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

FORM 10-Q

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

For the quarterly period ended June 30, 2019

OR

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

For the transition period from _____ to _____

Commission file number: 1-03579

PITNEY BOWES INC.

(Exact name of registrant as specified in its charter)

State of incorporation:	**Delaware**				I.R.S. Employer Identification No.	**06-0495050**
Address:	**3001 Summer Street,**	**Stamford,**	**Connecticut**	**06926**		
Telephone Number:	**(203)**	**356-5000**				

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, $1 par value per share	PBI	New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes þ No o

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

Large accelerated filer	þ	Accelerated filer	o	Non-accelerated filer	o
Smaller reporting company	☐	Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

As of July 29, 2019, 170,900,031 shares of common stock, par value $1 per share, of the registrant were outstanding.

PITNEY BOWES INC.
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PART I. FINANCIAL INFORMATION

Item 1: Financial Statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	**2019**	2018
Revenue:				
Equipment sales	**$ 85,551**	$ 93,811	**$ 175,338**	$ 200,519
Supplies	**46,490**	55,457	**97,443**	115,450
Software	**72,206**	91,703	**145,524**	167,997
Rentals	**18,445**	19,454	**40,602**	44,419
Financing	**92,419**	97,129	**189,462**	197,478
Support services	**127,683**	138,598	**256,304**	279,248
Business services	**417,985**	369,088	**824,508**	756,712
Total revenue	**860,779**	865,240	**1,729,181**	1,761,823
Costs and expenses:				
Cost of equipment sales	**58,570**	58,948	**122,235**	121,417
Cost of supplies	**11,758**	15,738	**25,308**	32,685
Cost of software	**23,419**	26,957	**46,802**	51,086
Cost of rentals	**8,418**	8,464	**18,133**	21,212
Financing interest expense	**11,043**	11,194	**22,407**	22,258
Cost of support services	**40,448**	42,306	**82,227**	88,371
Cost of business services	**337,918**	290,567	**664,964**	584,946
Selling, general and administrative	**278,545**	289,427	**579,527**	592,237
Research and development	**22,630**	23,574	**44,404**	48,069
Restructuring charges and asset impairments, net	**7,279**	11,503	**10,877**	12,407
Interest expense, net	**28,019**	30,775	**55,621**	62,789
Other components of net pension and postretirement cost	**(1,618)**	(2,499)	**(2,256)**	(4,218)
Other (income) expense	**(27)**	—	**17,683**	—
Total costs and expenses	**826,402**	806,954	**1,687,932**	1,633,259
Income from continuing operations before taxes	**34,377**	58,286	**41,249**	128,564
Provision for income taxes	**4,099**	7,899	**12,400**	26,694
Income from continuing operations	**30,278**	50,387	**28,849**	101,870
(Loss) income from discontinued operations, net of tax	**(6,581)**	1,208	**(7,811)**	9,695
Net income	**$ 23,697**	$ 51,595	**$ 21,038**	$ 111,565
Basic earnings (loss) per share [1]:				
Continuing operations	**$ 0.17**	$ 0.27	**$ 0.16**	$ 0.54
Discontinued operations	**(0.04)**	0.01	**(0.04)**	0.05
Net income	**$ 0.13**	$ 0.28	**$ 0.12**	$ 0.60
Diluted earnings (loss) per share [1]:				
Continuing operations	**$ 0.17**	$ 0.27	**$ 0.16**	$ 0.54
Discontinued operations	**(0.04)**	0.01	**(0.04)**	0.05
Net income	**$ 0.13**	$ 0.27	**$ 0.12**	$ 0.59

[1] The sum of the earnings per share amounts may not equal the totals due to rounding.

See Notes to Condensed Consolidated Financial Statements

PITNEY BOWES INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited; in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	**2019**	2018
Net income	**$ 23,697**	$ 51,595	**$ 21,038**	$ 111,565
Other comprehensive income (loss), net of tax:				
Foreign currency translation, net of tax of $(1,347) and $(423) in 2019, respectively	**104**	(42,942)	**21,378**	(27,859)
Net unrealized (loss) gain on cash flow hedges, net of tax of $(80), $(78), $(24) and $154, respectively	**(234)**	(235)	**(71)**	251
Net unrealized gain (loss) on investment securities, net of tax of $1,100, $(447), $2,064 and $(1,813), respectively	**3,213**	(1,305)	**6,029**	(5,296)
Amortization of pension and postretirement costs, net of tax benefits of $2,124, $2,564, $4,773 and $5,368, respectively	**7,311**	7,868	**13,947**	16,040
Other comprehensive income (loss), net of tax	**10,394**	(36,614)	**41,283**	(16,864)
Comprehensive income	**$ 34,091**	$ 14,981	**$ 62,321**	$ 94,701

See Notes to Condensed Consolidated Financial Statements

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

	June 30, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 771,042**	$ 867,262
Short-term investments	**59,516**	59,391
Accounts and other receivables (net of allowance of $19,804 and $17,617, respectively)	**419,776**	456,138
Short-term finance receivables (net of allowance of $12,537 and $12,454, respectively)	**682,828**	752,773
Inventories	**73,347**	62,279
Current income taxes	**22,474**	5,947
Other current assets and prepayments	**132,878**	100,625
Assets of discontinued operations	**—**	4,854
Total current assets	**2,161,861**	2,309,269
Property, plant and equipment, net	**416,512**	410,114
Rental property and equipment, net	**36,917**	46,228
Long-term finance receivables (net of allowance of $8,180 and $7,768 respectively)	**554,075**	536,369
Goodwill	**1,754,610**	1,766,511
Intangible assets, net	**212,596**	227,137
Operating lease assets	**180,983**	156,788
Noncurrent income taxes	**63,013**	66,326
Other assets	**377,420**	419,677
Total assets	**$ 5,757,987**	$ 5,938,419
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 1,295,712**	$ 1,390,362
Current operating lease liabilities	**34,612**	37,208
Current portion of long-term debt	**214,927**	199,535
Advance billings	**211,061**	229,379
Current income taxes	**6,011**	15,284
Liabilities of discontinued operations	**—**	3,276
Total current liabilities	**1,762,323**	1,875,044
Long-term debt	**3,029,246**	3,066,073
Deferred taxes on income	**264,191**	254,353
Tax uncertainties and other income tax liabilities	**45,586**	39,548
Noncurrent operating lease liabilities	**154,648**	127,237
Other noncurrent liabilities	**449,021**	474,322
Total liabilities	**5,705,015**	5,836,577
Commitments and contingencies (See Note 14)		
Stockholders' equity:		
Cumulative preferred stock, $50 par value, 4% convertible	**—**	1
Cumulative preference stock, no par value, $2.12 convertible	**—**	396
Common stock, $1 par value (480,000,000 shares authorized; 323,337,912 shares issued)	**323,338**	323,338
Additional paid-in capital	**105,341**	121,475
Retained earnings	**5,282,374**	5,279,682
Accumulated other comprehensive loss	**(907,678)**	(948,961)
Treasury stock, at cost (152,393,129 and 135,662,830 shares, respectively)	**(4,750,403)**	(4,674,089)
Total stockholders' equity	**52,972**	101,842
Total liabilities and stockholders' equity	**$ 5,757,987**	$ 5,938,419

See Notes to Condensed Consolidated Financial Statements

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

	Six Months Ended June 30,	
	2019	2018
Cash flows from operating activities:		
Net income	**$ 21,038**	$ 111,565
Loss (income) from discontinued operations, net of tax	**7,811**	(9,695)
Restructuring payments	**(14,283)**	(27,528)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**82,813**	80,335
Stock-based compensation	**9,165**	9,153
Restructuring charges and asset impairments, net	**10,877**	12,407
Loss on disposition of businesses	**17,683**	—
Changes in operating assets and liabilities, net of acquisitions/divestitures:		
Decrease in accounts receivable	**51,721**	9,907
Decrease in finance receivables	**41,744**	43,249
Increase in inventories	**(10,881)**	(3,441)
Increase in other current assets and prepayments	**(35,325)**	(23,657)
Decrease in accounts payable and accrued liabilities	**(74,868)**	(54,616)
Increase in current and non-current income taxes	**733**	8,539
Decrease in advance billings	**(12,711)**	(18,598)
Other, net	**(1,854)**	(24,899)
Net cash provided by operating activities - continuing operations	**93,663**	112,721
Net cash (used in) provided by operating activities - discontinued operations	**(6,881)**	41,772
Net cash provided by operating activities	**86,782**	154,493
Cash flows from investing activities:		
Purchases of available-for-sale securities	**(6,391)**	(48,303)
Proceeds from sales/maturities of available-for-sale securities	**54,964**	36,157
Net activity from short-term and other investments	**(1,608)**	10,959
Capital expenditures	**(61,327)**	(79,481)
Acquisitions, net of cash acquired	**(4,882)**	(2,407)
Change in reserve account deposits	**(8,316)**	5,959
Other investing activities	**(8,591)**	(2,500)
Net cash used in investing activities - continuing operations	**(36,151)**	(79,616)
Net cash used in investing activities - discontinued operations	**—**	(1,169)
Net cash used in investing activities	**(36,151)**	(80,785)
Cash flows from financing activities:		
Principal payments of long-term debt	**(25,087)**	(260,099)
Dividends paid to stockholders	**(18,346)**	(70,113)
Common stock repurchases	**(100,000)**	—
Other financing activities	**(3,337)**	(49,606)
Net cash used in financing activities	**(146,770)**	(379,818)
Effect of exchange rate changes on cash and cash equivalents	**(81)**	(13,041)
Change in cash and cash equivalents	**(96,220)**	(319,151)
Cash and cash equivalents at beginning of period	**867,262**	1,009,021
Cash and cash equivalents at end of period	**$ 771,042**	$ 689,870
Cash interest paid	**$ 78,280**	$ 89,339
Cash income tax payments, net of refunds	**$ 17,348**	$ 19,244

See Notes to Condensed Consolidated Financial Statements

1. Description of Business and Basis of Presentation

Description of Business

Pitney Bowes Inc. (we, us, our, or the company) is a global technology company providing innovative products and commerce solutions that power billions of transactions and help our clients navigate the complex world of commerce. We offer shipping, mailing, fulfillment, returns and cross-border ecommerce products and solutions that enable the sending of parcels and packages across the globe and customer information management, location intelligence and customer engagement products and solutions to help our clients market to their customers. Clients around the world rely on our products, solutions and services. Pitney Bowes Inc. was incorporated in the state of Delaware in 1920. For more information about us, our products, services and solutions, visit www.pb.com.

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In addition, the December 31, 2018 Condensed Consolidated Balance Sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. In management's opinion, all adjustments, consisting only of normal recurring adjustments, considered necessary to fairly state our financial position, results of operations and cash flows for the periods presented have been included. Operating results for the periods presented are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2019. These statements should be read in conjunction with the financial statements and notes thereto included in our Annual Report to Stockholders on Form 10-K for the year ended December 31, 2018 (2018 Annual Report).

Based on their nature, we determined that certain costs previously classified as research and development and cost of business services should be classified in other line items within costs and expenses. Accordingly, the income statement for the three months ended June 30, 2018 has been revised to correct the classification of these costs by reducing research and development expense and cost of business services by $7 million and $3 million, respectively, and increasing selling, general and administrative expense and cost of equipment sales by $7 million and $3 million, respectively. The income statement for the six months ended June 30, 2018 has been revised to correct the classification of these costs by reducing research and development expense and cost of business services by $13 million and $5 million, respectively, and increasing selling, general and administrative expense and cost of equipment sales by $13 million and $5 million, respectively.

The classification of certain costs of revenue recognized in the prior year have been revised to correct and conform to the current year presentation. As a result, in the income statement for the three months ended June 30, 2018, we reduced cost of equipment sales by $1 million and cost of rentals by $1 million, and increased cost of support services by $2 million. In the income statement for the six months ended June 30, 2018, we reduced cost of equipment sales by $3 million and cost of rentals by $2 million, and increased cost of support services by $5 million.

In January 2019, we sold the direct operations and moved to a dealer model in six smaller markets within the International Mailing segment (Market Exits) and recognized a pre-tax loss of $18 million in other (income) expense.

The December 31, 2018 balance sheet has been revised to reduce short-term finance receivables and advance billings by $6 million.

Accounts and other receivables includes other receivables of $101 million at June 30, 2019 and $76 million at December 31, 2018.

New Accounting Pronouncements

Accounting Pronouncements Adopted on January 1, 2019

On January 1, 2019, we adopted Accounting Standards Codification (ASC) 842, *Leases* (ASC 842), using the modified retrospective transition approach of applying the standard at the beginning of the earliest comparative period presented in the financial statements. Accordingly, prior period financial statements have been recast and required disclosures have been provided. We also recorded a cumulative effect adjustment as of January 1, 2017 to reduce retained earnings by $137 million. See Notes 7 and 15 for more information.

From a lessor perspective, the standard simplifies the accounting for lease modifications and aligns accounting of lease contracts with revenue recognition guidance. We continue to classify leases as sales-type or operating, with the determination affecting both the pattern and classification of income recognition. There have been changes in the timing and classification of revenue related to contract modifications. There also have been changes related to the definition of a leased asset, which requires us to account for two lease components as a single lease component. Under prior guidance, one of the components was generally accounted for as a sales-type lease

and the second as an operating lease. Under ASC 842, the two components are generally accounted for as a sales-type lease. As a result, certain income and costs are now accelerated that were previously recognized over the life of the lease.

From a lessee perspective, the standard requires us to recognize right-of-use assets and lease liabilities for our real estate and equipment operating leases and to provide new disclosures about our leasing activities. We elected the short-term lease recognition exemption and did not recognize right-of-use assets or lease liabilities for leases with a term less than 12 months. We also elected the practical expedient to not separate lease and non-lease components for our lessee portfolio.

