PITNEY BOWES INC /DE/
Form 10-Q
August 05, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2015
OR
o 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: 1-3579
PITNEY BOWES INC.
(Exact name of registrant as specified in its charter)

Delaware	06-0495050
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3001 Summer Street, Stamford, Connecticut	06926
(Address of principal executive offices)	(Zip Code)

(203) 356-5000
(Registrant’s telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of July 29, 2015, 201,918,974 shares of common stock, par value $1 per share, of the registrant were outstanding.

PITNEY BOWES INC.
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PART I. FINANCIAL INFORMATION
Item 1: Financial Statements
PITNEY BOWES INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited; in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenue:				
Equipment sales	$165,507	$191,518	$331,471	$380,574
Supplies	70,636	76,284	144,004	155,801
Software	99,184	109,065	185,541	200,620
Rentals	111,312	122,443	225,309	246,022
Financing	101,437	107,644	207,067	217,694
Support services	139,237	158,190	278,795	316,442
Business services	193,578	193,306	399,385	378,794
Total revenue	880,891	958,450	1,771,572	1,895,947
Costs and expenses:				
Cost of equipment sales	79,043	88,818	154,056	171,352
Cost of supplies	21,624	23,505	44,283	47,659
Cost of software	28,501	33,484	58,365	63,648
Cost of rentals	21,003	25,193	41,704	50,637
Financing interest expense	17,868	20,413	36,638	40,066
Cost of support services	81,507	96,722	165,106	195,703
Cost of business services	135,636	135,024	275,555	263,960
Selling, general and administrative	315,578	338,384	630,107	689,759
Research and development	28,492	28,649	54,540	54,841
Restructuring charges and asset impairments, net	14,350	8,299	14,269	18,140
Interest expense, net	20,971	21,482	45,035	45,546
Other (income) expense, net	(93,135)	—	(93,135)	61,657
Total costs and expenses	671,438	819,973	1,426,523	1,702,968
Income from continuing operations before income taxes	209,453	138,477	345,049	192,979
Provision for income taxes	52,351	46,335	102,898	54,371
Income from continuing operations	157,102	92,142	242,151	138,608
(Loss) income from discontinued operations, net of tax	(739)	6,717	(582)	9,518
Net income	156,363	98,859	241,569	148,126
Less: Preferred stock dividends attributable to noncontrolling interests	4,593	4,594	9,187	9,188
Net income attributable to Pitney Bowes Inc.	$151,770	$94,265	$232,382	$138,938
Amounts attributable to common stockholders:				
Net income from continuing operations	$152,509	$87,548	$232,964	$129,420
(Loss) income from discontinued operations, net of tax	(739)	6,717	(582)	9,518
Net income attributable to Pitney Bowes Inc.	$151,770	$94,265	$232,382	$138,938
Basic earnings per share attributable to common stockholders (1):				
Continuing operations	$0.76	$0.43	$1.16	$0.64
Discontinued operations	—	0.03	—	0.05
Net income attributable to Pitney Bowes Inc.	$0.75	$0.47	$1.15	$0.69

Diluted earnings per share attributable to common stockholders (1):				
Continuing operations	$0.75	$0.43	$1.15	$0.63
Discontinued operations	—	0.03	—	0.05
Net income attributable to Pitney Bowes Inc.	$0.75	$0.46	$1.15	$0.68
Dividends declared per share of common stock	$0.1875	$0.1875	$0.375	$0.375

