PITNEY BOWES INC /DE/
Form 10-Q
August 02, 2018

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, 2018
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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)
Smaller reporting company o	Emerging growth company o	

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

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

As of July 25, 2018, 188,021,682 shares of common stock, par value $1 per share, of the registrant were outstanding.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue:				
Equipment sales	$105,750	$121,384	$216,121	$245,887
Supplies	55,457	58,639	115,450	119,694
Software	91,702	81,319	167,996	154,165
Rentals	91,809	95,447	186,435	194,754
Financing	76,671	83,653	156,774	169,398
Support services	72,171	72,068	145,194	147,273
Business services	367,876	217,903	754,414	442,422
Total revenue	861,436	730,413	1,742,384	1,473,593
Costs and expenses:				
Cost of equipment sales	47,106	51,506	93,160	96,122
Cost of supplies	15,738	16,216	32,685	33,068
Cost of software	26,459	23,361	50,514	46,515
Cost of rentals	21,078	21,143	45,132	41,422
Financing interest expense	12,346	12,843	24,571	25,817
Cost of support services	39,609	41,772	82,736	83,421
Cost of business services	293,480	153,063	590,879	303,906
Selling, general and administrative	282,456	283,073	577,894	573,645
Research and development	31,073	30,328	61,395	59,282
Restructuring charges and asset impairments, net	11,503	25,990	12,407	27,639
Other components of net pension and postretirement cost	(2,499)	1,267	(4,218)	2,723
Interest expense, net	29,623	27,600	60,476	53,276
Total costs and expenses	807,972	688,162	1,627,631	1,346,836
Income from continuing operations before taxes	53,464	42,251	114,753	126,757
Provision for income taxes	6,458	790	22,721	27,872
Income from continuing operations	47,006	41,461	92,032	98,885
Income from discontinued operations, net of tax	1,208	7,440	9,695	15,149
Net income	$48,214	$48,901	$101,727	$114,034
Basic earnings per share [1]:				
Continuing operations	$0.25	$0.22	$0.49	$0.53
Discontinued operations	0.01	0.04	0.05	0.08
Net income	$0.26	$0.26	$0.54	$0.61
Diluted earnings per share [1]:				
Continuing operations	$0.25	$0.22	$0.49	$0.53
Discontinued operations	0.01	0.04	0.05	0.08
Net income	$0.26	$0.26	$0.54	$0.61
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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$48,214	$48,901	$101,727	$114,034
Other comprehensive income, net of tax:				
Foreign currency translation	(44,584)	46,791	(29,073)	66,706
Net unrealized (loss) gain on cash flow hedges, net of tax of $(78), $(120), $154 and $235, respectively	(235)	(196)	251	383
Net unrealized (loss) gain on investment securities, net of tax of $(447), $758, $(1,813) and $1,102, respectively	(1,305)	1,291	(5,296)	1,876
Adjustments to pension and postretirement plans, net of tax of $(304)	—	—	—	(1,482)
Amortization of pension and postretirement costs, net of tax benefits of $2,564, $3,442, $5,368 and $6,956, respectively	7,868	6,624	16,040	13,335
Other comprehensive (loss) income, net of tax	(38,256)	54,510	(18,078)	80,818
Comprehensive income	$9,958	$103,411	$83,649	$194,852

See Notes to Condensed Consolidated Financial Statements

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

	June 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$689,870	$1,009,021
Short-term investments	55,699	48,988
Accounts receivable (net of allowance of $13,515 and $14,786, respectively)	408,703	427,022
Short-term finance receivables (net of allowance of $14,924 and $12,187, respectively)	812,055	828,003
Inventories	49,051	40,769
Current income taxes	39,100	58,439
Other current assets and prepayments	102,104	74,589
Assets of discontinued operations	313,356	334,848
Total current assets	2,469,938	2,821,679
Property, plant and equipment, net	398,909	373,503
Rental property and equipment, net	180,585	183,956
Long-term finance receivables (net of allowance of $6,420 and $6,446 respectively)	597,302	652,087
Goodwill	1,767,848	1,774,645
Intangible assets, net	249,125	272,186
Noncurrent income taxes	54,099	59,909
Other assets	528,945	540,750
Total assets	$6,246,751	$6,678,715
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$1,349,344	$1,450,149
Current income taxes	5,686	8,823
Current portion of long-term debt	334,999	271,057
Advance billings	237,709	257,766
Liabilities of discontinued operations	84,219	72,808
Total current liabilities	2,011,957	2,060,603
Deferred taxes on income	234,190	234,643
Tax uncertainties and other income tax liabilities	105,803	116,551
Long-term debt	3,237,810	3,559,278
Other noncurrent liabilities	461,074	519,079
Total liabilities	6,050,834	6,490,154
Commitments and contingencies (See Note 14)		
Stockholders' equity:		
Cumulative preferred stock, $50 par value, 4% convertible	1	1
Cumulative preference stock, no par value, $2.12 convertible	415	441
Common stock, $1 par value (480,000,000 shares authorized; 323,337,912 shares issued)	323,338	323,338
Additional paid-in capital	122,732	138,367
Retained earnings	5,248,991	5,229,584
Accumulated other comprehensive loss	(810,251)	(792,173)