Updates to significant accounting policies disclosed in our 2018 Annual Report due to the adoption of ASC 842 are discussed below.

Equipment sales: We sell and lease equipment directly to our customers and to distributors (re-sellers) throughout the world. The amount of revenue allocated to the equipment is based on a range of observable selling prices in standalone transactions. We recognize revenue from the sale of equipment under sales-type leases as equipment sales revenue when control of the equipment transfers to the customer, which is upon shipment for self-installed products and upon installation or customer acceptance for other products. We do not typically offer any rights of return.

Rentals: Rentals revenue includes revenue from mailing equipment that does not meet the criteria to be accounted for as a sales-type lease. We may invoice in advance for rentals according to the terms of the agreement. We initially defer these advanced billings and recognize rentals revenue on a straight-line basis over the rental period. Revenue generated from financing clients for the continued use of equipment subsequent to the expiration of the original lease are recognized as rentals revenue.

Financing: We provide lease financing for our products primarily through sales-type leases. We also provide revolving lines of credit for the purchase of postage and supplies. We believe that our sales-type lease portfolio contains only normal collection risk. We record financing income over the lease term using the effective interest method. Financing also includes amounts related to sales-type leases that customers have extended or renewed for an additional term. Revenue for those contracts will be recognized over the term of the modified lease as financing income using the interest method.

Equipment residual values are determined at the inception of the lease using estimates of fair value at the end of the lease term. Fair value estimates are based primarily on historical experience. We also consider forecasted supply and demand for products, product retirement and launch plans, client behavior, regulatory changes, remanufacturing strategies, used equipment markets, competition and technological changes. We evaluate residual values on an annual basis or sooner if circumstances warrant. Declines in estimated residual values considered "other-than-temporary" are recognized immediately. Estimated increases in future residual values are not recognized until the equipment is remarketed.

Support services: Support services revenue includes revenue from equipment service contracts, subscriptions and meter services. Revenue is allocated to these services using selling prices charged in standalone replacement and renewal transactions. Since we have a stand-ready obligation to provide these services over the entire contract term, revenue related to these agreements is recognized on a straight-line basis over the term of the agreement.

Business services: Business services revenue includes revenue from mail processing services and ecommerce solutions. These services represent a series of distinct services that are similar in nature, and revenue is recognized as the services are provided. We review third party relationships and record revenue on a gross basis when we act as a principal in a transaction or net basis when we act as an agent between a client and vendor. We consider several factors in determining whether we are acting as principal or agent, such as whether we are the primary obligor to the client, have control over the pricing or have inventory risk.

On January 1, 2019, we also adopted Accounting Standards Update (ASU) 2017-08, *Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*, which shortens the amortization period for certain callable debt securities held at a premium, requiring the premium to be amortized to the earliest call date. The adoption of this standard did not have a material impact on our consolidated financial statements.

Accounting Pronouncements Not Yet Adopted

In August 2018, the Financial Accounting Standards Board (FASB) issued ASU 2018-15, *Intangibles - Goodwill and Other-Internal-Use Software*. The ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The standard is effective beginning January 1, 2020, with early adoption permitted. We are currently assessing the impact this standard will have on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses*. The ASU sets forth a current expected credit loss model, which requires companies to measure expected credit losses for all financial instruments held at the reporting date based on historical experience, current conditions and reasonably supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost and applies to some off-balance sheet credit exposures. This standard is effective beginning January 1, 2020. We have completed the scoping of financial assets that will be impacted by the standard and are in the process of developing models to measure expected credit losses. We are continuing to assess the impact this standard will have on our consolidated financial statements.

2. Revenue

Disaggregated Revenue

The following tables disaggregate our revenue by major source and timing of recognition:

	Three Months Ended June 30, 2019							
	Global Ecommerce	Presort Services	North America Mailing	International Mailing	Software Solutions	Revenue from products and services	Revenue from leasing transactions and financing	Total consolidated revenue
Major products/service lines								
Equipment sales	$ —	$ —	$ 7,882	$ 11,502	$ —	$ 19,384	$ 66,167	$ 85,551
Supplies	—	—	32,461	14,029	—	46,490	—	46,490
Software	—	—	—	—	72,206	72,206	—	72,206
Rentals	—	—	—	—	—	—	18,445	18,445
Financing	—	—	—	—	—	—	92,419	92,419
Support services	—	(22)	108,851	18,854	—	127,683	—	127,683
Business services	282,319	128,160	6,517	989	—	417,985	—	417,985
Subtotal	282,319	128,138	155,711	45,374	72,206	683,748	$ 177,031	$ 860,779
Revenue from leasing transactions and financing								
Equipment sales	—	—	54,191	11,976	—	66,167		
Rentals	—	—	13,540	4,905	—	18,445		
Financing	—	—	79,975	12,444	—	92,419		
Total revenue	$ 282,319	$ 128,138	$ 303,417	$ 74,699	$ 72,206	$ 860,779		
Timing of revenue recognition from products and services								
Products/services transferred at a point in time	$ —	$ —	$ 40,343	$ 25,531	$ 20,470	$ 86,344		
Products/services transferred over time	282,319	128,138	115,368	19,843	51,736	597,404		
Total	$ 282,319	$ 128,138	$ 155,711	$ 45,374	$ 72,206	$ 683,748		

	Three Months Ended June 30, 2018							
	Global Ecommerce	Presort Services	North America Mailing	International Mailing	Software Solutions	Revenue from products and services	Revenue from leasing transactions and financing	Total consolidated revenue
Major products/service lines								
Equipment sales	$ —	$ —	$ 10,566	$ 11,278	$ —	$ 21,844	$ 71,967	$ 93,811
Supplies	—	—	36,271	19,186	—	55,457	—	55,457
Software	—	—	—	—	91,703	91,703	—	91,703
Rentals	—	—	—	—	—	—	19,454	19,454
Financing	—	—	—	—	—	—	97,129	97,129
Support services	—	—	113,977	24,621	—	138,598	—	138,598
Business services	239,100	122,730	5,664	1,594	—	369,088	—	369,088
Subtotal	239,100	122,730	166,478	56,679	91,703	676,690	$ 188,550	$ 865,240
Revenue from leasing transactions and financing								
Equipment sales	—	—	55,957	16,010	—	71,967		
Rentals	—	—	14,339	5,115	—	19,454		
Financing	—	—	82,127	15,002	—	97,129		
Total revenue	$ 239,100	$ 122,730	$ 318,901	$ 92,806	$ 91,703	$ 865,240		
Timing of revenue recognition from products and services								
Products/services transferred at a point in time	$ —	$ —	$ 46,837	$ 30,464	$ 40,020	$ 117,321		
Products/services transferred over time	239,100	122,730	119,641	26,215	51,683	559,369		
Total	$ 239,100	$ 122,730	$ 166,478	$ 56,679	$ 91,703	$ 676,690		

	Six Months Ended June 30, 2019							
	Global Ecommerce	Presort Services	North America Mailing	International Mailing	Software Solutions	Revenue from products and services	Revenue from leasing transactions and financing	Total consolidated revenue
Major products/service lines								
Equipment sales	$ —	$ —	$ 17,097	$ 23,580	$ —	$ 40,677	$ 134,661	$ 175,338
Supplies	—	—	67,563	29,880	—	97,443	—	97,443
Software	—	—	—	—	145,524	145,524	—	145,524
Rentals	—	—	—	—	—	—	40,602	40,602
Financing	—	—	—	—	—	—	189,462	189,462
Support services	—	—	216,562	39,742	—	256,304	—	256,304
Business services	548,573	262,985	11,035	1,915	—	824,508	—	824,508
Subtotal	548,573	262,985	312,257	95,117	145,524	1,364,456	$ 364,725	$ 1,729,181
Revenue from leasing transactions and financing								
Equipment sales	—	—	112,086	22,575	—	134,661		
Rentals	—	—	30,819	9,783	—	40,602		
Financing	—	—	163,729	25,733	—	189,462		
Total revenue	$ 548,573	$ 262,985	$ 618,891	$ 153,208	$ 145,524	$ 1,729,181		
Timing of revenue recognition from products and services								
Products/services transferred at a point in time	$ —	$ —	$ 84,660	$ 53,460	$ 41,442	$ 179,562		
Products/services transferred over time	548,573	262,985	227,597	41,657	104,082	1,184,894		
Total	$ 548,573	$ 262,985	$ 312,257	$ 95,117	$ 145,524	$ 1,364,456		

	Six Months Ended June 30, 2018							
	Global Ecommerce	Presort Services	North America Mailing	International Mailing	Software Solutions	Revenue from products and services	Revenue from leasing transactions and financing	Total consolidated revenue
Major products/service lines								
Equipment sales	$ —	$ —	$ 20,981	$ 23,074	$ —	$ 44,055	$ 156,464	$ 200,519
Supplies	—	—	75,223	40,227	—	115,450	—	115,450
Software	—	—	—	—	167,997	167,997	—	167,997
Rentals	—	—	—	—	—	—	44,419	44,419
Financing	—	—	—	—	—	—	197,478	197,478
Support services	—	—	227,690	51,558	—	279,248	—	279,248
Business services	485,690	257,188	10,553	3,281	—	756,712	—	756,712
Subtotal	485,690	257,188	334,447	118,140	167,997	1,363,462	$ 398,361	$ 1,761,823
Revenue from leasing transactions and financing								
Equipment sales	—	—	124,429	32,035	—	156,464		
Rentals	—	—	33,851	10,568	—	44,419		
Financing	—	—	166,985	30,493	—	197,478		
Total revenue	$ 485,690	$ 257,188	$ 659,712	$ 191,236	$ 167,997	$ 1,761,823		
Timing of revenue recognition from products and services								
Products/services transferred at a point in time	$ —	$ —	$ 96,204	$ 63,301	$ 65,021	$ 224,526		
Products/services transferred over time	485,690	257,188	238,243	54,839	102,976	1,138,936		
Total	$ 485,690	$ 257,188	$ 334,447	$ 118,140	$ 167,997	$ 1,363,462		

Our performance obligations are as follows:

Equipment sales and supplies: Our performance obligations generally include the sale of mailing equipment, excluding sales-type leases, and supplies. We recognize revenue upon delivery for self-install equipment and supplies and upon acceptance or installation for other equipment. We provide a warranty that our equipment is free of defects and meets stated specifications. The warranty is not considered a separate performance obligation.

Software: Our performance obligations include the sale of software licenses, maintenance, data products and professional services. Revenue for licenses is generally recognized upon delivery or over time for those licenses that require critical updates over the term of the contract.

Rentals: Our performance obligations include the fees associated with the rental of mailing equipment under an operating lease contract.

Support services: Performance obligations include providing maintenance, professional services, and subscription and meter services for our mailing equipment. Contract terms range from one year to five years, depending on the term of the lease contract for the related equipment. Revenue for maintenance, subscription and meter services is recognized ratably over the contract period and revenue for professional services is recognized when services are provided.

Business services: Our performance obligations include providing mail processing services and ecommerce solutions. Revenue is recognized over time as the services are provided. The contract terms for these services vary, with the initial contracts in the range of one to five years, followed by annual renewal periods.

Revenue from leasing transactions and financing includes revenue from equipment accounted for as sales-type leases, finance income and late fees.

Contract Assets and Advance Billings from Contracts with Customers

	Balance sheet location	June 30, 2019	December 31, 2018	Increase (Decrease)
Contracts assets, current	Other current assets and prepayments	$ 17,050	$ 16,115	$ 935
Contracts assets, noncurrent	Other assets	$ 10,050	$ 13,092	$ (3,042)
Advance billings, current	Advance billings	$ 200,224	$ 215,790	$ (15,566)
Advance billings, noncurrent	Other noncurrent liabilities	$ 12,832	$ 12,778	$ 54

Contract Assets

We record contract assets when performance obligations are satisfied in advance of invoicing the customer when the right to consideration is conditional on the satisfaction of another performance obligation within a contract. Contract assets decreased in the period as the invoicing of performance obligations previously satisfied exceeded the contract assets recognized during the period.

Advance Billings from Contracts with Customers

Advance billings are recorded when cash payments are due in advance of our performance. Items in advance billings primarily relate to support services on equipment and software licenses, subscription services and certain software data products. Revenue is recognized ratably over the contract term.

The net decrease in advance billings at June 30, 2019 is due to revenue recognized during the period in excess of advance billings. Revenue recognized during the period includes $109 million of advance billings at the beginning of the period, partially offset by advance billings in the quarter.

Future Performance Obligations

The transaction prices allocated to future performance obligations will be recognized as follows:

	Remainder of 2019	2020	2021-2024	Total
North America Mailing[(1)]	$ 133,984	$ 231,394	$ 338,435	$ 703,813
International Mailing[(1)]	15,799	21,938	27,583	65,320
Software Solutions[(2)]	34,805	57,111	33,295	125,211
Total	$ 184,588	$ 310,443	$ 399,313	$ 894,344

[(1)] Revenue streams bundled with our leasing contracts, primarily maintenance, meter services and other subscription services.
[(2)] Multiple-year software maintenance contracts, certain software and data licenses and data updates.

The table above does not include revenue related to performance obligations for contracts with terms less than 12 months and expected consideration for those performance obligations where revenue is recognized based on the amount billable to the customer.

3. Segment Information

The principal products and services of each reportable segment are as follows:

Commerce Services:

Global Ecommerce: Includes the revenue and related expenses from global cross-border ecommerce transactions and domestic retail and ecommerce shipping solutions, including fulfillment and returns.