(1) The sum of earnings per share amounts may not equal the totals due to rounding.
See Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	$156,363	$98,859	$241,569	$148,126
Less: Preferred stock dividends attributable to noncontrolling interests	4,593	4,594	9,187	9,188
Net income attributable to Pitney Bowes Inc.	151,770	94,265	232,382	138,938
Other comprehensive income (loss), net of tax:				
Foreign currency translations	13,157	5,149	(59,022)	(2,202)
Net unrealized (loss) gain on cash flow hedges, net of tax of $(201), $267, $140 and $505, respectively	(333)	417	216	790
Net unrealized (loss) gain on investment securities, net of tax of $(1,877), $1,249, $(863) and $2,453, respectively	(3,203)	2,136	(1,473)	4,195
Amortization of pension and postretirement costs, net of tax of $3,614, $3,613, $7,781 and $7,254, respectively	6,520	6,280	13,929	12,422
Other comprehensive income (loss), net of tax	16,141	13,982	(46,350)	15,205
Comprehensive income attributable to Pitney Bowes Inc.	$167,911	$108,247	$186,032	$154,143

See Notes to Condensed Consolidated Financial Statements

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

	June 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$754,171	$1,079,145
Short-term investments	46,256	32,121
Accounts receivable (net of allowance of $11,448 and $10,742, respectively)	400,044	437,275
Short-term finance receivables (net of allowance of $16,508 and $19,108, respectively)	952,890	1,000,304
Inventories	101,072	84,827
Current income taxes	37,035	40,542
Other current assets and prepayments	72,079	57,173
Assets held for sale	—	52,271
Total current assets	2,363,547	2,783,658
Property, plant and equipment, net	304,990	285,091
Rental property and equipment, net	193,939	200,380
Long-term finance receivables (net of allowance of $7,098 and $9,002, respectively)	780,968	819,721
Goodwill	1,747,950	1,672,721
Intangible assets, net	223,320	82,173
Non-current income taxes	78,766	96,377
Other assets	560,677	569,110
Total assets	$6,254,157	$6,509,231
LIABILITIES, NONCONTROLLING INTERESTS AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$1,420,283	$1,572,971
Current income taxes	92,803	90,167
Current portion of long-term debt and notes payable	521,103	324,879
Advance billings	372,783	386,846
Total current liabilities	2,406,972	2,374,863
Deferred taxes on income	119,634	64,839
Tax uncertainties and other income tax liabilities	85,191	86,127
Long-term debt	2,473,087	2,927,127
Other non-current liabilities	681,539	682,646
Total liabilities	5,766,423	6,135,602
Noncontrolling interests (Preferred stockholders' equity in subsidiaries)	296,370	296,370
Commitments and contingencies (See Note 15)		
Stockholders' equity:		
Cumulative preferred stock, $50 par value, 4% convertible	1	1
Cumulative preference stock, no par value, $2.12 convertible	522	548
Common stock, $1 par value (480,000,000 shares authorized; 323,337,912 shares issued)	323,338	323,338
Additional paid-in capital	155,371	178,852
Retained earnings	5,054,442	4,897,708

Accumulated other comprehensive loss	(892,506)	(846,156)
Treasury stock, at cost (121,566,093 and 122,309,948 shares, respectively)	(4,449,804)	(4,477,032)
Total stockholders' equity	191,364	77,259
Total liabilities, noncontrolling interests and stockholders' equity	$6,254,157	$6,509,231