Treasury stock, at cost (136,104,630 and 136,734,174 shares, respectively)	(4,689,309)	(4,710,997)
Total stockholders’ equity	195,917	188,561
Total liabilities and stockholders’ equity	$ 6,246,751	$ 6,678,715

See Notes to Condensed Consolidated Financial Statements

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

	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Cash flows from operating activities:		
Net income	$101,727	$114,034
Income from discontinued operations	(9,695)	(15,149)
Restructuring payments	(27,528)	(17,651)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	101,862	86,710
Stock-based compensation	9,153	12,531
Restructuring charges and asset impairments, net	12,407	27,639
Gain on sale of technology	—	(6,085)
Changes in operating assets and liabilities, net of acquisitions/divestitures:		
Decrease in accounts receivable	14,323	58,263
Decrease in finance receivables	60,563	76,915
Increase in inventories	(6,706)	(3,762)
Increase in other current assets and prepayments	(33,041)	(18,728)
Decrease in accounts payable and accrued liabilities	(47,118)	(69,146)
Increase (decrease) in current and non-current income taxes	4,570	(40,856)
Decrease in advance billings	(22,643)	(22,972)
Other, net	(24,612)	(11,192)
Net cash provided by operating activities - continuing operations	133,262	170,551
Net cash provided by operating activities - discontinued operations	41,772	14,096
Net cash provided by operating activities	175,034	184,647
Cash flows from investing activities:		
Purchases of available-for-sale securities	(48,303)	(70,405)
Proceeds from sales/maturities of available-for-sale securities	36,157	61,913
Net activity from short-term and other investments	10,959	(131,303)
Capital expenditures	(100,022)	(75,844)
Acquisition of businesses, net of cash acquired	(2,407)	(7,889)
Change in reserve account deposits	5,959	2,514
Other investing activities	(2,500)	(3,000)
Net cash used in investing activities - continuing operations	(100,157)	(224,014)
Net cash used in investing activities - discontinued operations	(1,169)	(777)
Net cash used in investing activities	(101,326)	(224,791)
Cash flows from financing activities:		
Proceeds from the issuance of long-term debt	—	395,772
Principal payments of long-term debt	(260,099)	(229,323)
Dividends paid to stockholders	(70,113)	(69,527)
Other financing activities	(49,606)	(5,551)
Net cash (used in) provided by financing activities	(379,818)	91,371
Effect of exchange rate changes on cash and cash equivalents	(13,041)	24,815
(Decrease) increase in cash and cash equivalents	(319,151)	76,042
Cash and cash equivalents at beginning of period	1,009,021	764,522
Cash and cash equivalents at end of period	$689,870	$840,564

Cash interest paid	$89,339	$82,405
Cash income tax payments, net of refunds	$19,244	$78,649

See Notes to Condensed Consolidated Financial Statements

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

1. Description of Business and Basis of Presentation

Pitney Bowes Inc. (we, us, our, or the company), was incorporated in the state of Delaware in 1920. We are a global technology company offering innovative products and solutions that help our clients navigate the complex world of commerce. We provide innovative products and solutions for mailing, shipping and cross border ecommerce that enable the sending of packages globally and products and solutions for customer information management, location intelligence and customer engagement to help our clients market to their customers. Clients around the world rely on our products, solutions and services. For more information about us, our products, services and solutions, visit www.pb.com.

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In addition, the December 31, 2017 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, 2018. 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, 2017 (2017 Annual Report).

During the quarter, we entered into an agreement to sell our Document Messaging Technologies production mail business and supporting software (collectively, the Production Mail Business). Accordingly, the Production Mail Business is now reported as a discontinued operation in our condensed consolidated financial statements. Prior periods have been recast to conform to the current period presentation. See Note 4 for further details.

Accounting Pronouncements Adopted on January 1, 2018

We adopted Accounting Standard Update (ASU) 2014-09, Revenue from Contracts with Customers (ASC 606), which requires companies to recognize revenue when or as control of a promised good or service is transferred to a client in amounts that reflect consideration the company expects to receive in exchange for those goods and services. See Note 2 for more information on the adoption of ASC 606.

