Cement, Inc. provides marketing management strategy and services to help companies acquire, retain, manage, and grow their customer relationships. We assigned the goodwill to the Marketing Services segment.

On April 19, 2007, we acquired MapInfo Corporation for $448 million in cash, net of cash acquired. Included in the assets and liabilities acquired were short-term investments of $46 million and debt assumed of $14 million. MapInfo is a global company and a leading provider of location intelligence software and solutions. We assigned the goodwill to the Software segment. As part of the purchase accounting for MapInfo, we aligned MapInfo□s accounting policies for software revenue recognition with ours. Accordingly, certain software revenue that was previously recognized by MapInfo on a periodic basis will now be recognized over the life of the contract.

On July 31, 2006, we acquired Print, Inc. for approximately $46 million in cash, net of cash acquired. Print, Inc. provides printer supplies, service and equipment under long-term managed services contracts. We assigned the goodwill to the U.S. Mailing segment.

On June 15, 2006, we acquired substantially all the assets of Advertising Audit Service and PMH Caramanning (collectively AAS) for approximately $42 million in cash. AAS offers a variety of web-based tools for the customization of promotional mail and marketing collateral and designs and manages customer and channel performance solutions. We assigned the goodwill to the Marketing Services segment.

On April 24, 2006, we acquired Ibis Consulting, Inc. (Ibis) for approximately $65 million in cash, net of cash acquired. Ibis is a leading provider of electronic discovery (eDiscovery) services to law firms and corporate clients. Ibis□ technology and offerings complement those of Compulit, which we acquired in 2005, and expands our range of solutions and services for the complex litigation support needs of law firms and corporate legal departments. We assigned the goodwill to the Management Services segment.

On February 8, 2006, we acquired Emtex Ltd. (Emtex) for approximately $33 million in cash, net of cash acquired. Emtex is a software and services company that allows large-volume mailers to simplify document production and centrally manage complex multi-vendor and multi-site print operations. We assigned the goodwill to the Software segment.

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

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

	Digital Cement Inc.	MapInfo Corporation
Purchase price allocation		
Short-term investments	$ -	$ 46,308
Current assets	2,146	41,213
Other non-current assets	908	46,562
Intangible assets	10,400	126,000
Goodwill	38,903	257,271
Current liabilities	(1,325)	(49,963)
Debt	-	(13,866)
Non-current liabilities	(13,028)	(5,990)
Purchase price, net of cash acquired	$ 38,004	$ 447,535
Intangible assets		
Customer relationships	$ 10,400	$ 93,000
Mailing software and technology	-	30,000
Trademarks and trade names	-	3,000
Total intangible assets	$ 10,400	$ 126,000
Intangible assets amortization period		
Customer relationships	10 years	10 years
Mailing software and technology	-	7 years
Trademarks and trade names	-	2 years
Total weighted average	10 years	9 years

The following table summarizes selected financial data for the opening balance sheet allocations of the acquisitions in 2006:

	Print, Inc.	AAS	Ibis	Emtex
chase price allocation				
rent assets	$ 9,385	$ 1,989	$ 6,468	$ 4,2
er non-current assets	2,499	789	3,349	1,0
ngible assets	8,144	8,200	17,700	14,5
dwill	34,175	31,670	40,751	25,0
rent liabilities	(7,110)	(1,033)	(3,258)	(11,9
-current liabilities	(1,076)	-	-	(1
chase price, net of cash acquired	$ 46,017	$ 41,615	$ 65,010	$ 32,8
angible assets				
tomer relationships	$ 8,144	$ 4,000	$ 8,800	$ 3,3
ling software and technology	-	4,200	7,800	9,2
demarks and trade names	-	-	1,100	2,0

l intangible assets	$	8,144	$	8,200	$	17,700	$	14,5
angible assets amortization period								
tomer relationships		6 years		10 years		10 years		10 yea
ling software and technology		-		5 years		5 years		5 yea
demarks and trade names		-		-		3 years		5 yea
l weighted average		6 years		7 years		7 years		6 yea

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

Allocation of the purchase price to the assets acquired and liabilities assumed has not been finalized for Digital Cement Inc., MapInfo, and Print, Inc. The purchase price allocation for these acquisitions will be finalized upon the completion of working capital closing adjustments and fair value analyses. Final determination of the purchase price and fair values to be assigned may result in adjustments to the preliminary estimated values assigned at the date of acquisition. We do not anticipate significant adjustments to the preliminary estimated values. The amount of tax deductible goodwill added from acquisitions in the six months ended June 30, 2007 was $22.1 million. The amount of tax deductible goodwill added from acquisitions in the six months ended June 30, 2006 was $92.1 million.

During the six months ended June 30, 2007, we also completed several smaller acquisitions. The aggregate cost of these acquisitions was $44.3 million. These acquisitions did not have a material impact on our financial results.

Consolidated impact of acquisitions

The Condensed Consolidated Financial Statements include the results of operations of the acquired businesses from their respective dates of acquisition.

The following unaudited pro forma consolidated revenue has been prepared as if the acquisitions had occurred at the beginning of each period presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
Total revenue	**$ 1,552,192**	$ 1,454,242	**$ 3,007,776**	$ 2,882,835

The pro forma earnings results of these acquisitions for the six months ended June 30, 2007 and 2006, respectively, reduced our diluted earnings per share by approximately 4 cents primarily due to the purchase accounting alignment for MapInfo. The pro forma consolidated results do not purport to be indicative of actual results that would have occurred had the acquisitions been completed on January 1, 2007 and 2006, nor do they purport to be indicative of the results that will be obtained in the future.

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

6. *Earnings per Share*

A reconciliation of the basic and diluted earnings per share computations for the three months ended June 30, 2007 and 2006 is as follows:

			2007					2006
			Weighted					Weig
			Average		**Per**			Aver
		Income	**Shares**		**Share**		(Loss)	Sha
Net income (loss)	**$**	**152,239**				$	(356,074)	
Less:								
Preferred stock dividends		**-**					-	
Preference stock dividends		**(21)**					(20)	
Basic earnings (loss)per share	**$**	**152,218**	**219,460**	**$**	**0.69**	$	(356,094)	2
Effect of dilutive securities:								
Data for basic earnings (loss) per share	**$**	**152,218**	**219,460**			$	(356,094)	2
Preferred stock		**-**	**3**				-	
Preference stock		**21**	**644**				20	
Stock options and stock purchase plans			**2,294**					
Other stock plans			**80**					
Diluted earnings (loss) per share	**$**	**152,239**	**222,481**	**$**	**0.68**	$	(356,074)	2

A reconciliation of the basic and diluted earnings per share computations for the six months ended June 30, 2007 and 2006 is as follows:

			2007				
			Weighted				
			Average		**Per**		
		Income	**Shares**		**Share**		(Loss)
Net income (loss)	**$**	**297,035**				$	(202,546)
Less:							
Preferred stock dividends		**-**					-
Preference stock dividends		**(42)**					(43)
Basic earnings (loss) per share	**$**	**296,993**	**219,779**	**$**	**1.35**	$	(202,589)
Effect of dilutive securities:							
Data for basic earnings (loss) per share	**$**	**296,993**	**219,779**			$	(202,589)
Preferred stock		**-**	**3**				-
Preference stock		**42**	**648**				43
Stock options and stock purchase							

plans			**2,429**			
Other stock plans			**109**			
Diluted earnings (loss) per share	**$**	**297,035**	**222,968**	**$**	**1.33**	$ (202,546)

In accordance with SFAS No. 128, *Earnings per Share*, 372,000 and 1.0 million weighted average common stock equivalent shares for the three months ended June 30, 2007 and 2006, respectively, and 326,000 and 934,000 weighted average common stock equivalent shares for the six months ended June 30, 2007 and 2006, respectively, issuable upon the exercise of stock options were excluded from the above computations because the exercise prices of such options were greater than the average market price of the common stock and therefore the impact of these shares was anti-dilutive.