See Notes to Condensed Consolidated Financial Statements

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

	Six Months Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Net income	$241,569	$148,126
Restructuring payments	(30,775)	(33,530)
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on disposal of businesses	(107,548)	(26,152)
Depreciation and amortization	85,153	93,717
Stock-based compensation	11,067	7,976
Restructuring charges, net	14,269	18,140
Changes in operating assets and liabilities, net of acquisitions/divestitures:		
Decrease in accounts receivable	32,784	66,778
Decrease in finance receivables	77,232	82,597
Increase in inventories	(17,414)	(1,852)
Increase in other current assets and prepayments	(16,101)	(8,369)
Decrease in accounts payable and accrued liabilities	(130,100)	(88,567)
Increase in current and non-current income taxes	24,260	7,657
Increase in advance billings	15,850	11,201
Other, net	85	2,725
Net cash provided by operating activities	200,331	280,447
Cash flows from investing activities:		
Purchases of available-for-sale securities	(106,431)	(613,429)
Proceeds from sales/maturities of available-for-sale securities	111,993	592,799
Capital expenditures	(88,935)	(72,350)
Proceeds from sale of former corporate world headquarters building	38,640	—
Acquisition of businesses, net of cash acquired	(391,531)	—
Divestiture of businesses, net of cash transferred	289,639	101,454
Change in reserve account deposits	(21,464)	(3,356)
Other investing activities	8,886	6,889
Net cash (used in) provided by investing activities	(159,203)	12,007
Cash flows from financing activities:		
Proceeds from the issuance of debt, net of fees and discounts of $7,475 in 2014	950	492,525
Principal payments of long-term debt	(354,909)	(599,850)
Increase in notes payable, net	100,000	—
Dividends paid to stockholders	(75,637)	(76,000)
Proceeds from the issuance of common stock under employee stock-based compensation plans	1,585	4,027
Purchase of subsidiary shares from noncontrolling interest	—	(7,718)
Dividends paid to noncontrolling interests	(9,188)	(9,188)
Net cash used in financing activities	(337,199)	(196,204)
Effect of exchange rate changes on cash and cash equivalents	(28,903)	1,845
(Decrease) increase in cash and cash equivalents	(324,974)	98,095
Cash and cash equivalents at beginning of period	1,079,145	907,806
Cash and cash equivalents at end of period	$754,171	$1,005,901

Cash interest paid	$86,888	$93,617
Cash income tax payments, net of refunds	$75,939	$71,741

See Notes to Condensed Consolidated Financial Statements

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

1. Description of Business and Basis of Presentation

Pitney Bowes Inc. and its subsidiaries (we, us, our or the Company) is a global technology company offering innovative products and solutions that enable commerce in the areas of customer information management, location intelligence, customer engagement, shipping and mailing, and global ecommerce.

We have prepared the accompanying unaudited Condensed Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In addition, the December 31, 2014 Condensed Consolidated Balance Sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. In management's opinion, all adjustments, consisting only of normal recurring adjustments, considered necessary to fairly state our financial position, results of operations and cash flows for the periods presented have been included. Operating results for the periods presented are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2015.

During the second quarter, we determined that at December 31, 2014, certain customer deposits in a debit position within current liabilities should have been classified as a current asset and certain customer deposits within current liabilities should have been classified as a non-current liability. Accordingly, the Condensed Consolidated Balance Sheet at December 31, 2014 has been revised by increasing accounts receivable, accounts payable and accrued liabilities, and other non-current liabilities by $23 million, $14 million and $9 million, respectively. This revision was not material to any of our previously issued financial statements. Previously issued financial statements will be revised to reflect this revision in future filings.

In the fourth quarter of 2014, we noted that certain purchases and sales of available-for-sale securities were reported net in our Condensed Consolidated Statements of Cash Flows. Accordingly, the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2014 has been revised by increasing purchases of available-for-sale securities and proceeds from sales/maturities of available-for-sale securities by $422 million. This revision did not have any impact on the reported net cash flow from investing activities or overall change in cash in any of our previously issued financial statements.

These statements should be read in conjunction with the financial statements and notes thereto included in our Annual Report to Stockholders on Form 10-K for the year ended December 31, 2014 (2014 Annual Report).

New Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2015-05, Intangibles - Goodwill and Other - Internal-Use Software, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement, which provides guidance on fees paid by an entity in a cloud computing arrangement and whether an arrangement includes a license to the underlying software. This standard is effective for fiscal periods beginning after December 15, 2015. Early adoption is permitted. We are currently assessing the impact this standard will have on our consolidated financial statements and disclosures.

In April 2015, the FASB issued Accounting Standard Update (ASU) 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. This standard is effective for fiscal periods beginning after December 15, 2015. Early adoption is permitted. We do not believe this standard will have a significant impact on our consolidated financial statements or disclosures.