Presort Services: Includes revenue and related expenses from sortation services to qualify large volumes of First Class Mail, Marketing Mail and Bound and Packet Mail (Marketing Mail Flats and Bound Printed Matter) for postal worksharing discounts.

Small & Medium Business (SMB) Solutions:

North America Mailing: Includes the revenue and related expenses from mailing and shipping solutions, financing, services, supplies and other applications for small and medium businesses to help simplify and save on the sending, tracking and receiving of letters, parcels and flats in the U.S. and Canada.

International Mailing: Includes the revenue and related expenses from mailing and shipping solutions, financing, services and supplies for small and medium businesses to help simplify and save on the sending, tracking and receiving of letters, parcels and flats in areas outside the U.S. and Canada.

Software Solutions:

Includes the revenue and related expenses from customer engagement, customer information, location intelligence software and data.

Management uses segment earnings before interest and taxes (EBIT) to measure profitability and performance at the segment level and believes that it provides investors a useful measure of operating performance and underlying trends of the business. We determine segment EBIT by deducting from segment revenue the related costs and expenses attributable to the segment. Segment EBIT excludes interest, taxes, general corporate expenses, restructuring charges and other items not allocated to a particular business segment. Segment EBIT may not be indicative of our overall consolidated performance and therefore, should be read in conjunction with our consolidated results of operations. The following tables provide information about our reportable segments and reconciliation of segment EBIT to net income.

Revenue and EBIT by business segment is presented below:

	Revenue			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	**2019**	2018
Global Ecommerce	**$ 282,319**	$ 239,100	**$ 548,573**	$ 485,690
Presort Services	**128,138**	122,730	**262,985**	257,188
Commerce Services	**410,457**	361,830	**811,558**	742,878
North America Mailing	**303,417**	318,901	**618,891**	659,712
International Mailing	**74,699**	92,806	**153,208**	191,236
SMB Solutions	**378,116**	411,707	**772,099**	850,948
Software Solutions	**72,206**	91,703	**145,524**	167,997
Total revenue	**$ 860,779**	$ 865,240	**$ 1,729,181**	$ 1,761,823

	EBIT			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	**2019**	2018
Global Ecommerce	**$ (15,576)**	$ (5,993)	**$ (30,176)**	$ (13,704)
Presort Services	**15,462**	12,565	**30,528**	39,591
Commerce Services	**(114)**	6,572	**352**	25,887
North America Mailing	**112,804**	120,139	**223,417**	248,707
International Mailing	**11,934**	13,091	**23,724**	29,113
SMB Solutions	**124,738**	133,230	**247,141**	277,820
Software Solutions	**2,002**	18,433	**3,694**	20,925
Total segment EBIT	**126,626**	158,235	**251,187**	324,632
Reconciliation of Segment EBIT to net income:				
Unallocated corporate expenses	**(43,785)**	(46,477)	**(99,474)**	(97,559)
Restructuring charges and asset impairments, net	**(7,279)**	(11,503)	**(10,877)**	(12,407)
Interest, net	**(39,062)**	(41,969)	**(78,028)**	(85,047)
Other income (expense)	**27**	—	**(17,683)**	—
Transaction costs	**(2,150)**	—	**(3,876)**	(1,055)
Provision for income taxes	**(4,099)**	(7,899)	**(12,400)**	(26,694)
Income from continuing operations	**30,278**	50,387	**28,849**	101,870
(Loss) income from discontinued operations, net of tax	**(6,581)**	1,208	**(7,811)**	9,695
Net income	**$ 23,697**	$ 51,595	**$ 21,038**	$ 111,565

4. Discontinued Operations

Discontinued operations includes our Document Messaging Technology production mail business and supporting software that was sold in July 2018. Selected financial information is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	**2019**	2018
Revenue	**$ —**	$ 89,201	**$ —**	$ 191,435
Earnings (loss) from discontinued operations	**$ —**	$ 8,278	**$ (663)**	$ 21,620
Loss on sale	**(8,589)**	(7,238)	**(9,257)**	(8,777)
(Loss) income from discontinued operations before taxes	**(8,589)**	1,040	**(9,920)**	12,843
Tax (benefit) provision	**(2,008)**	(168)	**(2,109)**	3,148
(Loss) income from discontinued operations, net of tax	**$ (6,581)**	$ 1,208	**$ (7,811)**	$ 9,695

5. Earnings per Share (EPS)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	**2019**	2018
Numerator:				
Income from continuing operations	**$ 30,278**	$ 50,387	**$ 28,849**	$ 101,870
(Loss) income from discontinued operations, net of tax	**(6,581)**	1,208	**(7,811)**	9,695
Net income (numerator for diluted EPS)	**23,697**	51,595	**21,038**	111,565
Less: Preference stock dividend	**—**	8	**8**	16
Income attributable to common stockholders (numerator for basic EPS)	**$ 23,697**	$ 51,587	**$ 21,030**	$ 111,549
Denominator:				
Weighted-average shares used in basic EPS	**177,192**	187,180	**181,446**	187,004
Dilutive effect of common stock equivalents	**1,089**	934	**1,192**	1,053
Weighted-average shares used in diluted EPS	**178,281**	188,114	**182,638**	188,057
Basic earnings (loss) per share [(1)]:				
Continuing operations	**$ 0.17**	$ 0.27	**$ 0.16**	$ 0.54
Discontinued operations	**(0.04)**	0.01	**(0.04)**	0.05
Net income	**$ 0.13**	$ 0.28	**$ 0.12**	$ 0.60
Diluted earnings (loss) per share [(1)]:				
Continuing operations	**$ 0.17**	$ 0.27	**$ 0.16**	$ 0.54
Discontinued operations	**(0.04)**	0.01	**(0.04)**	0.05
Net income	**$ 0.13**	$ 0.27	**$ 0.12**	$ 0.59
Anti-dilutive options excluded from diluted earnings per share:	**16,297**	12,453	**16,077**	11,959

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

6. Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined on the last-in, first-out (LIFO) basis for most U.S. inventories and the first-in, first-out (FIFO) basis for most non-U.S. inventories. Inventories at June 30, 2019 and December 31, 2018 consisted of the following:

	June 30, 2019	December 31, 2018
Raw materials	**$ 13,740**	$ 8,231
Supplies and service parts	**23,701**	21,841
Finished products	**40,389**	36,690
Inventory at FIFO cost	**77,830**	66,762
Excess of FIFO cost over LIFO cost	**(4,483)**	(4,483)
Total inventory, net	**$ 73,347**	$ 62,279

7. Finance Assets and Lessor Operating Leases

Finance Assets

Finance receivables are comprised of sales-type lease receivables and unsecured revolving loan receivables. Sales-type lease receivables are generally due in monthly, quarterly or semi-annual installments over periods ranging from three to five years. Loan receivables arise primarily from financing services offered to our clients for postage and supplies. Loan receivables are generally due each month; however, clients may rollover outstanding balances. Interest is recognized on loan receivables using the effective interest method and related annual fees are initially deferred and recognized ratably over the annual period covered. Client acquisition costs are expensed as incurred.

Finance receivables at June 30, 2019 and December 31, 2018 consisted of the following:

	June 30, 2019			December 31, 2018		
	North America	**International**	**Total**	North America	International	Total
Sales-type lease receivables						
Gross finance receivables	**$ 1,081,063**	**$ 197,145**	**$ 1,278,208**	$ 1,110,896	$ 242,036	$ 1,352,932
Unguaranteed residual values	**45,279**	**11,676**	**56,955**	52,637	12,772	65,409
Unearned income	**(349,996)**	**(47,367)**	**(397,363)**	(383,453)	(55,113)	(438,566)
Allowance for credit losses	**(11,322)**	**(2,262)**	**(13,584)**	(10,252)	(2,356)	(12,608)
Net investment in sales-type lease receivables	**765,024**	**159,192**	**924,216**	769,828	197,339	967,167
Loan receivables						
Loan receivables	**289,694**	**30,126**	**319,820**	300,319	29,270	329,589
Allowance for credit losses	**(6,374)**	**(759)**	**(7,133)**	(6,777)	(837)	(7,614)
Net investment in loan receivables	**283,320**	**29,367**	**312,687**	293,542	28,433	321,975
Net investment in finance receivables	**$ 1,048,344**	**$ 188,559**	**$ 1,236,903**	$ 1,063,370	$ 225,772	$ 1,289,142

Loans receivable are due within one year. Maturities of gross sales-type lease finance receivables at June 30, 2019 were as follows:

	Sales-type Lease Receivables		
	North America	International	Total
Remaining for year ending December 31, 2019	$ 381,156	$ 39,908	$ 421,064
Year ending December 31, 2020	298,935	56,712	355,647
Year ending December 31, 2021	209,673	44,544	254,217
Year ending December 31, 2022	125,705	29,828	155,533
Year ending December 31, 2023	57,256	16,823	74,079
Thereafter	8,338	9,330	17,668
Total	$ 1,081,063	$ 197,145	$ 1,278,208

Allowance for Credit Losses

We provide an allowance for probable credit losses based on historical loss experience, the nature and volume of our portfolios, adverse situations that may affect a client's ability to pay, prevailing economic conditions and our ability to manage the collateral. We continually evaluate the adequacy of the allowance for credit losses and make adjustments as necessary. The assumptions used in determining an estimate of credit losses are inherently subjective and actual results may differ significantly from estimated reserves.

We establish credit approval limits based on the credit quality of the client and the type of equipment financed. Our policy is to discontinue revenue recognition for lease receivables that are more than 120 days past due and for loan receivables that are more than 90 days past due. We resume revenue recognition when the client's payments reduce the account aging to less than 60 days past due. Finance receivables deemed uncollectible are written off against the allowance after all collection efforts have been exhausted and management deems the account to be uncollectible. As of June 30, 2019, we believe that our finance receivable credit risk is low because of the geographic and industry diversification of our clients and small account balances for most of our clients.

Activity in the allowance for credit losses for the six months ended June 30, 2019 and 2018 was as follows:

	Sales-type Lease Receivables		Loan Receivables		
	North America	International	North America	International	Total
Balance at January 1, 2019	$ 10,252	$ 2,356	$ 6,777	$ 837	$ 20,222
Amounts charged to expense	**3,660**	**455**	**2,329**	**315**	**6,759**
Write-offs and other	**(2,590)**	**(549)**	**(2,732)**	**(393)**	**(6,264)**
Balance at June 30, 2019	**$ 11,322**	**$ 2,262**	**$ 6,374**	**$ 759**	**$ 20,717**

	Sales-type Lease Receivables		Loan Receivables		
	North America	International	North America	International	Total
Balance at January 1, 2018	$ 7,721	$ 2,794	$ 7,098	$ 1,020	$ 18,633
Amounts charged to expense	5,946	545	3,506	250	10,247
Write-offs and other	(2,538)	(933)	(3,735)	(330)	(7,536)
Balance at June 30, 2018	$ 11,129	$ 2,406	$ 6,869	$ 940	$ 21,344

Aging of Receivables

The aging of gross finance receivables at June 30, 2019 and December 31, 2018 was as follows:

	June 30, 2019				
	Sales-type Lease Receivables		Loan Receivables		
	North America	International	North America	International	Total
1 - 90 days	**$ 1,051,352**	**$ 192,135**	**$ 283,809**	**$ 29,866**	**$ 1,557,162**
> 90 days	**29,711**	**5,010**	**5,885**	**260**	**40,866**
Total	**$ 1,081,063**	**$ 197,145**	**$ 289,694**	**$ 30,126**	**$ 1,598,028**
Past due amounts > 90 days					
Still accruing interest	**$ 6,467**	**$ 1,410**	**$ 1,932**	**$ 116**	**$ 9,925**
Not accruing interest	**23,244**	**3,600**	**3,953**	**144**	**30,941**
Total	**$ 29,711**	**$ 5,010**	**$ 5,885**	**$ 260**	**$ 40,866**

	December 31, 2018				
	Sales-type Lease Receivables		Loan Receivables		
	North America	International	North America	International	Total
1 - 90 days	$ 1,069,288	$ 238,114	$ 294,126	$ 29,079	$ 1,630,607
> 90 days	41,608	3,922	6,193	191	51,914
Total	$ 1,110,896	$ 242,036	$ 300,319	$ 29,270	$ 1,682,521
Past due amounts > 90 days					
Still accruing interest	$ 7,917	$ 1,111	$ 1,769	$ 72	$ 10,869
Not accruing interest	33,691	2,811	4,424	119	41,045
Total	$ 41,608	$ 3,922	$ 6,193	$ 191	$ 51,914

Credit Quality

The extension of credit and management of credit lines to new and existing clients uses a combination of an automated credit score, where available, and a detailed manual review of the client's financial condition and, when applicable, payment history. Once credit is granted, the payment performance of the client is managed through automated collections processes and is supplemented with direct follow up should an account become delinquent. We have robust automated collections and extensive portfolio management processes. The portfolio management processes are in place to track that our global strategy is executed, collection resources are allocated appropriately and enhanced tools and processes are implemented as needed.

We use a third party to score the majority of the North America portfolio on a quarterly basis using a commercial credit score. We do not use a third party to score our International portfolio because the cost to do so is prohibitive, given that it is a localized process, and there is no single credit score model that covers all countries.

The table below shows the North America portfolio at June 30, 2019 and December 31, 2018 by relative risk class based on the relative scores of the accounts within each class. The relative scores are determined based on a number of factors, including the company type, ownership structure, payment history and financial information. A fourth class is shown for accounts that are not scored. Absence of a score is not indicative of the credit quality of the account. The degree of risk (low, medium, high), as defined by the third party, refers to the relative risk that an account may become delinquent in the next 12 months.