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

7. *Segment Information*

We conduct our business activities in seven business segments within the Mailstream Solutions and Mailstream Services business groups. The following details the activities of each segment within the two business groups:

Mailstream Solutions:

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

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

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

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

Mailstream Services:

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

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

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

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

Revenue and earnings before interest and taxes (EBIT) by business segment for the three and six months ended June 30, 2007 and 2006 were as follows:

	Three Months Ended June 30,		Six Months End
	2007	2006	**2007**
Revenue:			
U.S. Mailing	**$ 633,076**	$ 567,766	**$ 1,209,322**
International Mailing	**252,390**	249,490	**510,240**
Production Mail	**139,814**	133,264	**264,584**
Software	**88,242**	47,640	**131,324**
Mailstream Solutions	**1,113,522**	998,160	**2,115,470**
Management Services	**275,052**	267,548	**547,711**
Mail Services	**114,424**	90,749	**218,783**
Marketing Services	**40,036**	32,753	**75,307**
Mailstream Services	**429,512**	391,050	**841,801**
Total revenue	**$ 1,543,034**	$ 1,389,210	**$ 2,957,271**
	Three Months Ended June 30,		**Six Months End**
	2007	2006	**2007**
EBIT: (1)			
U.S. Mailing	**$ 262,108**	$ 234,104	**$ 504,259**
International Mailing	**36,621**	42,379	**82,887**
Production Mail	**18,225**	15,281	**25,940**
Software	**16,994**	5,207	**19,419**
Mailstream Solutions	**333,948**	296,971	**632,505**
Management Services	**16,005**	21,860	**36,789**
Mail Services	**12,582**	8,970	**26,658**
Marketing Services	**619**	3,616	**1,139**
Mailstream Services	**29,206**	34,446	**64,586**
Total EBIT	**363,154**	331,417	**697,091**
Unallocated amounts:			
Interest, net	**(62,541)**	(55,070)	**(119,268)**
Corporate expense	**(52,748)**	(50,733)	**(98,922)**
Restructuring charges	**-**	(5,041)	**-**
MapInfo purchase accounting alignment	**(7,900)**	-	**(7,900)**
Income from continuing operations before income taxes and minority interest	**$ 239,965**	$ 220,573	**$ 471,001**

(1) EBIT excludes general corporate expenses, restructuring charges and the MapInfo purchase accounting alignment.

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

8. *Inventories*

Inventories are composed of the following:

	June 30, 2007	December 31, 2006
Raw materials and work in process	**$ 100,147**	$ 97,870
Supplies and service parts	**79,537**	82,669
Finished products	**68,904**	57,278
Total	**$ 248,588**	$ 237,817

9. *Fixed Assets*

	June 30, 2007	December 31, 2006
Property, plant and equipment	**$ 1,838,622**	$ 1,831,140
Accumulated depreciation	**(1,212,046)**	(1,218,500)
Property, plant and equipment, net	**$ 626,576**	$ 612,640
Rental property and equipment	**$ 1,164,685**	$ 1,163,705
Accumulated depreciation	**(660,472)**	(659,794)
Rental property and equipment, net	**$ 504,213**	$ 503,911

Depreciation expense was $80.2 million and $77.5 million for the three months ended June 30, 2007 and 2006, respectively. Depreciation expense was $158.3 million and $154.8 million for the six months ended June 30, 2007 and 2006, respectively. Depreciation expense includes amounts from discontinued operations of $4.2 million and $9.2 million for the three and six months ended June 30, 2006, respectively.

10. *Intangible Assets and Goodwill*

Intangible assets are composed of the following:

	June 30, 2007			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount
Customer relationships	**$ 430,423**	**$ (98,601)**	**$ 331,822**	$ 314,768
Supplier relationships	**33,300**	**(7,834)**	**25,466**	33,300
Software & technology	**169,399**	**(50,132)**	**119,267**	134,476
Trademarks & trade names	**31,961**	**(16,695)**	**15,266**	28,961
Non-compete agreements	**5,259**	**(4,285)**	**974**	5,247
	$ 670,342	**$ (177,547)**	**$ 492,795**	$ 516,752

PITNEY BOWES INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Amortization expense for intangible assets for the three months ended June 30, 2007 and 2006 was $17.4 million and $12.1 million, respectively. Amortization expense for intangible assets for the six months ended June 30, 2007 and 2006 was $30.6 million and $24.1 million, respectively. Estimated intangible assets amortization expense for the remainder of 2007 and the next five years is as follows:

	Amount
Remaining for the year ending 12/31/07	$ 34,000
For the year ending 12/31/08	72,000
For the year ending 12/31/09	68,000
For the year ending 12/31/10	61,000
For the year ending 12/31/11	54,000
Thereafter	204,000
	$ 493,000

Changes in the carrying amount of goodwill by business segment for the six months ended June 30, 2007 are as follows:

	Balance at January 1, 2007	Acquired during the period	Other	Balance June 3 2007
U.S. Mailing	$ 84,380	$ 10,874	$ 31,947	$
International Mailing	392,434	-	(15,029)	
Production Mail	102,848	4,165	759	
Software	340,062	261,669	1,671	
Mailstream Solutions	919,724	276,708	19,348	1,
Management Services	429,990	-	2,217	
Mail Services	216,709	6,461	4,613	
Marketing Services	224,734	38,691	1,615	
Mailstream Services	871,433	45,152	8,445	
Total	$ 1,791,157	$ 321,860	$ 27,793	$ 2,

"Other" includes the impact of post closing acquisition and foreign currency translation adjustments.

11. *Long-term Debt*

On June 30, 2007, $1.1 billion remained available under the shelf registration statement filed in February 2005 with the Securities and Exchange Commission (SEC), permitting issuances of up to $2.5 billion in debt securities, preferred stock, preference stock, common stock, purchase contracts, depositary shares, warrants and units.

12. *Comprehensive Income*

Comprehensive income for the three and six months ended June 30, 2007 and 2006 was as follows:

	Three Months Ended June 30,	Six Mont

		2007		2006		2007
Net income (loss)	$	152,239	$	(356,074)	$	297,03
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments		59,445		82,730		71,1
Amortization of pension & postretirement benefit costs		5,191		-		10,28
Net unrealized (loss) gain on derivatives		(633)		1,666		(3,42
Comprehensive income (loss)	$	216,242	$	(271,678)	$	375,00

PITNEY BOWES INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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13. *Restructuring Charges*

Pre-tax restructuring reserves at June 30, 2007 related to the program that we completed in 2006 are composed of the following:

	Balance at January 1, 2007	Cash payments
Severance and benefit costs	$ 31,265	$ (17,821)
Other exit costs	2,284	(1,086)
	$ 33,549	$ (18,907)

The outstanding balance is expected to be substantially paid by the end of 2007.

