PITNEY BOWES INC /DE/
Form 10-K
February 28, 2011

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, 2010 Commission file number: 1-3579

PITNEY BOWES INC.

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

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

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

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

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

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

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

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

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

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

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ

As of June 30, 2010, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was $4,566,444,000 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 15, 2011: 203,785,248 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s proxy statement to be filed with the Securities and Exchange Commission (the Commission) on or before March 31, 2011 and to be delivered to stockholders in connection with the 2011 Annual Meeting of Stockholders to be held May 9, 2011, are incorporated by reference in Part III of this Form 10-K.

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PITNEY BOWES INC.
PART I

ITEM 1. BUSINESS

General

Pitney Bowes Inc. was incorporated in the state of Delaware on April 23, 1920, as the Pitney Bowes Postage Meter Company. Today, Pitney Bowes Inc. is a provider of mail processing equipment and integrated mail solutions. We offer a full suite of equipment, supplies, software, services and end-to-end solutions which enable our customers to manage and integrate physical and digital communication channels. Our growth strategies focus on leveraging our historic leadership in physical communications with our expanding capabilities in digital and hybrid communications. We see long-term opportunities in delivering products, software, services and solutions that help customers grow their business by more effectively managing their physical and digital communications with their customers. In this report, the terms we, us, our, or Company are used to refer collectively to Pitney Bowes Inc. and its subsidiaries.

For more information about us, our products, services and solutions, visit 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 or exhibits to those reports are available, free of charge, through the Investor Relations section of our website at www.pb.com/investorrelations, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission (the SEC). The information found on our website is not part of this or any other report we file with or furnish to the SEC.

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

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

Business Segments

We conduct our business activities in seven reporting segments within two business groups, Small & Medium Business Solutions and Enterprise Business Solutions, based on the customers they primarily serve. We are a global company with operations in the United States and internationally. See Note 18 to the Consolidated Financial Statements for financial information concerning our reporting segments and the geographic areas in which we operate. The principal products and services of each of our reporting segments are as follows:

Small & Medium Business Solutions:

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

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

Enterprise Business Solutions:

Production Mail: Includes the worldwide revenue and related expenses from the sale, support and other professional services of our high-speed, production mail systems, sorting and production print equipment.

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

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

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

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

Support Services

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

Marketing

We market our products and services through our sales force, direct mailings, outbound telemarketing and independent distributors and dealers. We sell to a variety of business, governmental, institutional and other organizations. We have a broad base of customers, and we are not dependent upon any one customer or type of customer for a significant part of our revenue. We do not have significant backlog or seasonality relating to our businesses.

Credit Policies

We establish credit approval limits and procedures based on the credit quality of the customer and the type of product or service provided to control risk in extending credit to customers. In addition, we utilize an automatic approval program for certain leases within our internal financing operations. This program is designed to facilitate low dollar transactions by utilizing historical payment patterns and losses realized for customers with common credit characteristics. The program defines the criteria under which we will accept a customer without performing a more detailed credit investigation, such as maximum equipment cost, a customer s time in business and payment experience.

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

Competition

We are a leading supplier of products and services in the large majority of our business segments. Our meter base and our continued ability to place and finance meters in key markets is a significant contributor to our current and future revenue and profitability. However, all of our segments face competition from a number of companies. In particular, we face competition from products and services offered as alternative means of message communications and for new placements of mailing equipment from other postage meter and mailing machine suppliers, and all of our mailing products, services and software face competition. As we expand our activities in managing and integrating physical and digital communications we will face competition from other companies looking to digitize mail, as well as those providing on-line payment services. Leasing companies, commercial finance companies, commercial banks and other financial institutions compete, in varying degrees, in the markets in which our finance operations do business. Our competitors range from very large, diversified financial institutions to many small, specialized firms. We offer a complete line of products and services as well as a variety of finance and payment offerings to our customers. We finance the majority of our products through our captive financing business and we are a major provider of business services to the corporate, financial services, professional services and government markets, competing against national, regional and local firms specializing in facilities and document management throughout the world.

We believe that our long experience and reputation for product quality, and our sales and support service organizations are important factors in influencing customer choices with respect to our products and services.

