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

# F O R M 1 0 - Q

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

For the quarterly period ended March 31, 2004

OR

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

For the transition period from _______________ to _______________

Commission File Number: 1-3579

PITNEY BOWES INC.

| State of Incorporation | IRS Employer Identification No. |
|---|---|
| Delaware | 06-0495050 |

World Headquarters
1 Elmcroft Road
Stamford, Connecticut 06926-0700
Telephone Number: (203) 356-5000

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 X  No
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Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).  Yes X  No
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Number of shares of common stock, $1 par value, outstanding as of April 23, 2004 was 231,127,806.



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## Part I - Financial Information

Item 1. Financial Statements.

### Pitney Bowes Inc.
### Consolidated Statements of Income
### (Unaudited)

(Dollars in thousands, except per share data)

| | Three Months Ended March 31, 2004 | Three Months Ended March 31, 2003 |
|---|---|---|
| Revenue from: | | |
| Sales | $ 331,360 | $ 290,850 |
| Rentals | 201,438 | 196,288 |
| Business services | 300,705 | 272,620 |
| Support services | 160,499 | 148,921 |
| Core financing | 158,389 | 151,669 |
| Non-core financing | 19,531 | 30,461 |
| Total revenue | 1,171,922 | 1,090,809 |
| Costs and expenses: | | |
| Cost of sales | 159,375 | 139,927 |
| Cost of rentals | 41,700 | 41,465 |
| Cost of business services | 245,892 | 222,793 |
| Cost of support services | 85,623 | 78,299 |
| Selling, general and administrative | 361,728 | 341,753 |

| | | |
|---|---|---|
| Research and development | 36,004 | 35,751 |
| Restructuring charges (Note 9) | 15,043 | 21,265 |
| Interest, net | 40,536 | 43,281 |
| Total costs and expenses | 985,901 | 924,534 |
| Income before income taxes | 186,021 | 166,275 |
| Provision for income taxes | 59,427 | 52,372 |
| Net income | $ 126,594 | $ 113,903 |
| Basic earnings per share | $ .55 | $ .48 |
| Diluted earnings per share | $ .54 | $ .48 |
| Dividends declared per share of common stock | $ .305 | $ .300 |
| Ratio of earnings to fixed charges | 4.32 | 3.91 |

See Notes to Consolidated Financial Statements



Pitney Bowes Inc.
Consolidated Balance Sheets

| (Dollars in thousands, except share data) | March 31, 2004 (Unaudited) | December 31, 2003 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 298,711 | $ 293,812 |
| Short-term investments, at cost which approximates market | 2,180 | 28 |
| Accounts receivable, less allowances: 3/04, $41,165; 12/03, $39,778 | 478,905 | 459,106 |
| Finance receivables, less allowances: 3/04, $69,160; 12/03, $62,269 | 1,374,784 | 1,358,691 |
| Inventories (Note 3) | 215,036 | 209,527 |
| Other current assets and prepayments | 204,487 | 192,011 |
| Total current assets | 2,574,103 | 2,513,175 |
| Property, plant and equipment, net (Note 4) | 667,887 | 653,661 |
| Rental equipment and related inventories, net (Note 4) | 480,520 | 414,341 |
| Property leased under capital leases, net (Note 4) | 2,171 | 2,230 |
| Long-term finance receivables, less allowances: 3/04, $106,027; 12/03, $78,915 | 1,819,967 | 1,654,419 |
| Investment in leveraged leases | 1,534,570 | 1,534,864 |
| Goodwill (Note 11) | 995,029 | 956,284 |
| Intangible assets, net (Note 11) | 206,145 | 203,606 |
| Other assets | 901,540 | 958,808 |
| Total assets | $ 9,181,932 | $ 8,891,388 |

Liabilities and stockholders' equity

| | | |
|---|---|---|
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 1,350,379 | $ 1,392,597 |
| Income taxes payable | 191,296 | 154,799 |
| Notes payable and current portion of long-term obligations | 995,156 | 728,658 |
| Advance billings | 398,129 | 370,915 |
| Total current liabilities | 2,934,960 | 2,646,969 |
| Deferred taxes on income | 1,686,223 | 1,659,226 |
| Long-term debt (Note 5) | 2,691,094 | 2,840,943 |
| Other noncurrent liabilities | 415,301 | 346,888 |
| Total liabilities | 7,727,578 | 7,494,026 |
| Preferred stockholders' equity in a subsidiary company | 310,000 | 310,000 |
| Stockholders' equity: | | |
| Cumulative preferred stock, $50 par value, 4% convertible | 19 | 19 |
| Cumulative preference stock, no par value, $2.12 convertible | 1,292 | 1,315 |
| Common stock, $1 par value | 323,338 | 323,338 |
| Retained earnings | 4,103,860 | 4,057,654 |
| Accumulated other comprehensive income (Note 8) | 94,732 | 18,063 |
| Treasury stock, at cost | (3,378,887) | (3,313,027) |
| Total stockholders' equity | 1,144,354 | 1,087,362 |
| Total liabilities and stockholders' equity | $ 9,181,932 | $ 8,891,388 |

See Notes to Consolidated Financial Statements



Pitney Bowes Inc.
Consolidated Statements of Cash Flows
(Unaudited)

| (Dollars in thousands) | Three Months Ended March 31, 2004 | 2003 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 126,594 | $ 113,903 |
| Nonrecurring charges, net | 9,628 | 13,610 |
| Nonrecurring payments | (16,552) | (12,835) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 73,393 | 67,482 |
| Increase in deferred taxes on income | 30,698 | 24,430 |
| Change in assets and liabilities, net of effects of acquisitions: | | |
| Accounts receivable | (5,894) | (13,789) |
| Net investment in internal finance receivable | 33,187 | 23,933 |
| Inventories | 1,095 | (11,814) |
| Other current assets and prepayments | (2,966) | (3,226) |
| Accounts payable and accrued liabilities | (20,814) | (22,333) |
| Income taxes payable | 28,647 | 24,549 |
| Advanced billings | 20,647 | 14,178 |
| Other, net | (2,685) | (1,240) |

| | | |
|---|---|---|
| Net cash provided by operating activities | 274,978 | 216,848 |
| **Cash flows from investing activities:** | | |
| Short-term investments | (2,176) | (4,655) |
| Capital expenditures | (74,469) | (68,342) |
| Net investment in capital services | 16,103 | 52,714 |
| Investment in leveraged leases | (14,069) | 34,353 |
| Reserve account deposits | (2,443) | 12,828 |
| Other investing activities | (7,578) | (42,123) |
| Net cash used in investing activities | (84,632) | (15,225) |
| **Cash flows from financing activities:** | | |
| (Decrease) increase in notes payable, net | (76,206) | 267,699 |
| Proceeds from long-term obligations | 2,222 | 110,358 |
| Principal payments on long-term obligations | (7,891) | (411,700) |
| Proceeds from issuance of stock | 20,675 | 8,983 |
| Stock repurchases | (96,000) | (50,016) |
| Dividends paid | (70,946) | (70,467) |
| Net cash used in financing activities | (228,146) | (145,143) |
| Effect of exchange rate changes on cash | 6,079 | 4,017 |
| (Decrease) increase in cash and cash equivalents | (31,721) | 60,497 |
| Cash from consolidation of PBG Capital Partners LLC | 36,620 | - |
| Cash and equivalents at beginning of period | 293,812 | 315,156 |
| Cash and cash equivalents at end of period | $ 298,711 | $ 375,653 |
| Interest paid | $ 43,943 | $ 51,840 |
| Income taxes paid (refunded), net | $ 8,861 | $ (2,356) |

See Notes to Consolidated Financial Statements



Pitney Bowes Inc.

