

PITNEY BOWES INC /DE/  
Form 10-K  
February 21, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2013 Commission file number: 1-3579

PITNEY BOWES INC.

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

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

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

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

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check marks whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

As of June 30, 2013, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$2,962,474,793 based on the closing sale price as reported on the New York Stock Exchange.

Number of shares of common stock, \$1 par value, outstanding as of close of business on February 14, 2014: 202,535,480 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement to be filed with the Securities and Exchange Commission (the Commission) no later than 120 days after our fiscal year end and to be delivered to stockholders in connection with the Annual Meeting of Stockholders to be held May 12, 2014, are incorporated by reference in Part III of this Form 10-K.



PITNEY BOWES INC.  
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## PART I

### ITEM 1. BUSINESS

#### General

Pitney Bowes Inc. (we, us, our, or the company), was incorporated in the state of Delaware in 1920. We are a global provider of technology solutions helping small, mid-sized and large firms connect to customers to build loyalty and grow revenue. We deliver our solutions on open platforms to best organize, analyze and apply public and proprietary data to two-way customer communications. We offer solutions for direct mail, transactional mail, customer engagement management and analytics and e-commerce parcel management, along with digital channel messaging for the Web, email and mobile applications. We continue to develop and invest in products, software, services and solutions that help our clients grow their business by more effectively communicating with their customers across physical, digital and hybrid channels.

For more information about us, our products, services and solutions, visit [www.pb.com](http://www.pb.com). Also, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments thereto filed with, or furnished to, the Securities and Exchange Commission (the SEC), are available, free of charge, through the Investor Relations section of our website at [www.pb.com/investorrelations](http://www.pb.com/investorrelations) or from the SEC's website at [www.sec.gov](http://www.sec.gov), as soon as reasonably practicable after these reports are electronically filed with, or furnished to, the SEC. The other information found on our website is not part of this or any other report we file with or furnish to the SEC.

You may also read and copy any document we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549 or request copies of these documents by writing to the Office of Public Reference. Call the SEC at (800) 732-0330 for further information on the operations of the Public Reference Room and copying charges.

#### Our Strategy and Business Segments

Our current strategy is to focus on three critical areas: stabilizing the mailing business, achieving operational excellence and driving growth within our digital commerce solutions segment. During 2013, we sold our International Management Services business (PBMSi), North America Management Services business (PBMS NA), Nordic furniture business and International Mailing Services business (IMS). Further, we made certain organizational changes and realigned our business units to reflect how we manage, review, analyze and measure our operations. Our business is now organized around three distinct sets of solutions -- Small and Medium Business (SMB) Solutions, Enterprise Business Solutions and Digital Commerce Solutions. See Note 17 to the Consolidated Financial Statements for financial information concerning our reporting segments.

#### Small and Medium Business Solutions

Within SMB Solutions, we provide a full range of mailing equipment and postage meters, maintenance and support services and supplies that enable our clients to efficiently create mail and evidence postage. We segment our SMB Solutions business between our North America operations, comprising the U.S. and Canadian businesses, and our International operations. We are a leading provider of postage meters and have approximately one million meters installed in North America and over three-hundred thousand meters installed elsewhere.

We also offer numerous shipping management solutions that enable our clients to select the best carrier based on need and cost, improve delivery times, track packages in real-time and reduce transportation and logistics costs. In addition, we offer scalable global logistics management systems that can be integrated into mail centers, as well as desktop and production shipping environments.

In the United States, we offer our clients who rent or lease our mailing equipment and postage meters a variety of financing solutions. Through our wholly owned subsidiary, The Pitney Bowes Bank (the Bank), we offer a revolving credit solution that enables our clients to finance their postage costs and supply purchases. The Bank also provides a deposit solution to those clients that prefer to prepay postage and earn interest on their deposits. The Bank is chartered as an Industrial Bank under the laws of the State of Utah, and regulated by the Federal Deposit Insurance Corporation

(FDIC) and the Utah Department of Financial Institutions.

This business is characterized by a high level of recurring revenue driven by rental, lease and loan arrangements, contract maintenance services and supply sales.

#### Enterprise Business Solutions

Enterprise Business Solutions includes equipment and services that enable large enterprises to process inbound and outbound mail. We segment our Enterprise Business Solutions group between our Production Mail operations and Presort Services operations.