In January 2015, the FASB issued ASU 2015-01, Income Statement - Extraordinary and Unusual Items, which removes the concept of extraordinary items, thereby eliminating the need for companies to assess transactions for extraordinary treatment. The standard retained the presentation and disclosure requirements for items that are unusual in nature and/or infrequent in occurrence. The standard is effective for fiscal periods beginning after December 15, 2015. Early adoption is permitted. We do not believe this standard will have a significant impact on our consolidated financial statements or disclosures.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. The standard requires companies to recognize revenue for the transfer of goods and services to customers in amounts that reflect the consideration the company expects to receive in exchange for those goods and services. The standard will also result in enhanced disclosures about revenue. In July 2015, the FASB approved a one-year deferral of the effective date. This standard is now effective for fiscal periods beginning after December 15, 2017. The standard can be adopted either retrospectively or as a cumulative-effect adjustment. Companies are permitted to adopt the standard as early as the original public entity effective date (fiscal periods beginning after December 15, 2016). Early adoption prior to that date is prohibited. We are currently assessing the impact this standard will have on our consolidated financial statements and disclosures.

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

2. Segment Information
As a result of the acquisition of Borderfree Inc. (Borderfree) and the sale of Imagitas (see Note 3), we realigned our segment reporting to conform to the way we now manage our segments and recast prior period amounts to conform to the current year presentation. Our business continues to be organized around three distinct sets of solutions – Small and Medium Business (SMB) Solutions, Enterprise Business Solutions and Digital Commerce Solutions (DCS). Under the new segment reporting, there are no changes to SMB Solutions or Enterprise Business Solutions; however, within DCS, we now report Software Solutions and Global Ecommerce Solutions as reportable segments. Other is comprised of our Marketing Services business, Imagitas, which was sold in May 2015. Imagitas was previously reported in DCS. The principal products and services of each of our reportable segments are as follows:

Small & Medium Business Solutions:
North America Mailing: Includes the revenue and related expenses from the sale, rental, financing and servicing of mailing equipment and supplies for small and medium businesses to efficiently create mail and evidence postage in the U.S. and Canada.
International Mailing: Includes the revenue and related expenses from the sale, rental, financing and servicing of mailing equipment and supplies for small and medium businesses to efficiently create mail and evidence postage in areas outside the U.S. and Canada.

Enterprise Business Solutions:
Production Mail: Includes the worldwide revenue and related expenses from the sale of production mail inserting and sortation equipment, high-speed production print systems, supplies and related support services to large enterprise clients to process inbound and outbound mail.
Presort Services: Includes revenue and related expenses from presort mail services for our large enterprise clients to qualify large mail volumes for postal worksharing discounts.

Digital Commerce Solutions:
Software Solutions: Includes the worldwide revenue and related expenses from the sale of non-equipment-based mailing, customer information management, location intelligence and customer engagement solutions and related support services.
Global Ecommerce Solutions: Includes the worldwide revenue and related expenses from global ecommerce and shipping solutions.

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

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

Revenue and EBIT by business segment is presented below:

	Revenue			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
North America Mailing	$356,791	$371,194	$718,665	$752,221
International Mailing	110,610	153,260	226,783	306,528
Small & Medium Business Solutions	467,401	524,454	945,448	1,058,749
Production Mail	97,731	111,756	197,234	216,972
Presort Services	113,922	111,281	235,453	227,772
Enterprise Business Solutions	211,653	223,037	432,687	444,744
Software Solutions	99,041	108,820	185,278	200,194
Global Ecommerce	77,966	68,653	153,352	132,529
Digital Commerce Solutions	177,007	177,473	338,630	332,723
Other	24,830	33,486	54,807	59,731
Total revenue	$880,891	$958,450	$1,771,572	$1,895,947