- Low risk accounts are companies with very good credit scores and are considered to approximate the top 30% of all commercial borrowers.
- Medium risk accounts are companies with average to good credit scores and are considered to approximate the middle 40% of all commercial borrowers.
- High risk accounts are companies with poor credit scores, are delinquent or are at risk of becoming delinquent and are considered to approximate the bottom 30% of all commercial borrowers.

	June 30, 2019	December 31, 2018
Sales-type lease receivables		
Low	**$ 893,068**	$ 922,414
Medium	**131,312**	131,650
High	**20,930**	22,110
Not Scored	**35,753**	34,722
Total	**$ 1,081,063**	$ 1,110,896
Loan receivables		
Low	**$ 229,888**	$ 238,620
Medium	**42,731**	43,952
High	**5,703**	5,947
Not Scored	**11,372**	11,800
Total	**$ 289,694**	$ 300,319

Lease Income

Lease income from sales-type leases for the three and six months ended June 30, 2019 and 2018 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Profit recognized at commencement [(1)]	**$ 34,320**	$ 39,642	**$ 70,678**	$ 86,929
Interest income	**58,045**	60,855	**117,523**	122,687
Total lease income from sales-type leases	**$ 92,365**	$ 100,497	**$ 188,201**	$ 209,616

[(1)] Lease contracts do not include variable lease payments.

Lessor Operating Leases

We also lease mailing equipment under operating leases with terms of one to five years. Maturities of these operating leases are as follows:

Remaining for year ending December 31, 2019	$ 18,383
Year ending December 31, 2020	27,684
Year ending December 31, 2021	12,394
Year ending December 31, 2022	6,348
Year ending December 31, 2023	2,886
Thereafter	182
Total	$ 67,877

8. Intangible Assets and Goodwill

Intangible Assets

Intangible assets at June 30, 2019 and December 31, 2018 consisted of the following:

	June 30, 2019			December 31, 2018		
	Gross Carrying Amount	**Accumulated Amortization**	**Net Carrying Amount**	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	**$ 484,597**	**$ (294,244)**	**$ 190,353**	$ 480,837	$ (281,190)	$ 199,647
Software & technology	**164,849**	**(147,130)**	**17,719**	165,088	(143,877)	21,211
Trademarks & other	**40,105**	**(35,581)**	**4,524**	40,170	(33,891)	6,279
Total intangible assets	**$ 689,551**	**$ (476,955)**	**$ 212,596**	$ 686,095	$ (458,958)	$ 227,137

Amortization expense was $10 million and $11 million for the three months ended June 30, 2019 and 2018, respectively, and $21 million and $22 million for the six months ended June 30, 2019 and 2018, respectively.

Future amortization expense as of June 30, 2019 is shown in the table below. Actual amortization expense may differ due to, among other things, fluctuations in foreign currency exchange rates, impairments, acquisitions and accelerated amortization.

Remaining for year ending December 31, 2019	$ 19,898
Year ending December 31, 2020	35,551
Year ending December 31, 2021	31,033
Year ending December 31, 2022	29,801
Year ending December 31, 2023	26,726
Thereafter	69,587
Total	$ 212,596

Goodwill

Changes in the carrying value of goodwill, by reporting segment, for the six months ended June 30, 2019 are shown in the table below.

	December 31, 2018	**Divestiture**	**Currency impact**	**June 30, 2019**
Global Ecommerce	$ 609,431	**$ —**	**$ —**	**$ 609,431**
Presort Services	207,465	—	—	**207,465**
Commerce Services	816,896	—	—	**816,896**
North America Mailing	368,248	—	**326**	**368,574**
International Mailing	147,207	**(10,490)**	**(1,537)**	**135,180**
SMB Solutions	515,455	**(10,490)**	**(1,211)**	**503,754**
Software Solutions	434,160	—	**(200)**	**433,960**
Total goodwill	$ 1,766,511	**$ (10,490)**	**$ (1,411)**	**$ 1,754,610**

In January 2019, we wrote off $10 million of goodwill associated with Market Exits.

9. Fair Value Measurements and Derivative Instruments

We measure certain financial assets and liabilities at fair value on a recurring basis. Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. An entity is required to classify certain assets and liabilities measured at fair value based on the following fair value hierarchy that prioritizes the inputs used to measure fair value:

Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2 – Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity, may be derived from internally developed methodologies based on management's best estimate of fair value and that are significant to the fair value of the asset or liability.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect its placement within the fair value hierarchy. The following tables show, by level within the fair value hierarchy, our financial assets and liabilities that are accounted for at fair value on a recurring basis at June 30, 2019 and December 31, 2018.

	June 30, 2019			
	Level 1	Level 2	Level 3	Total
Assets:				
Investment securities				
Money market funds / commercial paper	**$ 237,848**	**$ 321,863**	**$ —**	**$ 559,711**
Equity securities	**—**	**22,372**	**—**	**22,372**
Commingled fixed income securities	**1,632**	**21,212**	**—**	**22,844**
Government and related securities	**78,842**	**7,550**	**—**	**86,392**
Corporate debt securities	**—**	**50,774**	**—**	**50,774**
Mortgage-backed / asset-backed securities	**—**	**85,415**	**—**	**85,415**
Derivatives				
Foreign exchange contracts	**—**	**345**	**—**	**345**
Total assets	**$ 318,322**	**$ 509,531**	**$ —**	**$ 827,853**
Liabilities:				
Derivatives				
Foreign exchange contracts	**$ —**	**$ (297)**	**$ —**	**$ (297)**
Total liabilities	**$ —**	**$ (297)**	**$ —**	**$ (297)**

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Investment securities				
Money market funds / commercial paper	$ 220,756	$ 391,891	$ —	$ 612,647
Equity securities	—	19,133	—	19,133
Commingled fixed income securities	1,570	20,141	—	21,711
Government and related securities	98,790	9,787	—	108,577
Corporate debt securities	—	56,938	—	56,938
Mortgage-backed / asset-backed securities	—	98,334	—	98,334
Derivatives				
Foreign exchange contracts	—	2,031	—	2,031
Total assets	$ 321,116	$ 598,255	$ —	$ 919,371
Liabilities:				
Derivatives				
Foreign exchange contracts	$ —	$ (735)	$ —	$ (735)
Total liabilities	$ —	$ (735)	$ —	$ (735)

Investment Securities

The valuation of investment securities is based on the market approach using inputs that are observable, or can be corroborated by observable data, in an active marketplace. The following information relates to our classification into the fair value hierarchy:

- *Money Market Funds / Commercial Paper:* Money market funds typically invest in government securities, certificates of deposit, commercial paper and other highly liquid, low risk securities. Money market funds are principally used for overnight deposits and are classified as Level 1 when unadjusted quoted prices in active markets are available and as Level 2 when they are not actively traded on an exchange. Direct investments in commercial paper are not listed on an exchange in an active market and are classified as Level 2.
- *Equity Securities:* Equity securities are comprised of mutual funds investing in U.S. and foreign stocks. These mutual funds are classified as Level 2.
- *Commingled Fixed Income Securities:* Commingled fixed income securities are comprised of mutual funds that invest in a variety of fixed income securities, including securities of the U.S. government and its agencies, corporate debt, mortgage-backed securities and asset-backed securities. Fair value is based on the value of the underlying investments owned by each fund, minus its liabilities, divided by the number of shares outstanding, as reported by the fund manager. These mutual funds are classified as Level 1 when unadjusted quoted prices in active markets are available and as Level 2 when they are not actively traded on an exchange.
- *Government and Related Securities:* Debt securities are classified as Level 1 where active, high volume trades for identical securities exist. Valuation adjustments are not applied to these securities. Debt securities are classified as Level 2 where fair value is determined using quoted market prices for similar securities or benchmarking model derived prices to quoted market prices and trade data for identical or comparable securities.
- *Corporate Debt Securities:* Corporate debt securities are valued using recently executed comparable transactions, market price quotations or bond spreads for the same maturity as the security. These securities are classified as Level 2.
- *Mortgage-Backed Securities / Asset-Backed Securities:* These securities are valued based on external pricing indices or external price/spread data. These securities are classified as Level 2.

Available-For-Sale Securities

Investment securities are classified as available-for-sale and recorded at fair value. Unrealized holding gains and losses, net of tax, are recorded in accumulated other comprehensive income (AOCI). Available-for-sale investment securities are predominantly held at the Pitney Bowes Bank, whose primary business is to provide financing solutions to clients that rent postage meters and purchase supplies.

Available-for-sale securities at June 30, 2019 and December 31, 2018 consisted of the following:

	June 30, 2019			
	Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**	**Estimated fair value**
Government and related securities	**$ 85,292**	**$ 1,063**	**$ (47)**	**$ 86,308**
Corporate debt securities	**49,507**	**1,320**	**(53)**	**50,774**
Commingled fixed income securities	**1,656**	**—**	**(24)**	**1,632**
Mortgage-backed / asset-backed securities	**85,058**	**905**	**(548)**	**85,415**
Total	**$ 221,513**	**$ 3,288**	**$ (672)**	**$ 224,129**

	December 31, 2018			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Government and related securities	$ 109,776	$ 47	$ (1,336)	$ 108,487
Corporate debt securities	58,714	4	(1,780)	56,938
Commingled fixed income securities	1,637	—	(67)	1,570
Mortgage-backed / asset-backed securities	100,186	167	(2,019)	98,334
Total	$ 270,313	$ 218	$ (5,202)	$ 265,329

The aggregate unrealized holding losses of investment securities in a loss position at June 30, 2019 and December 31, 2018 were as follows:

	June 30, 2019		December 31, 2018	
	Fair Value	**Gross unrealized losses**	Fair Value	Gross unrealized losses
Less than 12 continuous months	$ 502	$ 2	$ 48,318	$ 847
Greater than 12 continuous months	56,970	670	177,331	4,355
Total	$ 57,472	$ 672	$ 225,649	$ 5,202

We have not recognized an other-than-temporary impairment on any of the investment securities in an unrealized loss position because we have the ability and intent to hold these securities until recovery of the unrealized losses and expect to receive the stated principal and interest at maturity.

Scheduled maturities of available-for-sale securities at June 30, 2019 were as follows:

	Amortized cost	**Estimated fair value**
Within 1 year	$ 47,535	$ 47,589
After 1 year through 5 years	68,901	69,407
After 5 years through 10 years	34,951	36,121
After 10 years	70,126	71,012
Total	$ 221,513	$ 224,129

The scheduled maturities of mortgage-backed and asset-backed securities may not coincide with the actual payment, as borrowers have the right to prepay obligations.

We have not experienced any significant write-offs in our investment portfolio. The majority of our mortgage-backed securities are either guaranteed or supported by the U.S. Government. We have no investments in inactive markets that would warrant a possible change in our pricing methods or classification within the fair value hierarchy.

Derivative Instruments

In the normal course of business, we are exposed to the impact of changes in foreign currency exchange rates and interest rates. We mitigate these exposures by following established risk management policies and procedures, including the use of derivatives. We use derivative instruments to limit the effects of exchange rate fluctuations on financial results and manage the cost of debt. We do not use derivatives for trading or speculative purposes. We record derivative instruments at fair value and the accounting for changes in the fair value depends on the intended use of the derivative, the resulting designation and the effectiveness of the instrument in offsetting the risk exposure it is designed to hedge.

Foreign Exchange Contracts

We enter into foreign exchange contracts to mitigate the currency risk associated with the anticipated purchase of inventory between affiliates and from third parties. These contracts are designated as cash flow hedges. The effective portion of the gain or loss on cash flow hedges is included in AOCI in the period that the change in fair value occurs and is reclassified to earnings in the period that the hedged item is recorded in earnings. At June 30, 2019 and December 31, 2018, we had outstanding contracts associated with these anticipated transactions with notional amounts of $9 million and $8 million, respectively.

The valuation of foreign exchange derivatives is based on the market approach using observable market inputs, such as foreign currency spot and forward rates and yield curves. We have not seen a material change in the creditworthiness of those banks acting as derivative counterparties in the three months ended June 30, 2019.

Interest Rate Swap

We had an interest rate swap with a notional amount of $300 million to mitigate the interest rate risk associated with $300 million of variable-rate term loans. This swap matured in September 2018. While outstanding, the swap was designated as a cash flow hedge and the effective portion of the gain or loss on the cash flow hedge was included in AOCI in the period that the change in fair value occurred and reclassified to earnings in the period that the hedged item was recorded in earnings.

The fair value of derivative instruments at June 30, 2019 and December 31, 2018 was as follows:

Designation of Derivatives	Balance Sheet Location	June 30, 2019	December 31, 2018
Derivatives designated as hedging instruments			
Foreign exchange contracts	Other current assets and prepayments	**$ 51**	$ 61
	Accounts payable and accrued liabilities	**(190)**	(104)
Derivatives not designated as hedging instruments			
Foreign exchange contracts	Other current assets and prepayments	**294**	1,970
	Accounts payable and accrued liabilities	**(107)**	(631)
	Total derivative assets	**$ 345**	$ 2,031
	Total derivative liabilities	**(297)**	(735)
	Total net derivative asset	**$ 48**	$ 1,296

The majority of the amounts included in AOCI at June 30, 2019 will be recognized in earnings within the next 12 months. No amount of ineffectiveness was recorded in earnings for these designated cash flow hedges.

