UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2005

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.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**06-0495050** (I.R.S. Employer Identification No.)
1 Elmcroft Road **Stamford, Connecticut** (Address of principal executive offices)	**06926-0700** (Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Common Stock, $1 par value per share	New York Stock Exchange
$2.12 Convertible Cumulative Preference Stock (no par value)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: 4% Convertible Cumulative Preferred Stock ($50 par value)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [X] No [ ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]

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 [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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

Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ]

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

As of June 30, 2005, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $9,997,092,204 based on the closing sale price as reported on the New York Stock Exchange.

Number of shares of common stock, $1 par value, outstanding as of close of business on February 10, 2006: 226,982,727 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement to be filed with the Commission on or before March 31, 2006 and to be delivered to stockholders in connection with the 2005 Annual Meeting of Stockholders to be held May 8, 2006, are incorporated by reference in Part III.

PITNEY BOWES INC.

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PITNEY BOWES INC.
PART I

ITEM 1 — BUSINESS

Our Company was incorporated in the state of Delaware on April 23, 1920, as the Pitney Bowes Postage Meter Company. Today, we are a provider of leading edge, global, integrated mail and document management solutions for organizations of all sizes.

Pitney Bowes Inc. and its subsidiaries (which we refer to in this Form 10-K as us, we, our or the Company) operate in the following business groups: Global Mailstream Solutions, Global Business Services and Capital Services. We operate both inside and outside the United States. See Note 20 to the consolidated financial statements for financial information concerning revenue, earnings before interest and taxes (EBIT) and identifiable assets, by reportable segment and geographic area.

For more information about us, our products, services and solutions, visit www.pb.com. Also, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments or exhibits to those reports will be made available free of charge through our Investor Relations section of our website at www.pb.com/investorrelations as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). The information found on our website is not part of this or any other report we file with or furnish to the SEC.

Business Segments

In light of our organizational realignment, effective January 1, 2005, we revised our businesses into three groups, Global Mailstream Solutions, Global Business Services and Capital Services, to reflect our product-based businesses separately from our service-based businesses. Prior year amounts have been reclassified to conform to the current year presentation. See business segment information in Results of Continuing Operations in Item 7 of this Form 10-K.

Global Mailstream Solutions

Global Mailstream Solutions includes our Inside the U.S. — Mailing, Inside the U.S. — Document Messaging Technologies (DMT), and Outside the United States segments.

Our Inside the U.S. — Mailing segment includes U.S. revenue and related expenses from the sale, rental and financing of mail finishing, mail creation and shipping equipment; supplies, software, support services and payment solutions.

Our Inside the U.S. — DMT segment includes U.S. revenue and related expenses from the sale, service and financing of high speed, production mail systems, sorting equipment, incoming mail systems, electronic statement, billing and payment solutions, and mailing and customer communication software.

Our Outside the United States segment includes non-U.S. revenue and related expenses from the sale, rental and financing of mail finishing, mail creation, shipping, high speed production mail, sorting and incoming mail systems; electronic statement, billing and payment solutions; supplies, support service, and mailing and customer communication software.

Global Business Services

Global Business Services includes our Global Management Services and Mail Services segments.

Our Global Management Services (PBMS) segment includes worldwide revenue and related expenses from facilities management contracts for advanced mailing, secure mail services, reprographic, document management and other value added services in key vertical markets. These services are provided both on and off customer sites.

Our Mail Services segment includes revenue and related expenses from presort mail services, international outbound mail services and direct mail marketing services. Mail Services offers our customers postal discounts on both domestic and international mail through our presort and consolidation services, and the ability to market to hard to reach customers by using our specialized direct mail marketing services.

Capital Services

Our Capital Services segment consists of financing for non-Pitney Bowes equipment including the financing of Imagistic International Inc.'s copier equipment.

In the past, we have directly financed or arranged financing for commercial and non-commercial aircraft, real estate, over-the-road trucks and trailers, locomotives, railcars, rail and bus facilities, office equipment and high-technology equipment such as data processing and communications equipment.

In 2003, we announced our intention to look at options for exiting this business. See Capital Services in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Form 10-K.

Support Services

We maintain extensive field service organizations to provide services for customers' equipment, usually in the form of annual maintenance contracts.

Marketing

Our products and services are marketed through an extensive network of offices in the U.S. and through a number of our subsidiaries and independent distributors and dealers in many countries throughout the world. We also use direct marketing, outbound telemarketing and the Internet to reach our potential and existing customers. We sell to a variety of business, governmental, institutional and other organizations. We have a broad base of customers, and we are not dependent upon any one customer or type of customer for a significant part of our revenue. We do not have significant backlog or seasonality relating to our businesses.