#### Production Mail

Our product and service offerings enable our clients to create high-value, relevant and timely communications targeted to their customers. The core products within this segment include high-speed, high-volume inserting equipment, customized sortation products and high-speed digital color printing systems. Inserting equipment folds mail pieces and inserts them into envelopes, while sorting equipment enables clients to sort high-volumes of mail by zip code and realize reduced postage costs.

With our high-speed digital color printing systems, we offer our clients a "White Paper Factory" solution. Our White Paper Factory solution is an end-to-end solution that allows our clients to start with a simple roll of white paper, create and print mail pieces, insert these mail pieces into envelopes formed from the roll of white paper, apply the appropriate postage to the envelope, and finally sort the envelopes by zip code and realize reduced postage costs. We have a strategic alliance with a major printing products company to offer our clients high-volume professional quality production printers.

#### Presort Services

We are a national outsource provider of mail presort services for first-class and standard-class mail in the U.S. and a workshare partner of the United States Postal Service (USPS). Our Presort Services network provides mailers with end-to-end solutions from pick up at their location to delivery into the postal system. Approximately 90 billion pieces of U.S. first-class, standard-class and flat mail are processed annually by third-parties like us and through in-house operations. Through our network of 33 U.S. locations, and with our fully-customized proprietary technology, we process approximately nearly 15 billion pieces of mail annually and are able to expedite mail delivery and optimize postage savings for our clients. Our client volumes represent less than 25% of all automated first-class, standard-class and flat mail.

#### Digital Commerce Solutions

Within Digital Commerce Solutions (DCS), we provide a broad range of software solutions, customer engagement and communication solutions, data management products and solutions, e-commerce parcel management solutions and targeted direct marketing programs. Our digital commerce solutions are primarily delivered as traditional software licenses, enterprise platforms, software-as-a-service (SaaS) and on-demand applications.

Our software solutions integrate data quality, geocoding, location intelligence and predictive analytics into every-day workflows and business systems. Our location intelligence solutions enable our clients to organize and understand the complex relationships between geographic and other forms of data to drive business decisions. Our products and solutions use predictive analytics, geographic and socio-demographic characteristics of a consumer base or network to enable our clients to gain a more complete and accurate view of its business and more efficiently manage operations and drive revenue. Our robust, single-source global geocoding and reverse geocoding technologies cover more than 200 countries.

Our customer engagement solutions offer our clients a pathway to customer engagement creating value at every step and every touch point. With our customer engagement solutions, our clients can create, manage and control wide-spread customer communications in a coordinated, consistent and efficient manner. Coupled with our high-speed, high-volume inserting equipment, sortation products and digital printing systems, we are able to provide our clients an all-inclusive solution that enables them to create, print and distribute wide-spread targeted customer communications. Our solutions enable our clients to create positive connected experiences that positively influence future consumer behavior and generate stronger revenue growth and profits.

Our data management products and solutions, including our postal compliant address quality products, help companies harness and deliver a deep and broad understanding of their customers and their context, such as location, relationships, propensity, sentiment and influence. The trusted data and associated insights are crucial for supporting critical business needs such as personalized customer experience, managing risk and compliance, and improving sales, marketing and service effectiveness. We are one of the market leaders in the data quality segment with large corporations and government agencies deploying our products in very complex, high-volume, transactional environments to support their mission-critical business processes.

International markets for e-commerce trade are experiencing significant growth; however, shipping and tracking parcels cross borders have significantly higher shipping fees, import/export fees, duties, taxes and brokerage fees, strict regulations and restrictions, parcel tracking issues and complex customs documentation. For most merchants, determining the full costs to ship a parcel internationally can be difficult and uncertain, and often results in additional

costs being charged to the buyer upon delivery or those additional costs being borne by the merchant.

Our cross-border e-commerce software platform is currently utilized by over 20 merchants enabling millions of transactions, providing virtually immediate commodity classifications and total landed cost calculations. We offer a suite of services that leverage this platform and our expertise in shipping management to enable merchants to accurately calculate the total costs to ship a parcel internationally, comply with all import/export complexities, restrictions, regulations and documentation requirements and provide reliable tracking information. We will continue to invest in our platform to enhance existing solutions, provide additional solutions and meet evolving client needs and expectations to capture this growth opportunity.

We offer targeted direct and digital marketing programs to large advertisers that enable them to connect with movers. Through a contract with the USPS, we produce a "Movers' Guide" in both printed and digital format with targeted advertisers' coupons that is available to movers when they complete a change of address form and a "Welcome Kit" with targeted advertisers' coupons that is delivered to movers

at their new address shortly after they move. We also offer digital advertising programs through MyMove.com, a move related web-site we own and operate.