Research, Development and Intellectual Property

We make significant investments in research and development operations. We have many research and development programs that are directed toward developing new products and service offerings. As a result of our research and development efforts, we have been awarded a number of patents with respect to several of our existing and planned products. We do not believe our businesses are materially dependent on any one patent or any group of related patents or on any one license or any group of related licenses. Our expenditures for research and development were $156 million, $182 million and $206 million in 2010, 2009 and 2008, respectively.

Material Suppliers

We depend on third-party suppliers for a variety of services, components, supplies and a large portion of our product manufacturing. We believe we have adequate sources for our purchases of materials, components, services and supplies for products that we manufacture or assemble.

Regulatory Matters

We are subject to the regulations of postal authorities worldwide, related to product specifications and business practices involving our postage meters. From time to time, we will work with these governing bodies to help in the enhancement and growth of mail and the mail channel. See Legal Proceedings in Item 3 of this Form 10-K.

Employees and Employee Relations

At December 31, 2010, we employed approximately 21,600 persons in the U.S. and 9,100 persons outside the U.S. The large majority of our employees are not represented by any labor union, and we believe that our current relations with employees are good. Management follows the policy of keeping employees informed of decisions, and encourages and implements employee suggestions whenever practicable.

Executive Officers

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

ITEM 1A. RISK FACTORS

In addition to other information and risk disclosures contained in this Form 10-K, the risk factors discussed in this section should be considered in evaluating our business. We work to manage and mitigate these risks proactively, including through our use of an enterprise risk management program. In our management of these risks, we also evaluate the potential for additional opportunities to mitigate these risks. Nevertheless, the following risks, some of which may be beyond our control, could materially impact our brand and reputation or results of operations or could cause future results to differ materially from our current expectations:

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

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

An accelerated decline in the use of physical mail could adversely affect our business.

Changes in our customers communication behavior, including changes in communications technologies, could adversely impact our revenue and profitability. Accelerated decline in physical mail could also result from government actions such as executive orders, legislation or regulations that mandate electronic substitution, prohibit certain types of mailings, increase the difficulty of using information or materials in the mail, or impose higher taxes or fees on mailing or postal services. While we have introduced various product and service offerings as alternatives to physical mail, we face competition from existing and emerging products and services that offer alternative means of communication, such as email and electronic document transmission technologies. An accelerated increase in the acceptance of electronic delivery technologies or other displacement of physical mail could adversely affect our business.

Reduced confidence in the mail system could impact our mail volume.

Unexpected events such as the transmission of biological or chemical agents, or acts of terrorism could have a negative effect on customer confidence in a postal system and as a result adversely impact mail volume. An unexpected and significant interruption in the use of the mail could adversely affect our business.

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

We depend on third-party suppliers for a variety of services, components, supplies and a 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. If production or service was interrupted and we were not able to find alternate suppliers, we could experience disruptions in manufacturing and operations including product shortages, higher freight costs, and re-engineering costs. This could result in our inability to meet customer demand, damage our reputation and customer relationships and adversely affect our business.

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

We provide financing services to our customers for equipment, postage, and supplies. Our ability to provide these services is largely dependent upon our continued access to the U.S. capital markets. An additional source of liquidity for the company consists of deposits held in our wholly-owned industrial loan corporation, Pitney Bowes Bank (the Bank). A significant credit ratings downgrade, material capital market disruptions, significant withdrawals by depositors at the Bank, or adverse changes to our industrial loan charter could impact our ability to maintain adequate liquidity, and impact our ability to provide competitive offerings to our customers.

A portion of our total borrowings has been issued in the commercial paper markets. Although we continue to have unencumbered access to the commercial paper markets, there can be no assurance that such markets will continue to be a reliable source of short-term financing for us. If market conditions deteriorate, there may be no assurance that other funding sources would be available or sufficient.

We may not realize anticipated benefits from our Strategic Transformation.

In 2009, we announced that we were embarking on an initiative called Strategic Transformation, a program focusing on how we improve the way we go to market and how we interact with our customers while also reducing the company s cost structure to make it more flexible. The initiatives are aimed at optimizing our cost structure and efficiency through new system implementation, outsourcing programs, and headcount reduction. If our new system implementation or outsourcing programs are not successful, the savings from Strategic Transformation may not be sustainable.