The following represents the results of cash flow hedging relationships for the three and six months ended June 30, 2019 and 2018:

	Three Months Ended June 30,				
	Derivative Gain (Loss) Recognized in AOCI (Effective Portion)			Gain (Loss) Reclassified from AOCI to Earnings (Effective Portion)	
Derivative Instrument	2019	2018	Location of Gain (Loss) (Effective Portion)	2019	2018
Foreign exchange contracts	**$ (320)**	$ 119	Revenue	**$ (36)**	$ 79
			Cost of sales	**29**	(1)
Interest rate swap	**—**	(771)	Interest Expense	**—**	—
	$ (320)	$ (652)		**$ (7)**	$ 78

	Six Months Ended June 30,				
	Derivative Gain (Loss) Recognized in AOCI (Effective Portion)			Gain (Loss) Reclassified from AOCI to Earnings (Effective Portion)	
Derivative Instrument	2019	2018	Location of Gain (Loss) (Effective Portion)	2019	2018
Foreign exchange contracts	**$ 25**	$ 154	Revenue	**$ 75**	$ 76
			Cost of sales	**45**	(85)
Interest rate swap	**—**	(952)	Interest Expense	**—**	—
	$ 25	$ (798)		**$ 120**	$ (9)

We enter into foreign exchange contracts to minimize the impact of exchange rate fluctuations on short-term intercompany loans and related interest that are denominated in a foreign currency. The revaluation of intercompany loans and interest and the corresponding mark-to-market adjustment on derivatives are recorded in earnings. The table below represents the mark-to-market adjustments of non-designated derivative instruments for the three and six months ended June 30, 2019 and 2018. All outstanding contracts at June 30, 2019 mature within 12 months.

		Three Months Ended June 30,	
		Derivative Gain (Loss) Recognized in Earnings	
Derivatives Instrument	Location of Derivative Gain (Loss)	2019	2018
Foreign exchange contracts	Selling, general and administrative expense	**$ (65)**	$ (14,828)

		Six Months Ended June 30,	
		Derivative Gain (Loss) Recognized in Earnings	
Derivatives Instrument	Location of Derivative Gain (Loss)	2019	2018
Foreign exchange contracts	Selling, general and administrative expense	**$ 5,205**	$ (18,396)

Credit-Risk-Related Contingent Features

Certain derivative instruments contain credit-risk-related contingent features that require us to post collateral based on a combination of our long-term senior unsecured debt ratings and the net fair value of our derivatives. At June 30, 2019, we had no cash collateral posted.

Fair Value of Financial Instruments

Our financial instruments include cash and cash equivalents, investment securities, accounts receivable, loan receivables, derivative instruments, accounts payable and debt. The carrying value for cash and cash equivalents, accounts receivable, loans receivable and accounts payable approximate fair value because of the short maturity of these instruments.

The carrying value and estimated fair value of our debt at June 30, 2019 and December 31, 2018 were as follows:

	June 30, 2019	December 31, 2018
Carrying value	**$ 3,244,173**	$ 3,265,608
Fair value	**$ 3,101,477**	$ 3,003,678

10. Restructuring Charges and Asset Impairments

Restructuring Charges

Activity in our restructuring reserves for the six months ended June 30, 2019 and 2018 was as follows:

	Severance and benefits costs	Other exit costs	Total
Balance at January 1, 2019	$ 13,641	$ 1,808	$ 15,449
Expenses, net	**8,379**	**707**	**9,086**
Cash payments	**(12,064)**	**(2,219)**	**(14,283)**
Balance at June 30, 2019	**$ 9,956**	**$ 296**	**$ 10,252**
Balance at January 1, 2018	$ 42,151	$ 1,569	$ 43,720
Expenses, net	7,990	4,417	12,407
Cash payments	(26,942)	(586)	(27,528)
Balance at June 30, 2018	$ 23,199	$ 5,400	$ 28,599

The majority of the remaining restructuring reserves are expected to be paid over the next 12 to 24 months.

Asset Impairments

Asset impairment charges were $1 million for the three and six months ended June 30, 2019.

11. Debt

Total debt at June 30, 2019 and December 31, 2018 consisted of the following:

	Interest rate	June 30, 2019	December 31, 2018
Notes due September 2020	3.875%	**$ 300,000**	$ 300,000
Notes due October 2021	3.875%	**600,000**	600,000
Notes due May 2022	4.625%	**400,000**	400,000
Notes due April 2023	4.95%	**400,000**	400,000
Notes due March 2024	4.625%	**500,000**	500,000
Notes due January 2037	5.25%	**35,841**	35,841
Notes due March 2043	6.7%	**425,000**	425,000
Term loans	Variable	**605,000**	630,000
Other debt		**5,210**	5,297
Principal amount		**3,271,051**	3,296,138
Less: unamortized costs, net		**26,878**	30,530
Total debt		**3,244,173**	3,265,608
Less: current portion long-term debt		**214,927**	199,535
Long-term debt		**$ 3,029,246**	$ 3,066,073

Interest rates on certain notes are subject to adjustment based on changes in our credit ratings. In April 2019, Moody's lowered our corporate credit rating from Ba1 to Ba2. As a result, the interest rate on the May 2022 notes increased 0.25% in the quarter and the interest rates on the September 2020 notes, October 2021 notes and April 2023 notes will increase 0.25% effective after the next interest payment date.

During the first half of 2019, we repaid $25 million of principal related to our term loans.

12. Pensions and Other Benefit Programs

The components of net periodic benefit (income) cost were as follows:

	Defined Benefit Pension Plans				Nonpension Postretirement Benefit Plans	
	United States		Foreign			
	Three Months Ended June 30,		Three Months Ended June 30,		Three Months Ended June 30,	
	2019	2018	**2019**	2018	**2019**	2018
Service cost	**$ 21**	$ 9	**$ 388**	$ 575	**$ 228**	$ 405
Interest cost	**15,708**	15,108	**4,308**	4,591	**1,637**	1,607
Expected return on plan assets	**(23,184)**	(25,119)	**(8,505)**	(9,118)	**—**	—
Amortization of transition credit	**—**	—	**(1)**	(2)	**—**	—
Amortization of prior service (credit) cost	**(15)**	(15)	**60**	(18)	**81**	88
Amortization of net actuarial loss	**6,037**	7,628	**1,572**	1,870	**503**	881
Settlement [1]	**801**	—	**397**	—	**—**	—
Net periodic benefit (income) cost	**$ (632)**	$ (2,389)	**$ (1,781)**	$ (2,102)	**$ 2,449**	$ 2,981
Contributions to benefit plans	**$ 2,423**	$ 1,906	**$ 878**	$ 769	**$ 4,457**	$ 4,316

	Defined Benefit Pension Plans				Nonpension Postretirement Benefit Plans	
	United States		Foreign			
	Six Months Ended June 30,		Six Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	**2019**	2018	**2019**	2018
Service cost	**$ 42**	$ 46	**$ 772**	$ 1,164	**$ 483**	$ 811
Interest cost	**31,586**	30,724	**8,796**	9,287	**3,291**	3,210
Expected return on plan assets	**(46,363)**	(50,543)	**(17,269)**	(18,304)	**—**	—
Amortization of transition credit	**—**	—	**(3)**	(3)	**—**	—
Amortization of prior service (credit) cost	**(30)**	(30)	**123**	(37)	**161**	176
Amortization of net actuarial loss	**13,073**	15,704	**3,184**	3,783	**1,014**	1,815
Settlement [1]	**801**	—	**397**	—	**—**	—
Net periodic benefit (income) cost	**$ (891)**	$ (4,099)	**$ (4,000)**	$ (4,110)	**$ 4,949**	$ 6,012
Contributions to benefit plans	**$ 4,051**	$ 3,194	**$ 9,088**	$ 9,979	**$ 9,213**	$ 9,111

[1] Approximately $0.7 million and $0.3 million of total settlement charges were recorded in restructuring charges and discontinued operations, respectively, for the three and six months ended June 30, 2019.

13. Income Taxes

The effective tax rate for the three months ended June 30, 2019 and 2018 was 11.9% and 13.6%, respectively. These rates include benefits from the resolution of certain tax examinations of $4 million and $3 million, respectively.

The effective tax rate for the six months ended June 30, 2019 and 2018 was 30.1% and 20.8%, respectively. The effective tax rate for the six months ended June 30, 2019 includes a $2 million tax on the $18 million book loss from Market Exits, primarily due to nondeductible basis differences. The effective tax rate for each of the six months ended June 30, 2019 and 2018 includes a benefit of $6 million from the resolution of certain tax examinations and a charge of $2 million from the write-off of deferred tax assets associated with the expiration of out-of-the-money vested stock options and the vesting of restricted stock.

At December 31, 2018, we had a deferred tax asset valuation allowance of $142 million. It is reasonably possible that within the next 12 months, there may be sufficient positive evidence to release approximately $20 million of the valuation allowance. The release of this allowance would result in a decrease to income tax expense.

As is the case with other large corporations, our tax returns are examined by tax authorities in the U.S. and other global taxing jurisdictions in which we have operations. As a result, it is reasonably possible that the amount of unrecognized tax benefits will decrease in the next 12 months, and this decrease could be up to 30% of our unrecognized tax benefits.

The Internal Revenue Service (IRS) examinations of our consolidated U.S. income tax returns for tax years prior to 2017 are closed to audit; however, various post-2011 U.S. state and local tax returns are still subject to examination. In Canada, the examination of our tax filings prior to 2014 are closed to audit. Other significant jurisdictions include France (closed through 2014), Germany (closed through 2016) and the U.K. (except for an item under appeal, closed through 2016). We also have other less significant tax filings currently subject to examination.

14. Commitments and Contingencies

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 clients; 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. In management's opinion, the potential liability, if any, that may result from these actions, either individually or collectively, is not reasonably expected to have a material effect on our financial position, results of operations or cash flows as of June 30, 2019. However, as litigation is inherently unpredictable, there can be no assurances in this regard.

In August 2018, the Company, certain of its directors, officers and several banks who served as underwriters, were named as defendants in City of Livonia Retiree Health and Disability Benefits Plan v. Pitney Bowes Inc. et al., a putative class action lawsuit filed in Connecticut state court. The complaint asserts claims under the Securities Act of 1933, as amended, on behalf of those who purchased notes issued by the Company in connection with a September 13, 2017 offering, alleging, among other things, that the Company failed to make certain disclosures relating to components of its third quarter 2017 performance at the time of the notes offering. The complaint seeks compensatory damages and other relief. In addition, in December 2018 and then in February 2019, certain of the Company's officers and directors were named as defendants in two virtually identical derivative actions purportedly brought on behalf of the Company, Clem v. Lautenbach et al. and Devolin v. Lautenbach et al. These two actions, both filed by the same counsel in Connecticut state court, allege, among other things, breaches of fiduciary duty relating to these same disclosures, and seek compensatory damages and other relief derivatively for the benefit of the Company. Although litigation outcomes are inherently unpredictable, we believe these matters are without merit and intend to defend them vigorously. A reasonable estimate of the amount of any possible loss or range of loss cannot be made at this time.

15. Leased Assets and Liabilities

We lease real estate and equipment under operating and finance lease agreements. Our leases have terms of up to 15 years, some of which may include the option to extend the lease for up to 5 years. At lease commencement, we record a lease liability and corresponding right-of-use asset. Lease liabilities represent the present value of our future lease payments over the expected lease term, which includes options to extend or terminate the lease when it is reasonably certain those options will be exercised. Lease payments include fixed payments and variable payments that are tied to an index. Variable payments not tied to an index are excluded from the right-of-use asset and lease liability and primarily include common area maintenance charges, property taxes, insurance and mileage. The present value of our lease liability is determined using our incremental borrowing rate at lease inception. Information regarding our operating and financing leases are as follows:

Leases	Balance Sheet Location	June 30, 2019	December 31, 2018
Assets			
Operating	Operating lease assets	**$ 180,983**	$ 156,788
Finance	Property, plant and equipment, net	**11,501**	10,683
Total leased assets		**$ 192,484**	$ 167,471
Liabilities			
Operating	Current operating lease liabilities	**$ 34,612**	$ 37,208
	Noncurrent operating lease liabilities	**154,648**	127,237
Finance	Accounts payable and accrued liabilities	**2,809**	2,708
	Other noncurrent liabilities	**7,739**	7,054
Total lease liabilities		**$ 199,808**	$ 174,207

Lease Cost	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Operating lease expense	**$ 11,695**	$ 11,145	**$ 23,786**	$ 23,422
Finance lease expense				
Amortization of leased assets	**811**	640	**1,691**	1,242
Interest on lease liabilities	**176**	125	**348**	243
Variable lease expense	**7,988**	7,952	**13,852**	13,094
Sublease income	**(679)**	(203)	**(1,345)**	(452)
Total expense	**$ 19,991**	$ 19,659	**$ 38,332**	$ 37,549

Operating lease expense includes immaterial amounts related to leases with terms of 12 months or less.

Future Lease Payments	Operating Leases	Finance Leases	Total
Remaining for year ending December 31, 2019	$ 22,257	$ 1,803	$ 24,060
Year ending December 31, 2020	42,878	3,105	45,983
Year ending December 31, 2021	35,937	2,712	38,649
Year ending December 31, 2022	27,637	2,162	29,799
Year ending December 31, 2023	21,032	1,518	22,550
Thereafter	89,177	813	89,990
Total	238,918	12,113	251,031
Less: present value discount	49,658	1,565	51,223
Lease liability	$ 189,260	$ 10,548	$ 199,808

Operating leases exclude $28 million of minimum lease payments for leases signed but not yet commenced at June 30, 2019.