Our digital mail delivery services include an interactive digital communications exchange in which businesses can communicate with consumers about important transactions via a variety of participating channels.

#### Support Services

We have a client care service organization of over 2,000 service technicians in North America and 900 service technicians internationally. Our technicians diagnose and repair our increasingly complex mailing equipment and sophisticated software solutions. Most of our support services are provided under annual maintenance contracts.

#### Sales and Marketing

We have begun implementing a phased roll-out of our new "go-to-market" strategy in our SMB businesses designed to improve the sales process and reduce costs by providing our clients broader access to products and services through online and direct sales channels. We also market our products and services through our sales force, direct mailings, outbound telemarketing and independent distributors. We sell to a variety of business, governmental, institutional and other organizations. We have a broad base of clients and we are not dependent upon any one client or type of client for a significant part of our total revenue.

#### Competition

All of our businesses face competition from a number of companies. Our competitors range from large, multinational companies that compete against many of our businesses to smaller, more narrowly focused regional and local firms. We compete on the basis of technology and innovation; breadth of product offerings; our ability to design and tailor solutions to specific client needs; performance; client service and support; price; quality and brand.

We must continue to invest in our current technologies, products and solutions, and in the development of new technologies, products and solutions in order to maintain and improve our competitive position. As we transition to higher value markets and offerings, and enter new markets, we will encounter new competitors.

A summary of the competitive environment for our business segments is as follows:

#### Small & Medium Business Solutions

We are a global market leader in postage meter placements. In addition to competition from other mail machine companies, we face competition from companies that offer products and services as alternative means of message communications. The principal competitive factors in these markets include price, product reliability, support services, industry knowledge and expertise and attractiveness of alternative communication methods. Our competitive advantage includes our breadth of product offerings, our innovative web-based digital products, customer service and our extensive knowledge of the mailing industry.

#### Enterprise Business Solutions

##### Production Mail

We face competition from a small number of companies that offer large production printers, inserters or sorters, but only a few companies are able to offer all of these products and integrate them into an end-to-end solution. We also face competition for support services from outsource providers. The principal competitive factors in this business segment include functionality, reliability, productivity, price and support. We believe we have a competitive advantage as our equipment provides a wider range of features and functionality and greater productivity than our competitors, which drives a higher investment return for our clients.

#### Presort Services



We are a significant third-party presort service provider in the United States and the only provider with a national network. We primarily face competition from smaller regional and local presort providers. We also compete for the business of some large entities which have the capability to presort their own mailings in-house, but these businesses generally do not compete directly with us for additional business and volumes. The principal competitive factors in this segment include innovative service, delivery speed, industry experience and expertise and economies of scale. Our competitive advantage includes our extensive network, size of our presort facilities and our innovative and proprietary technology that enables us to provide our clients with reliable and accurate services at maximum discounts.

### Digital Commerce Solutions

The Digital Commerce Solutions segment operates in several highly competitive and rapidly evolving markets. We face competition from large global companies that offer a broad range of solutions to smaller, more narrowly-focused companies that can design very targeted solutions. The principal competitive factors in this segment include reliability, functionality and ease of use, scalability, innovation, support services and price. We compete in this segment based on the accuracy and processing speed of our solutions, particularly those used in our location intelligence and e-commerce parcel management solutions. The breadth and scalability of our products and solutions, our single-sourced geocoding and reverse geocoding capabilities and our ability to identify rapidly changing customer needs and requirements and develop technologies and solutions to meet these changing needs and requirements are also key factors.

Our direct marketing services products compete for a portion of our clients' overall marketing budget by demonstrating the value of our products and services relative to other marketing programs available to our advertising clients.

### Customer Financing

We offer a variety of finance and payment solutions to our clients to finance their equipment and product purchases, rental and lease payments, postage replenishment and supplies purchases. We establish credit approval limits and procedures based on the credit quality of the client and the type of product or service provided to control risk in extending credit to clients. In addition, we utilize an automatic approval program for certain leases. This program is designed to facilitate low dollar transactions by utilizing historical payment patterns and losses realized for clients with common credit characteristics. The program defines the criteria under which we will accept a client without performing a more detailed credit investigation, such as maximum equipment cost, a client's time in business and payment experience.