Pre-tax restructuring reserves at December 31, 2006 are composed of the following:

	Balance at January 1, 2006	Restructuring charges	Cash payments	Non-cash charges
Severance and benefit costs	$ 44,635	$ 33,254	$ (46,624)	$ -
Asset impairments	-	754	-	(754)
Other exit costs	5,235	1,991	(4,942)	-
	$ 49,870	$ 35,999	$ (51,566)	$ (754)

14. *Pensions and Other Benefit Plans*

Defined Benefit Pension Plans

The components of net periodic benefit cost for defined benefit pension plans for the three months ended June 30, 2007 and 2006 are as follows:

	United States		Foreign	
	Three Months Ended June 30,		**Three Months Ended June 30**	
	2007	2006	**2007**	2006
Service cost	**$ 7,076**	$ 7,060	**$ 3,152**	$ 2
Interest cost	**23,058**	24, 467	**6,799**	5
Expected return on plan assets	**(31,335)**	(33,366)	**(9,082)**	(7
Amortization of transition cost	**-**	-	**(165)**	
Amortization of prior service cost	**(531)**	(570)	**161**	
Amortization of net loss	**6,882**	9,290	**1,803**	2
Settlement/curtailment	**-**	-	**173**	
Net periodic benefit cost	**$ 5,150**	$ 6,881	**$ 2,841**	$ 3

United States Foreign

	Six Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
Service cost	**$ 14,151**	$ 14,931	**$ 6,258**	$ 5
Interest cost	**46,111**	47,984	**13,516**	10
Expected return on plan assets	**(62,664)**	(65,866)	**(18,073)**	(15
Amortization of transition cost	**-**	-	**(324)**	
Amortization of prior service cost	**(1,062)**	(1,118)	**321**	
Amortization of net loss	**13,763**	17,081	**3,606**	5
Settlement/curtailment	**-**	-	**345**	
Net periodic benefit cost	**$ 10,299**	$ 13,012	**$ 5,649**	$ 6

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PITNEY BOWES INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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As previously discussed in our 2006 Annual Report to Stockholders on Form 10-K, we expect to contribute up to $8 million and up to $10 million, respectively, to our U.S. and foreign pension plans during 2007. At June 30, 2007, $5.4 million and $6.0 million of contributions have been made to the U.S. and foreign pension plans, respectively.

Nonpension Postretirement Benefit Plans

The components of net periodic benefit cost for nonpension postretirement benefit plans for the three and six months ended June 30, 2007 and 2006 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
Service cost	**$ 837**	$ 872	**$ 1,669**	$
Interest cost	**3,618**	3,517	**7,230**	
Amortization of prior service cost	**(457)**	(454)	**(915)**	
Amortization of net loss	**714**	886	**1,423**	
Net periodic benefit cost	**$ 4,712**	$ 4,821	**$ 9,407**	$

For the three months ended June 30, 2007 and 2006, we made $6.9 million and $8.3 million of contributions representing benefit payments, respectively.

For the six months ended June 30, 2007 and 2006, we made $15.7 million and $17.3 million of contributions representing benefit payments, respectively.

15. *Income Taxes*

The effective tax rate for the three months ended June 30, 2007 and 2006 was 34.0% and 43.6%, respectively. The effective tax rate for the six months ended June 30, 2007 and 2006 was 34.2% and 39.1%, respectively. The higher rates in 2006 are primarily due to a $20 million charge that was recorded in the second quarter of 2006 in connection with the IRS settlement.

In June 2006, the FASB issued FIN. 48, *Accounting for Uncertainty in Income Taxes*, which supplements FAS 109, *Accounting for Income Taxes*, by defining the confidence level that a tax position must meet in order to be recognized in the financial statements. FIN 48 requires the tax effect of a position to be recognized only if it is "more-likely-than-not" to be sustained, which is a different standard than was previously required. We adopted the provisions of FIN 48 on January 1, 2007. As a result, on initial adoption we recognized an $84.4 million increase in our liability for uncertain tax positions and a corresponding reduction to our opening retained earnings. The total amount of unrecognized tax benefits including interest at January 1, 2007 was $460.4 million, of which $363.3 million would affect the effective tax rate if recognized. Our tax filings are under continual examination by tax authorities. On a regular basis we conclude tax return examinations, statutes of limitations expire, court decisions are made that interpret tax law and we regularly assess tax uncertainties in light of these developments. Therefore, it is reasonably possible that the amount of our unrecognized tax benefits, primarily related to leasing transactions, could increase or decrease by approximately 10% within the next 12 months. We recognize interest and penalties related to uncertain tax positions in our provision for income taxes. We recognized $3.1 million in interest and penalties during the six months ended June 30, 2007 and this amount was included in discontinued operations. We had $104.5 million accrued for the payment of interest and penalties at January 1, 2007. Included in the $507.7 million June 30, 2007 noncurrent deferred tax balance is $252.7 million of other noncurrent tax liabilities.

The current IRS exam of tax years 2001-2004 is estimated to be completed in 2008 while the formal statute of limitations for years 1995-2000 has also yet to expire. In connection with the 2001-2004 audit we are currently disputing a recent formal request from the IRS in the form of a civil summons to provide certain company workpapers. The company believes that certain documents being sought should not be produced because they are privileged. A similar issue is currently being litigated by other companies before the U.S. District Courts of Rhode Island and Alabama. A variety of post-1999 tax years remain subject to examination by other tax authorities, including the U.K., Canada, Germany and various U.S. states. We have accrued our best estimate of the probable tax, interest and penalties that may result from these tax uncertainties in these and other jurisdictions. However, the resolution of such matters could have a material impact on our results of operations, financial position and cash flow.

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

In May 2006, we reached a tentative settlement with the IRS governing all outstanding tax audit issues in dispute arising out of the IRS examination of our corporate income tax returns for tax years through 2000. These disputed items related primarily to the tax treatment of corporate owned life insurance (COLI) and related interest expense, the tax effect of the sale of certain preferred share holdings and the tax treatment of certain Capital Service lease transactions. As a result of this tentative settlement with the IRS, we recorded $61 million of additional tax expense of which $41 million related to the Capital Services business and was included in discontinued operations and $20 million which was included in continuing operations. As a result of the tentative IRS settlement and the sales of the Imagistics and Capital Services businesses, we estimated that we owed approximately $1.1 billion of additional tax, net of $330 million of IRS tax bonds previously posted. As previously disclosed, we reached a settlement with the IRS governing all tax audit issues in dispute for tax years through 2000 in August 2006 and we paid the $1.1 billion obligation to the IRS by the end of 2006. These tax obligations were funded from the proceeds of the sale of the businesses and the advance against the cash surrender value of our COLI assets.

We also accrued in discontinued operations an additional tax expense of $16.2 million in the second quarter of 2006 to record the impact of the Tax Increase Prevention and Reconciliation Act (TIPRA). The TIPRA legislation repealed the exclusion from federal income taxation of a portion of the income generated from certain leveraged leases of aircraft by foreign sales corporations. See Note 4 for further discussion of the discontinued operations.

