IMAGISTICS INTERNATIONAL INC
Form 10-K
March 28, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

[ ] 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 1-16449

IMAGISTICS INTERNATIONAL INC.
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE (State or Other Jurisdiction of Incorporation or Organization)	06-1611068 (I.R.S. Employer Identification No.)
100 OAKVIEW DRIVE TRUMBULL, CONNECTICUT (Address of Principal Executive Offices)	06611 (Zip Code)

(203) 365-7000
(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
COMMON STOCK, PAR VALUE $.01 PER SHARE (TOGETHER WITH ASSOCIATED PREFERRED STOCK PURCHASE RIGHTS)	THE NEW YORK STOCK EXCHANGE

INDICATE BY CHECK MARK WHETHER THE REGISTRANT HAS (1) 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 X NO__

INDICATE BY CHECK MARK IF DISCLOSURE OF DELINQUENT FILERS PURSUANT TO ITEM 405 OF REGULATION S-K IS NOT CONTAINED HEREIN, AND WILL NOT BE CONTAINED, TO THE BEST OF REGISTRANT'S KNOWLEDGE, IN DEFINITIVE PROXY OR INFORMATION STATEMENTS INCORPORATED BY REFERENCE IN PART III OF THIS FORM 10-K OR ANY AMENDMENT TO THIS FORM 10-K. [X]

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS AN ACCELERATED FILER (AS DEFINED IN EXCHANGE ACT RULE 12b-2). YES X NO__

THE AGGREGATE MARKET VALUE OF THE VOTING STOCK HELD BY NON-AFFILIATES WAS $410,330,110 AS OF JUNE 28, 2002. THE AMOUNT SHOWN IS BASED ON THE CLOSING PRICE OF IMAGISTICS COMMON STOCK AS REPORTED ON THE NEW YORK STOCK EXCHANGE COMPOSITE TAPE ON THAT DATE.

NUMBER OF SHARES OF IMAGISTICS COMMON STOCK, PAR VALUE $.01, OUTSTANDING AS OF MARCH 14, 2003: 17,446,417

DOCUMENTS INCORPORATED BY REFERENCE:

PORTIONS OF THE IMAGISTICS INTERNATIONAL INC. PROXY STATEMENT FOR THE 2003 ANNUAL MEETING OF STOCKHOLDERS - PART III

==

IMAGISTICS INTERNATIONAL INC.

ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2002

TABLE OF CONTENTS

ITEM	DESCRIPTION	PAGE
	PART I	
1	Business	3
2	Properties	12
3	Legal Proceedings	12
4	Submission of Matters to a Vote of Security Holders	12
	Executive Officers	13
	PART II	
5	Market for Registrant's Common Equity and Related Stockholder Matters	15
6	Selected Financial Data	16
7	Management's Discussion and Analysis of Financial Condition and Results of Operations	17
7A	Quantitative and Qualitative Disclosures About Market Risk.	30
8	Financial Statements and Supplementary Data	31
9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.	57
	PART III	
10	Directors and Executive Officers of the Registrant	58
11	Executive Compensation	58

12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	58
13	Certain Relationships and Related Transactions	58
14	Controls and Procedures	58

PART IV

15	Exhibits, Financial Statement Schedules, and Reports on Form 8-K	59
	Signatures	61
	Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	62

Certain information contained in this filing with the Securities Exchange Commission on Form 10-K that are not purely historical are forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that are based on management's beliefs, certain assumptions and current expectations. These statements may be identified by their use of forward-looking terminology such as the words "expects," "projects," "anticipates," "intends" and other similar words. Such forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to, general economic, business and market conditions, competitive pricing pressures, timely development and acceptance of new products, our reliance on third party suppliers, potential disruptions affecting the international shipment of goods, potential disruptions in implementing information technology systems, our ability to create brand recognition under our new name and currency and interest rate fluctuations. Certain of these risks and uncertainties are discussed more fully in Part II, Management's Discussion and Analysis of Financial Condition and Results of Operations, Risk Factors That Could Cause Results to Vary and elsewhere in this filing on Form 10-K. The forward-looking statements contained herein are made as of the date hereof and we, except as may be required by law, do not undertake any obligation to update any forward-looking statements, whether as a result of future events, new information or otherwise.

PART I

ITEM 1. BUSINESS

GENERAL

Imagistics International Inc. ("Imagistics" or the "Company") is a large direct sales, service and marketing organization offering document imaging solutions, including copiers, facsimile machines and multifunctional products, sometimes referred to as MFPs, in the United States and the United Kingdom. We provide our customers with flexible, comprehensive document imaging products and services at competitive market prices. We market our products to large corporate and government customers, which we refer to as major accounts, as well as to mid-sized and regional businesses which we refer to as commercial accounts. Historically, we have focused our marketing efforts on major national account customers for facsimile products and commercial account customers for copiers. We are seeking to capitalize on our proven leadership position with major national accounts in the facsimile market to expand our sales of copier/MFPs, both in the United States and abroad.

Pitney Bowes Inc. began marketing and distributing copiers in 1967 and facsimile products in 1982. Pitney Bowes' office systems division, which combined the copier and facsimile product lines, was created in 1998. In 2000, Pitney Bowes decided to spin-off the United States and the United Kingdom operations of the office systems division to, among other things, enable us to more fully realize our potential within both the copier and facsimile markets. In connection with the planned spin-off, Pitney Bowes incorporated the Company as Pitney Bowes Office Systems, Inc. in February 2001 and, in August 2001, contributed substantially all of the business and assets of its office systems division to the Company. The name of the Company was changed to Imagistics International Inc. on October 12, 2001, and on December 3, 2001, 100% of the common stock of the Company was distributed by Pitney Bowes to the common shareholders of Pitney Bowes based on a distribution ratio of 1 share of the Company's common stock for every 12.5 shares of Pitney Bowes common stock held at the close of business on November 19, 2001 (the "Distribution").

Our direct sales and service network, located throughout the United States and the United Kingdom, provides a broad range of document imaging products and services. We currently have an installed base of approximately 300,000 copiers, facsimile and MFPs in use. We consider products in use if they are subject to a current rental or service agreement. Based on the needs of our customers, our representatives offer specialized document imaging options including digital, analog, color and/or networked products and systems. We offer a full array of copiers, facsimile and MFP products that satisfy our customers' needs ranging from a few hundred copies to hundreds of thousands of copies per month. We have historically offered our products under the brand name "Pitney Bowes," which we believe is internationally recognized and associated with quality products. In 2002, we began introducing products under the "Imagistics" brand name, which has been used in conjunction with the "Pitney Bowes Office Systems" name. All new products are offered under the Imagistics brand name. We also provide aftermarket support to our customers through service and supply contracts, as well as the sale of consumable supplies, primarily toner, for all of our products. In addition, we offer document management software systems and network controllers to serve our digital copiers/MFPs. We have approximately 2,350 fully trained sales and service representatives in nearly 150 locations that assist customers with all of their product and service needs.

For maximum flexibility in product development, we do not manufacture any of our products, but rather we purchase equipment and software from a number of different firms. We impose high quality standards on all of the equipment that we offer. Historically, we have used manufacturers such as Minolta, Matsushita and Kyocera Mita to produce our copier/MFP equipment and Matsushita, Muratec and Brother to produce our facsimile equipment. We believe that our market position and long-term relationships with many of the top manufacturers allow us to negotiate favorable contracts. During 2002, we added Sharp as a manufacturer of Imagistics copier and multifunctional equipment.

Our primary targets are large corporate customers and government entities. Our client base consists of over 70% of the Fortune 500 companies and over 60% of the Fortune 1000 companies. We serve major companies in the automotive, financial services and information technology industries as well as others. While continuing to strengthen and expand our relationships with our current customers, we have also established new marketing initiatives geared specifically toward more efficiently serving mid-sized and regional companies or commercial users, while shifting our focus to multi-location customers. We plan to maintain our relationships with commercial users through the use of our trained team of commercial sales representatives. Due to our diverse customer base and the recurring nature of our rental, service and supply revenues, seasonal variations do not significantly impact our business.

In connection with the spin-off, we entered into a transition services agreement with Pitney Bowes providing for certain essential services for a limited period following the spin-off, agreements with Pitney Bowes Management Services and Pitney Bowes of Canada, under which they may choose to continue to purchase and use our products and a vendor financing agreement providing for Pitney Bowes Credit Corporation ("PBCC") to continue as our primary lease vendor on a multi-year basis after the spin-off, an intellectual property agreement with Pitney Bowes allowing us to continue using the "Pitney Bowes" brand name in the United States and the United Kingdom for a period of up to two years following the spin-off, a tax separation agreement and certain other agreements.

AVAILABLE INFORMATION

Additional information about us is available on the Internet at our corporate website, www.imagistics.com, or our investor website, www.IGIinvestor.com. In addition to other information, we make available free of charge on our investor website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after electronically filing such material with or furnishing to, the Securities and Exchange Commission. The Securities and Exchange Commission maintains an Internet site at http://www.sec.gov, which contains reports, proxy and information statements, and other information regarding us. You may also read and copy any document we file with the SEC at its Public Reference Room, 450 Fifth Street, N.W., Washington, D.C. 20549. The SEC can be contacted at 1-800-SEC-0330 for further information on the operation of the Public Reference Room.

INDUSTRY OVERVIEW

The document imaging and management industry consists of the production and supply of various imaging products, as well as the provision of pre-sale and after-market product services. We have been a leader in the facsimile machine segment of this industry for 20 years and have participated in the copier business for over 35 years. Our competitors include the distribution units of large office equipment manufacturers such as Ricoh, Canon and Xerox, and other independent distributors such as Ikon, Danka and Global Imaging as well as numerous local office equipment dealers and, as technologies continue to merge, traditional printer companies such as Hewlett Packard and Lexmark.

Companies in the document imaging industry sell products primarily through three channels of distribution: direct sales, independent dealer sales and retail sales. Direct sales involve the marketing of products by sales representatives working directly for the company whose products they offer. Independent dealer sales result from customer calls performed by independent dealer outlets that generally sell manufacturer-branded products. Retail sales include sales of low-end products, typically through national retail outlets or local smaller retailers.

The document imaging industry is rapidly changing. Whereas most corporate customers have relied upon products that utilize analog technology in the past, the majority of our customers now require products that utilize digital technology. Currently, essentially all new copier placements are digital machines. Digital products, unlike analog products, can connect with computer networks and communicate with other office imaging equipment, enabling customers to more efficiently connect and utilize their document management solutions over a wide array of more useful features, such as higher quality copies, color capability, finishing capability and the multifunctional capability of copying, faxing, scanning and printing. The move toward digital products has spurred document imaging providers to hire and train sales, service and maintenance personnel with respect to these digital products. In addition, technological advances and reduced pricing have led to a trend of increased placements of color copiers and MFPs.

Copiers and facsimile machines are no longer the only options available to corporate customers. The use of e-mail, Internet faxing and desktop and stand-alone printers that offer a range of document imaging options has changed the manner in which documents are reproduced and distributed within the workplace. As a result of recent technological advances in electronic communication and document sharing, greater options for document imaging and management exist within the corporate workplace. These events, in turn, have created a new opportunity and challenge for document image providers to develop new

options and cost-conscious solutions for the workplace and provide their customers with multi-faceted products in order to remain competitive.