Credit Policies

We establish credit approval limits and procedures at regional, divisional, subsidiary and corporate levels based on the credit quality of the customer and the type of product or service provided. In addition, we utilize an Automatic Approval Program (AAP) for certain leases within our internal financing operations. The AAP program is designed to facilitate low dollar transactions by utilizing historical payment patterns and losses realized for customers with common credit characteristics. The program dictates the criteria under which we will accept a customer without performing a more detailed credit investigation. The AAP considers criteria such as maximum equipment cost, a customer's time in business and payment experience with us.

We base our credit decisions primarily on a customer's financial strength and in the case of our Capital Services programs, we have also considered collateral values.

Competition

We are a leading supplier of products and services in our business segments, particularly postage meters, mailing equipment and related document messaging services and software, and mail services. Our meter base and our continued ability to place meters in key markets is a significant contributor to our current and future revenue and profitability. However, all of our segments face strong competition from a number of companies. In particular, we face competition for new placements from other postage meter and mailing machine suppliers, and our mailing products, services and software face competition from products and services offered as alternative means of message communications. Global Management Services, a major provider of business services to the corporate, financial services, and professional services markets, competes against national, regional and local firms specializing in facilities and document management. We believe that our long experience and reputation for product quality, and our sales and support service organizations are important factors in influencing customer choices with respect to our products and services.

The financing business is highly competitive. Leasing companies, commercial finance companies, commercial banks and other financial institutions compete, in varying degrees, in the markets in which our finance operations do business. Our competitors range from very large, diversified financial institutions to many small, specialized firms. Our competitive advantage is that we finance the majority of our products through our captive financing business.

Research, Development and Intellectual Property

Our significant investment in research and development operations differentiates us from our competitors. We have research and development programs that are directed toward developing new products and service methods. Our expenditures on research and development were $165 million, $160 million and $147 million in 2005, 2004 and 2003, respectively.

As a result of our research and development efforts, we have been awarded a number of patents with respect to several of our existing and planned products. We do not believe our businesses are materially dependent on any one patent or any group of related patents or on any one license or any group of related licenses.

Material Supplies

We believe we have adequate sources for most parts and materials for our products that we manufacture or assemble. However, as we continue to shift from direct manufacturing to assembly of our products, we rely to an increasing extent on third-party suppliers.

Regulatory Matters

We are subject to the U.S. Postal Service's (USPS) regulations and those of foreign postal authorities, related to product specifications and business practices. From time to time, we will work with these governing bodies to help in the enhancement and growth of mail and the mail channel. See Legal and Regulatory Matters in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Form 10-K.

Employee Relations

At December 31, 2005, we employed 25,319 persons in the U.S. and 8,846 persons outside the U.S. Headcount decreased in 2005 compared to 2004 due to our restructuring initiatives, partially offset by our 2005 acquisitions. We believe that employee relations are satisfactory. The large majority of our employees are not represented by any labor union. Our management follows the policy of keeping employees informed of decisions, and encourages and implements employee suggestions whenever practicable.

ITEM 1A — RISK FACTORS

Risk Factors

In addition to other information and risk disclosures contained in this Form 10-K, the risk factors discussed in this section should be considered in evaluating our business. We work to manage and mitigate these risks proactively, including through our use of an enterprise risk management program. In our management of these risks, we also evaluate the potential for additional opportunities that may be exploitable in mitigating against these risks. Nevertheless, the following risks, some of which may be beyond our control, could materially impact our results of operations or cause future results to materially differ from our current expectations:

Postal regulations and processes

The majority of our revenue is directly or indirectly subject to regulation and oversight by the USPS and foreign postal authorities. Our profitability and revenue in a particular country could be affected as a result of adverse changes in postal regulations, the business processes and practices of individual posts, the decision of a post to enter into particular markets in direct competition with us, and the impact of any of these changes on postal competitors that do not use our products or services. These changes could affect product specifications, service offerings, customer behavior and the overall mailing industry. We depend on a healthy postal sector in the geographic markets where we do business, which can be influenced positively or negatively by legislative or regulatory changes in the United States, another country or in the European Union.