16. *Commitments and Contingencies*

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.

In Ricoh Corporation et al. v. Pitney Bowes Inc. (United States District Court, District of New Jersey, filed November 26, 2002), the patent litigation where the company prevailed at trial, the court denied the parties post-trial motions. The Company expects that Ricoh will pursue an appeal. If so, the Company will need to pursue on appeal the issues on which it did not prevail at trial, even though the ultimate verdict was in our favor.

During the second quarter of 2007, the Judicial Panel on Multi-District Litigation consolidated the ten purported class actions filed against our subsidiary, Imagitas, Inc. alleging that the Imagitas DriverSource program violates the federal Drivers Privacy Protection Act (DPPA) before a single judge in the United States District Court for the Middle District of Florida. The cases are now jointly referred to as In re Imagitas, Inc., Drivers Privacy Protection Act Litigation, MDL Docket No. 1828. There have also been lawsuits filed against officials of the departments of motor vehicles in four of the states where the DriverSource program is active, Florida, Missouri, Minnesota and Ohio. The officials in states other than Florida are contesting the transfer of their cases and inclusion in the Multi-District Litigation.

Guarantees

As part of the sale of the Capital Services business in the second quarter of 2006, we indemnified the buyer for certain guarantees by posting letters of credit at the date of sale. At June 30, 2007, the outstanding balance of these guarantees was approximately $9 million. Our maximum risk of loss related to these letters of credit arises from the possible non-performance of lessees to meet the terms of their contracts and from changes in the value of the underlying equipment. These contracts are secured by the underlying equipment value and supported by the creditworthiness of the customer.

Product Warranty

We provide product warranties in conjunction with certain product sales, generally for a period of 90 days from the date of installation. Our product warranty liability reflects our best estimate of probable liability or product warranties based on historical claims experience, which has not been significant, and other currently available evidence. Accordingly, our product warranty liability at June 30, 2007 and December 31, 2006, respectively, was not material.

MANAGEMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Item 2: Managements Discussion and Analysis of Financial Condition and Results of Operations

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

The following analysis of our financial condition and results of operations should be read in conjunction with Pitney Bowes Condensed Consolidated Financial Statements contained in this report and in Pitney Bowes Form 10-K for the year ended December 31, 2006.

As a result of the sale of our Imagistics lease portfolio and Capital Services external financing business in 2006, the results of operations reflect these businesses as discontinued operations for all periods presented.

Overview

This quarters results were led by the U.S. Mailing, Software, and Mail Services segments. The U.S. Mailing segment benefited from sales of equipment that help customers comply with the provisions of the recently-enacted U.S. postal rate case which requires that postage be based on shape as well as weight. Our expanding Software business and Mail Services operations also had excellent results in the quarter. Lower equipment sales in Europe, as well as weak performance in the legal solutions portion of our Management Services segment, partially offset these positive results.

Revenue for the second quarter increased 11%. Revenue growth was positively affected by acquisitions and foreign currency translation, which contributed about 4% and 1.5%, respectively. Earnings per diluted share from continuing operations for the quarter was $0.69 compared with $0.54 per diluted share in the prior year. Earnings per diluted share from continuing operations for the second quarter of 2007 was reduced by approximately 2 cents per diluted share due to the purchase accounting alignment for MapInfo. Earnings per diluted share from continuing operations for the second quarter of 2006 included a tax charge of 9 cents per diluted share related to the IRS settlement and a restructuring charge of 1 cent per diluted share. Net income for the quarter was $152.2 million compared with a loss of $356.1 million in the prior year. The loss in the prior year related to discontinued operations.

See Results of Operations Second Quarter of 2007 compared to Second Quarter of 2006 for a more detailed discussion of our results of operations.

Outlook

We anticipate that we will experience solid financial results in 2007. We expect our mix of product sales to continue to change, with a greater percentage of revenue coming from diversified revenue streams associated with fully featured smaller systems and a smaller percentage from larger system sales. In addition, we expect to expand our market presence in Mailstream Solutions and Mailstream Services and derive further synergies from our recent acquisitions. We will continue to remain focused on our productivity programs and to allocate capital in order to optimize our returns. As part of the purchase accounting for MapInfo, we aligned MapInfos accounting policies for software revenue recognition with ours. Accordingly, certain software revenue that was previously recognized by MapInfo on a periodic basis will now be recognized over the life of the contract. Including the effect of this accounting alignment, we expect the acquisition of MapInfo to reduce diluted earnings per share from continuing operations by approximately 5 cents in 2007.

MANAGEMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations Second Quarter of 2007 compared to Second Quarter of 2006

Business segment results

The following table shows revenue and earnings before interest and taxes (EBIT) by segment for the three months ended June 30, 2007 and 2006. Prior year results have been adjusted to reflect the changes made to our reporting segments in the second quarter of 2006.

(Dollars in thousands)	Revenue			EBIT (1)	
	Three months ended June 30,			Three months ended June 30	
	2007	2006	% change	**2007**	2006
U.S. Mailing	$ **633,076**	$ 567,766	12 %	$ **262,108**	$ 234,104
International Mailing	**252,390**	249,490	1 %	**36,621**	42,379
Production Mail	**139,814**	133,264	5 %	**18,225**	15,281
Software	**88,242**	47,640	85 %	**16,994**	5,207
Mailstream Solutions	**1,113,522**	998,160	12 %	**333,948**	296,971
Management Services	**275,052**	267,548	3 %	**16,005**	21,860
Mail Services	**114,424**	90,749	26 %	**12,582**	8,970
Marketing Services	**40,036**	32,753	22 %	**619**	3,616
Mailstream Services	**429,512**	391,050	10 %	**29,206**	34,446
Total	$ **1,543,034**	$ 1,389,210	11 %	$ **363,154**	$ 331,417

(1) See reconciliation of segment amounts to Income from Continuing Operations before Income Taxes and Minority Interest in Note 7 to the Condensed Consolidated Financial Statements.

During the second quarter of 2007, Mailstream Solutions revenue increased 12% and EBIT increased 12% compared with the prior year. U.S. Mailings revenue grew 12%, primarily due to the sale of equipment related to shape-based pricing. We do not anticipate the benefits from shape-based pricing to continue for the remainder of the year. Revenue also benefited from growth in supplies and payment solutions as our meter base continues to transition to new digital technology. However, revenue continued to be adversely affected by the ongoing changing mix to more fully featured smaller systems. International Mailing revenue grew 1% and EBIT declined 14%. International Mailing revenue growth benefited by about 5% from favorable foreign currency. The segments results were adversely affected by lower sales and rentals in Europe. The segments EBIT was also adversely impacted by continued investments in sales and marketing channels in Europe as well as expenses related to our European back office operations. Worldwide revenue for Production Mail grew 5%, primarily driven by foreign currency translation which contributed 2% to growth, and strong equipment placements in the U.S. and Asia-Pacific region. However, lower equipment sales in Europe partially offset this growth. Production mail EBIT grew 19%, due primarily to net legal recoveries of approximately $3 million in Europe. Softwares revenue grew by 85% and EBIT grew 226%. The segments results were driven by the acquisition of MapInfo which increased revenue by about 57% and strong demand for our software solutions.