Today's busy corporate environment demands office machines and systems that work faster and more efficiently than ever before, while providing high-quality imaging solutions. The current proliferation of MFPs designed to address copying, faxing, printing and scanning needs in the workplace is a direct result of these demands. MFPs efficiently send, receive and print documents, thus eliminating office bottlenecks, improving employee productivity and saving valuable workspace in offices of all sizes. As workplaces increasingly rely on computer networks, document imaging providers are also developing more products that allow for shared communication and that work seamlessly with other office systems. These networked solutions offer greater speed and, by diverting print streams to more efficient output devices, can lower a company's imaging costs significantly. The cost of managing documents is high for most companies and increased use of the Internet for desktop research and printing has further increased the volume and cost of imaging activity for most businesses. In addition to searching for ways to minimize imaging costs, customers continue to demand high-performance machines that produce well-finished documents. In addition, corporations struggle with the issue of how to deploy new technology and get users to embrace it. Currently, the industry is producing a greater number of color machines to offer customers a range of options for their copying needs. Color machines allow companies to increase their level of in-house document production and produce "finished" copies for meetings, presentations and mailings. The use of color machines may minimize or eliminate the need for outside document production services and can offer tremendous savings to companies.

Corporate customers are also searching for new ways to manage their document imaging needs. Corporations are continuing to outsource non-core competencies, including document imaging. This is especially true as the complexity of these solutions increases and corporations seek to avoid hiring, training and retraining personnel to use new machines. In recent years, many large document-imaging providers have developed management services capabilities to address this need. Through management services relationships, document imaging providers offer a full range of services, from installation and training of employees to complete on-site document imaging management, including selection of equipment and provision of personnel, allowing corporate customers to choose the solution that is best for them.

STRATEGY

Our strategy is to become the leading independent direct provider of enterprise office imaging and document solutions by providing world class products and services with unparalleled customer support and satisfaction with a focus on multiple location customers, thus building value for our shareholders. To that end, we plan to build on our strengths and pursue the following initiatives:

MAINTAIN AND FURTHER STRENGTHEN MAJOR ACCOUNT RELATIONSHIPS. We have maintained successful relationships in the facsimile area with many large Fortune 1000 companies for 20 years. We believe that our strong relationships with many of these customers, as well as our integrated sales and service organization and the broad national reach of our organization, have been the keys to our success in acquiring new business and retaining our current customers. In 2001 we reorganized our sales effort to create customer-centric national account and commercial user sales organizations, each offering our full range of products to their respective customer bases. This customer-centric organization allows us to leverage our success in the facsimile market to sell copier products and MFPs to these major accounts while also expanding our product offerings to our commercial user customers.

In light of current economic pressures, technological advances and changes in the corporate workplace, we must strive to meet our customers' needs in new ways. As many corporate customers seek to reduce administrative expenses through centralized purchasing and consolidation of their vendors, we believe that we are well positioned to offer a range of products and services, including technological innovations and new options, from a single source. Because we have continuity with so many of our long-standing major account customers, we believe they will be receptive to expanding their relationships with us by purchasing additional products and services.

EXPAND OUR PRODUCT OFFERINGS THROUGH OUR SOURCING AND DISTRIBUTION RELATIONSHIPS. We believe that one of our greatest strengths is our strategy of sourcing cost-effective "families" of products from different manufacturers to best suit our customers' requirements. We seek to form relationships with various manufacturers, each with different specialties and different strengths. Although we source from multiple vendors, all of our products meet demanding specifications. In addition, we supplement our product offerings with value-added software and service offerings to optimize ease of use and operation.

We continuously evaluate various imaging products from multiple manufacturers. We believe that our supply contracts provide us access to the best products. In 2002, we began to change the majority of new and field installed "Pitney Bowes" branded products to the Imagistics brand name. We expect to complete this activity during 2003.

We believe that the transition to digital copier/MFPs provides an important opportunity for us to reach new customers as manufacturers develop machines with increased capabilities. We continue to launch new digital products that offer faster, more efficient multifunctional features for our high-volume corporate customers. These new digital products offer increased document imaging options and capabilities as well as overall savings. We will continue to expand our digital document imaging product offerings in order to meet the needs of our current customers and to allow us to reach a new customer base. In order to remain competitive in light of the many technological options that are available to our customers, we will continue to collaborate with companies that develop integrated document solutions. Our success will also depend on our ability to accurately gauge shifts in market demand and to anticipate potentially unforeseen changes in market dynamics that may result from new technologies.

INCREASE OUTREACH OF OUR DIRECT SALES AND SERVICE FORCE TO THE COPIER MARKET. Our sales and service business aims to provide major account customers with one point of contact for their product needs. Regardless of their location in the United States, our customers can contact one of our representatives in their geographic area and receive consistent sales and service assistance. This allows us to control the quality of our sales and service effort and ensure a consistent experience for our customers. It also provides us with an opportunity to keep in regular contact with our customers, which we believe often leads to future sales. In some remote areas, however, we rely on Imagistics-trained Pitney Bowes employees for service of our products. Our marketing strategy is to not only offer an extensive portfolio of product offerings and diverse technology to our Fortune 1000 customers, but to establish the same kind of long-term, copier-based relationships with our customers as we have established with our facsimile customers by utilizing our national direct sales and service organization to meet their needs as well.

FOCUS ON CUSTOMER NEEDS. Since we have direct access to our end user customers through our direct sales force, we are able to monitor their changing needs and requirements and respond in an appropriate manner. Although many of our customers use digital products and have reacted favorably to the digital products we offer and we expect that they will continue to grow in the future, not all of our customers have migrated to digital systems at the fast pace that many in our industry predicted. Our goal is to meet all of our customers' needs and where price is particularly critical, we offer them refurbished and remanufactured analog and refurbished digital systems. Because of our purchasing structure, we believe that we will be able to provide digital equipment and solutions as our customers require them. Because we source digital products and train our workforce on the sales, use and service of these products, and because we continue to research and source new products, we believe that we will be able to respond effectively as the industry changes in the future. However, if we fail to accurately predict changes in market demand we may lose sales or incur losses due to excess inventories.

PURSUE AN EXPANSION STRATEGY. In order to remain competitive, we will continue to expand both our copier and our facsimile businesses in geographic markets in the United States and abroad. Our direct sales and service strategy has been an effective method for attracting and retaining customers and we believe we can use it to further expand our copier business. Although the facsimile market as a whole is in decline, we will seek to capture competitive copier accounts while maintaining and leveraging our existing facsimile customer base. We currently supply document imaging products and services to a variety of large corporations, many of which have an international presence and seek global sourcing of their document imaging needs. In order to serve these clients more effectively, we intend to use our United Kingdom operation as a platform for expansion of our business into the larger European market. Our United Kingdom product offerings, which were limited to facsimile products, were expanded to include MFPs in 2001 and copiers in January 2003.

BUSINESS SEGMENTS

We operate in two reportable segments based on geographic area: the United States and the United Kingdom. Revenues from external customers and from Pitney Bowes are attributed to geographic regions based on where the revenues are derived. Financial information by segment is set forth in Note 5, "Business Segment Information", of the Notes to Consolidated Financial Statements included elsewhere herein.

PRODUCTS

We offer a broad range of copiers, facsimile machines, MFPs and related products to major account customers, government entities and mid-size and regional commercial users. These products serve a wide range of customer needs from departmental to workgroup solutions. The utilization of digital technology has led to development of equipment that contains multiple capabilities and greater options for document imaging and management applications. Although, by definition, our multifunctional product offerings contain the multiple capabilities of copying, scanning, faxing and printing, certain of our copier and facsimile product offerings also incorporate these multiple capabilities. We classify our equipment product offerings as part of either the copier product line or the facsimile product line based upon the primary function of the equipment.

Departmental Solutions

We offer a broad range of copiers and MFPs for departmental applications including black and white, color, analog, digital, networked and stand-alone copiers and MFPs. Our departmental solutions product line extends from a 15 page-per-minute multifunctional color copier to an 85 page-per-minute multifunctional high-volume copier. In addition to our more traditional line of products, we have worked with third party developers to introduce additional document imaging functions that complement our other product offerings. One example is Connex(TM), a platform controller for digital copiers that functions within the computer network and allows customers to print and fax directly from their own networked desktop computers and produce "finished" copies that are, for example, collated, stapled or produced in multiple sets, or scan documents at the digital copier into electronic format for delivery to the network or desktop.

The new model DL200/270/370 series of digital multifunctional devices (21, 25 and 35 pages-per-minute, respectively) introduced in 2002 offers benefits such as lower enterprise-wide print costs, full network integration, and the added convenience of supplemental faxing and scanning which are unavailable in older analog copiers. The DL200/270/370 series offers customers many different application options as it can be installed as a stand-alone copier or factory-equipped to handle walk-up faxing needs. In networked installations, the DL200/270/370 series also functions as a high-volume laser printer that offers finishing features such as stapling and hole punching, while controlling print jobs directly from the desktop. This system offers seamless transition from analog-to-digital technology without slowdowns or compatibility issues.

In 2002, we also introduced models DL650 and DL850 (65 and 85 pages-per-minute, respectively) serving the high volume office environment by providing speed, versatility, cost-effectiveness and simplicity in a heavy-duty machine with a powerful suite of digital features that integrate the most advanced print functions including tandem copying, network printing, scanning, duplexing and finishing.

The new model im4510 MFP (45 pages-per-minute) introduced in 2002, offers fully embedded single processor architecture with multi-tasking operating systems that include features such as network printing, digital copying and scanning and a single-pass dual scanning document feeder that will scan an original on both sides simultaneously enhancing document input-throughput productivity. This feature is the first of its type on a digital multifunctional copier product in this speed range.

In 2002, our CD1500 and CD2000 (15 and 20 color pages-per-minute, respectively) were awarded a "Recommended" status from Buyers Laboratory Inc and the Digital Test Laboratory "Five-Star Exceptional" rating from Business Equipment Research and Test Laboratories. Additional 2002 recipients of the Buyers Laboratories "Recommended Status" awards were the DL200 w/9754 Controller (20 pages-per-minute) black and white digital copier, the DL270 w/9754 Controller (25 pages-per-minute) digital copier and the DL370 w/Fax and 9754 Controller (35 pages-per-minute) digital copier. The DL460 w/Fiery X3 Controller (45 pages-per-minute) digital copier received Buyers Laboratories 2002 "Pick of the Year" award as an "Outstanding Segment 4 Multifunctional Imaging System".

Digital color copier models cm2020 and cm3120 (20 and 31 color pages-per-minute, respectively) introduced in January 2003, both received an "Editors Choice" award from Better Buys For Business. These multifunctional digital copiers offer copying and networking functionality and are designed to support both color and monochrome applications and offer enhanced image quality color printing and copying, a wide range of digital art functions and enhanced finishing options that include booklet making capabilities. In addition, in 2002, our DL750 (75 pages-per-minute) digital copier/printer also received the "Editors Choice" award from Better Buys for Business.