## Notes to Consolidated Financial Statements

### Note 1:

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America (GAAP) for complete financial statements. In the opinion of the management of Pitney Bowes Inc. (the company), all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position of the company at March 31, 2004 and December 31, 2003, and the results of its operations and cash flows for the three months ended March 31, 2004 and 2003 have been included. Operating results for the three months ended March 31, 2004 are not necessarily indicative of the results that may be expected for any other interim period or the year ending December 31, 2004. These statements should be read in conjunction with the financial statements and notes thereto included in the company's 2003 Annual Report to Stockholders on Form 10-K. Certain prior year amounts in the consolidated financial statements have been reclassified to conform to the current year presentation.

### Note 2:

In December 2002, Statement of Financial Accounting Standards (FAS) No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," which amends FAS No. 123, "Accounting for Stock-Based Compensation," was issued. FAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation and requires more prominent and more frequent disclosures in the financial statements of the effects of stock-based compensation. FAS No. 148 was effective January 1, 2003 for the company. The company adopted the disclosure-only provisions of this statement.

The company adopted FAS No. 123, "Accounting for Stock-Based Compensation," on January 1, 1996. Under FAS No. 123, companies can, but are not required to, elect to recognize compensation expense for all stock-based awards using a fair value methodology. The company adopted the disclosure-only provisions, as permitted by FAS No. 123. The company applies Accounting Principles Board (APB) Opinion No. 25 and related interpretations in accounting for its stock-based plans. Accordingly, no compensation expense has been recognized for its U.S. and U.K. Stock Option Plans (ESP) or its U.S. and U.K. Employee Stock Purchase Plans (ESPP), except for the compensation expense recorded for its performance-based awards under the ESP and the Directors' Stock Plan. If the company had elected to recognize compensation expense based on the fair value method as prescribed by FAS No. 123, net income and earnings per share for the three months ended March 31, 2004 and 2003 would have been reduced to the following pro forma amounts:

| (Dollars in thousands, except per share data) | Three Months Ended March 31, 2004 | Three Months Ended March 31, 2003 |
|---|---|---|
| Net Income | | |
| As reported | $ 126,594 | $ 113,903 |
| Deduct: Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (4,290) | (5,152) |
| Pro forma | $ 122,304 | $ 108,751 |
| Basic earnings per share | | |
| As reported | $ .55 | $ .48 |
| Pro forma | $ .53 | $ .46 |
| Diluted earnings per share | | |
| As reported | $ .54 | $ .48 |
| Pro forma | $ .52 | $ .46 |

The fair value of each stock option and employee stock purchase right grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

| | Three Months Ended March 31, 2004 | Three Months Ended March 31, 2003 |
|---|---|---|
| Expected dividend yield | 3.1% | 3.4% |
| Expected stock price volatility | 25% | 31% |
| Risk-free interest rate | 3% | 3% |
| Expected life (years) | 5 | 5 |



In January 2003, the Financial Accounting Standards Board (FASB) issued FASB

Interpretation (FIN) No. 46, "Consolidation of Variable Interest Entities." FIN No. 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the entity's residual returns or both. The company's ownership of the equity of PBG Capital Partners LLC (PBG) qualifies as a variable interest entity under FIN No. 46. PBG was formed with GATX Corporation in 1997 for the purpose of financing and managing certain leasing related assets. The company adopted the provisions of FIN No. 46 effective March 31, 2004 and consolidated the assets and liabilities of PBG on March 31, 2004. Prior to March 31, 2004, the company accounted for PBG under the equity method of accounting. PBG's minority interest of $70 million is included in other noncurrent liabilities in the Consolidated Balance Sheets at March 31, 2004. The consolidation of PBG did not impact the company's results of operations or cash flows.

In April 2003, FAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," was issued. FAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The provisions of FAS No. 149 are generally effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of this statement did not impact the company's financial position, results of operations or cash flows.

In May 2003, FAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," was issued. FAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The provisions of FAS No. 150 are effective for financial instruments entered into or modified after May 31, 2003, and were effective July 1, 2003 for the company. The company has evaluated the preferred securities previously issued by a subsidiary company and concluded that the $310 million of preferred securities are outside the scope of FAS No. 150. As a result, the adoption of this statement did not impact the company's financial position, results of operations or cash flows.

Note 3:

Inventories are composed of the following:

| (Dollars in thousands) | March 31, 2004 | December 31, 2003 |
|---|---|---|
| Raw materials and work in process.............. | $ 95,008 | $ 86,822 |
| Supplies and service parts..................... | 60,014 | 55,159 |
| Finished products.............................. | 60,014 | 67,546 |
| Total.......................................... | $ 215,036 | $ 209,527 |

Note 4:

Fixed assets are composed of the following:

| (Dollars in thousands) | March 31, 2004 | December 31, 2003 |
|---|---|---|
| Property, plant and equipment.................. | $ 1,646,507 | $ 1,617,479 |
| Accumulated depreciation....................... | (978,620) | (963,818) |
| Property, plant and equipment, net............. | $ 667,887 | $ 653,661 |
| Rental equipment and related inventories........ | $ 1,167,937 | $ 1,103,474 |
| Accumulated depreciation....................... | (687,417) | (689,133) |

| | | |
|---|---|---|
| Rental equipment and related inventories, net... | $ 480,520 | $ 414,341 |
| Property leased under capital leases........... | $ 8,818 | $ 14,942 |
| Accumulated amortization...................... | (6,647) | (12,712) |
| Property leased under capital leases, net....... | $ 2,171 | $ 2,230 |

<FN>
Depreciation expense was $66.3 million and $61.2 million for the three months ended March 31, 2004 and 2003, respectively.
</FN>



Note 5:
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On March 31, 2004, $456 million remained available under the shelf registration statement filed in October 2001 with the Securities and Exchange Commission (SEC), permitting issuances of up to $2 billion in debt securities, preferred stock and depositary shares. In April 2003, as part of this shelf registration statement, the company established a medium-term note program for the issuance of up to $1.38 billion in aggregate principal, representing the remaining amount available on the shelf at that time.

In June 2003, the company issued $375 million of unsecured fixed rate notes maturing in June 2013. These notes bear interest at an annual rate of 3.875% and pay interest semi-annually beginning December 2003. The proceeds from these notes were used for general corporate purposes, including the repayment of commercial paper and the repurchase of company stock.

In June 2003, the company issued $200 million of unsecured floating rate notes maturing in June 2005. These notes bear interest at a floating rate of LIBOR minus 3 basis points, set two business days preceding the quarterly interest payment dates. The proceeds from these notes were used for general corporate purposes, including the repayment of commercial paper and the repurchase of company stock.

In April 2003, the company issued $350 million of unsecured fixed rate notes maturing in May 2018. These notes bear interest at an annual rate of 4.75% and pay interest semi-annually beginning November 2003. In connection with this issuance, the company entered into a $350 million swap maturing in May 2018, converting this obligation to a floating rate note. The proceeds from these notes were used for general corporate purposes, including the repayment of commercial paper and the repurchase of company stock.