During the second quarter of 2007, Mailstream Services revenue grew 10% and EBIT declined 15% compared with the prior year. Management Services revenue grew 3%, primarily driven by foreign exchange translation while EBIT declined 27%. Management Services results were adversely affected by continued investments in sales and marketing channels, weakness in our legal solutions vertical and higher margin print contracts in the prior year that did not repeat this period. Mail Services revenue grew 26% due to continued growth in presort and cross-border mail services. Mail Services EBIT grew by 40% to $12.6 million as a result of the ongoing successful integration of acquired sites and increased operating efficiencies. Marketing Services revenue grew 22% and EBIT decreased 83%. The acquisitions of AAS and Digital Cement Inc. contributed 19% to revenue growth, but lower revenue in our motor vehicle registration services had an adverse effect on the segment's revenue and EBIT.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Revenue by source

The following table shows revenue by source for the three months ended June 30, 2007 and 2006:

(Dollars in thousands)	Three Months Ended June 30,		
	2007	2006	% change
Equipment sales	**$ 360,361**	$ 319,635	13 %
Supplies	**96,398**	82,873	16 %
Software	**88,242**	47,640	85 %
Rentals	**180,911**	197,226	(8)%
Financing	**194,837**	174,447	12 %
Support services	**192,773**	176,339	9 %
Business services	**429,512**	391,050	10 %
Total revenue	**$ 1,543,034**	$ 1,389,210	11%

Equipment sales revenue increased 13% from the prior year, primarily due to the sale of shape-based rating equipment in the U.S. Foreign currency translation and acquisitions each contributed 2% to this growth.

Supplies revenue increased 16% from the prior year due to continued transition of our meter base to digital technology, the acquisition of our print management business last year which contributed 5%, and foreign currency translation which contributed 3%.

Software revenue increased 85% from the prior year due to the acquisition of MapInfo, which contributed 57% to this increase, and strong demand for our software solutions.

Rentals revenue declined 8% from the prior year due primarily to the continued downsizing by customers to smaller machines.

Financing revenue increased 12% from the prior year, primarily due to higher revenue from payment solutions and growth in our equipment leasing volumes.

Support services revenue increased 9% from the prior year. This growth was primarily driven by higher service revenue from production mail and mailing equipment. Acquisitions contributed 2% to this growth and foreign currency translation contributed 2%.

Business services revenue increased 10% from the prior year, due primarily to strong growth in our presort and cross-border mail services. Acquisitions and foreign currency translation contributed 4% and 1%, respectively, to this growth.

Costs and expenses

(Dollars in thousands)	Three Months Ended June 30,	
	2007	2006
Cost of equipment sales	**$ 168,958**	$ 159,780
Cost of supplies	**$ 24,725**	$ 19,796
Cost of software	**$ 21,076**	$ 11,103
Cost of rentals	**$ 43,261**	$ 42,300

Cost of support services	**$**	**107,317**	$	98,453
Cost of business services	**$**	**339,972**	$	303,583
Selling, general and administrative	**$**	**488,115**	$	432,531
Research and development	**$**	**47,104**	$	40,980

Cost of equipment sales as a percentage of revenue decreased to 46.9% in the second quarter of 2007 compared with 50.0% in the prior year, primarily due to the increase in sales of higher margin equipment in the U.S.

MANAGEMENT□S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cost of supplies as a percentage of revenue increased to 25.6% in the second quarter of 2007 compared with 23.9% in the prior year, primarily due to the increase in sales of toner, ink, and other supplies which have lower margins than our meter-related supplies.

Cost of software increased to 23.9% of revenue in the second quarter of 2007 compared with 23.3% in the prior year primarily due to the acquisition of MapInfo.

Cost of rentals as a percentage of revenue increased to 23.9% for the second quarter of 2007 compared with 21.4% in the prior year due to higher depreciation costs from the placement of new meters.

Cost of support services decreased slightly to 55.7% of revenue in the second quarter of 2007 compared with 55.8% in the prior year.

Cost of business services increased to 79.2% of revenue in the second quarter of 2007 compared with 77.6% in the second quarter of 2006 due to continued integration costs in our legal solutions businesses at Management Services and higher margin print contracts in the prior year that did not repeat this year.

Selling, general and administrative expenses increased to 31.6% of total revenue in the second quarter of 2007 compared with 31.1% in the prior year. This increase is due primarily to the acquisition of MapInfo and continued investments in sales and marketing channels which offset benefits from our productivity initiatives and the net legal recoveries in Europe.

Research and development expenses increased 14.9% in the second quarter of 2007 compared with the prior year due primarily to the acquisition of MapInfo. Our investment in research and development reflects our continued focus on developing new technologies and enhancing features for all our products.

Restructuring

In connection with our restructuring program that we concluded in 2006, we recorded pre-tax restructuring charges of $5.0 million for the three months ended June 30, 2006.

We primarily fund restructuring payments with cash from operating activities. We expect to pay most of the outstanding restructuring balance by the end of 2007. We expect the restructuring initiatives to continue to increase our operating efficiency and effectiveness in 2007 and beyond while enhancing growth, primarily as a result of the reduction in personnel-related expenses.

The pre-tax restructuring charges were composed of:

(Dollars in thousands)		Three Months Ended June 30, 2006
Severance and benefit costs	$	4,615
Asset impairments		-
Other exit costs		426
	$	5,041

Accrued restructuring charges at June 30, 2007 were composed of the following:

(Dollars in thousands)	**Balance at January 1, 2007**	**Cash payments**	**Balance at June 30, 2007**

Severance and benefit costs	$	**31,265**	$	**(17,821)**	$	**13,444**
Other exit costs		**2,284**	$	**(1,086)**		**1,198**
	$	**33,549**	$	**(18,907)**	$	**14,642**

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Net interest expense

Interest expense for the three months ended June 30, 2007 and 2006:

(Dollars in thousands)	Three Months Ended June 30,		
	2007	2006	% change
Interest expense, net	**$ 62,541**	$ 55,070	14%

Net interest expense increased by $7.5 million or 14% in the second quarter of 2007 compared with the prior year primarily due to higher average borrowings.

Income Taxes

The effective tax rate for the second quarter of 2007 was 34.0% compared with 43.6% in the prior year. The effective tax rate for the second quarter of 2006 included a $20 million charge related to the IRS settlement discussed in Note 15 to the Condensed Consolidated Financial Statements.

Minority Interest

The following table details minority interest for the three months ended June 30, 2007 and 2006:

(Dollars in thousands)	Three Months Ended June 30,		
	2007	2006	% change
Minority interest	**$ 4,796**	$ 3,244	48%

Minority interest includes dividends paid to preferred stockholders in a subsidiary. Minority interest increased by $1.6 million or 48% in the second quarter of 2007 compared with the prior year due to an increase in outstanding preferred shares and the weighted average dividend rate which is set at auction.