We adopted ASU No. 2016-16, Income Taxes: Intra-entity Transfers of Assets other than Inventory, which requires tax expense to be recognized from the sale of intra-entity assets, other than inventory, when the transfer occurs, even though the effects of the transaction are eliminated in consolidation. Under prior guidance, the tax effects of transfers were deferred until the transferred asset was sold or otherwise recovered through use. We recognized the cumulative effect of initially applying this standard as a net reduction of $3 million to opening retained earnings.

We adopted ASU 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Benefit Cost. The ASU requires only the service cost component of net periodic benefit cost be presented in the same income statement line item as other employee compensation costs. Other components of the net periodic benefit cost are now presented separately in other components of net pension and postretirement costs in the Consolidated Statements of Income. Prior period information has been recast to conform to the current period presentation.

We adopted ASU 2016-01, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. This standard primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. There was no impact on our consolidated financial statements.

We early adopted ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The ASU changes the recognition and presentation requirements as well as the cost and

complexity of applying hedge accounting by easing the requirements for effectiveness testing and hedge documentation. There was no impact on our consolidated financial statements.
We adopted ASU 2017-09, Scope of Modification Accounting. The ASU provides guidance about which changes to terms and conditions of a share-based payment award require an entity to apply modification accounting. There was no impact on our consolidated financial statements.
We adopted ASU 2017-01, Clarifying the Definition of a Business, which clarifies the definition of a business with the objective of adding guidance to assist entities in evaluating whether transactions should be accounted for as an acquisition or disposal of assets or a business. There was no impact on our consolidated financial statements.

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

New Accounting Pronouncements - Not Yet Adopted

In February 2018, the FASB issued ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (AOCI). The ASU permits a reclassification of the disproportionate income tax effects of the 2017 Tax Cuts and Jobs Act (the Act) on items within AOCI to retained earnings. The ASU also requires certain new disclosures, some of which are applicable for all companies. The standard is effective beginning January 1, 2019; however, early adoption is permitted. We are currently assessing the impact this standard will have on our consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The ASU shortens the amortization period for certain callable debt securities held at a premium, requiring the premium to be amortized to the earliest call date. The standard will be applied on a modified retrospective basis through a cumulative effect adjustment as of the beginning of the period of adoption. The standard is effective beginning January 1, 2019; however, early adoption is permitted. We are currently assessing the impact this standard will have on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-06, Plan Accounting: Defined Benefit Pension Plans (Topic 960); Defined Contribution Pension Plans (Topic 962); Health and Welfare Benefit Plans (Topic 965): Employee Benefit Plan Master Trust Reporting. The ASU requires separate disclosure in the statement of net assets available for benefits and the statement of changes in net assets available for benefits of changes in any interests held in a Master Trust and other enhanced disclosures. The standard is effective beginning January 1, 2019. We are currently evaluating the impact this standard will have on our consolidated financial statements.

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

In February 2016, the FASB issued ASU 2016-02, Leases. This standard, among other things, requires lessees to recognize almost all leases on their balance sheet as a right-of-use asset and a lease liability and provide enhanced disclosures. The standard is effective beginning January 1, 2019. We are currently assessing the impact this standard will have on our consolidated financial statements and disclosures.

2. Revenue from Contracts with Customers

Adoption of ASC 606

We adopted ASU 2014-09, Revenue from Contracts with Customers (ASC 606) using the modified retrospective approach. Prior period information was not restated and continues to be reported under the accounting standards in effect for those periods. We recognized a cumulative effect adjustment from the adoption of this standard that reduced opening retained earnings by $9 million. Significant components of the cumulative effect adjustment include:

- The write-off of previously capitalized deferred marketing costs that did not meet the criteria for capitalization under ASC 606.
- The capitalization of certain costs to obtain a contract, primarily sales commissions, that are permitted to be capitalized under ASC 606.
- The establishment of deferred revenue related to the early renewal of software and data license contracts with terms beginning in 2018, as ASC 606 requires revenue recognition at the commencement of the license term.
- The write-off of deferred revenues and related costs for certain software licenses bundled with a lease that are recognized at time of delivery under ASC 606.
- The write-off of advance billings related to certain software data products that are recognized upon delivery under ASC 606.