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

Several of our services and financing businesses use, process and store customer information that could include confidential, personal or financial information. We also provide third party benefits administrators with access to our employees personal information. Privacy laws and similar regulations in many jurisdictions where we do business, as well as contractual provisions, require that we and our benefits administrators take significant steps to safeguard this information. Failure to comply with any of these laws, regulations or contract provisions could adversely affect our reputation and business and subject us to significant liability.

The failure of our information technology systems could adversely impact our operating results.

Our portfolio of product, service and financing solutions increases our dependence on information technologies. We maintain a secure system to collect revenue for certain postal services, which is critical to enable both our systems and the postal systems to run reliably. The continuous and uninterrupted performance of our systems is critical to our ability to support and service our customers and to support postal services. Although we maintain back-up systems, these systems could be damaged by acts of nature, power loss, telecommunications failures, computer viruses, vandalism and other unexpected events. If our systems were disrupted, we could be prevented from fulfilling orders and servicing customers and postal services, which could have an adverse effect on our reputation and business.

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

We 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, or our suppliers, may be subject to third-party claims of infringement on intellectual property rights. These claims, if successful, may require us to redesign affected products, enter into costly settlement or license agreements, pay damage awards, or face a temporary or permanent injunction prohibiting us from marketing or selling certain of our products.

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of business, we are routinely defendants in or party to a number of pending and threatened legal actions. These may involve litigation by or against us relating to, among other things, contractual rights under vendor, insurance or other contracts; intellectual property or patent rights; equipment, service, payment or other disputes with customers; or disputes with employees. Some of these actions may be brought as a purported class action on behalf of a purported class of employees, customers or others.

Our wholly-owned subsidiary, Imagitas, Inc., is a defendant in several purported class actions initially filed in five different states. These lawsuits have been coordinated in the United States District Court for the Middle District of Florida, In re: Imagitas, Driver s Privacy Protection Act Litigation (Coordinated, May 28, 2007). Each of these lawsuits alleges that the Imagitas DriverSource program violates the federal Drivers Privacy Protection Act (DPPA). Under the DriverSource program, Imagitas entered into contracts with state governments to mail out automobile registration renewal materials along with third party advertisements, without revealing the personal information of any state resident to any advertiser. The DriverSource program assisted the state in performing its governmental function of delivering these mailings and funding the costs of them. The plaintiffs in these actions were seeking statutory damages under the DPPA. On December 21, 2009, the Eleventh Circuit Court affirmed the District Court s summary judgment decision in Rine, et al. v. Imagitas, Inc. (United States District Court, Middle District of Florida, filed August 1, 2006), which ruled in Imagitas favor and dismissed that litigation. That decision is now final, with no further appeals available. With respect to the remaining state cases, Imagitas filed its motion to dismiss these cases on October 8, 2010. Plaintiff s opposition brief was filed on December 6, 2010, and Imagitas filed its reply brief on December 22, 2010. Although the plaintiffs are still contending that the cases filed in Ohio and Missouri can proceed, they have admitted in their response that the reasoning in the Rine decision does require that actions based on Minnesota and New York laws be dismissed. We are awaiting a decision by the District Court on the motion to dismiss.

On October 28, 2009, the Company and certain of its current and former officers were named as defendants in NECA-IBEW Health & Welfare Fund v. Pitney Bowes Inc. et al., a class action lawsuit filed in the U.S. District Court for the District of Connecticut. The complaint asserts claims under the Securities Exchange Act of 1934 on behalf of those who purchased the common stock of the Company during the period between July 30, 2007 and October 29, 2007 alleging that the Company, in essence, missed two financial projections. Plaintiffs filed an amended complaint on September 20, 2010. On December 3, 2010, defendants moved to dismiss the complaint. Oral argument on that motion is scheduled for April 15, 2011.

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

ITEM 4. (REMOVED AND RESERVED)

PART II

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

Pitney Bowes common stock is traded under the symbol PBI . The principal market is the New York Stock Exchange (NYSE). Our stock is also traded on the Boston, Chicago, Philadelphia, Pacific and Cincinnati stock exchanges. At January 31, 2011, we had 21,844 common stockholders of record.

The following table sets forth, for the periods indicated, the high and low sales prices, as reported on the NYSE, and the cash dividends paid per share of common stock.