Discontinued Operations

The following table details the components of discontinued operations for the three months ended June 30, 2007 and 2006:

(Dollars in thousands)	Three Months Ended June 30,	
	2007	2006
Revenue	**$ -**	$ 34,523
Pretax income	**$ -**	$ 17,940
Net (loss) income	**$ (1,342)**	$ 10,447
Gain on sale of Imagistics, net of $7,443 tax	**-**	11,641
FSC tax law change	**-**	(16,209)
Additional tax on IRS settlement	**-**	(41,000)
Loss on sale of Capital Services, net of $282,722 tax benefit	**-**	(442,205)
Total discontinued operations, net of tax	**$ (1,342)**	$ (477,326)

See Note 4 in the Condensed Consolidated Financial Statements for further discussion and details of the discontinued operations.

MANAGEMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations Six Months Ended June 30, 2007 compared to Six Months Ended June 30, 2006

Revenue by source

The following table shows revenue by source for the six months ended June 30, 2007 and 2006:

(Dollars in thousands)	Six Months Ended June 30,		%
	2007	2006	change
Equipment sales	**$ 653,971**	$ 622,392	5 %
Supplies	**196,700**	165,684	19 %
Software	**131,324**	89,635	47 %
Rentals	**368,981**	394,038	(6) %
Financing	**385,417**	352,592	9 %
Support services	**379,077**	347,105	9 %
Business services	**841,801**	779,409	8 %
Total revenue	**$ 2,957,271**	$ 2,750,855	8 %

Equipment sales revenue increased 5% over the prior year period, primarily due to sale of shape-based rating equipment and production mail equipment in the U.S.

Supplies revenue increased 19% over the prior year period due to continued transition of our meter base to digital technology. The acquisition of our print management business last year contributed 5% to this increase and foreign currency translation contributed 3% to this growth.

Software revenue increased 47% over the prior year period due to the acquisition of MapInfo, which contributed 30% to this overall increase, and to strong demand for our software solutions.

Rentals revenue declined 6% over the prior year period due to continued downsizing by customers to smaller machines.

Financing revenue increased 9% over the prior year period, primarily due to higher revenue from payment solutions and growth in our equipment leasing volumes. Foreign currency translation contributed 1% to this growth.

Support services revenue increased 9% compared with the prior year period. This growth was primarily driven by higher service revenue from production mail and mailing equipment. Acquisitions contributed 3% and foreign currency translation contributed 2% to this growth.

Business services revenue increased 8% from the prior year period. This growth was driven by higher demand for our mail services. Acquisitions contributed 3% and foreign currency translation contributed 1% to this growth.

Costs and expenses

(Dollars in thousands)	Six Months Ended June 30,	
	2007	2006
Cost of equipment sales	**$ 317,214**	$ 312,760
Cost of supplies	**$ 50,848**	$ 40,404
Cost of software	**$ 32,624**	$ 21,282

Cost of rentals	**$**	**85,682**	$	85,839
Cost of support services	**$**	**212,821**	$	194,749
Cost of business services	**$**	**663,623**	$	609,907
Selling, general and administrative	**$**	**913,517**	$	850,193
Research and development	**$**	**90,673**	$	82,516

Cost of equipment sales as a percentage of revenue decreased to 48.5% in the first six months of 2007 compared with 50.3% in the prior year, primarily due to the increase in sales of higher margin equipment in the U.S.

MANAGEMENT□S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cost of supplies as a percentage of revenue increased to 25.9% in the first six months of 2007 compared with 24.4% in the prior year, primarily due to the increase in sales of toner, ink and other supplies which have lower margins than our meter-related supplies.

Cost of software as a percentage of revenue increased to 24.8% of revenue in the first six months of 2007 compared to 23.7% in the prior year, due primarily to the acquisition of MapInfo.

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

Cost of support services as a percentage of revenue was 56.1% for the six months of 2007 and 2006.

Cost of business services increased to 78.8% of revenue in the first six months of 2007 compared with 78.3% in the prior year, due to continued integration costs in our legal solutions businesses at Management Services and higher margin print contracts in the prior year that did not repeat this year.

Selling, general and administrative expenses as a percentage of total revenue was 30.9% for the first six months of 2007 and 2006. The acquisition of MapInfo and continued investments in sales and marketing channels offset benefits from our productivity initiatives.

Research and development expenses as a percentage of total revenue were 3.1% in the first six month of 2007 compared with 3.0% in the prior year. Research and development expenses increased due primarily to the acquisition of MapInfo.

Restructuring

Pre-tax restructuring charges were composed of:

(Dollars in thousands)		Six Months Ended June 30, 2006
Severance and benefit costs	$	9,137
Asset impairments		514
Other exit costs		987
Total restructuring charges	$	10,638

In connection with our previously announced restructuring initiatives, we recorded a pre-tax restructuring charge of $10.6 million for the six months ended June 30, 2006.

Net interest expense

The following table shows net interest expense for the six months ended June 30, 2007 and 2006:

(Dollars in thousands)	Six Months Ended June 30,				
		2007		2006	% change
Interest expense, net	**$**	**119,268**	$	108,638	9.8%

Net interest expense increased by $10.6 million or 9.8% in the first six months of 2007 compared with the prior year due primarily to higher average interest borrowings.

Income Taxes

The effective tax rate for the first six months of 2007 was 34.2% compared with 39.1% in the prior year. The effective tax rate for the first six months of 2006 included a $20 million charge related to the IRS settlement discussed in Note 15 to the Condensed Consolidated Financial Statements.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Minority Interest

The following table details minority interest for the six months ended June 30, 2007 and 2006:

(Dollars in thousands)	Six Months Ended June 30,		
	2007	2006	% change
Minority interest	**$ 9,542**	$ 6,161	54.9%

Minority interest includes dividends paid to preferred stockholders in subsidiary companies. Minority interest increased by $3.4 million or 54.9% compared to the prior year due to an increase in outstanding preferred shares and the weighted average dividend rate.

Discontinued Operations

The following table details the components of discontinued operations for the six months ended June 30, 2007 and 2006:

(Dollars in thousands)	Six Months Ended June 30,	
	2007	2006
Revenue	**$ -**	$ 76,981
Pretax income	**$ -**	$ 39,950
Net (loss) income	**$ (3,130)**	$ 27,116
Gain on sale of Imagistics, net of $7,443 tax	**-**	11,641
FSC tax law change	**-**	(16,209)
Additional tax on IRS settlement	**-**	(41,000)
Loss on sale of Capital Services, net of $282,722 tax benefit	**-**	(442,205)
Total discontinued operations, net of tax	**$ (3,130)**	$ (460,657)

See Note 4 in the Condensed Consolidated Financial Statements for further discussion and details of the discontinued operations.

Acquisitions

On May 31, 2007, we acquired the remaining shares of Digital Cement, Inc. for $38 million in cash, net of cash acquired. Digital Cement, Inc. provides marketing management strategy and services to help companies acquire, retain, manage, and grow their customer relationships. We assigned the goodwill to the Marketing Services segment.

On April 19, 2007, we acquired MapInfo Corporation for $448 million in cash, net of cash acquired. Included in the assets and liabilities acquired were short-term investments of $46 million and debt assumed of $14 million. MapInfo is a global company and a leading provider of location intelligence software and solutions. We assigned the goodwill to the Software segment. As part of the purchase accounting for MapInfo, we aligned MapInfo s accounting policies with ours. Accordingly, certain software revenue that was previously recognized by MapInfo on a periodic basis will now be recognized over the life of the contract.