Workgroup Solutions

We are also a leader in workgroup facsimile systems and related product offerings and we are currently one of the largest suppliers of facsimile equipment to the Fortune 1000. We believe we were among the first document imaging providers to offer plain paper facsimile products as an option to the slower and less efficient thermal facsimile machines. We were the first company to offer the 14,400 bits per second and 33,600 bits per second plain paper facsimile machines to customers. The 33,600 bits per second machines continue to be among our most popular products. We currently offer a full range of plain paper facsimile machines that range from traditional facsimile equipment to MFPs.

Because telecommunication expenses are one of the most costly components in operating a facsimile system in the corporate workplace, we strive to provide our customers with the fastest available facsimile machines so that they can minimize their telecommunication costs. The model 2050 facsimile machine system makes advanced facsimile features easy to use since it incorporates an intuitive LCD touch screen, scans originals at 60 pages-per-minute and is one of the fastest machines in the industry. In addition, our models 2030 and 2050 offer some of the fastest transmission speeds in the industry through the use of 33.6 KBPS with JBIG data compression technology. The machines' display shows all features and functions at a glance and its "photo" option allows users to optimize half-tone images.

We also offer several multifunctional devices with standard feature sets that provide total office solutions to our customers. With the reliance of today's businesses on the Internet, e-commerce and associated technologies, our MFPs allow companies to efficiently share document input and output capabilities among small or large corporate workgroups.

We introduced the models DL155 and DL185 digital copier/printers in 2002. The new DL155 and DL185 digital copier/printers are two low-volume small workgroup copier/printers designed to fill a need between existing analog copiers and our higher volume DL Series devices. The DL155 and DL185 are targeted to small office/home office needs of our large corporate customers as well as small workgroups and businesses looking to improve image quality and printing performance. In 2002, Buyers Laboratory awarded our DL185 its "Pick of the Year" as an "Outstanding Segment One Multifunctional Imaging System".

The model ix2600 introduced in 2002, is a digital, multifunctional desktop device that combines high-speed facsimile, copy, scan and print capabilities. It also supports network printing with its network interface printer option. The ix2600 incorporates a platen to accommodate book-top copying and faxing along with its standard 50-page automatic document feeder. Not only will it function as a black and white scanner, but it offers color-scanning capabilities as well. It is positioned to meet the needs of the mid-volume, work range area and provides 15 page-per-minute print and copy speed.

The new model 1500 and 2500 MFP series of multifunctional Fax/Printer/Scanner/Copier devices introduced in 2002 offer solutions for the low and mid-volume office workgroup environments within Fortune 1000 companies. These 15 page-per-minute print and convenience copy devices offer the ability to function in both stand-alone and connected environments and should allow customers to further boost their office productivity. The units' standard components include multi-suite software capabilities that include both printing and scanning features.

In addition, in 2002 we introduced the models 3500 and 5000 MFPs, multifunctional Fax/Printer/Scanner/Copier. The models 3500 and 5000 MFPs are 12 page-per-minute and 17 page-per-minute, respectively, multifunctional devices offering outstanding fax, print, scan and copy capabilities with a small footprint, network capabilities and 600 dots-per-inch printer resolution. This fax-centric multifunctional device offers an economic alternative to multiple single function office devices. Its internet option allows any hard copy document to be scanned and forwarded to an email address.

The new model im3510 MFP (35 pages-per-minute) introduced in 2002, offers fully embedded single processor architecture with multi-tasking operating systems that include features such as network printing, digital copying and scanning and a single-pass dual scanning document feeder that will scan an original on both sides simultaneously enhancing document input-throughput productivity. This feature is the first of its type on a digital multifunctional copier product.

SUPPLIES

We offer a full complement of consumable supplies for our products, such as copier and facsimile toner and cartridges and paper. Supplies are an important component of our overall business and accounted for $156 million and $155 million, or 25% of each of our 2002 and 2001 revenues, respectively.

Many of our copier/MFP customers enter into cost-per-copy rental and/or maintenance agreement plans that include supplies. This accounts for a constant source of copier supply revenue and ensures high customer retention. Demand for facsimile supplies has decreased with the use of e-mail and the availability of third-party refilled toner cartridges. In response to this decrease in demand, we introduced our own line of refilled cartridges under the "ECO" brand. Refilled ECO cartridges work with many of our own facsimile machines and also with many competitor fax machines and laser printers.

SERVICE

Our continued commitment to our products and customers is evident in the many aftermarket service options that we provide. Our copier products are serviced by our nationwide service organization of approximately 1,275 representatives. We believe that this dedicated service force provides us with a distinct advantage over many of our competitors. These representatives are trained to service our product line and are managed through a central dispatch system to meet strict customer response time requirements. These representatives provide a full range of preventative maintenance and repair services to major account customers and commercial users.

We support our facsimile machine, digitally network connected copier and MFP customers through our 24 hour-a-day, 7 day-a-week diagnostic center. Located in Melbourne, Florida, the diagnostic center is staffed with Imagistics employees who are experts in the use and servicing of our products and who help minimize any downtime or disruption to our customers. The diagnostic center usually handles over 3,500 calls each day from customers, many regarding use of facsimile products and 75 percent of the time our employees are able to handle customers' service calls without a technician being dispatched. We successfully manage a number of these calls with our automated services that include recorded tutorials for machine operations and programming. We currently have over 40,000 individual customer facsimile machine programs archived in our diagnostic center database, which can be delivered remotely. We are able to respond to a number of calls requiring programming assistance by remotely programming customers' facsimile units. When repair or refurbishment of our facsimile equipment is necessary, the customer can be talked through the corrective action remotely, or we will send a service representative to repair the product. The diagnostic center also provides support to our customers using networked digital copiers.

FINANCING OPTIONS

We provide our customers with flexible financing options that allow for the sale, lease or rental of our products. In the past, we have sold products to commercial users either directly to the end user or to a leasing company that, in turn, leases the product to the end user. Where leasing is involved, we sell equipment to either Pitney Bowes' wholly owned subsidiary, PBCC, or to other finance companies. Currently, PBCC is the primary source of lease financing for our products. We have entered into an agreement with PBCC that provides for an ongoing lease-purchase equipment-financing program for our products. In 2002 and 2001, approximately 13% and 15% respectively, of our revenues were derived from sales to PBCC for lease to the end user.

Historically, in offering products to our major account customers, we have used a rental strategy. These major account customers have been customers of our facsimile products. Most often, we rent our facsimile machines at a flat rate. We are increasingly renting copier products to our large major account customers as well. We typically rent our copiers on either a cost-per-copy basis, with minimum monthly page volumes, or at a flat rate with allowance and overage plans for certain services and other options. In the case of rentals, we seek to negotiate a master rental contract with our customers that can be revised to reflect rental of additional products and upgrades to current products or additional services. Generally, our rental contracts are for 36-month terms with renewal options that are automatic unless the customer gives prior notice of cancellation. These rental contracts also cover service and, in most cases, include supplies for use with our equipment. We believe that this approach provides the flexibility this customer base requires.

CUSTOMERS

We market and distribute our products to the following customers:

o major national accounts, including large corporate customers,

o government entities and

o commercial accounts, including mid-size and regional businesses.

National account customers include major national and international corporations that require full document imaging and management throughout the customer's entire organization, whether that organization is regional or national. Because we began our business by serving major account customers in the facsimile market 20 years ago and have maintained steady relationships with many of these same customers, our major accounts provide us with recurring rental revenues over longer-term contracts. In addition, because of their individual and complex needs, we are able to provide our major account customers with cutting-edge products as well as customized approaches to their specific needs.

We target a range of governmental entities from large federal bureaus to small local government offices. These customers provide a long-term source of business and, because of our experience, we can anticipate their document imaging needs. Federal government entities may source products through the competitive bidding process or through flat rate contracts. The federal government may also issue a separate bid for large placements pertaining to a specific department or location. Our government contracts are generally for a period of four to five years. State and local government entities typically acquire products through their own varied bidding processes. Although many of these contracts are terminable for non-appropriations of funds by our customers, we have not had a significant number of early terminations of these contracts for non-appropriation.

We also target commercial accounts, which generally have more discrete document imaging needs for one specific area or portion of their business or workplace. We customarily sell or lease equipment to these customers and, in most instances, our contracts provide ongoing supplies and service to them.

Because of our approach of providing a system of national direct sales and service, our ability to provide a range of products, system options and after-market arrangements to our major account customers and our attention to maintaining our relationships with customers through consistent product service, we believe that we can expand these markets in the future.

SALES AND MARKETING

We believe that our sales and marketing approach is uncommon in our industry. While many of our competitors offer products either by dealer sales or retail sales, we rely solely on direct sales. Our direct sales and service personnel are located throughout the United States. These employees market and service our products to our customers and potential customers all over the nation. Our representatives use national sales and service standards so that our customers receive consistent and reliable assistance regardless of where they are located or which one of our locations they call. We employ a sales force of approximately 1,075 sales personnel.

Historically, we have marketed our products under the "Pitney Bowes" brand name. We have retained the right to use this name for up to two years following the spin-off and we believe that the continued use of the "Pitney Bowes" brand or the phrase "formerly Pitney Bowes Office Systems" in conjunction with the "Imagistics" brand for up to two years following the spin-off will provide stability to our business as we work to establish the "Imagistics" brand. In furtherance of that effort, in 2002 we began to introduce new products under the "Imagistics" brand name and we launched a major brand awareness advertising campaign that included placements in broadcast and cable television, radio and print media.

In addition to our United States business, we currently operate in the United Kingdom. Until recently, our U.K. business was limited to our facsimile product lines. In 2001 we introduced our digital MFPs in the U.K. and we began offering copier products to our U.K. customers in January 2003. We plan to increase the international marketing of our products. Our goal is to increase our service to our current customers as well as broaden our existing customer base by providing our products throughout Europe over time. Our U.K. business is headquartered in Harlow, England. Our products are also offered in Canada through Pitney Bowes of Canada, a subsidiary of Pitney Bowes. In connection with the spin-off, we entered into an agreement with Pitney Bowes of Canada that provided for a supply relationship with Pitney Bowes' Canadian operations.

SUPPLIERS AND DISTRIBUTION

We source our equipment from suppliers throughout the world including Minolta, Matsushita, Muratec, Brother, Kyocera Mita and Sharp. In addition, suppliers such as EFI, Advanced Hi-Tech and Cypress provide us with controllers and document management software for use in or with our products. We have contractual relationships with these manufacturers, although we continue to search for the best products and do not enter into exclusive relationships with any of our suppliers.

Using third-party suppliers allows us to offer our customers products with the most current features and technologies. We believe that this sourcing strategy also offers us maximum flexibility. As we expand or upgrade our product line, we are able to choose from the best available products for each product range. We select products by balancing costs and availability of features with ease of customer use, service personnel training, parts availability, reliability and serviceability. Because of these benefits, in most cases, we purchase similar products from one manufacturer to cover several product levels.