Lease Term and Discount Rate	June 30, 2019	December 31, 2018
Weighted-average remaining lease term		
Operating leases	**7.5 years**	5.9 years
Finance leases	**4.1 years**	3.8 years
Weighted-average discount rate		
Operating leases	**5.8%**	4.7%
Finance leases	**6.6%**	6.2%

Cash Flow Information	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Operating cash outflows - operating leases	**$ 11,073**	$ 10,987	**$ 22,870**	$ 22,738
Operating cash outflows - finance leases	**$ 176**	$ 125	**$ 348**	$ 243
Financing cash outflows - finance leases	**$ 775**	$ 592	**$ 1,520**	$ 1,156
Leased assets obtained in exchange for new lease obligations				
Operating leases	**$ 40,907**	$ 3,998	**$ 49,060**	$ 6,994
Finance leases	**$ 430**	$ 88	**$ 2,103**	$ 1,160

16. Stockholders' Equity

Changes in stockholders' equity for the three months ended June 30, 2019 and 2018 were as follows:

	Preferred stock	Preference stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Total equity
Balance at April 1, 2019	$ 1	$ 388	$ 323,338	$ 109,166	$ 5,267,615	$ (918,072)	$ (4,696,080)	$ 86,356
Net income	—	—	—	—	**23,697**	—	—	**23,697**
Other comprehensive income	—	—	—	—	—	**10,394**	—	**10,394**
Dividends paid ($0.05 per common share)	—	—	—	—	**(8,938)**	—	—	**(8,938)**
Issuance of common stock	—	—	—	**(3,807)**	—	—	**4,024**	**217**
Conversion to common stock	—	**(122)**	—	**(2,389)**	—	—	**2,511**	—
Redemption of preferred/preference stock	**(1)**	**(266)**	—	**(10)**	—	—	—	**(277)**
Stock-based compensation expense	—	—	—	**2,381**	—	—	—	**2,381**
Repurchase of common stock	—	—	—	—	—	—	**(60,858)**	**(60,858)**
Balance at June 30, 2019	**$ —**	**$ —**	**$ 323,338**	**$ 105,341**	**$ 5,282,374**	**$ (907,678)**	**$ (4,750,403)**	**$ 52,972**

	Preferred stock	Preference stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Total equity
Balance at April 1, 2018	$ 1	$ 422	$ 323,338	$ 119,647	$ 5,087,090	$ (775,190)	$ (4,692,394)	$ 62,914
Net income	—	—	—	—	51,595	—	—	51,595
Other comprehensive loss	—	—	—	—	—	(36,614)	—	(36,614)
Dividends paid ($0.1875 per common share)	—	—	—	—	(35,097)	—	—	(35,097)
Issuance of common stock	—	—	—	(2,660)	—	—	2,943	283
Conversion to common stock	—	(7)	—	(135)	—	—	142	—
Stock-based compensation expense	—	—	—	5,880	—	—	—	5,880
Balance at June 30, 2018	$ 1	$ 415	$ 323,338	$ 122,732	$ 5,103,588	$ (811,804)	$ (4,689,309)	$ 48,961

Changes in stockholders' equity for the six months ended June 30, 2019 and 2018 were as follows:

	Preferred stock	Preference stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Total equity
Balance at January 1, 2019	$ 1	$ 396	$ 323,338	$ 121,475	$ 5,279,682	$ (948,961)	$ (4,674,089)	$ 101,842
Net income	—	—	—	—	**21,038**	—	—	**21,038**
Other comprehensive income	—	—	—	—	—	**41,283**	—	**41,283**
Dividends paid ($0.10 per common share)	—	—	—	—	**(18,346)**	—	—	**(18,346)**
Issuance of common stock	—	—	—	**(22,731)**	—	—	**20,998**	**(1,733)**
Conversion to common stock	—	**(130)**	—	**(2,558)**	—	—	**2,688**	—
Redemption of preferred/preference stock	**(1)**	**(266)**	—	**(10)**	—	—	—	**(277)**
Stock-based compensation expense	—	—	—	**9,165**	—	—	—	**9,165**
Repurchase of common stock	—	—	—	—	—	—	**(100,000)**	**(100,000)**
Balance at June 30, 2019	**$ —**	**$ —**	**$ 323,338**	**$ 105,341**	**$ 5,282,374**	**$ (907,678)**	**$ (4,750,403)**	**$ 52,972**

	Preferred stock	Preference stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Total equity
Balance at January 1, 2018	$ 1	$ 441	$ 323,338	$ 138,367	$ 5,074,343	$ (794,940)	$ (4,710,997)	$ 30,553
Cumulative effect of accounting change	—	—	—	—	(12,207)	—	—	(12,207)
Net income	—	—	—	—	111,565	—	—	111,565
Other comprehensive loss	—	—	—	—	—	(16,864)	—	(16,864)
Dividends paid ($0.375 per common share)	—	—	—	—	(70,113)	—	—	(70,113)
Issuance of common stock	—	—	—	(24,267)	—	—	21,141	(3,126)
Conversion to common stock	—	(26)	—	(521)	—	—	547	—
Stock-based compensation expense	—	—	—	9,153	—	—	—	9,153
Balance at June 30, 2018	$ 1	$ 415	$ 323,338	$ 122,732	$ 5,103,588	$ (811,804)	$ (4,689,309)	$ 48,961

17. Accumulated Other Comprehensive Income

Reclassifications out of AOCI for the three and six months ended June 30, 2019 and 2018 were as follows:

	Amount Reclassified from AOCI [1]			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	**2019**	2018
(Losses) gains on cash flow hedges				
Revenue	**$ (36)**	$ 79	**$ 75**	$ 76
Cost of sales	**29**	(1)	**45**	(85)
Interest expense, net	**—**	(507)	**—**	(1,014)
Total before tax	**(7)**	(429)	**120**	(1,023)
Income tax benefit (provision)	**1**	110	**(31)**	261
Net of tax	**$ (6)**	$ (319)	**$ 89**	$ (762)
(Losses) gains on available for sale securities				
Interest expense, net	**$ (81)**	$ 214	**$ (104)**	$ 190
Income tax benefit (provision)	**21**	(54)	**27**	(48)
Net of tax	**$ (60)**	$ 160	**$ (77)**	$ 142
Pension and Postretirement Benefit Plans [2]				
Transition credit	**$ 1**	$ 2	**$ 3**	$ 3
Prior service costs	**(126)**	(55)	**(254)**	(109)
Actuarial losses	**(8,112)**	(10,379)	**(17,271)**	(21,302)
Settlements	**(1,198)**	—	**(1,198)**	—
Total before tax	**(9,435)**	(10,432)	**(18,720)**	(21,408)
Income tax benefit	**2,124**	2,564	**4,773**	5,368
Net of tax	**$ (7,311)**	$ (7,868)	**$ (13,947)**	$ (16,040)

(1) Amounts in parentheses indicate reductions to income and increases to other comprehensive income.
(2) Reclassified from AOCI into other components of net pension and postretirement cost (see Note 12 for additional details).

Changes in AOCI for the six months ended June 30, 2019 and 2018 were as follows:

	Cash flow hedges	Available for sale securities	Pension and postretirement benefit plans	Foreign currency adjustments	Total
Balance at January 1, 2019	$ 191	$ (3,061)	$ (846,461)	$ (99,630)	$ (948,961)
Other comprehensive income before reclassifications [1]	**18**	**5,952**	**—**	**21,378**	**27,348**
Reclassifications into earnings [1], [2]	**(89)**	**77**	**13,947**	**—**	**13,935**
Net other comprehensive income	**(71)**	**6,029**	**13,947**	**21,378**	**41,283**
Balance at June 30, 2019	**$ 120**	**$ 2,968**	**$ (832,514)**	**$ (78,252)**	**$ (907,678)**

	Cash flow hedges	Available for sale securities	Pension and postretirement benefit plans	Foreign currency adjustments	Total
Balance at January 1, 2018	$ (406)	$ 1,597	$ (748,800)	$ (47,331)	$ (794,940)
Other comprehensive income (loss) before reclassifications [1]	(511)	(5,154)	—	(27,859)	(33,524)
Reclassifications into earnings [1], [2]	762	(142)	16,040	—	16,660
Net other comprehensive income (loss)	251	(5,296)	16,040	(27,859)	(16,864)
Balance at June 30, 2018	$ (155)	$ (3,699)	$ (732,760)	$ (75,190)	$ (811,804)

[1] Amounts are net of tax. Amounts in parentheses indicate debits to AOCI.
[2] See table above for additional details of these reclassifications.

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) contains statements that are forward-looking. We want to caution readers that any forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (Securities Act) and Section 21E of the Securities Exchange Act of 1934 (Exchange Act) 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-looking 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, except as required by law. Forward-looking statements in this Form 10-Q speak only as of the date hereof, and forward-looking statements in documents attached that are incorporated by reference speak only as of the date of those documents.

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and to inherent risks and uncertainties, such as those disclosed or incorporated by reference in our filings with the Securities and Exchange Commission. 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:

- declining physical mail volumes
- changes in, or loss of, our contractual relationships with the U.S. Postal Service (USPS) or posts in other major markets
- changes in postal regulations
- competitive factors, including pricing pressures, technological developments and the introduction of new products and services by competitors
- the United Kingdom's potential exit from the European Union (Brexit)
- our success in developing and marketing new products and services and obtaining regulatory approvals, if required
- changes in banking regulations or the loss of our Industrial Bank charter
- changes in labor conditions and transportation costs
- macroeconomic factors, including global and regional business conditions that adversely impact customer demand, foreign currency exchange rates and interest rates
- changes in global political conditions and international trade policies, including the imposition or expansion of trade tariffs
- the continued availability and security of key information technology systems and the cost to comply with information security requirements and privacy laws
- a breach of security, including a cyber-attack or other comparable event
- third-party suppliers' ability to provide products and services required by our clients
- our success at managing the relationships with outsource providers, including the costs of outsourcing functions and operations
- capital market disruptions or credit rating downgrades that adversely impact our ability to access capital markets at reasonable costs
- our success at managing customer credit risk
- integrating newly acquired businesses, including operations and product and service offerings
- our ability to continue to grow volumes to gain additional economies of scale
- the loss of some of our larger clients in our Commerce Services group
- intellectual property infringement claims
- significant changes in pension, health care and retiree medical costs
- income tax adjustments or other regulatory levies from tax audits and changes in tax laws, rulings or regulations
- the use of the postal system for transmitting harmful biological agents, illegal substances or other terrorist attacks
- acts of nature

Overview

Effective January 1, 2019, we adopted Accounting Standards Codification 842, *Leases,* using the modified retrospective transition approach of applying the standard at the beginning of the earliest comparative period presented in the financial statements. Accordingly, prior period financial results have been recast (see Note 1).

We continue our transformation to higher growth markets that align with our focus on reducing the complexity of mailing and shipping. Commerce Services was the largest contributor of revenue and accounted for 48% of revenue for the current quarter compared to 42% from the prior year period.

In January 2019, we sold the direct operations and moved to a dealer model in six smaller markets within the International Mailing segment (Market Exits). We recorded a pre-tax loss on the sale of $18 million, primarily due to the write-off of cumulative translation adjustments.

Financial Results Summary - Three Months Ended June 30:

	2019	2018	Change
Revenue	$ 860,779	$ 865,240	(1)%
Segment earnings before interest and taxes (EBIT)	$ 126,626	$ 158,235	(20)%
Income from continuing operations	$ 30,278	$ 50,387	(40)%
Diluted earnings per share - continuing operations	$ 0.17	$ 0.27	(37)%

Revenue decreased 1% from the prior year period; however, this included a 2% unfavorable impact from Market Exits and an additional 1% unfavorable impact from foreign currency. Software revenue declined 21% in the quarter due to a lower level of license renewals. Supplies revenue declined 16% due to a worldwide decline in our mailing business. Business services revenue increased 13% due to growth in Commerce Services, partially offsetting these declines.

Commerce Services revenue grew 13%, driven by growth of 18% in Global Ecommerce and 4% in Presort Services. Small and Medium Business (SMB) Solutions revenue declined 8%, with North America Mailing declining 5% and International Mailing declining 20%. Market Exits and currency adversely impacted International Mailing revenue by 12% and 5%, respectively. Software Solutions revenue declined 21%.

Segment EBIT declined 20% from the prior year period as Software Solutions EBIT declined 89%, primarily due to a lower level of license renewals. Within Commerce Services, Global Ecommerce reported an EBIT loss of $16 million compared to a loss of $6 million in the prior year, driven by a shift in the mix of business to faster growing, lower margin services and investments in market growth opportunities. Presort EBIT increased 23%, primarily due to higher volumes and revenue per piece improvement. SMB EBIT declined 6% due to the decline in revenue and impact of Market Exits.

Income from continuing operations declined in the quarter, primarily due to a decline in gross margins and revenue. This decline was partially offset by lower operating expenses and a lower effective tax rate.

Financial Results Summary - Six Months Ended June 30:

	2019	2018	Change
Revenue	$ 1,729,181	$ 1,761,823	(2)%
Segment earnings before interest and taxes (EBIT)	$ 251,187	$ 324,632	(23)%
Income from continuing operations	$ 28,849	$ 101,870	(72)%
Diluted earnings per share - continuing operations	$ 0.16	$ 0.54	(70)%
Net cash provided by operations	$ 86,782	$ 154,493	(44)%

For the year-to-date period, revenue decreased 2% from the prior year period, primarily due to unfavorable impacts of 1% from each of currency and Market Exits. Business services revenue increased 9% due to growth in Commerce Services; however, this increase was more than offset by declines in all other revenue lines due to declines in our mailing business and lower software license revenue.

Commerce Services revenue grew 9%, driven by growth of 13% in Global Ecommerce and 2% in Presort Services. SMB Solutions revenue declined 9%, with North America Mailing declining 6% and International Mailing declining 20%. Market Exits and currency adversely impacted International Mailing revenue by 10% and 5%, respectively. Software Solutions revenue declined 13%.