In February 2003, the company sold 6.45% Preferred Stock in a subsidiary of Pitney Bowes Credit Corporation to an outside institutional investor for approximately A$191 million ($110 million). As part of this transaction, the company agreed to repurchase the stock in 10 years. Additionally, the company entered into a cross currency interest rate swap with the same institutional investor, effectively converting the obligation to a $110 million note that bears interest at a floating rate of approximately LIBOR minus 50 basis points. This note was recorded as long-term debt in the Consolidated Balance Sheets. The proceeds from this transaction were used for general corporate purposes, including the repayment of commercial paper and the repurchase of company stock.

In accordance with the provisions of FIN No. 46, the company consolidated $178 million of nonrecourse debt of PBG, including $138 million of long-term nonrecourse debt at March 31, 2004.

Note 6:
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A reconciliation of the basic and diluted earnings per share computations for the three months ended March 31, 2004 and 2003 is as follows (in thousands, except per share data):

2004 2003

| | Income | Shares | Per Share | Income | Shares | Per Share |
|---|---|---|---|---|---|---|
| Net Income........................... | $ 126,594 | | | $ 113,903 | | |
| Less: | | | | | | |
| Preferred stock dividends.......... | - | | | - | | |
| Preference stock dividends......... | (25) | | | (28) | | |
| Basic earnings per share............. | $ 126,569 | 231,895 | $.55 | $ 113,875 | 234,795 | $.48 |
| Effect of dilutive securities: | | | | | | |
| Preferred stock.................... | - | 9 | | - | 12 | |
| Preference stock................... | 25 | 797 | | 28 | 869 | |
| Stock options...................... | | 1,904 | | | 843 | |
| Other.............................. | | 142 | | | 3 | |
| Diluted earnings per share........... | $ 126,594 | 234,747 | $.54 | $ 113,903 | 236,522 | $.48 |

<FN>
In accordance with FAS No. 128, "Earnings per Share," 2.1 million and 5.2 million common stock equivalent shares for the three months ended March 31, 2004 and 2003, respectively, issuable upon the exercise of stock options were excluded from the above computation because the exercise prices of such options were greater than the average market price of the common stock and therefore the impact of these shares was antidilutive.
</FN>



Note 7:
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Revenue and earnings before interest and taxes (EBIT) by business segment for the three months ended March 31, 2004 and 2003 were as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| (Dollars in thousands) | 2004 | 2003 |
| Revenue: | | |
| Global Mailstream Solutions.................. | $ 813,613 | $ 744,795 |
| Global Enterprise Solutions.................. | 328,618 | 305,650 |
| Capital Services............................. | 29,691 | 40,364 |
| Total revenue................................ | $ 1,171,922 | $ 1,090,809 |
| EBIT: (1) | | |
| Global Mailstream Solutions.................. | $ 249,877 | $ 233,337 |
| Global Enterprise Solutions.................. | 14,960 | 14,673 |
| Capital Services............................. | 19,210 | 25,396 |
| Total EBIT................................... | 284,047 | 273,406 |
| Unallocated amounts: | | |
| Interest, net................................ | (40,536) | (43,281) |
| Corporate expense............................ | (42,447) | (42,585) |
| Restructuring charges........................ | (15,043) | (21,265) |
| Income before income taxes................... | $ 186,021 | $ 166,275 |

<FN>
(1) EBIT excludes general corporate expenses.
</FN>

Note 8:
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Comprehensive income for the three months ended March 31, 2004 and 2003 was as follows:

| (Dollars in thousands) | Three Months Ended March 31, 2004 | Three Months Ended March 31, 2003 |
|---|---|---|
| Net income | $ 126,594 | $ 113,903 |
| Other comprehensive income (loss), net of tax: | | |
| Foreign currency translation adjustments | 82,224 | 42,467 |
| Net unrealized loss on derivative instruments | (5,555) | (2,588) |
| Comprehensive income | $ 203,263 | $ 153,782 |

Note 9:

The company accounts for one-time benefit arrangements and exit or disposal activities primarily in accordance with FAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which requires that a liability be recognized when the costs are incurred. The company accounts for ongoing benefit arrangements under FAS No. 112, "Employers' Accounting for Postemployment Benefits," which requires that a liability be recognized when the costs are probable and reasonably estimable. The fair values of impaired long-lived assets are determined primarily using probability weighted expected cash flows in accordance with FAS No. 144, "Accounting for the Impairment of Long-Lived Assets."

In January 2003, the company announced that it would undertake restructuring initiatives related to realigned infrastructure requirements and reduced manufacturing needs for digital equipment. The charges related to these restructuring initiatives will be recorded as the various initiatives take effect.

In connection with this plan, the company recorded pre-tax restructuring charges of $15.0 million and $21.3 million for the three months ended March 31, 2004 and 2003, respectively. The pre-tax restructuring charges are composed of:

| (Dollars in millions) | Three Months Ended March 31, 2004 | Three Months Ended March 31, 2003 |
|---|---|---|
| Severance and benefit costs | $ 12.8 | $ 18.4 |
| Asset impairments | 1.3 | 0.5 |
| Other exit costs | 0.9 | 2.4 |
| | $ 15.0 | $ 21.3 |



All restructuring charges, except for the asset impairments, will result in cash outflows. The severance and benefit costs relate to a reduction in workforce of approximately 1,700 employees worldwide from the inception of this plan through March 31, 2004 and expected future workforce reductions of approximately 700 employees. The workforce reductions relate to actions across several of the company's businesses resulting from infrastructure and process improvements and its continuing efforts to streamline operations, and include managerial, professional, clerical and technical roles. Approximately 66% of the workforce reductions are in the U.S. The majority of the international workforce reductions are in Europe and Canada. Other exit costs relate primarily to lease termination costs, non-cancelable lease payments, consolidation of excess facilities and other costs associated with exiting business activities.

Accrued restructuring charges at March 31, 2004 are composed of the following:

| (Dollars in millions) | Balance at January 1, 2004 | Restructuring charges | Cash payments | Non-cash charges | Ending balance at March 31, 2004 |
|---|---|---|---|---|---|
| Severance and benefit costs................... | $ 27.5 | $ 12.8 | $ (16.0) | $ - | $ 24.3 |
| Asset impairments................ | - | 1.3 | - | (1.3) | - |
| Other exit costs................. | 4.7 | 0.9 | (0.6) | - | 5.0 |
| | $ 32.2 | $ 15.0 | $ (16.6) | $ (1.3) | $ 29.3 |

Note 10:

On October 23, 2003, the company completed the acquisition of DDD Company (DDD) for a net purchase price of $49.5 million, which consisted of approximately $24.8 million of cash and the issuance of 595,485 shares of common stock valued at $24.7 million. The value of common shares was determined based on the average market price of common shares over a period of time prior to the completion of the acquisition. The results of DDD's operations have been included in the consolidated financial statements since the date of acquisition. DDD offers a broad array of services, including fulfillment services, secure mail processing, messenger services, logistics support, and record and information management.

Allocation of the purchase price to the assets acquired and liabilities assumed has not been finalized for this acquisition. Final determination of fair values to be assigned may result in adjustments to the preliminary estimated values assigned at the date of acquisition. The following table summarizes the preliminary estimated fair values of the major assets acquired and liabilities assumed at the date of acquisition:

| (Dollars in thousands) | |
|---|---|
| Intangible assets...................................... | $ 13,900 |
| Goodwill............................................... | 31,187 |
| Other, net............................................. | 4,452 |
| Purchase price......................................... | $ 49,539 |

Intangible assets relate primarily to customer relationships and have a weighted-average useful life of approximately 10 years. The goodwill was assigned to the Global Enterprise Solutions segment. No research and development assets were acquired.