Although we do not have minimum order quantities with any of our suppliers, Minolta currently supplies a significant portion of our new copier/MFP equipment. If Minolta were unable to deliver products for a significant period of time, we would be required to find replacement products, which may not be available on a timely or cost-effective basis. This could have a material adverse effect on our business, financial condition and results of operations. We do not believe that we are materially dependent upon any other supplier of products, whether new products, parts or consumable supplies. To mitigate against disruptions to our business, we keep an adequate level of inventory on hand to meet the needs of our customers for several months. In addition, during 2002, we added Sharp as a manufacturer and are currently procuring two of our primary copier/MFPs from them.

We generally require manufacturers to build our products to order with 60 day or less lead times. We usually take title to the goods at the factory, or in the case of Asian factories, at the closest seaport. Finished goods are shipped by ocean freight to a United States port, primarily in California, and then trans-shipped to one of approximately 10 warehouses in the United States. In the normal course of business, when a customer order is received, equipment is unpacked, set up and tested in the warehouse prior to shipping to the customer location. Supplies are stored primarily at two warehouse locations and are shipped via UPS or overnight delivery directly to our customers. Parts are warehoused at a single Pitney Bowes location and are delivered via UPS to replenish our service representatives car stocks or shipped overnight for emergency repairs. We plan to open our own parts warehouse in 2003 and will eliminate our dependence on Pitney Bowes to manage our parts warehousing and shipping functions. The United Kingdom business uses similar manufacturing and shipping procedures and finished goods are shipped directly to one of two contract warehouses in the United Kingdom. Our reliance on Asian manufacturing could make our business susceptible to disruptions in international transportation due to port strikes, acts of war or other factors beyond our control.

PATENTS, TRADEMARKS AND COPYRIGHTS

In connection with the spin-off, we have entered into a trademark license, patent license and copyright license agreement that provides us with a non-exclusive license to the Pitney Bowes trademark for a period of up to two years following the spin-off. In addition, the agreement provides for us to license the patents and patent applications on a non-exclusive basis in connection with our business in the United States and the United Kingdom, for the term of the relevant patents, none of which are material to our business. Finally, the agreement provides for us to license all copyrighted material used in connection with our business in the United States and the United Kingdom for the term of the relevant copyrights.

We have historically distributed our products principally under the Pitney Bowes trademark. We are transitioning to the use of the "Imagistics" brand name and we have filed applications to register "Imagistics" as a trademark in the United States, the European Community and other jurisdictions. In addition, as a reseller of equipment supplied to us by major manufacturers of imaging equipment, we benefit from the use of patents and patent licenses secured by our suppliers.

EMPLOYEES

We employ approximately 3,300 individuals throughout the world including approximately 1,075 sales personnel. We employ approximately 125 people in the United Kingdom, almost all of whom are subject to the European Works Council regulations. None of our other employees is covered by a collective bargaining agreement. We believe that we have good relations with our employees.

COMPETITION

We are primarily involved in the supply of document imaging equipment to corporate, governmental and commercial customers. The document imaging equipment supply industry is highly competitive.

Although certain of our competitors have experienced financial difficulties and the overall number of our competitors has decreased due to ongoing industry consolidation, the industry remains highly competitive. Customers rigorously evaluate suppliers on the basis of product reliability and quality, service expertise, geographic reach and price competitiveness. Many of our competitors manufacture their own products. Although we believe that our reliance on third parties for manufacturing provides us with certain benefits, it is possible that our competitors' guaranteed access to product supply through captive manufacturing operations may provide them with a competitive advantage. In addition, some of our competitors have substantially greater financial resources than we do.

Our primary competitors are Xerox, Ikon, Danka, Canon, Ricoh, Global Imaging, Hewlett Packard and Lexmark.

ENVIRONMENTAL MATTERS

We are subject to Federal, state and local laws intended to protect the environment. We believe that, as a general matter, our policies, practices and procedures are properly designed to reasonably prevent the risk of environmental damage and financial liability to the Company.

BACKLOG

Generally, equipment sales and rental orders are shipped within 30 days and supplies orders are shipped immediately. Accordingly, our backlog is not significant.

ITEM 2. PROPERTIES

The following table provides information regarding our primary owned and leased properties:

LOCATION	OWN/ LEASE	SQUARE FOOTAGE	EXPIRATION DATE	FACI
United States:				
Columbus, Ohio	Lease	217,864	2009	Warehouse and distri
Columbus, Ohio	Lease	128,522	2003	Warehouse and distri
Trumbull, Connecticut	Own	74,000	N/A	Corporate headquarte
Beacon Falls, CT	Lease	66,050	2007	Warehouse and refurb
Milford, Connecticut	Own	41,000	N/A	Warehouse and refurb
Denver, Colorado	Lease	29,178	2007	Administration and c
Melbourne, Florida	Lease	17,000	2007	Diagnostic call and
Shelton, Connecticut	Lease	13,314	2007	Administrative offic
United Kingdom:				
Harlow	Lease	11,866	2007	Headquarters and sal

The lease on our existing Columbus, Ohio warehouse expires in 2003 and we are relocating our existing Columbus, Ohio distribution operations to a new Columbus, Ohio leased facility, which will also incorporate the parts warehousing and distribution operations previously provided by Pitney Bowes out of the Pitney Bowes Newtown, Connecticut facility. We also lease space in approximately 150 other sales and service locations throughout the United States totaling approximately 595,000 square feet. Leases relating to approximately 31 of our sales and service locations expire in 2003. We plan to renew or replace these leases to the extent they are for stand-alone facilities, and for certain other facilities, we plan to relocate and enter into new leases with less square footage. In the United Kingdom, we relocated to a newly leased facility, and no longer lease a facility from Pitney Bowes. In addition, in the United Kingdom, we lease a warehouse from a third party on a six-month rolling term and also lease two sales offices near Birmingham and Glasgow on two-year leases that aggregate approximately 1,100 square feet.

ITEM 3. LEGAL PROCEEDINGS

In connection with the Distribution, we agreed to assume all liabilities associated with our business, and to indemnify Pitney Bowes for all claims relating to our business. In the normal course of business, we have been party to occasional lawsuits relating to our business. These may involve litigation or other claims by or against Pitney Bowes or Imagistics relating to, among other things, contractual rights under vendor, insurance or other contracts, trademark, patent and other intellectual property matters, equipment, service or payment disputes with customers, bankruptcy preference claims and disputes with employees.

On October 4, 2002, Imagetec L.P., ("Imagetec"), a dealer of copiers, printers and fax machines located in McHenry, Illinois, filed suit against the Company in the United States District Court, Northern District of Illinois for unfair competition under the Lanham Act and Illinois common law. The suit alleges that the Company's trademark is confusingly similar with Imagetec's federally registered trademarks and creates a likelihood of confusion with Imagetec's marks. The suit seeks injunctive relief and monetary damages in an unspecified amount, including treble damages for alleged willful and deliberate conduct. We believe that plaintiff's complaint is without merit and we intend to defend the lawsuit vigorously.

We have not recorded liabilities for loss contingencies since the ultimate resolutions of the legal matters cannot be determined and a minimum cost or amount of loss cannot be reasonably estimated. In our opinion, none of these proceedings, individually or in the aggregate, should have a material adverse effect on our consolidated financial position, results of operations or cash flows.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

SUPPLEMENTAL ITEM: EXECUTIVE OFFICERS OF THE REGISTRANT

Information concerning the executive officers of Imagistics is set forth below:

NAME	AGE	POSITION
Marc C. Breslawsky	60	Chairman and Chief Executive Offic
Christine B. Allen	53	Chief Human Resources Officer
John C. Chillock	46	Vice President, Customer Service O
George E. Clark	56	Vice President and General Manager
Chris C. Dewart	48	Vice President, Commercial Sales
Mark S. Flynn	48	Vice President, General Counsel an
Nathaniel M. Gifford	50	Vice President, Product Developmen
Joseph W. Higgins	51	Vice President, National Sales
Doris J. Owens	50	Vice President, Worldwide Administ
Joseph D. Skrzypczak	47	Chief Financial Officer

Marc C. Breslawsky. Mr. Breslawsky has served as Chairman and Chief Executive Officer of Imagistics since February 2001. In connection with the spin-off, Mr. Breslawsky was elected to our board of directors as Chairman. From 1996 to 2001, Mr. Breslawsky was President and Chief Operating Officer of Pitney Bowes. From 1994 to 1996, Mr. Breslawsky was Vice Chairman of Pitney Bowes. Mr. Breslawsky is a director of C. R. Bard, Inc., The Pittston Company, Cytyc Corporation, and UIL Holdings Corporation.

Christine B. Allen. Ms. Allen became our Chief Human Resources Officer in January 2002. From 1995 to 2001, she was with The Hartford Financial Services Group, Inc.; she joined The Hartford as Director, Human Resources, Commercial Market and subsequently assumed responsibilities as Vice President, Human Resources, Commercial Lines. Ms. Allen served as Vice President of Human Resources for The Walden Book Company from 1988 until 1994. She began her career with Macy's New York in 1973 and served in a variety of human resources related capacities for large retailing companies, such as Caldor and Abraham & Straus prior to joining Waldenbooks.

John C. Chillock. In October 2000, Mr. Chillock assumed the role of our Vice President, Customer Service Operations. Mr. Chillock joined Pitney Bowes' office systems division in 1998 as Vice President, Field Operations. Prior to joining office systems, Mr. Chillock served in various management positions at

Dictaphone Corporation from 1977 to 1998. Prior to joining Dictaphone Corporation, Mr. Chillock was a Director of Operations for Intellisys Electronic Commerce, a division of the Chase Manhattan Bank.

George E. Clark .In October 2000, Mr. Clark assumed the role of Vice President and General Manager, Business Product Centers. Prior to the spin-off, Mr. Clark was employed by Pitney Bowes for over 25 years in varying capacities pertaining to the sales and marketing of imaging equipment at Pitney Bowes. Mr. Clark served as Vice President of Copier Systems for the Northeast Region from 1988 to 1990, Vice President of Marketing for Copier Systems from 1990 to 1997 and Vice President of Business Products Centers East Region from 1997 to 2000. Prior to joining Pitney Bowes, Mr. Clark was employed by Regenesys, Inc., a financial reorganization firm in Boston, Massachusetts.

Chris C. Dewart. Mr. Dewart is currently our Vice President, Commercial Sales. Prior to the spin-off he was employed by Pitney Bowes in the office systems division since 1983, and served as Vice President since 1990. Mr. Dewart served as Vice President of European Operations--facsimile systems division from 1990 to 1991, Vice President and General Manager of Canadian Operations from 1991 to 1998 and Vice President of U.S. Sales for Facsimile Systems from 1998 to August 2000. In August 2000, he assumed the position of Vice President of Sales for Commercial Markets. Prior to joining office systems, Mr. Dewart held various positions at General Electric Corporation and Monroe/Litton.