	EBIT			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
North America Mailing	$159,392	$156,781	$323,057	$317,119
International Mailing	14,122	26,449	25,846	51,268
Small & Medium Business Solutions	173,514	183,230	348,903	368,387
Production Mail	10,028	10,558	19,060	18,295
Presort Services	23,544	22,412	51,038	46,308
Enterprise Business Solutions	33,572	32,970	70,098	64,603
Software Solutions	16,158	9,877	20,291	11,699
Global Ecommerce	3,056	3,749	11,202	9,776
Digital Commerce Solutions	19,214	13,626	31,493	21,475
Other	5,611	4,303	10,569	5,985
Total EBIT	231,911	234,129	461,063	460,450
Reconciling items:				
Interest, net	(38,839)	(41,895)	(81,673)	(85,612)
Unallocated corporate expenses	(51,921)	(45,458)	(102,724)	(102,062)
Restructuring charges and asset impairments, net	(14,350)	(8,299)	(14,269)	(18,140)
Acquisition-related compensation expense	(10,483)	—	(10,483)	—
Other income (expense), net	93,135	—	93,135	(61,657)
Income from continuing operations before income taxes	$209,453	$138,477	$345,049	$192,979

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

3. Business Combinations and Divestiture
Business Combinations
Borderfree Inc.
On June 10, 2015, we acquired 100% of the outstanding shares of Borderfree. Borderfree provides cross-border ecommerce solutions through a proprietary technology and services platform that enables retailers to transact with consumers around the world. Borderfree is reported within our Global Ecommerce segment (see Note 2). The purchase price was $386 million, net of $88 million of cash acquired. In addition, we also paid $10 million for the accelerated vesting and settlement of Borderfree stock-based compensation awards and $8 million of transaction costs. The $10 million of expense related to Borderfree stock-based compensation awards was recognized as selling, general and administrative expenses and the $8 million of transaction costs was recognized within other (income) expense, net in the Condensed Consolidated Statements of Income.

The preliminary allocation of the purchase price to the fair values of assets acquired and liabilities assumed was as follows:

Accounts receivable	$16,964
Fixed assets	7,293
Goodwill	285,727
Intangible assets	156,800
Accounts payable and other current liabilities	(35,117)
Deferred taxes, net	(46,819)
Other assets and liabilities, net	1,412
	$386,260

Goodwill represents the excess of the purchase price over the fair values of assets acquired and liabilities assumed. Goodwill is primarily attributable to expected growth opportunities, synergies and other benefits that we believe will result from combining the operations of Borderfree with our operations. Goodwill is not deductible for tax purposes.

Intangible assets acquired consist of the following:

	Value	Amortization period
Customer Relationships	$135,500	10 years
Developed Technology	12,600	5 years
Trade Names	8,700	5 years
	$156,800	

The allocation of the purchase price to the fair values of assets acquired and liabilities assumed is preliminary and subject to further adjustments as we obtain additional information during the measurement period, which will not exceed 12 months from the acquisition date. Adjustments in the purchase price allocation may require a recasting of the amounts allocated to goodwill retroactive to the period in which the acquisition occurred.

The results of operations of Borderfree are included in our consolidated results from the date of acquisition. Our consolidated operating results for the three and six months ended June 30, 2015 include revenue of $7 million. On a supplemental pro forma basis, had we acquired Borderfree on January 1, 2014, our revenues would have been higher by $22 million and $31 million for the three months ended June 30, 2015 and 2014, respectively, and $47 million and $57 million for the six months ended June 30, 2015 and 2014, respectively. The impact on our earnings would not have been material.

Real Time Content, Inc.

On May 1, 2015, we acquired Real Time Content, Inc. (RTC) for $6 million, net of cash acquired. RTC provides technology that enables clients to provide personalized interactive video communications to their customers. RTC is reported within our Software Solutions segment.

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

Divestiture
On May 29, 2015, we sold Imagitas, for net proceeds of $291 million and recognized a pre-tax gain of $109 million, which was reported within other (income) expense, net in the Condensed Consolidated Statements of Income.