	Stock Price		Dividend
	High	**Low**	**Per Share**
For the year ended December 31, 2010			
First Quarter	**$ 24.76**	**$ 20.80**	**$ 0.365**
Second Quarter	**$ 26.00**	**$ 21.28**	**0.365**
Third Quarter	**$ 25.00**	**$ 19.06**	**0.365**
Fourth Quarter	**$ 24.79**	**$ 21.19**	**0.365**
			$ 1.46
For the year ended December 31, 2009			
First Quarter	$ 27.46	$ 17.62	$ 0.36
Second Quarter	$ 26.25	$ 20.71	0.36
Third Quarter	$ 25.57	$ 20.38	0.36
Fourth Quarter	$ 26.41	$ 22.44	0.36
			$ 1.44

In February 2011, our Board of Directors authorized a half-cent increase in our quarterly common stock dividend to $0.37 per share, marking the 29th consecutive year that we have increased the dividend on our common stock. This represents a one percent increase and applies to the common stock dividend with a record date of February 18, 2011. We expect to continue to pay quarterly cash dividends. There are no material restrictions on our ability to declare dividends.

See Equity Compensation Plan Information Table in Item 12 of this Form 10-K for information regarding securities for issuance under our equity compensation plans.

Share Repurchases

We periodically repurchase shares of our common stock to manage the dilution created by shares issued under employee stock plans and for other purposes in the open market. In May 2010, the Board of Directors approved an expansion of our share repurchase authorization to $150 million. During 2010, we repurchased 4.7 million shares at a total cost of $100 million and at December 31, 2010, had $50 million of authorization remaining under this program. The following table summarizes our share repurchase activity under active programs during 2010. There were no share repurchases during the fourth quarter of 2010.

	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)

Beginning balance				$	150,000
July 2010	1,248,943	$	23.39	1,248,943	$	120,786
August 2010	1,770,826	$	20.21	1,770,826	$	85,000
September 2010	1,667,535	$	20.99	1,667,535	$	50,000
	4,687,304	$	21.33	4,687,304		

In February 2011, our Board of Directors approved an increase of $100 million in our share repurchase authorization to $150 million.

Stock Performance Graph

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

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

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

All information is based upon data independently provided to us by Standard & Poor s Corporation and is derived from their official total return calculation.

The graph shows that on a total return basis, assuming reinvestment of all dividends, $100 invested in the company s common stock on December 31, 2005 would have been worth $72 on December 31, 2010. By comparison, $100 invested in the S&P 500 Composite Index on December 31, 2005 would have been worth $112 on December 31, 2010. An investment of $100 in the Peer Group on December 31, 2005 would have been worth $118 on December 31, 2010.

	Indexed Returns December 31,					
Company Name / Index	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Pitney Bowes	$ 100	$ 113	$ 96	$ 67	$ 64	$ 72
S&P 500	$ 100	$ 116	$ 122	$ 77	$ 97	$ 112
Peer Group	$ 100	$ 119	$ 124	$ 92	$ 116	$ 118

ITEM 6. SELECTED FINANCIAL DATA

The following tables summarize selected financial data for the Company, and should be read in conjunction with the more detailed consolidated financial statements and related notes thereto included under Item 8 of this Form 10-K.

Summary of Selected Financial Data
(Dollars in thousands, except per share amounts)