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

We provide financing solutions to our clients through the Bank. The Bank's key product offering, Purchase Power, is a revolving credit solution, which enables clients to rent, lease or purchase products, supplies and services. The Bank also provides a deposit solution to those clients that prefer to prepay postage and earn interest on their deposits. The Bank is regulated by the Federal Deposit Insurance Corporation (FDIC) and the Utah Department of Financial Institutions. The Bank's assets consist primarily of cash, finance receivables and investments and liabilities consist primarily of deposit accounts. At December 31, 2013 and December 31, 2012, the Bank had assets of \$779 million and \$796 million, respectively, and liabilities of \$734 million and \$733 million, respectively.

Our financing operations face competition, in varying degrees, from large, diversified financial institutions, including leasing companies, commercial finance companies and commercial banks, to small, specialized firms.

### Research, Development and Intellectual Property

We invest in research and development programs to develop new products and service offerings and deliver high value technology, innovative software and differentiated services in high value segments of the market. We will continue to invest a substantial percentage of our total research and development budget in the growth areas of our business to develop, among other things, new customer engagement, location intelligence and e-commerce cross-border parcel management solutions. Our expenditures for research and development were \$110 million, \$114 million and \$129 million in 2013, 2012 and 2011, respectively.

As a result of our research and development efforts, we have been awarded a number of patents with respect to several of our existing and planned products. We do not believe our businesses are materially dependent on any one patent or license or any group of related patents or group of related licenses.

**Material Suppliers**

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

**Regulatory Matters**

We are subject to the regulations of postal authorities worldwide related to product specifications and business practices involving our postage meters.

### Employees and Employee Relations

At December 31, 2013, we have approximately 11,400 employees in North America and 4,700 employees internationally. We believe that our current relations with employees are good. Management follows the policy of keeping employees informed of decisions and encourages and implements employee suggestions whenever practicable.

### Executive Officers of the Registrant

Our executive officers are as follows:

Name	Age	Title	Executive Officer Since
Marc B. Lautenbach	52	President and Chief Executive Officer	2012
Daniel J. Goldstein	52	Executive Vice President and Chief Legal and Compliance Officer	2010
Abby F. Kohnstamm	60	Executive Vice President and Chief Marketing Officer	2013
Michael Monahan	53	Executive Vice President and Chief Financial Officer	2005
Roger J. Pilc	46	Executive Vice President and Chief Innovation Officer	2013
Mark Shearer	57	Executive Vice President and President, Pitney Bowes SMB Mailing Solutions	2013
Johnna G. Torson	63	Executive Vice President and Chief Human Resources Officer	1993
Mark F. Wright	58	Executive Vice President and President, Pitney Bowes Digital Commerce Solutions	2013

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

Mr. Lautenbach was appointed President and Chief Executive Officer of the Company in December 2012. Before joining Pitney Bowes, Mr. Lautenbach held numerous positions during his career at IBM, which he joined in 1985. His leadership roles at IBM included serving as Vice President Small and Medium Business in Asia Pacific from 1998-2000, General Manager of IBM Global Small and Medium Business from 2000-2005, General Manager of IBM North America from 2005-2010, and Managing Partner, North America, for IBM Global Business Services.

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

Ms. Kohnstamm joined the Company as Executive Vice President and Chief Marketing Officer in June 2013. Before joining Pitney Bowes, Ms. Kohnstamm served as President of Abby F. Kohnstamm & Associates, Inc., a marketing and consulting firm.

Mr. Pilc joined the Company as Executive Vice President and Chief Innovation Officer in June 2013. Before joining Pitney Bowes, Mr. Pilc served as General Manager at CA Technologies, where he was responsible for the company's Industries, Solutions and Alliances unit.

Mr. Shearer joined the Company as Executive Vice President and President, Pitney Bowes SMB Mailing Solutions in April 2013. Before joining Pitney Bowes, Mr. Shearer held numerous positions during his 30 year career at IBM, including general management, business and product strategy, and marketing. Before his retirement from IBM in

2010, Mr. Shearer served as Vice President, Marketing and Strategy for IBM's \$20 billion hardware business.

Mr. Wright joined the Company as Executive Vice President and President, Pitney Bowes Software Solutions in April 2013. On February 10, 2014, the board of directors elected him to the office of Executive Vice President and President, Pitney Bowes Digital Commerce Solutions. Before joining Pitney Bowes, Mr. Wright served as Executive Vice President, Enterprise Solutions Group, Information Global Solutions, leading 15 business units with \$512 million in revenues.