Segment EBIT declined 23% from the prior year period. Within Commerce Services, Global Ecommerce reported an EBIT loss of $30 million compared to a loss of $14 million in the prior year, and Presort Services EBIT declined 23%. The decline in Global Ecommerce was driven by a shift in the mix of business to faster growing, lower margin services, investments in market growth opportunities and higher labor, transportation and postal costs. The decline in Presort Services was primarily due to higher labor and transportation costs and lower revenue per piece. SMB EBIT declined 11% due to the decline in revenue, increased tariff costs and a charge related to a SendPro C tablet replacement program to address an underlying battery longevity issue. Software Solutions EBIT declined 82% due to the decline in revenue.

Income from continuing operations for the first six months of 2019 declined compared to the prior year period, primarily due to lower margins and revenue and a pre-tax loss of $18 million from Market Exits.

Outlook

We are taking actions that we expect will set the foundation to drive long-term value, including new client value offerings and spend optimization. We expect revenue to continue to grow as we transform our portfolio to growth markets.

Within Global Ecommerce, we expect continued revenue growth from our investments in the expansion of our domestic parcel business and domestic shipping solutions. We anticipate higher shipping volumes during the second half of 2019 as we enter the holiday season. We expect revenue and EBIT growth in Presort Services due to higher volumes, improving margins and operational efficiencies.

In SMB Solutions, we expect continued declines in revenue due to lower mail volumes, lower lease opportunities and a declining meter population. However, we expect the magnitude of the decline to be mitigated by the introduction of new services and products, the continued success of our SendPro C product in North America, planned launches in several international markets and by identifying opportunities through natural adjacencies in the business. EBIT and equipment sales margins have been impacted by trade tariffs, and we expect these tariffs to continue to adversely impact the SMB business in the second half of the year.

We are now offering expanded third-party equipment financing alternatives, primarily to our existing SMB clients in the United States, to finance or lease other manufacturers' equipment to meet their business needs. We expect that cash flows will be negatively impacted during the year as we invest in the origination of third-party equipment leases and build a finance receivable portfolio.

Within Software Solutions, we expect continued benefits from our partner channel. We expect revenue growth will be driven by a combination of sales opportunities from customer information, location intelligence, data and customer engagement.

We expect continued progress in our efforts to improve productivity and reduce spend. Over the last five years, we have transformed to a more digital operating model and have reduced our cost structure. In 2017, we announced our intention to reduce gross spend by $200 million over a 24-month period. We achieved over $150 million of this target in 2018 and expect to recognize the remainder in 2019. A large portion of these gross savings has been, and will continue to be, reinvested in the business, particularly in Commerce Services and our third-party equipment financing initiative.

RESULTS OF OPERATIONS

Revenue by source and the related cost of revenue are shown in the following tables:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2019	2018	Actual % change	Constant Currency % change	**2019**	2018	Actual % change	Constant currency % change
Equipment sales	**$ 85,551**	$ 93,811	(9)%	(7)%	**$ 175,338**	$ 200,519	(13)%	(11)%
Supplies	**46,490**	55,457	(16)%	(15)%	**97,443**	115,450	(16)%	(14)%
Software	**72,206**	91,703	(21)%	(20)%	**145,524**	167,997	(13)%	(11)%
Rentals	**18,445**	19,454	(5)%	(4)%	**40,602**	44,419	(9)%	(7)%
Financing	**92,419**	97,129	(5)%	(4)%	**189,462**	197,478	(4)%	(3)%
Support services	**127,683**	138,598	(8)%	(7)%	**256,304**	279,248	(8)%	(7)%
Business services	**417,985**	369,088	13 %	14 %	**824,508**	756,712	9 %	9 %
Total revenue	**$ 860,779**	$ 865,240	(1)%	— %	**$ 1,729,181**	$ 1,761,823	(2)%	(1)%

	Three Months Ended June 30,				Six Months Ended June 30,			
			Percentage of Revenue				Percentage of Revenue	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
Cost of equipment sales	**$ 58,570**	$ 58,948	**68.5%**	62.8%	**$ 122,235**	$ 121,417	**69.7%**	60.6%
Cost of supplies	**11,758**	15,738	**25.3%**	28.4%	**25,308**	32,685	**26.0%**	28.3%
Cost of software	**23,419**	26,957	**32.4%**	29.4%	**46,802**	51,086	**32.2%**	30.4%
Cost of rentals	**8,418**	8,464	**45.6%**	43.5%	**18,133**	21,212	**44.7%**	47.8%
Financing interest expense	**11,043**	11,194	**11.9%**	11.5%	**22,407**	22,258	**11.8%**	11.3%
Cost of support services	**40,448**	42,306	**31.7%**	30.5%	**82,227**	88,371	**32.1%**	31.6%
Cost of business services	**337,918**	290,567	**80.8%**	78.7%	**664,964**	584,946	**80.6%**	77.3%
Total cost of revenue	**$ 491,574**	$ 454,174	**57.1%**	52.5%	**$ 982,076**	$ 921,975	**56.8%**	52.3%

Revenue - 2019 compared to 2018

In this revenue discussion, we may refer to revenue growth on a constant currency basis. Constant currency measures exclude the impact of changes in currency exchange rates since the prior period under comparison. We believe that excluding the impacts of currency exchange rates provides a better understanding of the underlying revenue performance. Constant currency change is calculated by converting the current period non-U.S. dollar denominated revenue using the prior year's exchange rate. Where constant currency measures are not provided, the actual change and constant currency change are the same.

Equipment sales in the quarter decreased 9% as reported and 7% at constant currency. Equipment sales in North America Mailing accounted for 5% of the decrease, primarily due to lower sales of our bottom-of-the-line products. International Mailing equipment sales accounted for 2% of the decline, mainly due to Market Exits.

Equipment sales in the first half of 2019 decreased 13% as reported and 11% at constant currency. Equipment sales in North America Mailing accounted for 8% of the decrease primarily due to lower sales of our bottom-of-the-line products. International Mailing equipment sales accounted for 3% of the decline mainly due to Market Exits.

Supplies revenue decreased 16% as reported in the quarter and first half of 2019. At constant currency, supplies decreased 15% in the quarter and 14% in the first half of 2019. Market Exits accounted for 5% and 4% of the decline in the quarter and year-to-date periods, respectively, and the remainder of the decline was due to a worldwide decline in our mailing business.

Software revenue decreased 21% as reported and 20% at constant currency in the quarter, primarily due to lower license revenue partially offset by higher data updates revenue. Software revenue decreased 13% as reported and 11% at constant currency in the first half of 2019, primarily due to lower license revenue, as the prior year period benefited from a large Location Intelligence deal, partially offset by higher data updates and SaaS revenue.

Rentals revenue declined 5% as reported and 4% at constant currency in the quarter and decreased 9% as reported and 7% at constant currency in the first half of 2019, primarily due to a worldwide decline in our meter population.

Financing revenue decreased 5% as reported and 4% at constant currency in the quarter, and decreased 4% as reported and 3% at constant currency in the first half of 2019, primarily due to a declining portfolio. Market Exits accounted for 1% of the decline in the quarter and year-to-date periods, respectively.

Support services revenue decreased 8% as reported and 7% at constant currency in both the quarter and first half of 2019, primarily due to a worldwide decline in our meter population.

Business services revenue increased 13% as reported and 14% at constant currency in the quarter and increased 9% in the first half of 2019, primarily due to growth in domestic parcel and shipping solutions volumes, partially offset by lower cross border volumes.

Cost of Revenue - 2019 compared to 2018

Cost of revenue as a percent of revenue in the quarter increased to 57.1% from 52.5% in the prior year period. Cost of equipment sales as a percent of equipment revenue increased to 68.5% from 62.8%. During the quarter, higher tariffs impacted equipment sales margins by 2 percentage points and higher engineering costs impacted equipment sales margins by 1 percentage point. The remaining decline was mainly due to product mix. Cost of software as a percent of software revenue increased to 32.4% from 29.4%, primarily due to the decline in license revenue. Cost of rentals as a percent of rentals revenue increased to 45.6% from 43.5%, primarily due to the decline in revenue.

Cost of revenue as a percent of revenue in the first half of 2019 increased to 56.8% from 52.3% in the prior year period. Cost of equipment sales as a percent of equipment revenue increased to 69.7% from 60.6%. In the first quarter, we recorded a charge related to a SendPro C tablet replacement program to address an underlying battery longevity issue. This adversely impacted equipment sales margins by five percentage points. In addition, the impact of tariffs reduced equipment sales margins one percentage point and higher engineering costs adversely impacted equipment sales margins by just under one percentage point. Costs of business services as a percent of business services revenue increased to 80.6% from 77.3%, primarily due to higher labor, transportation and postal costs.

We allocate a portion of our total cost of borrowing to financing interest expense. In computing financing interest expense, we assume an 8:1 debt to equity leverage ratio and apply our overall effective interest rate to the average outstanding finance receivables.

Selling, general and administrative (SG&A)

SG&A expense of $279 million in the quarter decreased 4% compared to the prior period, primarily due to lower professional fees of $8 million and lower bad debt expense of $5 million. SG&A expense of $580 million for the first half of 2019, decreased 2% compared to the prior period, primarily due to lower employee-related costs of $18 million and lower professional fees of $7 million.

Research and development (R&D)

R&D expense decreased 4% in the quarter and 8% in the first half of 2019, primarily due to lower spending in Global Ecommerce.

Restructuring charges and asset impairments, net

Restructuring charges and asset impairments, net in the three and six months ended June 30, 2019 were $7 million and $11 million, respectively. These charges consisted of $6 million and $10 million, respectively, of restructuring related charges and $1 million of asset impairment charges. Restructuring charges and asset impairments, net in the three and six months ended June 30, 2018 were $12 million and consisted of restructuring related charges. See Note 10 to the Condensed Consolidated Financial Statements for further information.

Other (income) expense

Other (income) expense represents the loss on Market Exits.

Income taxes

See Note 13 to the Condensed Consolidated Financial Statements for further information.

Discontinued Operations

See Note 4 to the Condensed Consolidated Financial Statements for further information.

Business Segment Results

The principal products and services of each reportable segment are as follows:

Commerce Services:

Global Ecommerce: Includes the revenue and related expenses from global cross-border ecommerce transactions and domestic retail and ecommerce shipping solutions, including fulfillment and returns.

Presort Services: Includes revenue and related expenses from sortation services to qualify large volumes of First Class Mail, Marketing Mail and Bound and Packet Mail (Marketing Mail Flats and Bound Printed Matter) for postal worksharing discounts.

Small & Medium Business (SMB) Solutions:

North America Mailing: Includes the revenue and related expenses from mailing and shipping solutions, financing, services, supplies and other applications for small and medium businesses to help simplify and save on the sending, tracking and receiving of letters, parcels and flats in the U.S. and Canada.

International Mailing: Includes the revenue and related expenses from mailing and shipping solutions, financing, services and supplies for small and medium businesses to help simplify and save on the sending, tracking and receiving of letters, parcels and flats in areas outside the U.S. and Canada.

Software Solutions:

Includes the revenue and related expenses from customer engagement, customer information, location intelligence software and data.

Management uses segment earnings before interest and taxes (EBIT) to measure profitability and performance at the segment level and believes that it provides investors a useful measure of operating performance and underlying trends of the business. We determine segment EBIT by deducting from segment revenue the related costs and expenses attributable to the segment. Segment EBIT excludes interest, taxes, general corporate expenses, restructuring charges and other items not allocated to a particular business segment. Segment EBIT may not be indicative of our overall consolidated performance and therefore, should be read in conjunction with our consolidated results of operations.

Segment information for the three and six months ended June 30, 2019 and 2018 is presented below:

	Revenue							
	Three Months Ended June 30,				**Six Months Ended June 30,**			
	2019	2018	Actual % change	Constant currency % change	**2019**	2018	Actual % change	Constant currency % change
Global Ecommerce	**$ 282,319**	$ 239,100	18 %	19 %	**$ 548,573**	$ 485,690	13 %	14 %
Presort Services	**128,138**	122,730	4 %	4 %	**262,985**	257,188	2 %	2 %
Commerce Services	**410,457**	361,830	13 %	14 %	**811,558**	742,878	9 %	10 %
North America Mailing	**303,417**	318,901	(5)%	(5)%	**618,891**	659,712	(6)%	(6)%
International Mailing	**74,699**	92,806	(20)%	(15)%	**153,208**	191,236	(20)%	(15)%
SMB Solutions	**378,116**	411,707	(8)%	(7)%	**772,099**	850,948	(9)%	(8)%
Software Solutions	**72,206**	91,703	(21)%	(20)%	**145,524**	167,997	(13)%	(11)%
Total	**$ 860,779**	$ 865,240	(1)%	— %	**$ 1,729,181**	$ 1,761,823	(2)%	(1)%

	EBIT					
	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2018	% change	**2019**	2018	% change
Global Ecommerce	**$ (15,576)**	$ (5,993)	(160)%	**$ (30,176)**	$ (13,704)	(120)%
Presort Services	**15,462**	12,565	23 %	**30,528**	39,591	(23)%
Commerce Services	**(114)**	6,572	(102)%	**352**	25,887	(99)%
North America Mailing	**112,804**	120,139	(6)%	**223,417**	248,707	(10)%
International Mailing	**11,934**	13,091	(9)%	**23,724**	29,113	(19)%
SMB Solutions	**124,738**	133,230	(6)%	**247,141**	277,820	(11)%
Software Solutions	**2,002**	18,433	(89)%	**3,694**	20,925	(82)%
Total Segment EBIT	**$ 126,626**	$ 158,235	(20)%	**$ 251,187**	$ 324,632	(23)%

Global Ecommerce

Global Ecommerce revenue increased 18% as reported and 19% at constant currency in the quarter and 13% as reported and 14% at constant currency in the first half of 2019 primarily due to growth in domestic parcel and shipping solutions volumes, partially offset by lower cross border volumes. EBIT for the quarter was a loss of $16 million compared to a loss of $6 million in the prior year and EBIT for the first half of 2019 was a loss of $30 million compared to a loss of $14 million in the prior year period. The higher loss was primarily driven by a decline in margins as the business continues to shift to faster growing, lower margin services plus continued investments in market growth opportunities, including marketing programs and new facilities, and higher labor costs. EBIT for the first half of the year was also impacted by higher postal costs in the first quarter due to a temporary delay in the approval of our Negotiated Service Agreement with the USPS.