Consolidated impact of acquisitions

The acquisition of DDD increased the company's earnings, but including related financing costs, did not materially impact earnings either on a per share or aggregate basis.

The following unaudited pro forma consolidated results have been prepared as if the acquisition of DDD had occurred on January 1, 2003:

| (Dollars in thousands) | Three Months Ended March 31, 2004 | 2003 |
|---|---|---|
| Total revenue.............................. | $ 1,171,922 | $ 1,108,309 |

The pro forma consolidated results do not purport to be indicative of results that would have occurred had the acquisition been completed on January 1, 2003, nor do they purport to be indicative of the results that will be obtained in the future. The pro forma earning results of this acquisition were not material to earnings on either a per share or an aggregate basis.

During 2004 and 2003, the company also completed several smaller acquisitions. During 2004 and 2003, the company acquired some of its presort businesses and international dealerships. During 2003, the company also acquired one of its address printing suppliers. The cost of these acquisitions was in the aggregate less than $70 million in each year. These acquisitions did not have a material impact on the company's financial results either individually or on an aggregate basis.



Note 11:

Intangible assets are composed of the following:

| (Dollars in thousands) | March 31, 2004 | | December 31, 2003 | |
|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Customer relationships........................ | $ 167,313 | $ 21,607 | $ 161,655 | $ 18,002 |
| Mailing technology............................ | 66,286 | 11,468 | 63,603 | 9,519 |
| Trademark and trade names..................... | 8,901 | 4,778 | 8,357 | 4,067 |
| Non-compete agreements........................ | 3,729 | 2,231 | 3,496 | 1,917 |
| | $ 246,229 | $ 40,084 | $ 237,111 | $ 33,505 |

Amortization expense for intangible assets was $5.0 million and $3.7 million for the three months ended March 31, 2004 and 2003, respectively. Estimated intangible amortization expense for each of the next five years is as follows:

| (Dollars in thousands) | |
|---|---|
| For the year ending 12/31/04.................. | $20,000 |
| For the year ending 12/31/05.................. | $19,900 |
| For the year ending 12/31/06.................. | $19,100 |
| For the year ending 12/31/07.................. | $17,400 |
| For the year ending 12/31/08.................. | $16,800 |
| For the year ending 12/31/09.................. | $16,300 |

Changes in the carrying amount of goodwill by business segment for the three months ended March 31, 2004 are as follows:

| (Dollars in thousands) | Global Mailstream Solutions | Global Enterprise Solutions | Total |
|---|---|---|---|
| Balance at January 1, 2004.................... | $ 492,445 | $ 463,839 | $ 956,284 |
| Goodwill acquired during the period........... | 8,448 | - | 8,448 |
| Other......................................... | 21,582 | 8,715 | 30,297 |
| Balance at March 31, 2004..................... | $ 522,475 | $ 472,554 | $ 995,029 |

"Other" primarily includes the impact of foreign currency translation adjustments.

Note 12:

In connection with its Capital Services programs, the company has sold finance receivables and entered into guarantee contracts with varying amounts of recourse in privately placed transactions with unrelated third-party investors. The uncollected principal balance of receivables sold and guarantee contracts totaled $124.5 million and $125.9 million at March 31, 2004 and December 31, 2003, respectively. In accordance with GAAP, the company does not record these amounts as liabilities in its Consolidated Balance Sheets. The company's maximum risk of loss on these financing receivables and guarantee contracts arises from the possible non-performance of lessees to meet the terms of their contracts and from changes in the value of the underlying equipment. These contracts are secured by the underlying equipment value and/or supported by the creditworthiness of its customers. At March 31, 2004 and December 31, 2003, the underlying equipment value exceeded the sum of the uncollected principal balance of receivables sold and the guarantee contracts.

The company provides product warranties in conjunction with certain product sales, generally for a period of 90 days from the date of installation. The company's product warranty liability reflects management's best estimate of probable liability under its product warranties based on historical claims experience, which has not been significant, and other currently available evidence. Accordingly, the company's product warranty liability at March 31, 2004 and December 31, 2003, respectively, was not material.



## Note 13:

In December 2003, the company received accepted closing agreements with the Internal Revenue Service (IRS) showing income tax adjustments for the 1992 to 1994 tax years. The total additional tax for these years is approximately $5.0 million. Additional tax due for 1995 and future tax years in connection with these closing agreements will not materially affect the company's future results of operations, financial position or cash flows. In addition to the accepted income tax adjustments, one 1994 proposed adjustment remains in dispute, which could result in additional tax of approximately $4.3 million. The company believes that it has meritorious defenses to this deficiency and that the ultimate outcome will not result in a material effect on its results of operations, financial position or cash flows. The company believes that its accruals for tax liabilities are adequate for all open years. However, if the IRS prevails on this deficiency, additional tax may be due for 1995 and future tax years, which could materially affect its results of operations, financial position or cash flows. At any time, the company's provision for taxes could be affected by changes in tax laws and interpretations by governments or courts.

## Note 14:

Defined Benefit Pension Plans

The components of net periodic cost for defined benefit pension plans for the three months ended March 31, 2004 and 2003 are as follows:

| (Dollars in thousands) | United States | | Foreign | |
|---|---|---|---|---|
| | Three Months Ended March 31, | | Three Months Ended March 31, | |
| | 2004 | 2003 | 2004 | 2003 |
| Service cost | $ 8,260 | $ 6,959 | $ 2,346 | $ 2,001 |
| Interest cost | 22,052 | 23,667 | 5,240 | 4,564 |
| Expected return on plan assets | (31,983) | (29,458) | (6,284) | (5,635) |
| Amortization of transition cost | - | - | (134) | 36 |
| Amortization of prior service cost | (682) | (647) | 138 | 118 |
| Amortization of net loss | 2,928 | 486 | 1,618 | 1,408 |
| Curtailment | - | - | - | 389 |
| Net periodic benefit cost | $ 575 | $ 1,007 | $ 2,924 | $ 2,881 |

The company previously disclosed in its consolidated financial statements for the year ended December 31, 2003 that it expects to contribute up to $5 million and up to $10 million, respectively, to its U.S. and foreign pension plans during 2004. At March 31, 2004, $1.3 million and $1.4 million of contributions have been made to the U.S. and foreign pension plans, respectively.

Nonpension Postretirement Benefit Plans

The components of net periodic cost for nonpension postretirement benefit plans for the three months ended March 31, 2004 and 2003 are as follows:

| (Dollars in thousands) | Three Months Ended March 31, | |
|---|---|---|
| | 2004 | 2003 |

| | | |
|---|---|---|
| Service cost | $ 1,060 | $ 797 |
| Interest cost | 4,884 | 4,375 |
| Amortization of prior service cost | (2,049) | (1,918) |
| Amortization of net loss | 1,787 | 930 |
| Net periodic benefit cost | $ 5,682 | $ 4,184 |

The company previously disclosed in its consolidated financial statements for the year ended December 31, 2003 that it expects to contribute $34 million, which represents its expected benefit payments, to its postretirement benefits plans during 2004. At March 31, 2004, $7.7 million of contributions have been made.

Note 15:

On April 13, 2004, the company signed a definitive agreement to acquire all of the outstanding shares of Group 1 Software, Inc. (Group 1) for $23 per share, which net of cash on Group 1's balance sheet, will cost the company approximately $321 million. Group 1 is an industry leader in software that enhances mailing efficiency, data quality and customer communications. Subject to approval by Group 1's stockholders and completion of other conditions, the transaction is expected to close in the third quarter of 2004.