On July 31, 2006, we acquired Print, Inc. for approximately $46 million in cash, net of cash acquired. Print, Inc. provides printer supplies, service and equipment under long-term managed services contracts. We assigned the goodwill to the U.S. Mailing segment.

On June 15, 2006, we acquired substantially all the assets of Advertising Audit Service and PMH Caramanning (collectively AAS) for approximately $42 million in cash. AAS offers a variety of web-based tools for the customization of promotional mail and marketing collateral and designs and manages customer and channel performance solutions. We assigned the goodwill to the Marketing Services segment.

On April 24, 2006, we acquired Ibis Consulting, Inc. (Ibis) for approximately $65 million in cash, net of cash acquired. Ibis is a leading provider of electronic discovery (eDiscovery) services to law firms and corporate clients. Ibis’ technology and offerings complement those of Compulit, which we acquired in 2005, and expands our range of solutions and services for the complex litigation support needs of law firms and corporate legal departments. We assigned the goodwill to the Management Services segment.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

On February 8, 2006, we acquired Emtex Ltd. (Emtex) for approximately $33 million in cash, net of cash acquired. Emtex is a software and services company that allows large-volume mailers to simplify document production and centrally manage complex multi-vendor and multi-site print operations. We assigned the goodwill to the Software segment.

During the six months ended June 30, 2007, we also completed several smaller acquisitions. The aggregate cost of these acquisitions was $44.3 million. These acquisitions did not have a material impact on our financial results.

Liquidity and Capital Resources

Our primary sources of liquidity and capital resources include cash flows from operating activities. Additionally, we have substantial borrowing capability through our commercial paper program, long-term capital markets and revolving credit line agreements. The primary factors that affect our liquidity position, other than operating results associated with current sales activity, include the following: growth and expansion requirements; customer financing assistance; federal income tax payments; interest and dividend payments; our stock repurchase program; internal investments; and potential acquisitions and divestitures.

Cash Flow Summary

The change in cash and cash equivalents is as follows:

(Dollars in thousands)	Six Months Ended June 30,			
		2007		2006
Cash provided by operating activities	**$**	**406,976**	$	396,345
Cash (used in) provided by investing activities		**(635,675)**		144,515
Cash provided by (used in) financing activities		**238,631**		(565,248)
Effect of exchange rate changes on cash		**2,933**		2,548
Increase (decrease) in cash and cash equivalents	**$**	**12,865**	$	(21,840)

2007 Cash Flows

Net cash provided by operating activities consisted primarily of net income adjusted for non-cash items and changes in operating assets and liabilities. The net increase in our deferred taxes on income and income taxes payable contributed $64.8 million to cash from operations resulting primarily from the timing of tax payments. The decrease in accounts payable and accrued liabilities reduced our cash from operations by $113.1 million, primarily due to the payment of year-end compensation and commissions, the timing of accounts payable following the strong fourth quarter of 2006, and restructuring payments during the first six months of 2007. The increase in our internal finance receivable balances decreased cash from operations by $55.9 million, reflecting growth in equipment placements and our payment solutions business during the first six months.

The net cash used in investing activities consisted primarily of acquisitions, net of cash acquired, of $522.5 million and capital expenditures of $128.4 million.

Net cash provided by financing activities consisted primarily of an increase in notes payable of $487.1 million partially offset by stock repurchases of $175.0 million and dividends paid to stockholders of $145.2 million.

2006 Cash Flows

The cash provided by operating activities consisted primarily of net income adjusted for non-cash items and changes in operating assets and liabilities. The increase in our internal finance receivable balances decreased cash from operations by $58.0 million, reflecting growth in equipment placements and our payment solutions business during the first six months. The decrease in accounts payable and accrued liabilities of $75.2 million was primarily due to the payment of year-end compensation and commissions and restructuring payments during the first six months of 2006.

Net cash provided by investing activities consisted of net proceeds of $281.7 million received from the sale of our Imagistics lease portfolio and an advance of $138.4 million against the cash surrender value of our COLI policies. Cash used in investing activities. consisted of capital expenditures of $162.4 million and acquisitions, net of cash acquired, of $158.0 million.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Net cash used in financing activities consisted of stock repurchases of $292.7 million, dividends paid of $143.3 million and a net reduction of debt of $173.4 million partially offset by proceeds from the issuance of stock of $44.1 million.

Capital Expenditures

During the first six months of 2007, capital expenditures included $62.3 million in net additions to property, plant and equipment and $66.1 million in net additions to rental equipment and related inventories compared with $65.4 million and $97 million, respectively, in the same period in 2006.

We expect capital expenditures for the full year of 2007 to be approximately the same as the prior year. These investments will also be affected by the timing of our customers' transition to digital meters.

Financings and Capitalization

We have a commercial paper program that provides short-term liquidity. Commercial paper remains a significant liquidity source. As of June 30, 2007, we have $983.6 million of outstanding commercial paper issuances. We have unused credit facilities of $1.5 billion which supports commercial paper issuances.

In addition to our borrowing capability under the unused credit facilities described above, we have $1.1 billion remaining available under the shelf registration statement filed in February 2005 with the SEC, permitting issuances of up to $2.5 billion in debt securities, preferred stock, preference stock, common stock, purchase contracts, depositary shares, warrants and units.

We believe our financing needs in short and long term can be met with cash generated internally, borrowing capacity from existing credit agreements, available debt issuances under existing shelf registration statements and our existing commercial paper program.

Recent Accounting Pronouncements

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

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157), to define how the fair value of assets and liabilities should be measured in more than 40 other accounting standards where it is allowed or required. In addition to defining fair value, the statement establishes a framework within GAAP for measuring fair value and expands required disclosures surrounding fair-value measurements. While it will change the way companies currently measure fair value, it does not establish any new instances where fair-value measurement is required. SFAS 157 defines fair value as an amount that a company would receive if it sold an asset or paid to transfer a liability in a normal transaction between market participants in the same market where the company does business. It emphasizes that the value is based on assumptions that market participants would use, not necessarily only the company that might buy or sell the asset. SFAS 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, with early adoption allowed. We are currently evaluating the impact of adopting this Statement.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of adopting this Statement.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Regulatory Matters

There have been no significant changes to the regulatory matters disclosed in our 2006 Annual Report on Form 10-K.

Forward-Looking Statements

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

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

Item 3: Quantitative and Qualitative Disclosures about Market Risk

There were no material changes to the disclosures made in the Annual Report on Form 10-K for the year ended December 31, 2006 regarding this matter.

Item 4: Controls and Procedures

Disclosure controls and procedures are designed to reasonably assure that information required to be disclosed in reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC□s rules and forms. Disclosure controls and procedures are also designed to reasonably assure that such information is accumulated and communicated to our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate to allow timely decisions regarding required disclosure.

Under the direction of our CEO and CFO, we evaluated our disclosure controls and procedures and internal control over financial reporting. The CEO and CFO concluded that our disclosure controls and procedures were effective as of June 30, 2007. In addition, no change in internal control over financial reporting occurred during the quarter ended June 30, 2007, that has materially affected, or is reasonably likely to materially affect, such internal control over financial reporting. It should be noted that any system of controls is based in part upon certain assumptions designed to obtain reasonable (and not absolute) assurance as to its effectiveness, and there can be no assurance that any design will succeed in achieving its stated goals. Notwithstanding this caution, the disclosure controls and procedures are designed to provide reasonable assurance of achieving their stated objectives, and the CEO and CFO have concluded that the disclosure controls and procedures are effective at that reasonable assurance level.