Presort Services

Presort Services revenue increased 4% in the quarter. Higher volumes of mail processed contributed 2% of the increase, product mix contributed 1% of the increase and higher revenue per piece, primarily related to First Class mail, contributed an additional 1%. EBIT increased 23% in the quarter, primarily due to the increase in revenue and lower labor costs of $1 million, partially offset by higher consulting fees of $1 million.

Presort Services revenue increased 2% in the first half of 2019, primarily due to higher volumes of mail processed. EBIT decreased 23% in the first half of 2019, primarily due to higher transportation costs of $3 million, higher consulting fees of $3 million and higher bad debt expense of $2 million.

North America Mailing

North America Mailing revenue decreased 5% in the quarter, primarily due to:
- 2% from lower rentals and 1% from lower supplies due to a declining meter population;
- 1% from lower equipment sales primarily due to lower sales of our bottom-of-the-line products; and
- 1% from lower financing fees.

EBIT decreased 6% in the quarter, primarily due to the decline in revenue and increased costs from tariffs, partially offset by lower operating expenses of $8 million from cost savings initiatives.

North America Mailing revenue decreased 6% in the first half of 2019, primarily due to:
- 2% from lower rentals, 1% from supplies and 1% from support services, all due to a declining meter population; and
- 2% from lower equipment sales, primarily due to lower sales of our bottom-of-the-line products.

EBIT decreased 10% in first half of 2019, primarily due to the decline in revenue and lower margins from a charge in the first quarter related to a SendPro C tablet replacement program to address an underlying battery longevity issue and increased costs from tariffs, partially offset by lower operating expenses of $12 million from cost savings initiatives.

International Mailing

International Mailing revenue decreased 20% as reported and 15% at constant currency in the quarter primarily due to Market Exits and lower supplies revenue.

International Mailing revenue decreased 20% as reported and 15% at constant currency in the first half of 2019, primarily due to:
- 10% from Market Exits, and
- 2% from lower supplies, 1% from lower support services and 1% from lower business services due to a declining meter population.

EBIT decreased 9% in the quarter and 19% during the first half of 2019, primarily due to the decline in revenue, partially offset by lower costs due to cost savings initiatives.

Software Solutions

Software revenue decreased 21% as reported and 20% at constant currency in the quarter, primarily due to:
- 22% from lower license revenue, primarily related to the timing of new license deals and renewals; partially offset by
- 2% from higher data updates revenue.

Software revenue decreased 13% as reported and 11% at constant currency in the first half of 2019, primarily due to:
- 14% from lower license revenue and a prior year benefit from a large license deal; partially offset by
- 3% from higher data updates and SaaS revenue.

EBIT declined 89% in the quarter and 82% in the first half of 2019, primarily due to the decline in revenue.

LIQUIDITY AND CAPITAL RESOURCES

We believe that existing cash and investments, cash generated from operations and borrowing capacity through the capital markets will be sufficient to support our current cash needs, including discretionary uses such as capital investments, dividends, strategic acquisitions and share repurchases. Cash and cash equivalents and short-term investments were $831 million at June 30, 2019 and $927 million at December 31, 2018. We continuously review our credit profile through published credit ratings and the credit default swap market. We also monitor the creditworthiness of those banks acting as derivative counterparties, depository banks or credit providers.

Cash and cash equivalents held by our foreign subsidiaries were $165 million at June 30, 2019 and $189 million at December 31, 2018, and are generally used to support the liquidity needs of these subsidiaries.

Cash Flow Summary

Changes in cash and cash equivalents for the six months ended June 30, 2019 and 2018 were as follows:

	2019	2018	Change
Net cash provided by operating activities	**$ 86,782**	$ 154,493	$ (67,711)
Net cash used in investing activities	**(36,151)**	(80,785)	44,634
Net cash used in financing activities	**(146,770)**	(379,818)	233,048
Effect of exchange rate changes on cash and cash equivalents	**(81)**	(13,041)	12,960
Change in cash and cash equivalents	**$ (96,220)**	$ (319,151)	$ 222,931

Operating Activities

Cash provided by operating activities in the first half of 2019 declined $68 million compared to the prior year period. Cash flows from continuing operations decreased $19 million, primarily due to lower income from continuing operations of $73 million, partially offset by lower restructuring payments of $13 million, a non-cash loss on Market Exits of $18 million, and working capital changes of $22 million, primarily related to collection of accounts receivable and the timing of payments of accounts payable and accrued liabilities. Cash flows from discontinued operations declined $49 million as we sold the Production Mail Business in July 2018.

Investing Activities

Cash used in investing activities in the first half of 2019 was $36 million, consisting primarily of capital expenditures of $61 million and a decline in reserve account balances of $8 million partially offset by net proceeds of $47 million from investment activities. Cash used in investing activities in the first half of 2018 was $81 million, consisting primarily of capital expenditures of $79 million.

Financing Activities

In the first half of 2019, cash used in financing activities included $100 million to repurchase 17.4 million shares of common stock, $25 million to repay term loan debt and $18 million of common stock dividend payments.

In the first half of 2018, cash was used to repay $260 million of debt and pay dividends of $70 million. Cash used in financing activities was also impacted by the settlement of $46 million related to a timing difference between our investing excess cash at the subsidiary level and our funding of an intercompany transfer at year end.

Financings and Capitalization

We are a "Well-Known Seasoned Issuer" within the meaning of Rule 405 under the Securities Act, which allows us to issue debt securities, preferred stock, preference stock, common stock, purchase contracts, depositary shares, warrants and units in an expedited fashion. We have a committed credit facility of $1 billion that expires in January 2021. As of June 30, 2019, we have not drawn upon the credit facility.

Interest rates on certain notes are subject to adjustment based on changes in our credit ratings. In April 2019, Moody's lowered our corporate credit rating from Ba1 to Ba2. As a result, the interest rate on the May 2022 notes increased 0.25% in the quarter and the interest rates on the September 2020 notes, October 2021 notes and April 2023 notes will increase 0.25% effective after the next interest payment date.

In July 2019, we extended the maturity date of a $150 million term loan from August 2019 to November 2019.

Dividends and Share Repurchases

In February 2019, our Board of Directors approved an incremental $100 million for share repurchases, raising our authorization level to $121 million. During the first half of 2019, we repurchased 17.4 million shares at an aggregate cost of $100 million. At June 30, 2019, we had remaining authorization to repurchase up to $21 million of our common shares. Also, during the first half of the year, we paid dividends of $18 million. Each quarter, our Board of Directors considers our recent and projected earnings and other capital needs and priorities in deciding whether to approve the payment, as well as the amount, of a dividend. There are no material restrictions on our ability to declare dividends.

In June 2019, we redeemed of all of the outstanding shares of 4% Convertible Cumulative Preferred Stock (Preferred Stock) and $2.12 Convertible Preference Stock (Preference Stock). The redemption of these shares did not have a material impact on our consolidated financial statements.

Off-Balance Sheet Arrangements

At June 30, 2019, we had no off-balance sheet arrangements that have, or are reasonably likely to have, a material effect on our financial condition, results of operations or liquidity.

Critical Accounting Estimates

Goodwill

Based on the year-to-date operating results of our Global Ecommerce reporting unit, we performed a goodwill impairment test to assess the adequacy of the carrying value of goodwill. As a result of our test, we determined that the estimated fair value of the reporting unit exceeded its carrying value by less than 20%. The assumptions used to estimate fair value were based on projections incorporated in our current operating plans as well as other available information. By their nature, projections are uncertain. Potential events and circumstances, such as declining revenue, loss of client contracts and inability to acquire new clients could have an adverse effect on our assumptions.

The goodwill balance related to the Global Ecommerce reporting unit at June 30, 2019 was $609 million. We will continue to monitor and evaluate the carrying value of goodwill for this reporting unit, and should facts and circumstances change, a non-cash impairment charge could be recorded in the future.

Property, Plant and Equipment, net

Included in property, plant and equipment, net is $37 million of capitalized software related to the development of a new enterprise resource planning (ERP) system in certain of our international markets. In connection with recent market exits in six international markets and transition to higher growth markets, we are currently reviewing our international infrastructure, including ERP system scope and implementation plans. The time period required to successfully implement a large scale ERP, as well as potential changes to our infrastructure, could necessitate a reduced implementation footprint and impact our ability to fully recover the value of this asset.

Regulatory Matters

There have been no significant changes to the regulatory matters disclosed in our 2018 Annual Report.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

There were no material changes to the disclosures made in our 2018 Annual Report.

Item 4: Controls and Procedures

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

With the participation of our CEO and CFO, management evaluated our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act) and internal controls over financial reporting. Our CEO and CFO concluded that, as of the end of the period covered by this report, such disclosure controls and procedures were effective to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the required time periods. In addition, no changes in internal control over financial reporting occurred during the quarter covered by this report that materially affected, or are reasonably likely to materially affect, such internal control over financial reporting. It should be noted that any system of controls is based in part upon certain assumptions designed to obtain reasonable (and not absolute) assurance as to its effectiveness, and there can be no assurance that any design will succeed in achieving its stated goals. Notwithstanding this caution, the CEO and CFO have reasonable assurance that the disclosure controls and procedures were effective as of June 30, 2019.

PART II. OTHER INFORMATION

Item 1: Legal Proceedings

See Note 14 to the Condensed Consolidated Financial Statements.

Item 1A: Risk Factors

There were no material changes to the risk factors identified in our 2018 Annual Report.

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

Repurchases of Equity Securities

We periodically repurchase shares of our common stock in the open market to manage the dilution created by shares issued under employee stock plans and for other purposes. In February 2019, the Board of Directors approved an additional $100 million for share repurchases giving us the ability to repurchase up to $121 million of our shares.

The following table provides information about purchases of our common stock during the three months ended June 30, 2019:

	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plans or programs (in thousands)
Beginning balance				$81,880
April 1, 2019 - April 30, 2019	2,645,774	$ 6.93	2,645,774	$63,553
May 1, 2019 - May 31, 2019	4,616,043	$ 5.17	4,616,043	$39,684
June 1, 2019 - June 30, 2019	4,532,041	$ 4.12	4,532,041	$21,022
	11,793,858	$ 5.16	11,793,858	

Item 6: Exhibits

Exhibit Number	Description	Exhibit Number in this Form 10-Q
3(c)	Restated Certificate of Incorporation of Pitney Bowes Inc. (incorporated by reference to Exhibit 3(c) to the Form 8-K filed with the Commission on May 12, 2011)	3(c)
3	Pitney Bowes Inc. Amended and Restated By-laws effective May 13, 2013 (incorporated by reference to Exhibit 3 to the Form 8-K filed with the Commission on May 15, 2013)	3
10	Amended and Restated Pitney Bowes Inc. 2018 Stock Plan (incorporated by reference to Annex A to the Definitive Proxy Statement for the 2019 Annual Meeting of Stockholder filed with the Commission on March 15, 2019)	10
31.1	Certification of Chief Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended	31.1
31.2	Certification of Chief Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended	31.2
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350	32.1
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350	32.2
101.INS	XBRL Report Instance Document	
101.SCH	XBRL Taxonomy Extension Schema Document	
101.CAL	XBRL Taxonomy Calculation Linkbase Document	
101.DEF	XBRL Taxonomy Definition Linkbase Document	
101.LAB	XBRL Taxonomy Label Linkbase Document	
101.PRE	XBRL Taxonomy Presentation Linkbase Document	
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2019, formatted in Inline XBRL.	

* Pursuant to Item 601(b)(2) of Regulation S-K, certain exhibits and schedules have been omitted. The registrant hereby agrees to furnish supplementally a copy of any omitted attachment to the SEC upon request.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PITNEY BOWES INC.

Date: August 6, 2019

/s/ Stanley J. Sutula III

Stanley J. Sutula III
Executive Vice President and Chief Financial Officer (Principal Financial Officer)

/s/ Joseph R. Catapano

Joseph R. Catapano
Vice President, Chief Accounting Officer
(Principal Accounting Officer)

Exhibit 31.1

CERTIFICATION PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Marc B. Lautenbach, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pitney Bowes Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2019

/s/ Marc B. Lautenbach

Marc B. Lautenbach

President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Stanley J. Sutula III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pitney Bowes Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2019

/s/ Stanley J. Sutula III

Stanley J. Sutula III

Executive Vice President and Chief Financial Officer (Principal Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Pitney Bowes Inc. (the "Company") on Form 10-Q for the period ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Marc B. Lautenbach, President and Chief Executive Officer of the Company, certify, to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Marc B. Lautenbach

Marc B. Lautenbach

President and Chief Executive Officer

Date: August 6, 2019

The foregoing certification is being furnished solely to accompany this report pursuant to 18 U.S.C. §1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company.

Exhibit 32.2

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Pitney Bowes Inc. (the "Company") on Form 10-Q for the period ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stanley J. Sutula III, Executive Vice President, Chief Operating Officer and Chief Financial Officer of the Company, certify, to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Stanley J. Sutula III

Stanley J. Sutula III

Executive Vice President and Chief Financial Officer (Principal Financial Officer)

Date: August 6, 2019

The foregoing certification is being furnished solely to accompany this report pursuant to 18 U.S.C. §1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company.