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

The impact on our consolidated financial statements as if they were presented under the prior guidance is as follows:

	Three months ended June 30, 2018			Six months ended June 30, 2018		
	As reported	Prior guidance	Total increase (decrease)	As reported	Prior guidance	Total increase (decrease)
Income Statement						
Total revenue	$861,436	$852,781	$8,655	$1,742,384	$1,724,060	$18,324
Equipment sales	$105,750	$106,301	$(551)	$216,121	$217,533	$(1,412)
Software	$91,702	$82,054	$9,648	$167,996	$147,329	$20,667
Business services	$367,876	$368,318	$(442)	$754,414	$755,345	$(931)
Total costs and expenses	$807,972	$810,342	$(2,370)	$1,627,631	$1,629,841	$(2,210)
Cost of equipment sales	$47,106	$47,035	$71	$93,160	$93,219	$(59)
Cost of software	$26,459	$25,769	$690	$50,514	$48,542	$1,972
Selling, general and administrative	$282,456	$285,587	$(3,131)	$577,894	$582,017	$(4,123)
Income from continuing operations before taxes	$53,464	$42,439	$11,025	$114,753	$94,221	$20,532
Provision for income taxes	$6,458	$3,640	$2,818	$22,721	$17,434	$5,287
Net income from continuing operations	$47,006	$38,799	$8,207	$92,032	$76,787	$15,245
Basic earnings per share attributable to common stockholders - continuing operations	$0.25	$0.21	$0.04	$0.49	$0.41	$0.08
Diluted earnings per share attributable to common stockholders - continuing operations	$0.25	$0.22	$0.03	$0.49	$0.41	$0.08

The most significant change to the Consolidated Statements of Income for the three and six months ended June 30, 2018, was due to higher software revenue of $10 million and $21 million, respectively, under ASC 606 primarily as a result of the change in timing of revenue recognition related to certain software licenses and data subscriptions. These higher software revenues also resulted in higher income from continuing operations before taxes of $9 million and $19 million for the three and six months ended June 30, 2018, respectively.

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

	June 30, 2018		
	As reported	Prior guidance	Total increase (decrease)
Balance Sheet			
Total Assets	$6,246,751	$6,250,943	$(4,192)
Accounts receivable	$408,703	$407,204	$1,499
Current income taxes	$39,100	$39,298	$(198)
Other current assets and prepayments	$102,104	$102,760	$(656)
Assets of discontinued operations	$313,356	$312,922	$434
Noncurrent income taxes	$54,099	$54,429	$(330)
Other assets	$528,945	$533,886	$(4,941)
Total Liabilities	$6,050,834	$6,062,221	$(11,387)
Accounts payable and accrued liabilities	$1,349,344	$1,347,837	$1,507
Current income taxes	$5,686	$43	$5,643
Advance billings	$237,709	$250,948	$(13,239)
Liabilities of discontinued operations	$84,219	$84,132	$87
Deferred taxes on income	$234,190	$238,539	$(4,349)
Other noncurrent liabilities	$461,074	$462,110	$(1,036)
Total Stockholders' equity	$195,917	$188,722	$7,195
Retained earnings	$5,248,991	$5,241,824	$7,167
Accumulated other comprehensive loss	$(810,251)	$(810,279)	$28

The most significant changes to the Consolidated Balance Sheet at June 30, 2018 were:

- Higher accounts receivable, net and accounts payable and accrued liabilities due to reserves for refunds to customers that were recorded in accounts receivable, net under previous guidance.
- Lower other assets primarily due to the write-off of deferred marketing costs at January 1, 2018, offset by the capitalization of certain costs to obtain a contract, including sales commissions and other contract costs.
- Lower advance billings and other noncurrent liabilities due to the write-off of deferred revenue from software licenses bundled with leases and data products, which are now recognized at time of delivery rather than ratably under previous guidance.

Cash Flow Statement

The adoption of ASC 606 had no impact on our Consolidated Statements of Cash Flows.

Significant Accounting Policies

The most significant impact of ASC 606 on our consolidated financial statements will be in the timing of recognizing certain revenues and costs to obtain a contract related to software and software related products. We will continue to recognize revenue from equipment sales under sales-type leases and related financing income and rental of postage meters and mailing equipment in accordance with ASC 840, Leases.

We applied the following practical expedients and policy elections when adopting ASC 606:

- Costs incurred to obtain a contract with a customer are expensed if the amortization period is one year or less.
- With the exception of certain services contracts, all taxes assessed by government authorities, such as sales and use taxes, value added taxes and excise taxes, are excluded from the transaction price.
- The transaction price is not adjusted for a significant financing component when a performance obligation is satisfied within one year.
-

Revenue is recognized based on the amount billable to the customer when that amount corresponds to the value transferred to the customer.

- Shipping and handling activities are accounted for as a fulfillment activity rather than a separate performance obligation.
- We reflected the aggregate effect of all modifications when identifying performance obligations and allocating transaction price.

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

Significant changes to accounting policies disclosed in our 2017 Annual Report due to the adoption of ASC 606 are discussed below.

Software Sales and Integration Services

Our software products include software and data licenses that are either “right to use” or “right to access”. A majority of our software and data license products are considered right to use and are generally distinct from other promised goods and services within a contract. Revenue for right to use software and data licenses is recognized at a point in time when control has transferred to the customer, which is generally upon delivery or acceptance for those licenses requiring significant integration or customization. Revenue from renewals are recognized at the beginning of the license term.