Mark S. Flynn. Mr. Flynn became our Vice President, General Counsel and Secretary on April 2, 2001. Most recently, he was a partner in the corporate department of the law firm Wiggin & Dana LLP from 1999 to 2001. From 1997 to 1999, Mr. Flynn served as Senior Deputy General Counsel to Olin Corporation. Mr. Flynn held the position of Executive Vice President, General Counsel and Secretary at ServiceMaster Diversified Health Services, a subsidiary of the ServiceMaster Company, from 1993 to 1997 and Vice President, General Counsel and Secretary at Arcadian Corporation/Arcadian Partners, L.P. from 1989 to 1993. Prior to those positions, Mr. Flynn served in various counsel positions at Olin Corporation from 1986 to 1989, as an attorney at Intercontinental Hotels Corporation from 1983 to 1986 and as an associate at the law firm of Hughes Hubbard & Reed from 1980 to 1983. Mr. Flynn serves on the advisory board of Integra Ventures, a Seattle-based venture fund specializing in life sciences and health care services.

Nathaniel M. Gifford. Mr. Gifford is currently our Vice President, Product Development and Marketing. Prior to the spin-off he was employed in the Pitney Bowes office products business for over 20 years in varying capacities pertaining to product management, planning and marketing. Prior to joining Pitney Bowes, Mr. Gifford worked at Travelers Insurance Company and Cititrust Bank in the area of securities analysis and investments.

Joseph W. Higgins. Mr. Higgins is currently our Vice President, National Sales. Prior to the spin-off he was employed by Pitney Bowes in the office systems division for nearly 20 years, and has served as Vice President in sales for more than 13 years. He served as Vice President of National Accounts since August 2000. Previously, he served as Vice President of U.S. Facsimile Sales from 1988 through July 1998 and as Vice President of U.S. Copier Sales from July 1998 to August 2000. Prior to joining Pitney Bowes, Mr. Higgins held various management positions with Burroughs Office Products.

Doris J. Owens. In January 2003, Ms. Owens was appointed to the role of Vice President, Worldwide Administration. Prior to this appointment, Ms. Owens held the title of Vice President of Administration. Prior to the spin-off, Ms. Owens was employed by Pitney Bowes for over 25 years in varying capacities pertaining to administrative operations.

Joseph D. Skrzypczak. Mr. Skrzypczak has served as our Chief Financial Officer since February 2001. Prior to assuming this position, Mr. Skrzypczak was the Chief Operating Officer and acting Chief Financial Officer at Dictaphone Corporation from October 1998 until December 2000. Prior to being elected Chief Operating Officer, Mr. Skrzypczak served as Senior Vice President and Chief Financial Officer from October 1997 to October 1998 and served as Vice President and Chief Financial Officer from May 1994 to October 1997 at Dictaphone. After being acquired by Lernout & Hauspie in May 2000, Dictaphone declared bankruptcy in November 2000, as part of Lernout & Hauspie's overall bankruptcy filing. Mr. Skrzypczak initially joined Pitney Bowes in 1981 and held various management positions until May 1994. Prior to working for Dictaphone Corporation, Mr. Skrzypczak served as Vice President of Finance for Pitney Bowes' office systems division, and was directly responsible for all financial and administrative activities. Prior to initially joining Pitney Bowes in 1981, Mr. Skrzypczak worked for Price Waterhouse. He is a certified public accountant.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

We anticipate that future earnings will be used principally to support operations and finance the growth of our business. Thus, we do not intend to pay cash dividends on our common stock in the foreseeable future. We have entered into a senior secured credit facility providing for both term and revolving credit borrowings, which allows us to borrow funds for general corporate purposes, including the repayment of other debt, working capital and acquisitions. The credit facility contains affirmative and negative covenants that, among other things, require us to satisfy certain financial tests and maintain certain financial ratios. The credit facility also limits our ability to declare and pay dividends on our shares. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources." If our lenders permit us to declare dividends, the dividend amounts, if any, will be determined by our board. Our board will consider a number of factors, including our financial condition, capital requirements, funds generated from operations, future business prospects, applicable contractual restrictions and any other factors our board may deem relevant.

Imagistics common stock (trading symbol "IGI") is listed for trading on the New York Stock Exchange. Information on the high and low sales prices for the Imagistics common stock is included in Note 17 of the "Notes to Consolidated Financial Statements" included elsewhere herein. At March 14, 2003 there were approximately 17.4 million shares outstanding and 17,688 stockholders of record. Except for the special cash dividend paid to Pitney Bowes in connection with the spin-off, Imagistics has not declared or paid any cash dividends on its common stock.

During the year ended December 31, 2002, we repurchased 1,936,760 shares of Imagistics common stock at a weighted average purchase price of $18.87 per share.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information regarding our equity compensation plans as of December 31, 2002:

Plan Category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options
Equity compensation plans approved by security holders	1,235,368	$ 10.67
Equity compensation plans not approved by security holders	-	-
Total	1,235,368	$ 10.67

ITEM 6. SELECTED FINANCIAL DATA

The following table presents our selected financial data. The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes thereto included elsewhere herein.

	YEAR ENDED DECEMBER 31,			
	2002	2001	2000	19
CONSOLIDATED STATEMENT OF OPERATIONS DATA				
Sales	$ 316,328	$ 310,258	$ 326,046	$ 322
Rentals	229,677	233,180	227,790	211
Support services	83,925	82,638	88,922	92
Total revenue	629,930	626,076	642,758	626
Cost of sales (1)	198,437	197,300	184,265	154
Cost of rentals	84,114	92,191	88,506	74
Selling, service and administrative	311,924	305,799	252,799	232
Operating income	35,455	30,786	117,188	165
Interest expense	8,106	9,825	11,281	8
Income before income taxes	27,349	20,961	105,907	156
Provision for income taxes	10,906	8,402	41,903	62
Net income	$ 16,443	$ 12,559	$ 64,004	$ 93
Basic earnings per share (2)	$ 0.88	$ 0.65	$ 3.29	$
Diluted earnings per share (2)	$ 0.86	$ 0.65	$ 3.29	$
CONSOLIDATED BALANCE SHEET DATA				
Total current assets	$ 273,285	$ 292,706	$ 306,168	$ 286
Total assets	$ 464,906	$ 497,676	$ 503,100	$ 467

Total current liabilities, including amounts due to Pitney Bowes	$ 105,582	$ 85,146	$ 181,787	$ 155
Total long-term liabilities	$ 95,077	$ 127,091	$ 11,285	$ 13
Stockholders' equity	$ 264,247	$ 285,439	$ 310,028	$ 298
OTHER DATA				
Net cash provided by operating activities	$ 158,451	$ 147,813	$ 137,789	$ 112
Depreciation and amortization	$ 81,593	$ 82,725	$ 73,755	$ 67
Capital expenditures	$ 66,599	$ 84,347	$ 83,615	$ 91

(1) On December 31, 2001 the Company changed its method of accounting for the cost of inventory from the Last-in, First-out (LIFO) method to the First-in, First-out (FIFO) method. In accordance with Accounting Principles Board Opinion No. 20, "Accounting Changes", this change in accounting method has been applied retroactively by restating the prior years financial statements for all periods presented.

(2) The basic and diluted earnings per share amounts for the years ended December 31, 2000, 1999 and 1998 are for comparative purposes only as common shares were not issued until December 2001. Outstanding shares for 2000, 1999 and 1998 are based on actual shares issued plus assumed conversions, at spin-off. See Note 7 in "Notes to Consolidated Financial Statements" for further explanation.

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

OVERVIEW

Imagistics International Inc. ("Imagistics" or the "Company") is a large direct sales, service and marketing organization offering document imaging solutions, including copiers, facsimile machines and multifunctional products, sometimes referred to as MFPs, primarily to large corporate customers known as national accounts, government entities and mid-size and regional businesses known as commercial accounts. In addition, we offer a range of document imaging options including digital, analog, color and/or networked products and systems.

Our strategic vision is to become the leading independent direct provider of enterprise office imaging and document solutions by providing world-class products and services with unparalleled customer support and satisfaction with a focus on multiple location customers, thus building value for our shareholders. Our strategic initiatives include:

- Executing our unique business model,
- Leveraging product and marketplace strengths to drive market share,
- Leveraging strengths in customer support to drive customer loyalty,
- Achieving operational excellence and benchmark productivity and
- Pursuing opportunistic expansion and investments.

IMAGISTICS SPIN-OFF FROM PITNEY BOWES

On December 11, 2000, the board of directors of Pitney Bowes Inc. ("Pitney Bowes") approved the spin-off of the U.S. and U.K. operations of its office systems business to its common stockholders as an independent, publicly traded company. On December 3, 2001, Imagistics was spun-off from Pitney Bowes pursuant to a contribution by Pitney Bowes of substantially all of Pitney Bowes' office systems businesses to us and a distribution of our common stock to common stockholders of Pitney Bowes based on a distribution ratio of 1 share of our common stock for every 12.5 shares of Pitney Bowes common stock held at the close of business on November 19, 2001 (the "Distribution" or "Spin-off").

Pitney Bowes no longer has a financial investment in our business. We entered into a transition services agreement with Pitney Bowes providing for certain essential services to us for a limited period following the Distribution. These services were provided at cost and included information technology, computing, telecommunications, accounting, field service of equipment and dispatch call center services. For 2002 and for the period from December 3, 2001 through December 31, 2001, we paid Pitney Bowes $20.4 million and $3.5 million, respectively, in connection with these services under the transition services agreement. We and Pitney Bowes have agreed to an extension until June 30, 2003 or, upon our request, December 31, 2003, of the transition services agreement as it relates to information technology and related services due to unanticipated delays in our implementation of Phase II of the enterprise resource planning ("ERP") system. Services provided under this extension are at negotiated market rates.

We also entered into certain other agreements covering intellectual property, commercial relationships, leases and licensing arrangements and tax separation matters. The pricing terms of the products and services covered by the other commercial agreements reflect negotiated prices.

The consolidated financial statements for the periods prior to the Distribution include allocations of certain Pitney Bowes corporate expenses. Corporate expense allocations were charged based generally on the ratio of our costs and expenses to Pitney Bowes' costs and expenses. Pitney Bowes' allocated expenses primarily included administrative expenses such as accounting services, real estate costs, customer service support in remote geographic areas and information technology and amounted to $25 million for the period from January 1, 2001 through the Distribution and $26 million for 2000. We believe the costs of these services charged to us were a reasonable representation of the services provided or benefits received by us. In addition, interest expense was charged to us from Pitney Bowes based upon the proportion of our net assets to Pitney Bowes' net assets. We believe that this is a reasonable method of allocation.

As part of Pitney Bowes, we also benefited from various economies of scale, including shared global administrative functions and shared facilities. Our costs and expenses have and may continue to increase as a result of the loss of these economies of scale and we may incur greater expenses associated with our status as a stand-alone public company.

BASIS OF FINANCIAL STATEMENT PRESENTATION

The consolidated financial statements include certain historical assets, liabilities and related operations of the United States and United Kingdom office systems businesses, which were contributed to us from Pitney Bowes prior to the Distribution. The consolidated financial statements as of and for the year ended December 31, 2002 depict our results as a stand-alone company. The consolidated financial statements for periods prior to the Distribution were derived from the financial statements and accounting records of Pitney Bowes using the historical results of operations and historical basis of assets and liabilities of the United States and United Kingdom office systems businesses. Prior to the formation of Imagistics, the office systems business was operated as a division of Pitney Bowes, and, as such, Pitney Bowes' investment in Imagistics is shown in lieu of stockholders' equity in the consolidated financial statements for 2000. We began accumulating retained earnings on the date of the Distribution. We believe the assumptions underlying the consolidated financial statements for the years ended December 31, 2001 and 2000 are reasonable. However, the consolidated financial statements included herein may not necessarily reflect our financial position, results of operations and cash flows in the future or what our financial position, results of operations and cash flows as of and for the years ended December 31, 2001 and 2000 would have been for periods prior to the Distribution had we operated as a stand-alone entity during those periods.