Accelerated decline in use of physical mail

Changes in our customers' communication behavior, including changes in communications technologies, could adversely impact our revenue and

profitability. While we have introduced various product and service offerings as alternatives to physical mail, we face competition from existing and emerging products and services that offer alternative means of communication, such as email and electronic document transmission technologies. An accelerated increase in the acceptance of electronic delivery technologies or displacement of physical mail could adversely affect our core market.

Dependence on third-party suppliers

We depend on third-party suppliers for a variety of services, components, supplies and a portion of our product manufacturing. In certain instances, we rely on single sourced or limited sourced suppliers around the world because there are no alternative sources or the relationship is advantageous due to quality or price. If production or service was interrupted and we were not able to find alternate suppliers, we could experience disruptions in manufacturing and operations including product shortages, an increase in freight costs, and re-engineering costs. This could result in our inability to meet customer demand, damage customer relationships and adversely affect our business, revenue and profitability.

Privacy laws and other related regulations

Several of our services and financing businesses use, process and store customer information that could include confidential, personal or financial information. Privacy laws and similar regulations in many jurisdictions where we do business, as well as contractual provisions, require that we take significant steps to safeguard this information. Failure to comply with any of these laws or regulations could adversely affect our reputation and results of operations.

Dependence on information systems

Our portfolio of product, service and financing solutions increases our dependence on key systems. We maintain a secure system to collect revenues for certain postal services, which is critical to enable both our systems and the postal systems to run reliably. The continuous and uninterrupted performance of our systems is critical to our ability to support and service our customers and to support postal services. While we do maintain back-up systems, these systems could be damaged by acts of nature, power loss, telecommunications failures, computer viruses, vandalism and other unexpected events. If our systems were disrupted, we could be prevented from fulfilling orders and servicing customers and postal services, which could have an adverse affect on our results of operations.

Intellectual property infringement

We rely on copyright, trade secret, patent and other intellectual property laws in the United States and similar laws in other countries to establish and protect proprietary rights that are important for our business. If we fail to enforce our intellectual property rights, our business may suffer. We may be subject to third-party claims that we are infringing on their intellectual property rights. These claims, if successful, may require us to redesign affected products, enter into costly settlement or license agreements, pay damage awards, or face a temporary or permanent injunction prohibiting us from marketing or selling certain of our products.

Litigation and regulation

Our results may be affected by the outcome of legal proceedings and other contingencies that cannot be predicted with certainty. As a large multi-national corporation that does business throughout all of the United States and in many other countries, subsequent developments in legal proceedings, or changes in laws or regulations or their interpretation or administration, including developments in antitrust law or regulation, class actions, or intellectual property litigations, could result in an adverse effect on our results of operations. For a description of current legal proceedings and regulatory matters, see Legal Proceedings in Item 3 and Legal and Regulatory Matters in Management's Discussion and Analysis of Financial Condition and Results of Operations, in Item 7 of this Form 10-K.

Government contracts

Many of our contracts are with governmental entities. Government contracts are subject to extensive and complex government procurement laws and regulations, along with regular audits of contract pricing and our business practices by government agencies. If we are found to have violated some provisions of the government contracts, we could be required to provide a refund, or we could be subject to contract cancellation, civil or criminal penalties, fines, or debarment from doing business with the government. Any of these events could not only affect us financially but also affect our brand and reputation.

Reduced confidence in the mail system

Unexpected events such as the transmission of biological or chemical agents, or acts of terrorism could have a negative effect on customer confidence in a postal system and as a result adversely impact mail volume. An unexpected and significant interruption in the use of the mail could have an adverse affect on our results of operations.

ITEM 1B — UNRESOLVED STAFF COMMENTS

None

ITEM 2 — PROPERTIES

Our World Headquarters and certain other facilities are located in Stamford, Connecticut. We have over 300 facilities that are either leased or owned throughout the U.S. and other countries. Global Mailstream Solutions, Global Business Services and Capital Services utilize these facilities jointly and separately. Our products are manufactured or assembled in a number of locations, principally in Connecticut; Harlow, England; and Lyon and St. Denis, France. We believe that our manufacturing, administrative and sales office properties are adequate for the needs of all of our operations.

In 2002, we announced that we are reviewing options for real estate realignment in order to better meet our long-term needs. During 2003, we decided to exit our main plant manufacturing facility in Stamford, Connecticut in connection with our product sourcing and real estate optimization strategy. In 2005, we completed the sale of this facility. See Restructuring Charges in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Form 10-K.