Right to access licenses generally bundle certain software licenses, data licenses and data updates that are highly interdependent and the updates are critical to the continued use of the license by the customer. Revenue for these arrangements are deferred and recognized ratably over the license term.

We generally invoice customers upon delivery of our software and data licenses. Data contracts that include both data and data updates are invoiced in one or more equal installments. A contract asset is recognized on data licenses for which consideration will be received in future periods.

We allocate the transaction price based on relative standalone selling prices, which are generally based on observable selling prices in standalone transactions for our data products, maintenance and professional services. We estimate the standalone selling prices for our software licenses using the residual approach, as the selling prices are highly variable and when observable standalone selling prices exist for the other goods and services in the contract.

We often bundle software licenses with lease contracts. Revenue is recognized upon delivery of those software licenses considered distinct and functional in nature.

Costs to Obtain a Contract and Marketing Costs

Certain incremental costs to obtain a contract are capitalized if we expect the benefit of those costs to be realized over a period greater than one year. These costs primarily relate to sales commission on multi-year equipment and software support service contracts. These costs are amortized in a manner consistent with the timing of the related revenue over the contract performance period or longer, if renewals are expected and the renewal commission is not commensurate with the initial commission. Amortization expense for the three and six months ended June 30, 2018 was $3 million and $7 million, respectively, and is included in selling, general and administrative expenses. Unamortized contract costs at June 30, 2018 were $26 million and are included in other assets.

Certain marketing costs associated with the acquisition of new customers are expensed as incurred since these costs do not meet the criteria of a cost to obtain a contract.

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

Revenue from Contracts with Customers
The following tables disaggregate our revenue by major source:

	Three months ended June 30, 2018							
	Global Ecommerce	Presort Services	North America Mailing	International Mailing	Software Solutions	Total Revenue from sales and services (ASC 606)	Revenue from leasing transactions and financing	Total Consolidated Revenue
Equipment sales	$—	$—	$15,303	$ 11,654	$—	$26,957	$ 78,793	$ 105,750
Supplies	—	—	36,271	19,186	—	55,457	—	55,457
Software	—	—	—	—	91,702	91,702	—	91,702
Rentals	—	—	5,121	2,139	—	7,260	84,549	91,809
Financing	—	—	15,714	2,866	—	18,580	58,091	76,671
Support services	—	—	50,902	21,269	—	72,171		72,171
Business services	239,100	122,730	4,453	1,593	—	367,876	—	367,876
	$239,100	$122,730	$127,764	$ 58,707	$91,702	$640,003	$ 221,433	$ 861,436
Revenue from sales and services (ASC 606)	$239,100	$122,730	$127,764	$ 58,707	$91,702	$640,003	$ —	$ 640,003
Revenue from leasing transactions and financing	—	—	186,782	34,651	—	—	221,433	221,433
Total revenue	$239,100	$122,730	$314,546	$ 93,358	$91,702	$640,003	$ 221,433	$ 861,436
Timing of revenue recognition (ASC 606)								
Products/services transferred at a point in time	$—	$—	$51,574	$ 30,840	$38,963	$121,377		
Products/services transferred over time	239,100	122,730	76,190	27,867	52,739	518,626		
Total revenue	$239,100	$122,730	$127,764	$ 58,707	$91,702	$640,003		

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	Six months ended June 30, 2018							
	Global Ecommerce	Presort Services	North America Mailing	International Mailing	Software Solutions	Total Revenue from sales and services (ASC 606)	Revenue from leasing transactions and financing	Total Consolidated Revenue
Equipment sales	$—	$—	$32,449	$ 25,018	$—	$57,467	$ 158,654	$ 216,121
Supplies	—	—	75,223	40,227	—	115,450	—	115,450
Software	—	—	—	—	167,996	167,996	—	167,996
Rentals	—	—	10,832	4,305	—	15,137	171,298	186,435
Financing	—	—	32,290	5,842	—	38,132	118,642	156,774
Support services	—	—	101,647	43,547	—	145,194	—	145,194
Business services	485,690	257,188	8,255	3,281	—	754,414	—	754,414
	$485,690	$257,188	$260,696	$ 122,220	$167,996	$1,293,790	$ 448,594	$ 1,742,384
Revenue from sales and services (ASC 606)	$485,690	$257,188	$260,696	$ 122,220	$167,996	$1,293,790	$ —	$ 1,293,790
Revenue from leasing transactions and financing	—	—	379,419	69,175	—	—	448,594	448,594
Total revenue	$485,690	$257,188	$640,115	$ 191,395	$167,996	$1,293,790	$ 448,594	$ 1,742,384
Timing of revenue recognition (ASC 606)								
Products/services transferred at a point in time	$—	$—	$107,672	$ 65,245	$65,020	$237,937		
Products/services transferred over time	485,690	257,188	153,024	56,975	102,976	1,055,853		
Total revenue	$485,690	$257,188	$260,696	$ 122,220	$167,996	$1,293,790		

Our performance obligations are as follows:

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

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

Rentals: Our performance obligations include the fees associated with postage refills for meters.