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

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) contains statements that are forward-looking. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially because of factors discussed in Forward-Looking Statements on page 19 and elsewhere in this report.

### Overview

In the first quarter of 2004, we grew our existing businesses and continued to execute our long-term growth strategies. The quarter featured good organic growth largely driven by increased global demand for our mailing solutions and services by customers of all sizes. We expanded our participation in the mailstream and diversified our customer base with the continued growth in our small business solutions, the expansion of our pre-sort network, and the growing use of our advanced technologies to process consumer originated mail. Our international presence grew as a result of strong customer acceptance of our new digital mailing solutions. Additionally, we positioned ourselves to provide higher value document management solutions with our definitive agreement to acquire Group 1 Software, Inc. (Group 1) and build our customer communication management capability.

Revenue increased 7% in the first quarter of 2004 to $1,172 million compared with the first quarter of 2003 driven by strong organic growth in our Global Mailstream Solutions segment, the favorable impact of foreign currency and the acquisition of DDD Company (DDD). Net income increased 11% in the first quarter of 2004 to $126.6 million compared with the first quarter of 2003. Diluted earnings per share increased to 54 cents in the first quarter of 2004 from 48 cents in the first quarter of 2003. During the first quarter of 2004, we took several actions as part of our previously announced restructuring program. Net income for the first quarter of 2004 and 2003, was reduced by pre-tax restructuring charges of $15 million and $21 million, respectively, or 4 cents and 6 cents, respectively, per diluted share relating to these actions. First quarter 2004 diluted earnings per share included 2 cents per diluted share from non-core Capital Services operations compared with 4 cents per diluted share in the first quarter of 2003.

See Results of Continuing Operations - first quarter of 2004 vs. first quarter of 2003 below for a more detailed discussion of our results of operations.

Results of Continuing Operations - first quarter of 2004 vs. first quarter of 2003

Business segment results

The following table shows revenue and earnings before interest and taxes (EBIT) by business segment for the three months ended March 31, 2004 and 2003:

| (Dollars in millions) | Revenue | | | EBIT | | |
|---|---|---|---|---|---|---|
| | Three months ended March 31, | | | Three months ended March 31, | | |
| | 2004 | 2003 | % change | 2004 | 2003 | % change |
| Global Mailstream Solutions........ | $ 813 | $ 745 | 9% | $ 250 | $ 233 | 7% |
| Global Enterprise Solutions........ | 329 | 306 | 8% | 15 | 15 | 2% |
| Capital Services.................. | 30 | 40 | (26%) | 19 | 25 | (24%) |
| Total............................ | $ 1,172 | $ 1,091 | 7% | $ 284 | $ 273 | 4% |

During the first quarter of 2004, Global Mailstream Solutions revenue increased 9% and EBIT increased 7%. Global Mailstream Solutions continued to experience good customer demand worldwide for its revolutionary digital mailing systems, mail creation products and distribution solutions applications. The segment also benefited from strong growth in its small business operations and in its supplies revenue. Additionally, our pre-sort operations continued to expand during the quarter and again grew revenue at a double-digit pace. Non-U.S. revenue experienced strong organic growth and favorable foreign currency exchange rates. The UK, Canada and Japan all had double-digit revenue growth in local currency, helped by the recent introduction of new digital mailing systems. Germany was the only European country in which revenue did not grow on a local currency basis.

During the first quarter of 2004, revenue grew 8% and EBIT grew 2% in the Global Enterprise Solutions segment. Pitney Bowes Management Services (PBMS) reported revenue of $265 million, an 8% increase over the prior year and margins consistent with the prior year. The increase in revenue was driven primarily by the acquisition of DDD in 2003. The Government Solutions operations continued to grow as the integration of DDD progressed. PBMS continues to focus on strategies for enhancing value to its customers and working more efficiently and cost-effectively. Document Messaging Technologies (DMT) reported revenue of $64 million for the quarter, an increase of 4% versus the prior year. Overall business trends are positive with a good backlog and ongoing success with the APSTM Series Advanced Productivity System platform. Margins declined slightly because of a lower level of customer financing during the quarter.



During the first quarter of 2004, revenue decreased 26% and EBIT decreased 24% in the Capital Services segment which is consistent with our ongoing planned strategy to reduce exposure to non-core, long-term financing. First quarter 2004 diluted earnings per share included 2 cents per diluted share from non-core Capital Services operations compared with 4 cents per diluted share in the first quarter of 2003.

Revenue by source

First quarter 2004 revenue included $331.4 million from sales, up 14% from $290.9 million in the first quarter of 2003 due primarily to increased equipment sales, strong supplies sales and the favorable impact of foreign currency; $201.4 million from rentals, up 3% from $196.3 million due primarily to the favorable impact of foreign currency; $300.7 million from business services, up 10% from $272.6 million due primarily to the acquisition of DDD and the expansion of our presort operations; $160.5 million from support services, up 8% from $148.9 million due primarily to an increased service contract base worldwide and the favorable impact of foreign currency; $158.4 million from core financing, up 4% from $151.7 million due to strong growth in our postal payment products and the favorable impact of foreign currency; and $19.5 million from non-core financing, down 36% from $30.5 million due to our ongoing planned strategy to reduce our exposure to non-core, long-term financing.

Costs and expenses

Cost of sales as a percentage of sales revenue was 48.1% in the first quarter of 2004 and 2003.

Cost of rentals decreased to 20.7% of related revenues in the first quarter of 2004 compared with 21.1% in the first quarter of 2003 due primarily to lower repair costs resulting from the shift from electronic to digital meters.

Cost of business services was 81.8% of related revenues in the first quarter of 2004 compared with 81.7% in the first quarter of 2003.

Cost of support services increased to 53.3% of related revenues in the first quarter of 2004 compared with 52.6% in the first quarter of 2003 due to the increase in mix of lower margin international support services revenue.

Selling, general and administrative expenses decreased to 30.9% of revenue in the first quarter of 2004 compared with 31.3% in the first quarter of 2003 reflecting our continuing emphasis on controlling operating expenses, partially offset by costs associated with investments in infrastructure improvements, organizational transformation programs and growth initiatives.

Research and development expenses increased 1% to $36.0 million in the first quarter of 2004 compared with $35.8 million in the first quarter of 2003. The increase reflects our continued commitment to develop new technologies and enhanced mailing and software products.

Net interest expense decreased to $40.5 million in the first quarter of 2004 from $43.3 million in the first quarter of 2003. The decrease was due to lower average borrowings during the first quarter of 2004 compared with the first quarter of 2003.

The effective tax rate for the first quarter of 2004 was 31.9% compared with 31.5% in the first quarter of 2003. The effective tax rates for the first quarter of 2004 and 2003 included tax benefits of .3% and .5%, respectively, from restructuring charges. The increase in the 2004 effective tax rate also reflects the impact of our strategy to cease originating large-ticket, structured, third-party financing of non-core assets.

## Accounting Pronouncements

In December 2002, Statement of Financial Accounting Standards (FAS) No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," which amends FAS No. 123, "Accounting for Stock-Based Compensation," was issued. FAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation and requires more prominent and more frequent disclosures in the financial statements of the effects of stock-based compensation. FAS No. 148 is effective January 1, 2003. We adopted the disclosure-only provisions of this statement. See Note 2 to the consolidated financial statements.