	Years ended December 31,				
	2010	**2009**	**2008**	**2007**	**2006**
Total revenue	**$ 5,425,254**	$ 5,569,171	$ 6,262,305	$ 6,129,795	$ 5,730,018
Total costs and expenses	**4,890,677**	4,875,995	5,549,128	5,469,084	4,815,528
Income from continuing operations before income taxes	**534,577**	693,176	713,177	660,711	914,490
Provision for income taxes	**205,770**	240,154	244,929	280,222	335,004
Income from continuing operations	**328,807**	453,022	468,248	380,489	579,486
(Loss) gain from discontinued operations, net of income tax	**(18,104)**	(8,109)	(27,700)	5,534	(460,312)
Net income before attribution of noncontrolling interests	**310,703**	444,913	440,548	386,023	119,174
Less: Preferred stock dividends of subsidiaries attributable to noncontrolling interests	**18,324**	21,468	20,755	19,242	13,827
Net income	**$ 292,379**	$ 423,445	$ 419,793	$ 366,781	$ 105,347
Basic earnings per share of common stock attributable to common stockholders (1):					
Continuing operations	**$ 1.51**	$ 2.09	$ 2.15	$ 1.65	$ 2.54
Discontinued operations	**(0.09)**	(0.04)	(0.13)	0.03	(2.07)
Net income	**$ 1.42**	$ 2.05	$ 2.01	$ 1.68	$ 0.47
Diluted earnings per share of common stock attributable to common stockholders (1):					
Continuing operations	**$ 1.50**	$ 2.08	$ 2.13	$ 1.63	$ 2.51
Discontinued operations	**(0.09)**	(0.04)	(0.13)	0.03	(2.04)
Net income	**$ 1.41**	$ 2.04	$ 2.00	$ 1.66	$ 0.47
Cash dividends paid to stockholders	**$ 301,456**	$ 297,555	$ 291,611	$ 288,790	$ 285,051
Cash dividends per share of common stock	**$ 1.46**	$ 1.44	$ 1.40	$ 1.32	$ 1.28
Depreciation and amortization	**$ 303,653**	$ 338,895	$ 379,117	$ 383,141	$ 363,258
Capital expenditures	**$ 119,768**	$ 166,728	$ 237,308	$ 264,656	$ 327,887
Balance sheet					
Total assets	**$ 8,444,023**	$ 8,571,039	$ 8,810,236	$ 9,465,731	$ 8,527,331
Long-term debt	**$ 4,239,248**	$ 4,213,640	$ 3,934,865	$ 3,802,075	$ 3,847,617
Total debt	**$ 4,292,742**	$ 4,439,662	$ 4,705,366	$ 4,755,842	$ 4,338,157
Noncontrolling interests (Preferred stockholders equity in subsidiaries)	**$ 296,370**	$ 296,370	$ 374,165	$ 384,165	$ 384,165

Stockholders (deficit) equity (2)	**$ (96,581)**	$ (3,152)	$ (303,594)	$ 544,454	$ 600,340

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

(2) Stockholders (deficit) equity has been reduced for all periods presented for the impact of an opening retained earnings adjustment of $16,815 pertaining to prior periods. See Note 9 to the Consolidated Financial Statements for further details.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements contained in this report. All table amounts are presented in millions of dollars, unless otherwise stated.

Forward-Looking Statements

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

- negative developments in economic conditions, including adverse impacts on customer demand
- changes in postal or banking regulations
- timely development and acceptance of new products
- declining physical mail volumes
- 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 our transformation plans including any potential asset impairments
- regulatory approvals and satisfaction of other conditions to consummate and integrate any acquisitions
- interrupted use of key information systems
- changes in international or national political conditions, including any terrorist attacks
- 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, assemblies or inventories
- negative income tax adjustments or other regulatory levies for prior audit years and changes in tax laws or regulations
- changes in pension, health care and retiree medical costs
- changes in privacy laws
- acts of nature

Overview

In 2010, revenue decreased 3% to $5.4 billion compared to the prior year. Equipment sales and software revenues increased 2% and 5%, respectively, compared to the prior year; however, these improvements were offset by a decline of 7% in rental revenue, 8% in financing revenue, 5% in supplies revenue and 3% in business services revenue compared to the prior year. Foreign currency translation and acquisitions had less than a 1% favorable impact on revenue.

Earnings before interest and taxes (EBIT) increased in five of our segments when compared to the prior year primarily due to our ongoing productivity and cost reduction initiatives.

Net income from continuing operations in 2010 was $310 million, or $1.50 per diluted share compared with $432 million, or $2.08 per diluted share in 2009. Diluted earnings per share for 2010 was reduced by $0.59 for restructuring charges and asset impairments, $0.07 for non-cash tax charges associated with out-of-the-money stock options that expired during the year, $0.05 for a one-time charge to correct rates used to estimate unbilled International Mail Services revenue in prior periods and $0.04 for recently enacted heath care legislation. Diluted earnings per share for 2009 was reduced by $0.15 for restructuring charges, $0.06 for non-cash tax charges associated with out-of-the-money stock options that expired during the year partially offset by a $0.01 positive tax adjustment associated with the repricing of leveraged lease transactions.

We generated $952 million in cash from operations, which was used to reduce debt by $171 million, repurchase $100 million of our common stock and pay $301 million of dividends to our common stockholders.

For a more detailed discussion of our results of operations, see Results of Operations 2010 compared to 2009 and Results of Operations 2009 compared to 2008.