## ITEM 1A. RISK FACTORS

In addition to the disclosures and other information discussed in this report, the following risk factors should be considered in evaluating our business. We manage and mitigate these risks on a proactive basis, including through the use of an enterprise risk management program. Nevertheless, the following risk factors, some of which may be beyond our control, could materially impact our business, financial condition, results of operations, brand and reputation, and may cause future results to be materially different than our current expectations. These risk factors are not intended to be all inclusive.

We are subject to postal regulations and processes, which could adversely affect our revenue and profitability. The majority of our revenue is directly or indirectly subject to regulation and oversight by postal authorities worldwide. We depend on a healthy postal sector in the geographic markets where we do business, which could be influenced positively or negatively by legislative or regulatory changes in those countries. Our profitability and revenue in a particular country could be affected by adverse changes in postal regulations, the business processes and practices of individual posts, the decision of a post to enter into particular markets in direct competition with us and the impact of any of these changes on postal competitors that do not use our products or services. These changes could affect product specifications, service offerings, client behavior and the overall mailing industry. Further, if we are found to have violated postal regulations, we could be subject to fines or civil or criminal penalties.

If we are not successful at addressing the challenges that face our mailing business as we transition to more digital offerings and other services, our results of operations and profitability could be adversely impacted. The volume of physical mail delivered via traditional postal services has been declining and is projected to continue to decline through the end of the decade. The historical decline in mail volumes has had an adverse impact on our revenues and profitability and is expected to continue to influence our revenue and profitability in the future. We have embarked upon a set of new strategies to stabilize our mailing business by providing our clients broader access to products and services through online and direct sales channels, the introduction of new products and services and the transition of our current products and services to more digital offerings, while implementing cost efficiencies in our sales support processes. The margins associated with these digital offerings are typically lower than our traditional mailing business and there is no guarantee that these offerings will be widely accepted in the marketplace. Further, if they are accepted, they will face competition from existing and emerging alternative products and services. Even if the above strategies are successful at stabilizing our mailing business, an accelerated or sudden decline in physical mail volumes could have an adverse effect on our mailing business. An accelerated or sudden decline could result from, among other things, changes in our clients' communication behavior, changes in communications technologies or legislation or regulations that mandate electronic substitution, prohibit certain types of mailings, increase the difficulty of using information or materials in the mail, or impose higher taxes or fees on mailing or postal services.

If we are not successful at implementing the strategies to stabilize our mailing business, or if physical mail volumes were to experience an accelerated or sudden decline, our client base, market share and financial results could be negatively impacted.

We may not be successful in the development, marketing and sales of our digital commerce solutions products, which could adversely affect our revenues and profitability.

We are executing on a strategy to grow revenue significantly in our Digital Commerce Solutions segment, including allocating a significant percentage of our total research and development budget to this segment to develop, among other things, new customer engagement, location intelligence and e-commerce cross-border parcel management solutions. The process of developing new technologies, products and solutions can be costly and uncertain, and if we are not successful at identifying rapidly changing customer needs and developing new technologies and solutions to meet these needs at competitive prices, our revenue and profitability could be adversely affected.

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

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

Capital market disruptions and credit rating downgrades could adversely affect our ability to provide financing services to our clients and to fund various discretionary priorities, including business investments, acquisitions and dividend payments.

Our continued ability to provide financing services to our clients for equipment, postage and supplies purchases to our clients is largely dependent upon our continued access to the U.S. capital markets. We are currently funding our financing activities with a combination of cash generated from operations, deposits held in the Bank and commercial paper and other borrowings. Our ability to access the U.S. capital markets and the cost associated with our funding activities is dependent on our credit ratings and market volatility.

A credit ratings downgrade, material capital market disruptions, significant withdrawals by depositors at the Bank, adverse changes to our industrial loan charter or a significant decline in cash flow could impact our ability to provide competitive finance offerings to our clients. In addition, if such events occurred, there can be no assurance that liquidity funding sources would be available or sufficient and that related costs would not adversely impact our ability to fund various discretionary priorities, including business investments, acquisitions and dividend payments.