In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) No. 46, "Consolidation of Variable Interest Entities." FIN No. 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the entity's residual returns or both. Our ownership of the equity of PBG Capital Partners LLC (PBG) qualifies as a variable interest entity under FIN No. 46. PBG was formed with GATX Corporation in 1997 for the purpose of financing and managing certain leasing related assets. We adopted the provisions of FIN No. 46 effective March 31, 2004 and consolidated the assets and liabilities of PBG on March 31, 2004. Prior to March 31, 2004, we accounted for our investment in PBG under the equity method of accounting. PBG's minority interest of $70 million is included in other noncurrent liabilities in the Consolidated Balance Sheets at March 31, 2004. The consolidation of PBG did not impact our results of operations or cash flows.

In April 2003, FAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," was issued. FAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The provisions of FAS No. 149 are generally effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of this statement did not impact our financial position, results of operations or cash flows.

In May 2003, FAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," was issued. FAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The provisions of FAS No. 150 are effective for financial instruments entered into or modified after May 31, 2003, and were effective July 1, 2003. We have evaluated the preferred securities previously issued by a subsidiary company and concluded that the $310 million of preferred securities are outside the scope of FAS No. 150. As a result, the adoption of this statement did not impact our financial position, results of operations or cash flows.

## Restructuring Charges

In January 2003, we announced that we would undertake restructuring initiatives related to realigned infrastructure requirements and reduced manufacturing needs for digital equipment. We continue to review the anticipated cost of these restructuring initiatives and currently estimate the total pre-tax cost of these restructuring initiatives during the two years will be about $200 million ($125 million after tax). As we continue to finalize our 2004 restructuring plans, the ultimate amount of the restructuring charges may differ from our current estimates. The charges related to these restructuring initiatives will be recorded as the various initiatives take effect.

The cash outflows related to restructuring charges will be funded primarily by cash from operating activities. The restructuring initiatives are expected to continue to increase our operating efficiency and effectiveness in 2004 and beyond while enhancing growth, primarily as a result of reduced personnel related expenses. See Note 9 to the consolidated financial statements for our accounting policy related to restructuring charges.

In connection with this plan, we recorded pre-tax restructuring charges of $15.0 million and $21.3 million for the three months ended March 31, 2004 and 2003, respectively. The pre-tax restructuring charges are composed of:

| (Dollars in millions) | Three Months Ended March 31, 2004 | 2003 |
|---|---|---|
| Severance and benefit costs | $ 12.8 | $ 18.4 |
| Asset impairments | 1.3 | 0.5 |
| Other exit costs | 0.9 | 2.4 |
| | $ 15.0 | $ 21.3 |

All restructuring charges, except for the asset impairments, will result in cash outflows. The severance and benefit costs relate to a reduction in workforce of approximately 1,700 employees worldwide from the inception of this plan through March 31, 2004 and expected future workforce reductions of approximately 700 employees. The workforce reductions relate to actions across several of our businesses resulting from infrastructure and process improvements and our continuing efforts to streamline operations, and include managerial, professional, clerical and technical roles. Approximately 66% of the workforce reductions are in the U.S. The majority of the international workforce reductions are in Europe and Canada. Other exit costs relate primarily to lease termination costs, non-cancelable lease payments, consolidation of excess facilities and other costs associated with exiting business activities.



Accrued restructuring charges at March 31, 2004 are composed of the following:

| (Dollars in millions) | Balance at January 1, 2004 | Restructuring charges | Cash payments | Non-cash charges | Ending balance at March 31, 2004 |
|---|---|---|---|---|---|
| Severance and benefit costs.................. | $ 27.5 | $ 12.8 | $ (16.0) | $ - | $ 24.3 |
| Asset impairments................ | - | 1.3 | - | (1.3) | - |
| Other exit costs................ | 4.7 | 0.9 | (0.6) | - | 5.0 |
| | $ 32.2 | $ 15.0 | $ (16.6) | $ (1.3) | $ 29.3 |

## Acquisitions

In October 2003, we acquired DDD for a net purchase price of $49.5 million, which consisted of approximately $24.8 million of cash and the issuance of common stock valued at $24.7 million. DDD offers a broad array of services including, fulfillment services, secure mail processing, manager services, logistics support, and record and information management.

We accounted for the acquisition of DDD under the purchase method and accordingly, the operating results of DDD have been included in our consolidated financial statements since the date of acquisition. The acquisition of DDD did not materially impact net income for the three months ended March 31, 2004.

During 2004 and 2003, we also completed several smaller acquisitions. During 2004 and 2003, we acquired some of our presort businesses and international dealerships. During 2003, we also acquired one of our address printing suppliers. The cost of these acquisitions was in the aggregate less than $70 million in each year. These acquisitions did not have a material impact on our financial results either individually or on an aggregate basis.

## Liquidity and Capital Resources

Our ratio of current assets to current liabilities decreased to .88 to 1 at March 31, 2004 compared with .95 to 1 at December 31, 2003. The decrease in this ratio was due primarily to the reclassification of $300 million of notes from long-term debt to short-term debt partially offset by lower commercial paper borrowings at March 31, 2004.

The following table summarizes our cash flows for the three months ended March 31, 2004 and 2003:

| (Dollars in thousands) | Three Months Ended March 31, | |
|---|---|---|
| | 2004 | 2003 |
| Cash provided by (used in): | | |
| Operating activities........................... | $ 274,978 | $ 216,848 |
| Investing activities........................... | (84,632) | (15,225) |
| Financing activities........................... | (228,146) | (145,143) |
| Effect of exchange rate changes on cash.......... | 6,079 | 4,017 |
| Net change in cash and cash equivalents......... | $ (31,721) | $ 60,497 |

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Net cash provided by operating activities consisted primarily of net income adjusted for non-cash items and changes in working capital. Net cash used in investing activities consisted primarily of capital expenditures. Net cash used in financing activities consisted primarily of stock repurchases, dividends paid to stockholders and a decrease in total debt.

The ratio of total debt to total debt and stockholders' equity was 76.3% and 76.7% at March 31, 2004 and December 31, 2003, respectively. Including the preferred stockholders' equity in a subsidiary company as debt, the ratio of total debt to total debt and stockholders' equity was 77.8% and 78.1% at March 31, 2004 and December 31, 2003, respectively. The decrease in this ratio was driven by a reduction of total recourse debt, favorable foreign currency translation adjustments and income, offset by the $96 million repurchase of 2.3 million shares of common stock in the first quarter of 2004 and the consolidation of PBG's nonrecourse debt of $178 million at March 31, 2004.



## Financings and Capitalization

At March 31, 2004, $456 million remained available under the shelf registration statement filed in October 2001 with the Securities and Exchange Commission (SEC), permitting issuances of up to $2 billion in debt securities, preferred stock and depositary shares. In April 2003, as part of this shelf registration statement, we established a medium-term note program for the issuance of up to $1.38 billion in aggregate principal, representing the remaining amount available on the shelf at that time.

In June 2003, we issued $375 million of unsecured fixed rate notes maturing in June 2013. These notes bear interest at an annual rate of 3.875% and pay interest semi-annually beginning December 2003. The proceeds from these notes were used for general corporate purposes, including the repayment of commercial paper and the repurchase of company stock.

In June 2003, we issued $200 million of unsecured floating rate notes maturing in June 2005. These notes bear interest at a floating rate of LIBOR minus 3 basis points, set two business days preceding the quarterly interest payment dates. The proceeds from these notes were used for general corporate purposes, including the repayment of commercial paper and the repurchase of company stock.