4. Discontinued Operations and Assets Held For Sale
Discontinued Operations
Loss from discontinued operations, net of tax for the three and six months ended June 30, 2015 consisted of post-closing and purchase price adjustments in connection with the sale of our Management Services business in 2014.
The table below shows selected financial information for discontinued operations for three and six months ended June 30, 2014:

	Three Months Ended June 30, 2014				
	PBMS	IMS	Nordic furniture business	DIS	Total
Revenue	$—	$—	$—	$3,567	$3,567
Income from operations before taxes	$580	$—	$—	$1,018	$1,598
Gain on sale	—	831	—	25,198	26,029
Income before taxes	580	831	—	26,216	27,627
Tax provision	217	321	—	20,372	20,910
Income from discontinued operations	$363	$510	$—	$5,844	$6,717

	Six Months Ended June 30, 2014				
	PBMS	IMS	Nordic furniture business	DIS	Total
Revenue	$—	$—	$—	$19,858	$19,858
Income before taxes	$334	$308	$345	$3,429	$4,416
Gain on sale	130	1,994	—	25,198	27,322
Income before taxes	464	2,302	345	28,627	31,738
Tax provision	196	850	97	21,077	22,220
Income from discontinued operations	$268	$1,452	$248	$7,550	$9,518

Assets Held for Sale
Assets held for sale at December 31, 2014 included the fair value of our former corporate headquarters building and the value of a lease portfolio. The lease portfolio was sold in January 2015 and the corporate headquarters building was sold in June 2015 (see Note 10 for further details).

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

5. Earnings per Share
The calculations of basic and diluted earnings per share are presented below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Numerator:				
Net income from continuing operations	$152,509	$87,548	$232,964	$129,420
(Loss) income from discontinued operations, net of tax	(739)	6,717	(582)	9,518
Net income - Pitney Bowes Inc. (numerator for diluted EPS)	151,770	94,265	232,382	138,938
Less: Preference stock dividend	10	11	21	22
Income attributable to common stockholders (numerator for basic EPS)	$151,760	$94,254	$232,361	$138,916
Denominator:				
Weighted-average shares used in basic EPS	201,712	202,662	201,504	202,480
Effect of dilutive shares:				
Conversion of Preferred stock and Preference stock	324	345	329	349
Employee stock plans	804	1,463	801	1,272
Weighted-average shares used in diluted EPS	202,840	204,470	202,634	204,101
Basic earnings per share (1):				
Continuing operations	$0.76	$0.43	$1.16	$0.64
Discontinued operations	—	0.03	—	0.05
Net income	$0.75	$0.47	$1.15	$0.69
Diluted earnings per share (1):				
Continuing operations	$0.75	$0.43	$1.15	$0.63
Discontinued operations	—	0.03	—	0.05
Net income	$0.75	$0.46	$1.15	$0.68
Anti-dilutive shares not used in calculating diluted weighted-average shares:	6,395	6,062	7,313	7,943

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

6. Inventories
Inventories are stated at the lower of cost or market. Cost is determined on the last-in, first-out (LIFO) basis for most U.S. inventories and on the first-in, first-out (FIFO) basis for most non-U.S. inventories. Inventories at June 30, 2015 and December 31, 2014 consisted of the following:

	June 30, 2015	December 31, 2014
Raw materials and work in process	$36,804	$37,175
Supplies and service parts	45,179	33,760
Finished products	32,445	26,992
Inventory at FIFO cost	114,428	97,927
Excess of FIFO cost over LIFO cost	(13,356)	(13,100)
Total inventory, net	$101,072	$84,827

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

7. Finance Assets

Finance Receivables

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

Finance receivables at June 30, 2015 and December 31, 2014 consisted of the following:

	June 30, 2015			December 31, 2014		
	North America	International	Total	North America	International	Total
Sales-type lease receivables						
Gross finance receivables	$1,236,030	$ 329,171	$1,565,201	$1,286,624	$ 366,669	$1,653,293
Unguaranteed residual values	101,622	16,825	118,447	105,205	18,291	123,496