Outlook

During the second half or 2010, we began to see some positive signs in our business. However, the worldwide economy and business environment continues to be uncertain, especially among small businesses. This uncertain economic environment has impacted our financial results and in particular our recurring revenue streams, including our high-margin financing, rental and supplies revenue streams. Recovery of these recurring revenue streams will lag a recovery in equipment sales. While we have been successful in reducing our cost structure across the entire business and shifting to a more variable cost structure, these actions have not been sufficient to offset the impact of lower revenues. We remain focused on streamlining our business operations and creating more flexibility in our cost structure.

We continue to expect our mix of revenue to change, with a greater percentage of revenue coming from enterprise related products and solutions. We expect that our future results will continue to be impacted by changes in global economic conditions and their impact on mail intensive industries. It is not expected that total mail volumes will rebound to prior peak levels in an economic recovery, and future mail volume trends will continue to be a factor for our businesses.

In 2009, we announced we were undertaking a series of initiatives designed to transform and enhance the way we operate as a global company. In order to enhance our responsiveness to changing market conditions, we have been executing on a strategic transformation program designed to create improved processes and systems to further enable us to invest in future growth in areas such as our global customer interactions and product development processes. We expect the total pre-tax cost of this program will be in the range of $300 million to $350 million primarily related to severance and benefit costs incurred in connection with workforce reductions. Currently, we are targeting annualized benefits, net of system and related investments, in the range of $250 million to $300 million on a pre-tax basis, with a full benefit run rate by 2012.

RESULTS OF OPERATIONS - 2010 Compared to 2009

Business segment results

We conduct our business activities in seven reporting segments within two business groups, Small & Medium Business Solutions (SMB Solutions) and Enterprise Business Solutions (EB Solutions). The following table shows revenue and EBIT in 2010 and 2009 by business segment. EBIT, a non-GAAP measure, is determined by deducting from segment revenue the related costs and expenses attributable to the segment. EBIT is useful to management in demonstrating the operational profitability of the segments by excluding interest and taxes, which are generally managed across the entire company on a consolidated basis, and general corporate expenses, restructuring charges and asset impairments. EBIT is also used for purposes of measuring the performance of our management team. Refer to Note 18 to the Consolidated Financial Statements for a reconciliation of segment amounts to income from continuing operations before income taxes.

	Revenue			EBIT		
	2010	**2009**	**% change**	**2010**	**2009**	**% change**
U.S. Mailing	**$ 1,879**	$ 2,016	(7)%	**$ 689**	$ 743	(7)%
International Mailing	**923**	920	%	**143**	128	12%
SMB Solutions	**2,802**	2,936	(5)%	**832**	871	(4)%
Production Mail	**557**	526	6%	**61**	51	18%
Software	**363**	346	5%	**42**	38	13%
Management Services	**999**	1,061	(6)%	**93**	72	28%
Mail Services	**562**	559	1%	**63**	83	(23)%
Marketing Services	**142**	141	%	**26**	23	14%
EB Solutions	**2,623**	2,633	%	**285**	267	7%
Total	**$ 5,425**	$ 5,569	(3)%	**$ 1,117**	$ 1,138	(2)%

Small & Medium Business Solutions

Small & Medium Business Solutions revenue decreased 5% to $2,802 million and EBIT decreased 4% to $832 million, compared to the prior year. Within Small & Medium Business Solutions:

U.S. Mailing revenue decreased 7% to $1,879 million and EBIT decreased 7% to $689 million, compared to the prior year. The revenue decrease was driven primarily by lower financing, rental, service and supplies revenues. The decrease in financing revenue is due to a decline in our leasing portfolio from reduced equipment sales in recent years. Rental, supplies and service revenues were lower than prior year due to fewer placements of new meters. Lease extensions have a positive impact on profit margins longer-term but negatively impact equipment sales revenue in the current year. Equipment sales and supplies revenue were lower than prior year due to business consolidations, lease extensions and reduced volumes of mail processed. Revenue was also adversely affected by the ongoing changing mix to more fully featured smaller systems. The lower EBIT was due to the decline in higher margin financing, rental and supplies revenues.

International Mailing revenue was flat at $923 million compared to the prior year, including a favorable impact from foreign currency translation of 2%. While equipment sales were up slightly in certain parts of Europe and Canada, this increase was offset by continued declines in financing and rental revenues due to reduced equipment sales in recent years. EBIT increased 12% to $143 million compared to prior year, and was favorably impacted by an adjustment related to certain leveraged lease transactions in Canada (6%), our initiatives to improve productivity and consolidate functions globally and by 4% from foreign currency translation.