In April 2003, we issued $350 million of unsecured fixed rate notes maturing in May 2018. These notes bear interest at an annual rate of 4.75% and pay interest semi-annually beginning November 2003. In connection with this issuance, we entered into a $350 million swap maturing in May 2018, converting this obligation to a floating rate note. The proceeds from these notes were used for general corporate purposes, including the repayment of commercial paper and the repurchase of company stock.

In February 2003, we sold 6.45% Preferred Stock in a subsidiary of Pitney Bowes Credit Corporation to an outside institutional investor for approximately A$191 million ($110 million). As part of this transaction, we agreed to repurchase the stock in 10 years. Additionally, we entered into a cross currency interest rate swap with the same institutional investor, effectively converting the obligation to a $110 million note that bears interest at a floating rate of approximately LIBOR minus 50 basis points. This note was recorded as long-term debt in our Consolidated Balance Sheets. The proceeds from this transaction were used for general corporate purposes, including the repayment of commercial paper and the repurchase of company stock.

We believe our financing needs for the next 12 months can be met with cash generated internally, debt issued under new and existing shelf registration statements and our existing commercial paper programs. In addition, we maintain a back-up credit facility for our commercial paper program.

In accordance with the provisions of FIN No. 46, we consolidated $178 million of nonrecourse debt of PBG, including $138 million of long-term nonrecourse debt at March 31, 2004.

## Capital Expenditures

In the first quarter of 2004, capital expenditures included $43.5 million in net additions to property, plant and equipment and $31.0 million in net additions to rental equipment and related inventories compared with $41.8 million and $26.5 million, respectively, in the same period in 2003.

We expect capital expenditures for the remainder of 2004 to be approximately the same as the prior year. These investments will also be affected by the timing of our customers' transition to digital meters.

## Investment in commercial passenger and cargo aircraft leasing transactions

At March 31, 2004 and December 31, 2003, our net investment in commercial passenger and cargo aircraft leasing transactions was $293 million and $298 million, respectively, which is composed of transactions with U.S. airlines of $35 million and $41 million, respectively, and foreign airlines of $257 million for both periods. There have been no significant changes to the net investment in commercial passenger and cargo aircraft leasing transactions disclosure from our 2003 Annual Report on Form 10-K. Our net investment in commercial passenger and cargo aircraft leasing portfolio is composed of investments in leveraged lease transactions, direct financing lease transactions and a portion of our investment in PBG. Risk of loss under these transactions is primarily related to: (1) the inability of the airline to make underlying lease payments; (2) our inability to generate sufficient cash flows either through the sale of the aircraft or secondary lease transactions to recover our net investment; and/or (3) in the case of the leveraged lease portfolio, the default of an equity defeasance or other third party credit arrangements. At March 31, 2004 and December 31, 2003, approximately 43% and 42%, respectively, of our remaining net investment in commercial passenger and cargo aircraft leasing investments is further secured by approximately $126 million and $125 million, respectively, of equity defeasance accounts or third party credit arrangements.



## Capital Services portfolio

Our investment in Capital Services lease related assets included in our Consolidated Balance Sheets is composed of the following:

| (Dollars in millions) | March 31, 2004 | December 31, 2003 |
|---|---|---|
| Leveraged leases | $ 1,535 | $ 1,535 |
| Finance receivables (1) | 704 | 450 |
| Other assets (1) | - | 51 |
| Rental equipment (1) | 71 | 18 |
| Total | $ 2,310 | $ 2,054 |

<FN>
(1) On March 31, 2004 we adopted the provisions of FIN No. 46 and consolidated the assets and liabilities of PBG. Accordingly, the increase in finance receivables and rental equipment at March 31, 2004 reflects the consolidated assets of PBG. Other assets at December 31, 2003 represented our investment in PBG, which at that time was accounted for under the equity method of accounting. See Note 2 to the consolidated financial statements for further details on the impact of adopting FIN No. 46.
</FN>

The investment in leveraged leases included in our Consolidated Balance Sheets is diversified across the following types of assets:

| (Dollars in millions) | March 31, 2004 | December 31, 2003 |
|---|---|---|
| Locomotives and rail cars | $ 349 | $ 360 |
| Postal equipment | 344 | 338 |
| Commercial aircraft | 280 | 279 |
| Commercial real estate | 237 | 236 |
| Telecommunications | 140 | 139 |
| Rail and bus | 132 | 132 |
| Shipping and handling | 53 | 51 |
| Total leveraged leases | $ 1,535 | $ 1,535 |

At March 31, 2004 and December 31, 2003, our leveraged lease investment in commercial real estate facilities included approximately $89 million and $88 million, respectively, related to leases of corporate facilities to four U.S. telecommunication entities, of which $73 million, for both periods, is with lessees that are highly rated. Additionally, our leveraged lease investment in telecommunications equipment represents leases to three highly rated international telecommunication entities. At March 31, 2004 and December 31, 2003, approximately 84% of this portfolio is further secured by equity defeasance accounts or other third party credit arrangements.

At March 31, 2004 and December 31, 2003, approximately 52% and 51%, respectively, of our total leveraged lease portfolio is further secured by equity defeasance accounts or other third party credit arrangements. In addition, at March 31, 2004 and December 31, 2003, approximately 20% of the remaining leveraged lease portfolio represents leases to highly rated government related organizations which have guarantees or supplemental credit enhancements upon the occurrence of certain events.

Finance receivables are composed of the following:

| (Dollars in millions) | March 31, 2004 | December 31, 2003 |
|---|---|---|
| Assets held for sale | $ 21 | $ 21 |
| Single investor leases: | | |
| Large ticket single investor leases | 409 | 157 |
| Imagistics lease portfolio | 274 | 272 |
| Total | $ 704 | $ 450 |

## Subsequent Events

On April 13, 2004, we signed a definitive agreement to acquire all of the outstanding shares of Group 1 for $23 per share, which net of cash on Group 1's balance sheet, will cost us approximately $321 million. Group 1 is an industry leader in software that enhances mailing efficiency, data quality and customer communications. Subject to approval by Group 1's stockholders and completion of other conditions, the transaction is expected to close in the third quarter of 2004.



## Regulatory Matters

There have been no significant changes to the regulatory matters disclosed in our 2003 Annual Report on Form 10-K.

### Other Regulatory Matters

In December 2003, we received accepted closing agreements with the Internal Revenue Service (IRS) showing income tax adjustments for the 1992 to 1994 tax years. The total additional tax for these years is approximately $5.0 million. Additional tax due for 1995 and future tax years in connection with these closing agreements will not materially affect our future results of operations, financial position or cash flows. In addition to the accepted income tax adjustments, one 1994 proposed adjustment remains in dispute, which could result in additional tax of approximately $4.3 million. We believe that we have meritorious defenses to this deficiency and that the ultimate outcome will not result in a material effect on our results of operations, financial position or cash flows. We believe that our accruals for tax liabilities are adequate for all open years. However, if the IRS prevails on this deficiency, additional tax may be due for 1995 and future tax years, which could materially affect our future results of operations, financial position or cash flows. At any time, our provision for taxes could be affected by changes in tax laws and interpretations by governments or courts.