Financing: Our performance obligations for financing revenue include services under our equipment replacement program. The fees received for this program are recognized ratably over the contract term.

Support services: Our performance obligations include providing maintenance and professional services for our equipment. Maintenance contract revenue is recognized ratably over the contract period and revenue for professional services is recognized when services are complete.

Business services: Our performance obligations include mail processing services and ecommerce solutions. Revenue is recognized as the services are provided as these services represent a series of distinct services that are similar and the revenue is recognized as the services are provided.

Revenue from leasing transactions and financing include revenue from sales-type leases, finance income and late fees that are not accounted for under ASC 606.

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Contract Assets and Advance Billings from Contracts with Customers

	June 30, 2018	January 1, 2018 (1)	Total increase (decrease)
Contracts assets, current	$8,213	$5,075	$3,138
Contracts assets, noncurrent	$4,006	$648	$3,358
Advance billings, current	$186,778	$209,098	$(22,320)
Advance billings, noncurrent	$14,658	$17,765	$(3,107)

(1) Balances adjusted for the cumulative effect of accounting change

Contract assets are recorded in other current assets and prepayments and other assets, respectively. Advance billings are recorded in advance billings and other noncurrent liabilities.

Contract Assets

We record contract assets when performance obligations are satisfied in advance of invoicing the customer when the right to consideration is conditional on the satisfaction of another performance obligation within a contract. The net increase is driven by revenue recognized on data contracts during the second quarter, for which consideration will be invoices in future periods.

Advance Billings from Contracts with Customers

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

The net decrease in advance billings at June 30, 2018 is primarily driven by revenues recognized during the period, which includes $128 million of advance billings at the beginning of the period, partially offset by advance billings in the quarter.

Future Performance Obligations

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

	Total	Remainder of 2018	2019	2020-2025
North America Mailing(1)	$233,955	$57,793	$89,529	$86,633
International Mailing(1)	117,562	29,432	36,415	51,715
Software Solutions(2)	102,383	41,674	36,120	24,589
Total	$453,900	$128,899	$162,064	$162,937

(1) Revenue streams bundled with our leasing contracts, primarily maintenance and other services

(2) Multiple-year software maintenance contracts, certain software and data licenses and data updates

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

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3. Segment Information
In January 2018, we revised our business reporting groups to reflect how we manage these groups and clients served in each market. The Commerce Services group was formed and includes our Global Ecommerce and Presort Services segments. We have classified the operating results of the Production Mail Business as discontinued operations and as such, segment operating results for prior years have been recast to conform to this presentation. The principal products and services of each of our reportable segments are as follows:
Commerce Services:
Global Ecommerce: Includes the worldwide revenue and related expenses from cross-border ecommerce transactions and domestic retail and ecommerce shipping solutions, including fulfillment and returns.
Presort Services: Includes revenue and related expenses from sortation services which allow clients to qualify large mail volumes for postal worksharing discounts.
Small & Medium Business Solutions:
North America Mailing: Includes the revenue and related expenses from mailing and office solutions, financing services and supplies for small and medium businesses to efficiently create physical and digital mail, evidence postage and help simplify and save on the sending, tracking and receiving of letters, parcels and flats in the U.S. and Canada.
International Mailing: Includes the revenue and related expenses from mailing and office solutions, financing services and supplies for small and medium businesses to efficiently create physical and digital mail, evidence postage and help simplify and save on the sending, tracking and receiving of letters, parcels and flats in areas outside the U.S. and Canada.
Software Solutions:
Includes the worldwide revenue and related expenses from the licensing of customer engagement, customer information, and location intelligence software and data solutions and related support services.
We determine segment earnings before interest and taxes (EBIT) by deducting from segment revenue the related costs and expenses attributable to the segment. Segment EBIT excludes interest, taxes, general corporate expenses, restructuring charges and other items, which are not allocated to a particular business segment. Management uses segment EBIT to measure profitability and performance at the segment level and believes that it provides a useful measure of 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. The following tables provide information about our reportable segments.