Enterprise Business Solutions

Enterprise Business Solutions revenue was flat at $2,623 million and EBIT increased 7% to $285 million, compared to the prior year. Within Enterprise Business Solutions:

Production Mail revenue increased 6% over the prior year to $557 million due to increased demand in the U.S. for inserting equipment and our first installations of production print equipment. Demand for inserting equipment continued to experience a delayed recovery in certain countries outside of North America as many large enterprises in these regions continue to delay capital expenditures due to economic uncertainty. EBIT increased 18% to $61 million compared to last year due to the higher revenue and our initiatives to improve productivity and consolidate administrative functions. Foreign currency translation had a 1% favorable impact on EBIT.

Software revenue increased 5% over last year to $363 million, driven by the acquisition of Portrait Software (4%) and the favorable impact of foreign currency translation (1%). We continue to build more recurring revenue streams through multi-year licensing agreements, which have the effect of deferring some revenue to future periods. EBIT increased 13% over last year to $42 million due to business integration and productivity initiatives. EBIT was negatively impacted by transaction-related fees of approximately $2 million associated with the Portrait acquisition. Foreign currency translation had a less than 1% favorable impact on EBIT.

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

Mail Services revenue increased 1% compared to last year to $562 million, while EBIT decreased 23% to $63 million. Mail Services revenue and EBIT were adversely impacted by $21 million and $16 million, respectively, due to a one-time out of period adjustment in the International Mail Services portion of the business primarily related to the correction to the rates used to estimate earned but unbilled revenue for the periods 2007 through the first quarter of 2010. The impact of this adjustment was not material on any individual quarter or year during these periods. Excluding the impact of this adjustment, revenue increased 4% over the prior year, but EBIT decreased 5%. The revenue increase was driven partially by increased volumes of presort mail and Standard Class mail processed and acquisitions (2%). The decrease in EBIT was driven by higher shipping rates charged by international carriers for our International Mail Services business, which more than offset the favorable margin impacts in our Presort business.

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

Revenues and Cost of revenues by source

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

Revenues by source

	2010	2009	% change
Equipment sales	**$ 1,030**	$ 1,007	2%
Supplies	**318**	336	(5)%
Software	**382**	365	5%
Rentals	**601**	647	(7)%
Financing	**638**	695	(8)%
Support services	**712**	714	%
Business services	**1,744**	1,805	(3)%
Total revenue	**$ 5,425**	$ 5,569	(3)%

Cost of revenues by source

			Percentage of Revenue	
	2010	2009	2010	2009
Cost of equipment sales	**$ 476**	$ 456	**46.2%**	45.3%
Cost of supplies	**97**	94	**30.5%**	27.9%
Cost of software	**86**	82	**22.5%**	22.5%
Cost of rentals	**142**	159	**23.6%**	24.5%
Financing interest expense	**88**	98	**13.8%**	14.1%

Cost of support services	**452**	467	**63.5%**	65.4%
Cost of business services	**1,337**	1,382	**76.7%**	76.6%
Total cost of revenues	**$ 2,678**	$ 2,738	**49.4%**	49.2%

Equipment sales

Equipment sales revenue increased 2% to $1,030 million compared to the prior year. Foreign currency translation had a positive impact of 1%. The growth was primarily driven by higher sales of production mail equipment in the U.S. and higher equipment sales in Canada and parts of Europe. Period revenue was adversely affected by lease extensions.

Cost of equipment sales as a percentage of revenue was 46.2% compared with 45.3% in the prior year, primarily due to the higher mix of lower margin production mail equipment sales, which more than offset the positive impacts of higher levels of lease extensions and ongoing productivity improvements.

Supplies

Supplies revenue decreased 5% to $318 million compared to the prior year due to lower supplies usage resulting from lower mail volumes and fewer installed meters due to customer consolidations worldwide. Foreign currency translation had less than a 1% favorable impact.

Cost of supplies as a percentage of revenue was 30.5% compared with 27.9% in the prior year primarily due to the increasing mix of lower margin non-compatible supplies sales worldwide.