### Forward-Looking Statements

We want to caution readers that any forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 in this Form 10-Q, other reports or press releases or made by our management involve risks and uncertainties which may change based on various important factors. These forward-looking statements are those which talk about the company's or management's current expectations as to the future and include, but are not limited to, statements about the amounts, timing and results of possible restructuring charges and future earnings. Words such as "estimate," "project," "plan," "believe," "expect," "anticipate," "intend," and similar expressions may identify such forward-looking statements. Some of the factors which could cause future financial performance to differ materially from the expectations as expressed in any forward-looking statement made by us or on our behalf include:

- changes in international or national political conditions, including any terrorist attacks
- negative developments in economic conditions, including adverse impacts on customer demand
- changes in postal regulations
- timely development and acceptance of new products
- success in gaining product approval in new markets where regulatory approval is required
- successful entry into new markets
- mailers' utilization of alternative means of communication or competitors' products
- the company's success at managing customer credit risk
- changes in interest rates
- foreign currency fluctuations
- cost, timing and execution of the restructuring plan, including any potential asset impairments
- timing and execution of the meter transition plan
- regulatory approvals and satisfaction of other conditions to consummation of any acquisitions and integration of recent acquisitions
- impact on mail volume resulting from current concerns over the use of the mail for transmitting harmful biological agents
- third-party suppliers' ability to provide product components
- negative income tax adjustments for prior audit years and changes in tax laws or regulations
- terms and timing of actions to reduce exposures and disposal of assets in our Capital Services segment
- continuing developments in the U.S. and foreign airline industry
- changes in pension and retiree medical costs.

## Item 3. Quantitative and Qualitative Disclosures about Market Risk

There were no material changes to the disclosures made in the Annual Report on Form 10-K for the year ended December 31, 2003 regarding this matter.

Item 4. Controls and Procedures

Explanation of Disclosure Controls and Procedures

Our Chief Executive Officer and our Chief Financial Officer, after evaluating the effectiveness of the company's "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 ("Exchange Act") Rule 13a-15(e) or 15d-15(e)) as of the end of the period covered by this quarterly report, have concluded that our disclosure controls and procedures are effective based on their evaluation of these controls and procedures required by paragraph (b) of Exchange Act Rule 13a-15 or 15d-15.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## Part II - Other Information

Item 1: Legal Proceedings

This Item updates the legal proceedings more fully described in our 2003 Annual Report on Form 10-K, dated March 9, 2004. On April 9, 2004, in *Boston Reed v. Pitney Bowes, et al.* (Superior Court of California, County of Napa, filed January 16, 2002), the California court granted our motion for summary judgment, resulting in the dismissal of all the plaintiff's claims. The plaintiff has the right to appeal that decision. On April 8, 2004, in *Harbin, et al. v. Pitney Bowes, et al.* (Montgomery, Alabama Circuit Court, filed March 19, 2002), the Alabama Supreme Court denied our petition for an interlocutory appeal of some portions of the lower court's denial of our motion for summary judgment; we will have an opportunity to appeal at a later date. On April 12, 2004, counsel for the plaintiffs advised us that they intend to dismiss voluntarily each of the individual actions filed in Mississippi.

Item 2: Changes in Securities and Use of Proceeds

Share Repurchases

We repurchase shares of our common stock under a systematic program to manage the dilution created by shares issued under employee stock plans and for other purposes. This program authorizes repurchases in the open market. In November 2002, the Board of Directors of Pitney Bowes authorized $300 million for future repurchases of its outstanding shares of common stock on the open market during the subsequent 12 to 24 months. We repurchased 5.4 million shares during the year ended December 31, 2003 for a total price of $200 million under the November 2002 program leaving $100 million remaining for future repurchases under this program. We repurchased 2.3 million shares during the three months ended March 31, 2004 for a total price of $96 million under the November 2002 program leaving $4 million remaining for future repurchases under this program.

Company Purchases of Equity Securities

The following table summarizes our share repurchase activity for the three months ended March 31, 2004:

| Period | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of a publicly announced plan | Approximate dollar value of shares that may yet be purchased under the plan (in thousands) |
|---|---|---|---|---|

| | | | | | | |
|---|---|---|---|---|---|---|
| January 2004.......... | - | $ | - | - | $ | 100,000 |
| February 2004......... | 736,100 | $ | 41.12 | 736,100 | $ | 70,000 |
| March 2004............ | 1,575,143 | $ | 41.73 | 1,575,143 | $ | 4,000 |
| | 2,311,243 | | | 2,311,243 | | |



Item 6: Exhibits and Reports on Form 8-K

(a) Exhibits

| Reg. S-K Exhibits | Description |
|---|---|
| (12) | Computation of ratio of earnings to fixed charges |
| (31.1) | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| (31.2) | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| (32.1) | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 |
| (32.2) | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 |

(b) Reports on Form 8-K

On February 2, 2004, the company filed a current report on Form 8-K pursuant to Items 9 and 12 thereof, reporting the Press Release dated February 2, 2004 regarding its financial results for the quarter and year ended December 31, 2003.



Signatures

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

PITNEY BOWES INC.

May 7, 2004

/s/ B. P. Nolop

B. P. Nolop
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

/s/ J. R. Catapano

J. R. Catapano
Controller
(Principal Accounting Officer)

Exhibit Index

| Reg. S-K Exhibits | Description |
|---|---|
| (12) | Computation of ratio of earnings to fixed charges |
| (31.1) | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| (31.2) | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| (32.1) | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 |
| (32.2) | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 |

Exhibit (12)

Pitney Bowes Inc.
Computation of Ratio of Earnings to Fixed Charges (1)

(Dollars in thousands)

| | Three Months Ended March 31, 2004 | Three Months Ended March 31, 2003 |
|---|---|---|
| Income before income taxes | $ 186,021 | $ 166,275 |
| Add: | | |
| Interest expense | 41,472 | 43,799 |
| Portion of rents representative of the interest factor | 13,215 | 11,665 |
| Amortization of capitalized interest | 369 | 368 |
| Minority interest in the income of subsidiary with fixed charges | 910 | 1,097 |
| Income as adjusted | $ 241,987 | $ 223,204 |
| Fixed charges: | | |
| Interest expense | $ 41,472 | $ 43,799 |
| Portion of rents representative of the interest factor | 13,215 | 11,665 |
| Minority interest, excluding taxes, in the income of subsidiary with fixed charges | 1,337 | 1,601 |
| Total fixed charges | $ 56,024 | 57,065 |
| Ratio of earnings to fixed charges | 4.32 | 3.91 |

<FN>
(1) The computation of the ratio of earnings to fixed charges has been computed by dividing income before income taxes as adjusted by fixed charges. Included in fixed charges is one-third of rental expense as the representative portion of interest.
</FN>

Exhibit (31.1)

# CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael J. Critelli, certify that:

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

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

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

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

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

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

    c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: May 7, 2004

/s/ Michael J. Critelli

Michael J. Critelli
Chief Executive Officer

Exhibit (31.2)

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Bruce P. Nolop, certify that:

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

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

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

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

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

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

   c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: May 7, 2004

/s/ Bruce P. Nolop

Bruce P. Nolop
Chief Financial Officer

Exhibit (32.1)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350

The certification set forth below is being submitted in connection with the Quarterly Report of Pitney Bowes Inc. (the "company") on Form 10-Q for the period ended March 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

I, Michael J. Critelli, Chief Executive Officer of the company, certify that, to the best of my knowledge:

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

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

/s/ Michael J. Critelli

Michael J. Critelli
Chief Executive Officer
May 7, 2004

Exhibit (32.2)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350

The certification set forth below is being submitted in connection with the Quarterly Report of Pitney Bowes Inc. (the "company") on Form 10-Q for the period ended March 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

I, Bruce P. Nolop, Chief Financial Officer of the company, certify that, to the best of my knowledge:

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

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

/s/ Bruce P. Nolop

Bruce P. Nolop
Chief Financial Officer
May 7, 2004