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates include assessing the allocation of costs from Pitney Bowes, the collectibility of accounts receivable, the use and recoverability of inventory, the useful lives of tangible assets, the realization of deferred taxes and an evaluation of the potential impairment, if any, of goodwill, among others. The markets for our products are characterized by intense competition, rapid technological development and pricing pressures, all of which could affect the future realizability of our assets. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary. Actual results could differ from these estimates. We have identified certain accounting policies that are critical to the understanding of our results of operations due to the judgment management must make in their application. These significant accounting policies are outlined below.

Revenue recognition

Revenue on equipment and supplies sales is recognized when contractual obligations have been satisfied, title and risk of loss have been transferred to the customer and collection of the resulting receivable is reasonably assured. For copier equipment, the satisfaction of contractual obligations and the passing of title and risk of loss to the customer occur upon the installation of the copier equipment at the customer location. For facsimile equipment and facsimile supplies, the satisfaction of contractual obligations and the passing of title and risk of loss to the customer occur upon the delivery of the facsimile equipment and the facsimile supplies to the customer location. We record a provision for estimated sales returns and other allowances based upon historical experience.

Rental contracts, which often include supplies, are generally for an initial term of three years with automatic renewals unless we receive prior notice of cancellation. Under the terms of rental contracts, we bill our customers either a flat periodic charge or a usage-based fee. Revenues related to these contracts are recognized each month as earned, either using the straight-line method or based upon usage, as applicable.

Support services contracts, which often include supplies, are generally for an initial term of one year with automatic renewals unless we receive prior notice of cancellation. Under the terms of support services contracts, we bill our customers either a flat periodic charge or a usage-based fee. Revenues related to these contracts are recognized each month as earned, either using the straight-line method or based upon usage, as applicable.

Certain rental and support services contracts provide for invoicing in advance, generally quarterly. Revenue on contracts billed in advance is deferred and recognized as earned revenue over the billed period. Certain rental and support services contracts provide for invoicing in arrears, generally quarterly. Revenue on contracts billed in arrears is accrued and recognized in the period in which it is earned.

We enter into arrangements that include multiple deliverables, which typically consist of the sale of equipment with a support services contract. We account for each element within an arrangement with multiple deliverables as separate units of accounting. Revenue is allocated to each unit of accounting based on the residual method, which requires the allocation of the revenue based on the fair value of the undelivered items. Fair value of support services is primarily determined by reference to renewal pricing.

18

Accounts Receivable

Accounts receivable are stated at net realizable value by recording allowances for those accounts receivable amounts that we believe are uncollectible. Our estimate of losses is based on prior collection experience including evaluating the credit worthiness of each of our customers, analyzing historical bad debt write-offs and reviewing the aging of the receivables. Our allowance for doubtful accounts includes amounts for specific accounts that we believe are uncollectible, as well as amounts that have been computed by applying certain percentages based on historic loss trends, to certain accounts receivable aging categories.

Inventories

Inventories are valued at the lower of cost or market. Provisions, when required, are made to reduce excess and obsolete inventories to their estimated net realizable values. Inventory provisions are calculated using management's best estimates of inventory value based on the age of the inventory, quantities on hand compared with historical and projected usage and current and anticipated demands.

Depreciation of rental equipment

Rental equipment is comprised of equipment on rent to customers and is depreciated on the straight-line method over the estimated useful life of the equipment. Copier equipment is depreciated over three years and facsimile equipment is depreciated over five years.

Capitalized computer software costs

We capitalize certain costs of internally developed software. Internal capitalized costs include purchased materials and services and payroll and payroll related costs. Costs for general and administrative, overhead, maintenance and training, as well as the cost of software that does not add functionality to the existing system, are expensed as incurred. The cost of internally developed software is amortized on a straight-line basis over appropriate periods, principally three to seven years. The unamortized balance of internally developed software is included in fixed assets in the consolidated balance sheets.

Goodwill

We evaluate goodwill in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142. SFAS No. 142 requires the use of a nonamortization approach to account for purchased goodwill and certain intangibles. Under a nonamortization approach, goodwill and certain intangibles are not amortized into results of operations, but instead would be reviewed periodically for impairment with any resulting impairment charged to results of operations only in the periods in which the recorded value of goodwill and intangibles is more than their fair value. SFAS No.142 prescribes a two-step method for determining goodwill impairment. In the first step, the fair value of the reporting unit is compared to the carrying amount. If the carrying amount is greater than the fair value, the second step of the impairment test is required and the implied fair value of the reporting unit's goodwill is determined by allocating the reporting unit's fair value to all of the assets and liabilities in the same manner performed in a purchase price allocation. The fair value of the goodwill is then compared to its carrying amount to determine if there is goodwill impairment. We completed our review of goodwill in accordance with SFAS No. 142 effective October 1, 2002 and have determined that our recorded goodwill is not impaired.

Deferred taxes on income

Income taxes are accounted for under the asset and liability method, which requires the recognition of deferred tax assets and liabilities based on the estimated future tax consequences of differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the periods the temporary differences are expected to be settled. A valuation allowance is established, as needed, to reduce net deferred tax assets to realizable value. A valuation allowance has not been established for our deferred tax assets as we believe it is more likely than not, they will be realized.

Financial instruments

We use interest rate swap agreements to manage and reduce risk related to interest payments on our debt instruments. We recognize all derivative financial instruments as assets and liabilities and measure them at fair value. All derivative financial instruments are designated and qualify as cash flow hedges and, accordingly, the effective portions of changes in fair value of the derivative are recorded in other comprehensive income and are recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized currently in earnings.

OVERVIEW OF 2002 FINANCIAL RESULTS

Total revenue for 2002 increased 1% to $630 million from 2001 revenue of $626 million. Net income in 2002 was $16 million, or $0.86 per diluted common share, compared with net income of $13 million, or $0.65 per diluted common share in 2001.

REVENUES

The following table shows our revenue sources by product line for the periods indicated.

Dollars in millions	YEAR ENDED DECEMBER 31, 2002	2001	2000
Copier product line	$ 375	$ 357	$ 362
Facsimile product line	255	269	281
Total revenue	$ 630	$ 626	$ 643

Sales to Pitney Bowes Canada included above amounted to $28 million, $6 million and $3 million for the years ended December 31, 2002, 2001 and 2000, respectively.

The following table shows our revenue by geographic segment for the periods indicated.

Dollars in millions	YEAR ENDED DECEMBER 31, 2002	2001	2000
United States	$ 608	$ 606	$ 621
United Kingdom	22	20	22
Total revenue	$ 630	$ 626	$ 643

The following table shows the growth rates by revenue type and product line for the periods indicated.

	YEAR ENDED DECEMBER 31, 2002	2001	2000
Sales			
Copier products	4%	(3%)	2%
Facsimile products	1%	(8%)	(1%)
Total sales	2%	(5%)	1%
Rentals			
Copier products	9%	9%	20%
Facsimile products	(8%)	(1%)	3%
Total rentals	(2%)	2%	8%
Support services	2%	(7%)	(4%)
Total revenue	1%	(3%)	3%

We consider revenue from equipment rentals, supplies sales and support services to be recurring. In the years ended December 31, 2002, 2001 and 2000, equipment rental revenue totaled $230 million, $233 million and $228 million, supplies sales totaled $156 million, $155 million and $165 million and support services revenue totaled $84 million, $83 million and $89 million, respectively. We consider these types of revenue to be recurring because they typically are derived from equipment rentals subject to multi-year contracts and from supplies sales and support services, which are a natural consequence of the use of our installed base of equipment. Although the initial term of our rental contracts are generally three years, they typically provide a continuing stream of revenue resulting from automatic renewal options or new rental contracts for replacement equipment. Historically, our recurring revenue has consistently been approximately 75% of total revenue. However, we cannot provide any

assurance that our recurring revenue will continue at these rates. We believe this information is useful because it indicates our ability to generate a consistent revenue base.

RESULTS OF OPERATIONS

The following table shows our statement of operations data, expressed as a percentage of total revenue, for the periods indicated. The table also shows cost of sales as a percentage of sales revenue, cost of rentals as a percentage of rental revenue and the effective income tax rate.

	AS A % OF TOTAL REVENUE EXCEPT AS NOTED YEAR ENDED DECEMBER 31,	
	2002	2001
Equipment sales	25%	25%
Supplies sales	25%	25%
Total sales	50%	50%
Equipment Rentals	37%	37%
Support services	13%	13%
Total revenue	100%	100%
Cost of sales	32%	31%
Cost of rentals	13%	15%
Selling, service and administrative	50%	49%
Operating income	5%	5%
Interest expense	1%	2%
Income before income taxes	4%	3%
Provision for income taxes	2%	1%
Net income	2%	2%
Cost of sales as a percentage of sales revenue	62.7%	63.6%
Cost of rentals as a percentage of rental revenue	36.6%	39.5%
Effective tax rate	39.9%	40.1%

YEARS ENDED DECEMBER 31, 2002 AND DECEMBER 31, 2001

Revenue. In 2002, total revenue of $630 million increased 1% over the prior year total revenue of $626 million, reflecting higher sales and support services revenue, partially offset by lower rental revenue. Revenue attributable to sales to Pitney Bowes Canada pursuant to the reseller agreement that became effective upon the Distribution amounted to $28 million. Prior to the Distribution, sales to Pitney Bowes Canada were primarily accounted for as intercompany sales at cost. Excluding the impact of sales to Pitney Bowes Canada, revenue declined 3% versus 2001. We believe the revenue comparison excluding sales to Pitney Bowes Canada eliminates any changes in revenue resulting from the different accounting treatment of sales to Pitney Bowes Canada in 2002 and reflects a more meaningful comparison of our revenue performance.

Equipment and supplies sales revenue of $316 million increased 2% in 2002 from $310 million in 2001. Excluding the impact of sales to Pitney Bowes Canada, sales revenue declined 5% compared with the prior year. Copier sales revenue declined 3% resulting from the continued implementation of our strategy to shift the marketing focus of our copier product line from sales to rentals. Facsimile sales revenue declined 10% due to lower equipment and supply sales resulting from lower facsimile equipment usage in the U.S. marketplace.

Equipment rental revenue of $230 million decreased 2% in 2002 from $233 million in 2001, reflecting a decline in facsimile rental revenue partially offset by an increase in copier rental revenue resulting from a continuing copier marketing focus on national accounts, which prefer a rental placement strategy. Rental revenue derived from our copier product line increased 9% reflecting growth in the overall installed rental population as well as the impact of increased placements of our high-end copiers and MFPs. Rental revenue from our facsimile product line decreased 8% versus the prior year resulting from lower pricing and a lower installed base.