PART II. OTHER INFORMATION

Item 1: Legal Proceedings

This item updates the legal proceedings more fully described in our 2006 Annual Report on Form 10-K, filed March 1, 2007, and as updated in our Form 10-Q filed May 4, 2007.

In Ricoh Corporation et al. v. Pitney Bowes Inc. (United States District Court, District of New Jersey, filed November 26, 2002), the patent litigation where the company prevailed at trial, the court denied the parties□ post-trial motions. The Company expects that Ricoh will pursue an appeal. If so, the Company will need to pursue on appeal the issues on which it did not prevail at trial, even though the ultimate verdict was in our favor.

During the second quarter of 2007, the Judicial Panel on Multi-District Litigation consolidated the ten purported class actions filed against our subsidiary, Imagitas, Inc. alleging that the Imagitas DriverSource program violates the federal Drivers Privacy Protection Act (DPPA) before a single judge in the United States District Court for the Middle District of Florida. The cases are now jointly referred to as In re Imagitas, Inc., Drivers□ Privacy Protection Act Litigation, MDL Docket No. 1828. There have also been lawsuits filed against officials of the departments of motor vehicles in four of the states where the DriverSource program is active, Florida, Missouri, Minnesota and Ohio. The officials in states other than Florida are contesting the transfer of their cases and inclusion in the Multi-District Litigation. The pendency of these litigations, regardless of their ultimate merit, may have a negative effect on the future prospects of the DriverSource program.

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

Item 1A: Risk Factors

There were no material changes to the risk factors identified in the Annual Report on Form 10-K for the year ended December 31, 2006 regarding this matter.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

Repurchases of Equity Securities

We repurchase shares of our common stock under a systematic program to manage the dilution created by shares issued under employee stock plans and for other purposes. This program authorizes repurchases in the open market. We have not repurchased or acquired any other shares of our common stock during 2007 in any other manner.

In March 2006, our Board of Directors authorized $300 million for repurchases of outstanding shares of our common stock in the open market of which $141.2 million remained for future purchases at December 31, 2006. We repurchased 3.0 million shares during the six months ended June 30, 2007 under this program for a total price of $141.2 million. There are no further funds available under this authorization for the repurchase of outstanding shares.

In March 2007, our Board of Directors authorized the repurchase of up to an additional $300 million of our common stock in the open market. We repurchased 0.7 million shares during the six months ended June 30, 2007 under this program for a total price of $33.8 million, leaving $266.2 remaining for future repurchases.

The following table summarizes our share repurchase activity under active programs during the first six months of 2007:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of a publicly announced plan	Approximate dollar value of shares that may yet be purchased under the plan (in thousands)
March 2006 Program				
Balance carried forward				$ 141,199
January 2007	866,300	$47.88	866,300	$ 99,721
February 2007	451,850	$47.99	451,850	$ 78,035
March 2007	586,100	$45.78	586,100	$ 51,203
April 2007	518,700	$46.95	518,700	$ 26,849
May 2007	564,452	$47.57	564,452	$ 0
	2,987,402		2,987,402	
March 2007 Program				
March 2007	-	-	-	$ 300,000
April 2007	-	-	-	$ 300,000
May 2007	61,148	$47.57	61,148	$ 297,090
June 2007	661,054	$46.73	661,054	$ 266,199
	3 ,709,604		3,709,604	

Item 4: Submission of Matters to a Vote of Security Holders

The following matters were submitted to a vote of security holders during our annual meeting of stockholders held on May 14, 2007.

		Votes Cast For	Authority Withheld
1.	Election of Directors:		
	Linda G. Alvarado	193,951,119	6,113,048
	Ernie Green	196,475,930	3,588,235

John S. McFarlane	196,485,907	3,578,260
Eduardo R. Menascé	196,265,652	3,798,515

		For	Against	Abstentions	Broker Non-Votes
2.	Ratification of PricewaterhouseCoopers LLP as independent registered public accountants	195,064,481	3,675,183	1,324,503	0
3.	Proposal to approve the Pitney Bowes Inc. 2007 Stock Plan	154,532,086	22,446,624	1,816,758	0
4.	Proposal to approve Amendment to By-laws of Pitney Bowes Inc. to require majority vote to elect directors in an uncontested election	177,463,178	21,138,501	1,462,488	0

The following other directors continued their term of office after the annual meeting:

Michael J. Critelli
Anne Sutherland Fuchs
David L. Shedlarz
James H. Keyes
Murray D. Martin
Michael I. Roth
David B. Snow, Jr.
Robert E. Weissman

Item 5: Other Information

On May 14, 2007, the stockholders of Pitney Bowes Inc. (the "Company") approved the Pitney Bowes Inc. 2007 Stock Plan (the "2007 Plan") at the annual meeting of stockholders. The 2007 Plan has a term of seven years expiring on December 31, 2014. The selection of employee participants in the 2007 Plan, the level of participation of each participant and the terms and conditions of all awards will be determined by the board of directors or a committee designated by the board to administer the 2007 Plan. The board has delegated to the Executive Compensation Committee the discretionary authority to administer the 2007 Plan. The board has reserved a maximum of 15,000,000 shares for issuance pursuant to stock options, stock appreciation rights, restricted stock units and stock awards under the 2007 Plan. In addition, any shares associated with awards under the Pitney Bowes 2002 Stock Plan as of April 30, 2007 that cease to be subject to such awards (other than by reason of exercise or settlement of the awards to the extent they are exercised for or settled in vested and non-forfeitable shares) shall become available for issuance under the 2007 Plan. Of the maximum number of shares available for issuance under the 2007 Plan, no more than 7,500,000 shares may be issued pursuant to grants other than options or SARs in the aggregate during the term of the 2007 Plan. A maximum of 600,000 shares that are the subject of awards may be granted under the 2007 Plan to an individual during any calendar year. Any shares exchanged by a participant or withheld from a participant as full or partial payment to the company of the exercise price or the tax withholding upon exercise or settlement of an award and un-issued shares resulting from the settlement of stock appreciation rights in stock or net settlement of a stock option will not be returned to the number of shares available for issuance under the 2007 Plan. This description of the Plan is qualified in its entirety by reference to the actual Plan, which is filed as Exhibit 10.1 to this Form 10-Q and is hereby incorporated by reference.

Item 6: Exhibits

See Index of Exhibits.

Signatures

Pursuant to the requirements 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.

PITNEY BOWES INC.

August 6, 2007

/s/ B. P. Nolop
B. P. Nolop
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

/s/ S. J. Green
S. J. Green
Vice President Finance and
Chief Accounting Officer
(Principal Accounting Officer)

Index of Exhibits

Reg. S-K Exhibits	Description
(3)(ii)	Amended and Restated By-Laws
(10.1)	Pitney Bowes Inc. 2007 Stock Plan
(12)	Computation of ratio of earnings to fixed charges.
(31.1)	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
(31.2)	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
(32.1)	Section 1350 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(32.2)	Section 1350 Certification of Chief Financial Officer Pursuant Section 906 of the Sarbanes-Oxley Action of 2002.