Software

Software revenue increased 5% to $382 million compared to the prior year. The acquisition of Portrait accounted for 4% of the increase and foreign currency translation accounted for 1% of the increase. Period revenue growth was also negatively impacted by the shift to recurring revenue streams through multi-year licensing agreements.

Cost of software as a percentage of revenue was 22.5%, unchanged from the prior year.

Rentals

Rentals revenue decreased 7% to $601 million compared to the prior year as customers in the U.S. continue to downsize to smaller, fully featured machines. The weak economic conditions have also impacted our international rental markets, specifically in France. Foreign currency translation had less than a 1% positive impact.

Cost of rentals as a percentage of revenue was 23.6% compared with 24.5% in the prior year. Rental margins have been positively impacted by lower depreciation associated with higher levels of lease extensions.

Financing

Financing revenue decreased 8% to $638 million compared to the prior year as lower equipment sales in previous years have resulted in a net decline in both our U.S. and international lease portfolios. Foreign currency translation had a 1% positive impact.

Financing interest expense as a percentage of revenue was 13.8% compared with 14.1% in the prior year due to lower interest rates and lower average borrowings. In computing financing interest expense, which represents the cost of borrowing associated with the generation of financing revenues, we assume a 10:1 leveraging ratio of debt to equity and apply our overall effective interest rate to the average outstanding finance receivables.

Support Services

Support services revenue of $712 million was flat compared to the prior year. Growth has been negatively impacted by lower placements of mailing equipment, primarily in the U.S., U.K. and France. Foreign currency translation had a positive impact of 1%.

Cost of support services as a percentage of revenue improved to 63.5% compared with 65.4% in the prior year due to margin improvements from our ongoing productivity investments in the U.S. and International Mailing and Production Mail businesses.

Business Services

Business services revenue decreased 3% to $1,744 million compared to the prior year primarily due to the loss of several large postal contracts and print volumes at Management Services. Foreign currency translation had less than a 1% negative impact.

Cost of business services as a percentage of revenue was 76.7% compared with 76.6% in the prior year. Positive impacts of cost reduction programs at our Management Services and Presort businesses were offset by higher shipping costs in International Mail Services.

Selling, general and administrative (SG&A)

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

Research and development

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

Other interest expense

Other interest expense increased $4 million, or 4% in 2010 compared to the prior year. Included in other interest expense is credit facility fees which were higher compared to the prior year. We do not allocate other interest expense to our business segments.

Income taxes / effective tax rate

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

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

Discontinued operations

The loss from discontinued operations in 2010 primarily relates to the accrual of interest on uncertain tax positions and additional tax associated with the disposed operations. The 2009 net loss from discontinued operations includes $10 million of pre-tax income ($6 million net of tax) for a bankruptcy settlement received and $11 million of pre-tax income ($7 million net of tax) related to the expiration of an indemnity agreement associated with the sale of a former subsidiary. This income was more than offset by the accrual of interest on uncertain tax positions. See Note 2 to the Consolidated Financial Statements.

Preferred stock dividends of subsidiaries attributable to noncontrolling interests

Preferred stock dividends to stockholders of subsidiary companies were $18 million and $21 million in 2010 and 2009, respectively. The 2009 amount included an expense of $3 million associated with the redemption of $375 million of variable term voting preferred stock. See Note 10 to the Consolidated Financial Statements for further discussion.

RESULTS OF OPERATIONS - 2009 Compared to 2008

Business segment results

The following table shows revenue and EBIT in 2009 and 2008 by business segment. Results have been reclassified to conform to the current year presentation.

	Revenue			EBIT		
	2009	**2008**	**% change**	**2009**	**2008**	**% change**
U.S. Mailing	$ 2,016	$ 2,250	(10)%	$ 743	$ 890	(17)%
International Mailing	920	1,134	(19)%	128	185	(31)%
SMB Solutions	2,936	3,384	(13)%	871	1,075	(19)%
Production Mail	526	616	(15)%	51	82	(37)%
Software	346	400	(14)%	38	28	32%
Management Services	1,061	1,172	(9)%	72	70	3%
Mail Services	559	542	3%	83	69	20%
Marketing Services	141	148	(5)%	23	21	8%
EB Solutions	2,633	2,878	(9)%	267	270	(1)%
Total	$ 5,569	$ 6,262	(11)%	$ 1,138	$ 1,345	(15)%