Support services revenue, primarily derived from stand-alone service contracts, increased 2% to $84 million in 2002 from $83 million in 2001, reflecting the combination of higher contract pricing associated with the increased placement of high-end digital products in the United States and increased facsimile placements in the United Kingdom.

Cost of sales. Cost of sales was $198 million in 2002 compared with $197 million in 2001 and as a percentage of sales revenue declined to 62.7% in 2002 from 63.6% in 2001. This decline resulted from lower product costs and lower provision for obsolete inventory, partially offset by the impact of equipment sales to Pitney Bowes Canada under the reseller agreement and an increase in the mix of copier equipment and MFPs, which have a higher cost of sales percentage than facsimile sales. The provision to write our inventory down to net realizable value declined $6 million to $15 million in 2002 from $21 million in 2001.

Cost of rentals. Cost of rentals was $84 million in 2002 compared with $92 million in 2001 and as a percentage of rental revenue declined to 36.6% in 2002 from 39.5% in 2001. This decline resulted from the impact of our disciplined focus on improving profit margins coupled with product cost improvements, partially offset by an increase in the mix of copier and multifunctional product rentals which have a higher cost as a percentage of rental revenue than facsimile machines.

Selling, service and administrative expenses. Selling, service and administrative expenses of $312 million were 50% of total revenue in 2002 compared with $306 million or 49% of total revenue in 2001. Selling, service and administrative expenses increased 2% over the prior year resulting from increased finance and administration costs associated with becoming an independent public company ($14 million) and advertising expenditures associated with our brand awareness campaign ($9 million), partially offset by the impact of fewer employees ($10 million) and lower bad debt write-offs ($7 million).

Purchasing and receiving costs, inspection costs, warehousing costs and other distribution costs are included in selling, service and administrative costs because no meaningful allocation of these expenses to cost of sales or cost of rentals is practicable. These costs amounted to $16.3 million and $15.9 million for the years ended December 31, 2002 and 2001, respectively.

Included in selling, service and administrative expenses in 2001 are allocated amounts from Pitney Bowes, reflecting our share of overhead costs related to shared selling, service and administrative expenses. Field sales and service operating expenses are included in selling, service and administrative expenses because no meaningful allocation of these expenses to cost of sales, cost of rentals or cost of support services is practicable.

Interest expense. Interest expense decreased to $8 million in 2002 from $10 million in 2001, primarily as a result of lower debt levels. Interest expense for 2002 included a loss of $0.4 million resulting from the prepayment of $8 million of the Term Loan and associated unwinding of a portion of one of the interest rate swap agreements. Prior to the Distribution, we participated in Pitney Bowes' centralized cash management program, which was used to finance our operations. Interest expense for the first nine months of 2001 represented an allocation from Pitney Bowes based upon the proportion of our net assets to Pitney Bowes' net assets. The Pitney Bowes' weighted average borrowing rate was approximately 6.7% in the first nine months of 2001. Interest expense for the last three months of 2001, when we no longer participated in the Pitney Bowes centralized cash management program, was $1.3 million. The weighted average interest rate was 7.1% for 2002 and 6.3% for the last three months of 2001.

Effective tax rate. Our effective tax rate was 39.9% in 2002 compared with 40.1% in 2001. Prior to the Distribution, our income was included in the Pitney Bowes consolidated income tax returns and our tax expense was calculated as if Imagistics and Pitney Bowes filed separate income tax returns. Our future effective tax rate will depend on our structure and tax strategies as a separate, independent entity as well as any future jurisdictional rate changes and could vary from our historical effective tax rates.

YEARS ENDED DECEMBER 31, 2001 AND DECEMBER 31, 2000

Revenue. In 2001, total revenue of $626 million declined 3% versus the prior year total revenue of $643 million, reflecting lower sales and support service revenue, partially offset by increased rental revenue.

Equipment and supplies sales revenue of $310 million declined 5% in 2001 from $326 million in 2000 due to lower copier and facsimile equipment sales and lower supply sales. The decline in copier equipment sales reflects the shift in our copier marketing focus toward national accounts, which emphasizes equipment rentals as opposed to equipment sales. The decline in

facsimile equipment sales reflects both volume and price declines. Lower supply sales reflects declining facsimile usage caused by the use of other new technologies, such as e-mail, as well as lower prices associated with our environmentally friendly ECO toner cartridges.

Equipment rental revenue of $233 million increased 2% in 2001 from $228 million in 2000, reflecting the shift in our copier marketing focus to national accounts, which require a rental placement strategy similar to that of our facsimile product placement strategy. We continued to implement this strategic shift in our copier systems product line by increasing the focus on renting our copiers, responding to a need for financing flexibility in the major account marketplace. During 2001, rental revenue derived from our copier product line increased 9% reflecting growth in the overall installed rental population as well as the impact of increased placements of our high-end digital products. Rental revenue from our facsimile product line declined 1% versus the prior year.

Support services revenue of $83 million, primarily derived from stand-alone service contracts, decreased 7% in 2001 from $89 million in 2000, reflecting the strategic decision to focus on renting, which includes service, rather than on selling our copier and MFPs with associated service contracts.

Cost of sales. Cost of sales was $197 million in 2001 compared with $184 million in 2000 and as a percentage of sales revenue increased to 63.6% in 2001 from 56.5% in 2000. This increase resulted from $21 million of inventory provisions to write down to market the carrying value of (a) our analog copier and related parts inventory in response to the continuing market shift from analog to digital copiers, (b) our service parts inventory to reflect quantities on hand in excess of projected usage and (c) our sales demonstration equipment which devalues with age. The increase was partially offset by a decrease in our product costs from suppliers located in Japan, reflecting the weakening of the yen against the dollar in 2001.

Cost of rentals. Cost of rentals was $92 million in 2001 compared with $89 million in 2000 and as a percentage of rental revenue increased to 39.5% in 2001 from 38.9% in 2000, reflecting the impact of lower industry-wide pricing on new rental additions and contract renewals.

Selling, service and administrative expenses. Selling, service and administrative expenses of $306 million were 49% of total revenue in 2001 compared with $253 million or 39% of total revenue in 2000. Selling, service and administrative expenses increased 21% over the prior year. The increase reflects higher costs associated with the geographic expansion of sales and service capabilities ($12 million), higher finance and administrative costs associated with becoming an independent public company ($10 million), higher operating costs associated with our investment in our ERP project ($4 million), higher warehousing and distribution costs ($3 million) and higher employee benefit costs ($1 million). We also recorded higher severance costs of $3 million associated with reducing our staffing overhead and administrative costs and increased our allowance for doubtful accounts receivable in response to the weaker economic environment and a higher delinquency rate resulting in incremental accounts receivable write-offs of $8 million.

Purchasing and receiving costs, inspection costs, warehousing costs and other distribution costs are included in selling, service and administration costs because no meaningful allocation of these expenses to cost of sales or cost of rentals is practicable. These costs amounted to $15.9 million and $14.9 million for the years ended December 31, 2001 and 2000, respectively.

Included in selling, service and administrative expenses are allocated amounts from Pitney Bowes, reflecting our share of overhead costs related to shared selling, service and administrative expenses. Operating expenses of field sales and service offices are included in selling, service and administrative expenses because no meaningful allocation of these expenses to cost of sales, cost of rentals or cost of support services is practicable.

Interest expense. Interest expense was $10 million and $11 million, respectively, in 2001 and 2000. Prior to the Distribution, we participated in Pitney Bowes' centralized cash management program, which was used to finance our operations. Interest expense for 2000 and the first nine months of 2001 represents an allocation from Pitney Bowes based upon the proportion of our net assets to Pitney Bowes' net assets. The Pitney Bowes' weighted average borrowing rate was approximately 6.9% in 2000 and 6.7% in the first nine months of 2001, respectively. Interest expense for the last three months of 2001, when we no longer participated in the Pitney Bowes centralized cash management program, was $1.3 million and the weighted average interest rate was 6.3%.

Effective tax rate. Our effective tax rate was 40.1% in 2001 and 39.6% in 2000. Prior to the Distribution, our income was included in the Pitney Bowes consolidated income tax returns and our tax expense was calculated as if Imagistics and Pitney Bowes filed separate income tax returns. Our future effective tax rate will depend on our structure and tax strategies as a separate, independent entity as well as any future jurisdictional rate changes and could vary from our historical effective tax rates.

EXPANSION OF SALES AND SERVICE CAPABILITIES

During 2001 and 2000, we acquired certain assets and assumed certain liabilities of ten independent dealers for sales and service capabilities in remote geographic areas. These acquisitions, individually or in the aggregate, were not significant to our financial position or results of operations. These acquisitions were accounted for using the purchase method of accounting. The purchase price, including direct costs of the acquisitions, was allocated to acquired assets and assumed liabilities. The excess of the purchase price over the net tangible assets acquired was recorded as goodwill. The operating results of these acquisitions are included in our financial statements from the date of the respective acquisition.

LIQUIDITY AND CAPITAL RESOURCES

On November 9, 2001 we entered into a Credit Agreement with a group of lenders (the "Credit Agreement") that provided for secured borrowings or the issuance of letters of credit in an aggregate amount not to exceed $225 million, comprised of a $125 million Revolving Credit Facility (the "Revolving Credit Facility") and a $100 million Term Loan (the "Term Loan"). The term of the Revolving Credit Facility is five years and the term of the Term Loan is six years. Our Credit Agreement has a rating of Ba3 from Moody's Investor Services and a BB+ rating from Standard & Poor's.

We have pledged substantially all of our assets plus 65% of the stock of our subsidiary as security for our obligations under the Credit Agreement. Available borrowings and letter of credit issuance under the Revolving Credit Facility are determined by a borrowing base consisting of a percentage of our eligible accounts receivable, inventory, rental assets and accrued and advance billings, less outstanding borrowings under the Term Loan.

The Credit Agreement contains financial covenants that require the maintenance of minimum earnings before interest, taxes, depreciation and amortization ("EBITDA") and a maximum leverage ratio (total debt to EBITDA), as well as other covenants, which, among other things, place limits on dividend payments and capital expenditures. The Credit Agreement allowed us to originally repurchase up to $20 million of our stock and to make acquisitions up to an aggregate consideration of $30 million. At December 31, 2002 and 2001, we were in compliance with all of the financial covenants.

Originally, amounts borrowed under the Revolving Credit Facility bore interest at variable rates based, at our option, on either the LIBOR rate plus a margin of from 2.25% to 3.00%, depending on our leverage ratio, or the Fleet Bank base lending rate plus a margin of from 1.25% to 2.00%, depending on our leverage ratio. Amounts borrowed under the Term Loan bore interest at variable rates based, at our option, on either the LIBOR rate plus a margin of 3.50% or 3.75%, depending on our leverage ratio, or the Fleet Bank base lending rate plus a margin of 2.50% to 2.75%, depending on our leverage ratio. A commitment fee of from 0.375% to 0.500% on the average daily unused portion of the Revolving Credit Facility is payable quarterly, in arrears, depending on our leverage ratio.