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Revenue and EBIT by business segment is presented below:

	Revenue			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Global Ecommerce	$239,100	$94,506	$485,690	$182,658
Presort Services	122,730	118,452	257,188	251,129
Commerce Services	361,830	212,958	742,878	433,787
North America Mailing	314,546	340,949	640,115	696,902
International Mailing	93,358	95,425	191,395	188,624
Small & Medium Business Solutions	407,904	436,374	831,510	885,526
Software Solutions	91,702	81,081	167,996	154,280
Total revenue	$861,436	$730,413	$1,742,384	$1,473,593

	EBIT			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Global Ecommerce	$(5,993)	$(4,030)	$(13,704)	$(8,300)
Presort Services	12,565	19,270	39,591	49,987
Commerce Services	6,572	15,240	25,887	41,687
North America Mailing	115,193	120,797	234,763	262,041
International Mailing	13,215	14,020	29,246	27,430
Small & Medium Business Solutions	128,408	134,817	264,009	289,471
Software Solutions	18,433	5,091	20,925	6,397
Total segment EBIT	153,413	155,148	310,821	337,555
Reconciling items:				
Unallocated corporate expenses	(46,477)	(52,549)	(97,561)	(110,151)
Interest, net	(41,969)	(40,443)	(85,047)	(79,093)
Restructuring charges and asset impairments, net	(11,503)	(25,990)	(12,407)	(27,639)
Gain from the sale of technology	—	6,085	—	6,085
Transaction costs	—	—	(1,053)	—
Income from continuing operations before income taxes	53,464	42,251	114,753	126,757
Provision for income taxes	6,458	790	22,721	27,872
Income from discontinued operations, net of tax	1,208	7,440	9,695	15,149
Net income	$48,214	$48,901	$101,727	$114,034

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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4. Discontinued Operations

On July 2, 2018, we completed the sale of the Production Mail Business, other than in certain non-U.S. jurisdictions, to an affiliate of Platinum Equity, LLC, a leading global private equity firm. Cash proceeds received at the closing were $316 million. We expect to close the other non-U.S. jurisdiction sales in the third and fourth quarters, subject to local regulatory requirements. On August 1, 2018, following the completion of certain local requirements in a non-U.S. jurisdiction, we received an additional $24 million.

Net proceeds from the sale after the payment of closing costs, transaction fees and taxes are estimated to be approximately $270 million.

In connection with the sale of the Production Mail Business, we entered into Transition Services Agreements (TSAs) with the purchaser whereby we will perform certain support functions for periods of a year or less. None of these TSAs will have a material effect on our financial performance.

Selected financial information of the Production Mail Business included in discontinued operations is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue	$89,201	$90,958	$191,435	$184,418
Earnings from discontinued operations	$8,278	$11,602	$21,620	$23,645
Transaction costs	(7,238)	—	(8,777)	—
Income from discontinued operations before taxes	1,040	11,602	12,843	23,645
Tax (benefit) provision	(168)	4,162	3,148	8,496
Income from discontinued operations, net of tax	$1,208	$7,440	$9,695	$15,149

The assets and liabilities of the Production Mail Business have been classified as assets of discontinued operations and liabilities of discontinued operations on the Condensed Consolidated Balance Sheets. The major categories of assets and liabilities of the Production Mail Business included in assets of discontinued operations and liabilities of discontinued operations are as follows:

	June 30, 2018	December 31, 2017
Accounts receivable, net	$69,924	$97,402
Inventories	54,808	48,910
Other current assets and prepayments	6,653	3,365
Property, plant and equipment, net	3,185	5,541
Rental property and equipment, net	1,041	1,786
Goodwill	176,501	177,799
Other assets	1,244	45
Total assets of discontinued operations	$313,356	$334,848
Accounts payable and accrued liabilities	$34,244	$36,592
Advance billings	44,694	30,607
Other noncurrent liabilities	5,281	5,609
Total liabilities of discontinued operations	$84,219	$72,808

PITNEY BOWES INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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5. Earnings per Share

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Numerator:				
Net income from continuing operations	$47,006	$41,461	$92,032	$98,885
Income from discontinued operations, net of tax	1,208	7,440	9,695	15,149
Net income (numerator for diluted EPS)	48,214	48,901	101,727	114,034
Less: Preference stock dividend	8	10	16	19
Income attributable to common stockholders (numerator for basic EPS)	$48,206	$48,891	$101,711	$114,015
Denominator:				
Weighted-average shares used in basic EPS	187,180	186,333	187,004	186,136
Effect of dilutive shares	934	1,044	1,053	809
Weighted-average shares used in diluted EPS	188,114	187,377	188,057	186,945
Basic earnings per share:				
Continuing operations	$0.25	$0.22	$0.49	$0.53
Discontinued operations	0.01	0.04	0.05	0.08
Net Income	$0.26	$0.26	$0.54	$0.61
Diluted earnings per share:				
Continuing operations	$0.25	$0.22	$0.49	$0.53
Discontinued operations	0.01	0.04	0.05	0.08
Net Income	$0.26	$0.26	$0.54	$0.61
Anti-dilutive shares not used in calculating diluted weighted-average shares	12,453	9,916	11,959	11,379

6. Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined on the last-in, first-out (LIFO) basis for most U.S. inventories and the first-in, first-out (FIFO) basis for most non-U.S. inventories. Inventories at June 30, 2018 and December 31, 2017 consisted of the following:

	June 30, 2018	December 31, 2017
Raw materials	$13,502	$ 11,767
Supplies and service parts	21,822	21,475
Finished products	19,461	13,261
Inventory at FIFO cost	54,785	46,503
Excess of FIFO cost over LIFO cost	(5,734)	(5,734)
Total inventory, net	$49,051	$ 40,769

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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 clients for postage and supplies. Loan receivables are generally due each month; however, clients may rollover outstanding balances. Interest is recognized on loan receivables using the effective interest method and related annual fees are initially deferred and recognized ratably over the annual period covered. Client acquisition costs are expensed as incurred.
Finance receivables at June 30, 2018 and December 31, 2017 consisted of the following:

	June 30, 2018			December 31, 2017		
	North America	International	Total	North America	International	Total
Sales-type lease receivables						
Gross finance receivables	$1,004,241	$273,118	$1,277,359	$1,023,549	$292,059	$1,315,608
Unguaranteed residual values	62,358	13,391	75,749	74,093	14,202	88,295
Unearned income	(209,870)	(58,527)	(268,397)	(216,720)	(62,325)	(279,045)
Allowance for credit losses	(11,129)	(2,406)	(13,535)	(7,721)	(2,794)	(10,515)
Net investment in sales-type lease receivables	845,600	225,576	1,071,176	873,201	241,142	1,114,343
Loan receivables						
Loan receivables	313,049	32,941	345,990	339,373	34,492	373,865
Allowance for credit losses	(6,869)	(940)	(7,809)	(7,098)	(1,020)	(8,118)
Net investment in loan receivables	306,180	32,001	338,181	332,275	33,472	365,747
Net investment in finance receivables	$1,151,780	$257,577	$1,409,357	$1,205,476	$274,614	$1,480,090

Allowance for Credit Losses
We provide an allowance for probable credit losses based on historical loss experience, the nature and volume of our portfolios, adverse situations that may affect a client's ability to pay, prevailing economic conditions and our ability to manage the collateral. We continually evaluate the adequacy of the allowance for credit losses and make adjustments as necessary. The assumptions used in determining an estimate of credit losses are inherently subjective and actual results may differ significantly from estimated reserves.
We establish credit approval limits based on the credit quality of the client and the type of equipment financed. Our policy is to discontinue revenue recognition for lease receivables that are more than 120 days past due and for loan receivables that are more than 90 days past due. We resume revenue recognition when the client's payments reduce the account aging to less than 60 days past due. Finance receivables deemed uncollectible are written off against the allowance after all collection efforts have been exhausted and management deems the account to be uncollectible. We believe that our finance receivable credit risk is low because of the geographic and industry diversification of our clients and small account balances for most of our clients.

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Activity in the allowance for credit losses for the six months ended June 30, 2018 and 2017 was as follows:

	Sales-type Lease Receivables		Loan Receivables		
	North America	International	North America	International	Total
Balance at January 1, 2018	$7,721	$ 2,794	$7,098	$ 1,020	$18,633
Amounts charged to expense	5,946	545	7,008	250	13,749
Write-offs and other	(2,538)	(933)	(7,237)	(330)	(11,038)
Balance at June 30, 2018	$11,129	$ 2,406	$6,869	$ 940	$21,344

	Sales-type Lease Receivables		Loan Receivables		
	North America	International	North America	International	Total
Balance at January 1, 2017	$8,247	$ 2,647	$8,517	$ 1,089	$20,500
Amounts charged to expense	5,182	466	2,891	450	8,989
Write-offs and other	(4,973)	(617)	(3,905)	(382)	(9,877)
Balance at June 30, 2017	$8,456	$ 2,496	$7,503	$ 1,157	$19,612

Aging of Receivables

The aging of gross finance receivables at June 30, 2018 and December 31, 2017 was as follows:

	June 30, 2018				
	Sales-type Lease Receivables		Loan Receivables		
	North America	International	North America	International	Total
1 - 90 days	$961,356	$ 266,146	$305,116	$ 32,706	$1,565,324
> 90 days	42,885	6,972	7,933	235	58,025
Total	$1,004,241	$ 273,118	$313,049	$ 32,941	$1,623,349
Past due amounts > 90 days					
Still accruing interest	$6,297	$ 1,672	$—	$ —	$7,969
Not accruing interest	36,588	5,300	7,933	235	50,056
Total	$42,885	$ 6,972	$7,933	$ 235	