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

Several of our businesses use, process and store proprietary information and confidential data relating to our businesses, clients and employees. Privacy laws and similar regulations in many jurisdictions where we do business, as well as contractual provisions, require that we take significant steps to safeguard this information. These laws are continuing to evolve. We have security systems and procedures in place designed to protect against unauthorized access to such information. However, there is no guarantee that experienced computer programmers or hackers will not be able to breach our security systems and misappropriate confidential information. Any significant violations of data privacy, disclosure of other confidential information or failure to comply with any of these laws, regulations or contract provisions could damage our reputation and business and subject us to significant costs and/or liability. In addition, the cost and operational consequences of implementing further data protection measures could be significant.

A disruption of our information technology systems could adversely impact our business and operating results. The continuous and uninterrupted performance of our information technology systems is critical to our ability to support and service our clients, to support postal services and to manage our business. We maintain secure systems to collect revenue for certain postal services, which is critical to enable both our systems and the postal systems to run reliably. In addition, we rely extensively on our computer systems to manage our business. These systems are subject to adverse acts of nature, targeted or random security breaches, cyber-attacks, computer viruses, vandalism, power loss, computer or communications failures and other unexpected events. Although we have disaster recovery plans in place to protect our business operations in case of such events, those plans may not be successful. If our information technology systems are damaged or cease to function properly, we could be prevented from fulfilling orders and servicing clients and postal services. Also, we may have to make a significant investment to repair or replace these systems, and could suffer loss of critical data and interruptions or delays in our operations.

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

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

We may not realize the anticipated benefits of strategic acquisitions and divestitures, which may harm our financial results.



As we increase our focus towards providing more digital technology and software solutions while maintaining a leadership role in the mailing industry, we may divest certain businesses or make strategic acquisitions. These divestitures and acquisitions may involve significant risks and uncertainties, which could have an adverse effect on our operating results, including:

- the loss of key employees or clients of businesses acquired or divested;
- significant charges to earnings for employee severance and other restructuring costs, goodwill and asset impairments and legal, accounting and financial advisory fees;
- difficulties in achieving anticipated benefits or synergies from acquisitions and divestitures;
- difficulties in integrating newly acquired businesses and operations, including combining product and service offerings and entering new markets, or reducing fixed costs previously associated with divested assets or businesses; and
- difficulties in identifying and separating intellectual property to be divested from intellectual property we wish to keep.

If we are not successful at realizing the anticipated benefits of strategic acquisitions and divestitures, our financial results could be negatively impacted.

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

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

Our operations expose us to the risk of material environmental liabilities, litigation and violations.

We are subject to various federal, state, local and foreign environmental protection and health and safety laws governing, among other things:

- the generation, storage, use and transportation of hazardous materials;
- emissions or discharges of substances into the environment;
- the cleanup of contaminated sites;
- substances that may be subject to regulation in the manufacture, distribution, use or disposal of our products; and
- the health and safety of our employees.

Environmental laws are complex, change frequently and have tended to become more stringent over time. If we are found to have violated these laws, we could be fined, criminally charged or otherwise sanctioned by regulators. In addition, private parties could bring personal injury or other claims due to the presence of, or exposure to, hazardous substances. Certain environmental laws can assess liability on contaminated sites retroactively, on a joint and several basis, and without any finding of noncompliance or fault. From time to time, we may be involved in litigation over these issues. The amount and timing of costs under environmental laws are difficult to predict and there can be no assurance that these costs will not materially adversely affect our financial condition, results of operations or cash flows.

We may not realize the anticipated benefits from our planned implementation of a new Enterprise Resource Planning (ERP) system.

We will begin implementing a new ERP system in 2014. The implementation will occur in stages and is expected to provide operating cost savings through the elimination of redundant systems and strategic efficiencies through the use of a standardized, integrated system. We will make a significant investment and incur incremental expenses over the course of the implementation of this ERP system. If the implementation of the system is not successful, the operating cost savings and strategic efficiencies may not be obtained or sustainable.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We own or lease numerous facilities worldwide, which house general offices, sales offices, service locations, data centers and call centers. We conduct research and development, manufacturing and assembly, product management, IT and many other activities at our Global Technology Center located in Danbury, Connecticut. We also have research and development facilities located in Noida, India and Pune, India.

Our corporate headquarters is located in a building that we own in Stamford, Connecticut. In the third quarter of 2013, we entered into an agreement to sell this building. We will lease a smaller corporate headquarters in Stamford, Connecticut and relocate many of our employees to other facilities located in the Connecticut area by mid-2014. Management believes that our facilities are well maintained, are in good operating condition and are suitable and adequate for our current business needs.

ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of business, we are routinely defendants in,