On March 19, 2002, the Credit Agreement was amended to increase the total amount of our stock permitted to be repurchased from $20 million to $30 million. On July 19, 2002, the Credit Agreement was further amended to increase the total amount of our stock permitted to be repurchased from $30 million to $58 million and to reduce the Term Loan interest rates to LIBOR plus a margin of from 2.75% to 3.75%, depending on our leverage ratio, or to the Fleet Bank base lending rate plus a margin of from 1.75% to 2.75%, depending on our leverage ratio.

On March 5, 2003, the Credit Agreement was further amended to increase the total amount of stock permitted to be repurchased from $58 million to $78 million, to reduce the minimum EBITDA covenant to $100 million for the remainder of the term of the Credit Agreement and to revise the limitation on capital expenditures.

The Credit Agreement requires us to manage our interest rate risk with respect to at least 50% of the aggregate principal amount of the Term Loan for a period of at least 36 months. Accordingly, we entered into two interest rate swap agreements in the notional amounts of $50 million and $30 million expiring in February 2005 to convert the variable interest rate payable on the Term Loan to a fixed interest rate in order to hedge the exposure to variability in expected future cash flows. These interest rate swap agreements have been designated as cash flow hedges. The counterparties to the interest rate swap agreements are major international financial institutions. We monitor the credit quality of these financial institutions and do not anticipate any losses as a result of counterparty nonperformance. Under the terms of the swap agreements, we will receive payments based upon the 90-day LIBOR rate and remit payments based upon a fixed rate. The fixed interest rates are 4.17% and 4.32% for the $50 million and the $30 million swap agreements, respectively.

Our initial borrowings of $150 million under the Credit Agreement, consisting of $100 million under the Term Loan and $50 million under the Revolving Credit Facility, were used to repay amounts due to Pitney Bowes and to pay a dividend to Pitney Bowes. At December 31, 2001, Pitney Bowes Credit Corporation ("PBCC") provided substantially all of our Term Loan. During 2002, PBCC disposed of its commitments under the Credit Agreement and is no longer a participant in the Credit Agreement.

During the third quarter of 2002, we revised our cash flow estimates and prepaid $8 million of the amount outstanding under the Term Loan. This prepayment was covered by a portion of the $30 million interest rate swap agreement that had been designated as a cash flow hedge. Since it is no longer probable that the hedged forecasted transactions related to the $8 million Term Loan prepayment will occur, we recognized a loss related to that portion of the swap agreement underlying the amount of the prepayment by reclassifying $0.4 million from accumulated other comprehensive loss into interest expense. We also unwound $8 million of the $30 million interest rate swap agreement.

At December 31, 2002, two interest rate swap agreements in the notional amounts of $50 million and $22 million were outstanding, the aggregate fair value of which was an obligation of $3.7 million. This obligation is reported in other liabilities in the consolidated balance sheet and the unrealized loss relating to the outstanding swap agreements was included in other comprehensive loss in stockholders' equity. The interest rate swap agreements were 100% effective in 2002.

At December 31, 2002, $74 million of borrowings were outstanding under the Credit Agreement, consisting solely of borrowings under the Term Loan and the borrowing base amounted to approximately $125 million. The Term Loan is payable in 16 consecutive equal quarterly installments of $0.2 million due March 31, 2003 through December 31, 2006, three consecutive equal quarterly installments of $17.8 million due March 31, 2007 through September 30, 2007 and a final payment of $17.8 million due at maturity. At December 31, 2001, $117 million of borrowings were outstanding under the Credit Agreement, consisting of $17 million of borrowings under the Revolving Credit Facility and $100 million of borrowings under the Term Loan, and the borrowing base amounted to approximately $126 million. As of February 28, 2003, $74 million of borrowings were outstanding under the Credit Agreement, consisting solely of $74 million of borrowings under the Term Loan and the borrowing base amounted to approximately $124 million. The weighted average interest rate on borrowings outstanding under the Credit Agreement was approximately 7.10% and 6.30% during 2002 and 2001, respectively, after giving effect to the interest rate swap agreements.

The ratio of current assets to current liabilities declined to 2.6 to 1 at December 31, 2002 compared to 3.4 to 1 at December 31, 2001 due to reductions in accounts receivable and inventory and an increase in accounts payable and accrued liabilities. At December 31, 2002, our total debt as a percentage of total capitalization declined to 21.9% from 29.1% at December 31, 2001 due to debt repayments offset in part by stock repurchases.

Historically, our cash flow has been positive. We expect our cash flow to remain positive although we do expect our cash generation to moderate as our ability to continue to provide cash through changes in working capital is reduced.

Net cash provided by operating activities was $158 million, $148 million and $138 million for the years ended December 31, 2002, 2001 and 2000, respectively. Net income was $16 million, $13 million and $64 million in 2002, 2001 and 2000, respectively. Non-cash charges for depreciation and amortization and provisions for bad debt and inventory obsolescence in the aggregate provided cash of $102 million, $116 million and $81 million for 2002, 2001 and 2000, respectively. The provision for bad debt of $12 million in 2001 was significantly higher than historical levels reflecting an increase in the rate of delinquencies. In 2002 and 2001 the provision to write down excess and obsolete inventory amounted to $15 million and $21 million, respectively, and was higher than historical levels to recognize the impact of the continuing market shift from analog to digital equipment on the market value of our inventory. Changes in the principal components of working capital provided cash of $38 million and $21 million in 2002 and 2001, respectively and resulted in a usage of cash of $5 million in 2000. Of the $38 million of cash provided by working capital changes in 2002, approximately $17 million was due to improved collection results. In addition, approximately $18 million resulted from the accrual in our accounts of costs that had been included in amounts due to Pitney Bowes prior to the Distribution and included $7 million in income taxes, $5 million in employee medical and benefit costs and $6 million of higher accrual levels for administrative costs associated with becoming and independent public company. In addition, approximately $3 million of the increase in accounts payable and accrued liabilities resulted from costs associated with the ERP project.

We used $67 million, $85 million and $95 million in investing activities for the years ended December 31, 2002, 2001 and 2000, respectively. Investment in rental equipment assets totaled $48 million, $66 million and $80 million in 2002, 2001 and 2000, respectively. The lower level of rental equipment expenditures in 2002 primarily reflects lower product costs. Capital expenditures for property, plant and equipment were $19 million, $18 million and $4 million in 2002, 2001 and 2000, respectively. Investment in our ERP system accounted for $10 million and $7 million of the capital expenditures for property, plant and equipment for 2002 and 2001, respectively. In 2001 and 2000, other investing activities consisted of the acquisition of independent dealers to expand our sales and service capabilities as described above.

Cash used in financing activities was $79 million, $47 million and $44 million for the years ended December 31, 2002, 2001 and 2000, respectively. Cash used in financing activities in 2002 reflects repayments of $17 million under the Revolving Credit Facility and $26 million under the Term Loan and the repurchase of 1.9 million shares of our stock at a cost of $37 million. In

March 2002, the Board of Directors approved a $30 million stock buy back program. In October 2002, the Board of Directors authorized the repurchase of an additional $28 million of our stock, raising the total authorization to $58 million. Currently, we intend to continue repurchasing our stock. In 2001, cash used in financing activities reflects advances to Pitney Bowes offset by increases in amounts due to Pitney Bowes for corporate allocations and other intercompany charges, as well as borrowings of $100 million under the Term Loan and net borrowings of $17 million under the Revolving Credit Facility. In 2001, we used borrowings under the Term Loan and Revolving Credit Facility to repay amounts due to Pitney Bowes and to pay a dividend to Pitney Bowes. Cash used in financing activities in 2000 reflects advances to Pitney Bowes offset by increases in amounts due to Pitney Bowes for corporate allocations and other intercompany charges.

The following table depicts our future payments under material contractual obligations:

	PAYMENTS DUE BY PERIOD				
	TOTAL	LESS THAN 1 YEAR	1 - 3 YEARS	4 - 5 YEARS	AFTER 5 YEARS
Long-term debt	$ 74	$ 1	$ 2	$ 71	$ -
Operating leases	32	9	18	3	2

Long-term debt payments are related to the Credit Agreement. Payments under operating leases relate to the lease and sub-lease of properties including sales and service offices under long-term lease agreements with initial terms extending from three to fifteen years as described in "Properties" located in Part I, Item 2 of this 2002 Annual Report on Form 10-K. We have no material commitments other than supply agreements with vendors that extend only to equipment ordered under purchase orders; there are no long-term purchase requirements. We do not have any capital leases or off-balance sheet arrangements to finance our business.

We will continue to make additional investments in facilities, rental equipment, computer equipment and systems and our distribution network as required to support our revenue growth. We anticipate investments in rental equipment assets for new and replacement programs in amounts consistent with prior years. We estimate that we will invest approximately $30 million to $35 million over the next 12 - 18 months to enhance our information systems infrastructure and implement our ERP system.

In connection with the Distribution, we entered into certain agreements pursuant to which we may be obligated to indemnify Pitney Bowes with respect to certain matters.

We agreed to assume all liabilities associated with our business, and to indemnify Pitney Bowes for all claims relating to our business. These may be claims by or against Pitney Bowes or us relating to, among other things, contractual rights under vendor, insurance or other contracts, trademark, patent and other intellectual property rights, equipment, service or payment disputes with customers and disputes with employees.

We and Pitney Bowes entered into a tax separation agreement, which governs our and Pitney Bowes' respective rights, responsibilities and obligations after the Distribution with respect to taxes for the periods ending on or before the Distribution. In addition, the tax separation agreement generally obligates us not to enter into any transaction that would adversely affect the tax-free nature of the Distribution for the two-year period following the Distribution, and obligates us to indemnify Pitney Bowes and affiliates to the extent that any action we take or fail to take gives rise to a tax liability with respect to the Distribution.

In each of these circumstances, payment by us is contingent on Pitney Bowes making a claim. As such, it is not possible to predict the maximum potential future payments under these agreements. As of December 31, 2002, we had not paid any amounts to Pitney Bowes pursuant to the above indemnifications. However, we have paid amounts to defend and resolve claims and litigation related to our business that we assumed as part of the Spin-off. We believe that if we were to incur a loss in any of these matters, such loss would not have a material effect on our financial position, results of operations or cash flows.

Our cash flow from operations, together with borrowings under the Credit Agreement, are expected to adequately finance our operating cash requirements and capital expenditures for the foreseeable future. We expect to fund further expansion and long-term growth primarily with cash flows from operations, borrowings under the Credit Agreement and possible future sales of additional equity or debt securities.

RISK FACTORS THAT COULD CAUSE RESULTS TO VARY

Risk Factors Relating to Separating Our Company from Pitney Bowes

We have a limited history operating as an independent entity and may be unable to make the changes necessary to operate successfully as a stand-alone entity, or may incur greater costs as a stand-alone entity that may cause our profitability to decline.

Prior to the Distribution, our business was operated by Pitney Bowes as a division of its broader corporate organization, rather than as a separate stand-alone entity. Pitney Bowes assisted us by providing corporate functions such as legal, tax and information technology functions. Following the Distribution, Pitney Bowes has no obligation to provide assistance to us other than certain interim and transitional services to be provided by Pitney Bowes.
B