ITEM 3 — LEGAL PROCEEDINGS

In the ordinary course of business, we are routinely defendants in or party to a number of pending and threatened legal actions. These may involve litigation by or against us relating to, among other things:

- contractual rights under vendor, insurance or other contracts
- intellectual property or patent rights
- equipment, service, payment or other disputes with customers
- disputes with employees

We are a defendant in a patent action brought by Ricoh Company, Ltd. in which there are allegations of infringement against certain of our important mailing products, including the DM Series™. The plaintiff seeks both large and unspecified damages and injunctive relief. Ricoh Corporation et al. v. Pitney Bowes Inc. (United States District Court, District of New Jersey, filed November 26, 2002). Although a trial date has not been set, we anticipate it to be scheduled for 2006. The parties respective motions on the issue of inequitable conduct during the patent application process were denied, leaving this issue for trial. In addition, the issue of the interpretation of the proper scope of the patents (referred to as claims construction) has been fully briefed and is before the court.

Although we cannot predict the outcome of this matter based on current knowledge, we do not believe that the ultimate outcome of the litigation will have a material adverse effect on our financial position, results of operations or cash flows. However, litigation is inherently unpredictable, and if Ricoh does prevail, the result may have a material effect on our financial position, future results of operations or cash flows, including, for example, our ability to offer certain types of goods or services in the future.

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

We did not submit any matters to a vote of our stockholders during the three months ended December 31, 2005.

Executive Officers of the Registrant as of March 13, 2006

Name	Age	Title	Executive Officer Since
Michael J. Critelli	57	Chairman and Chief Executive Officer	1988
Gregory E. Buoncontri	58	Senior Vice President and Chief Information Officer	2000
Luis A. Jimenez	61	Senior Vice President and Chief Strategy Officer	1999
Murray D. Martin	58	President and Chief Operating Officer	1998
Michele Coleman Mayes	56	Senior Vice President and General Counsel	2003
Bruce P. Nolop	55	Executive Vice President and Chief Financial Officer	2000
Johnna G. Torsone	55	Senior Vice President and Chief Human Resources Officer	1993
Leslie R. Abi-Karam	47	Executive Vice President and President, Document Messaging Technologies	2005
Elise R. DeBois	50	Executive Vice President and President, Global Financial Services	2005
Vincent R. De Palma	48	Executive Vice President and President, Pitney Bowes Management Services	2005
Patrick J. Keddy	51	Executive Vice President and President, Mailstream International	2005
Neil Metviner	47	Executive Vice President and President, Global Small Business and Supplies	2005
Michael Monahan	45	Executive Vice President and President, Mailing Solutions and Services	2005
Kevin Weiss	52	Executive Vice President and President, Mailstream, The Americas	2005

There is no family relationship among the above officers, all of whom have served in various corporate, division or subsidiary positions with the Company for at least the past five years except for Ms. Mayes and Mr. De Palma.

Ms. Mayes joined the Company in February 2003 as Senior Vice President and General Counsel. Prior to joining the Company, Ms. Mayes was Vice President — Legal, Assistant Secretary and Corporate Officer of Colgate-Palmolive Company. Ms. Mayes also served as Vice President and Deputy General Counsel — International and Corporate as well as Vice President of Human Resources and Legal for Colgate North America. Prior to joining Colgate-Palmolive Company, Ms. Mayes also held various legal positions at Unisys Corporation.

Mr. De Palma joined the Company in June 2005 as President, Pitney Bowes Management Services. Prior to joining the Company, Mr. De Palma was with Automatic Data Processing (ADP) where he was a Corporate Officer and served as President of ADP Benefit Services. Mr. De Palma has also held senior management positions at Petroleum Heat & Power Company and McKinsey & Company.

PART II

ITEM 5 — MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Pitney Bowes common stock is traded under the symbol "PBI". The principal market is the New York Stock Exchange (NYSE). Our stock is also traded on the Boston, Chicago, Philadelphia, Pacific and Cincinnati stock exchanges. At December 31, 2005, we had 23,639 common stockholders of record.

On January 31, 2006, our Board of Directors approved an increase in the dividend on common stock to an annualized rate of $1.28 per share. This is the twenty-fourth consecutive year that we have increased our dividend on common stock.

Stock Information

Dividends per common share:

Quarter	2005	2004
First	**$0.310**	$0.305
Second	**0.310**	0.305
Third	**0.310**	0.305
Fourth	**0.310**	0.305
Total	**$1.240**	$1.220

Quarterly price ranges of common stock as reported on the NYSE:

Quarter	2005		2004	
	High	Low	High	Low
First	**$ 47.50**	**$42.80**	$ 43.78	$38.88
Second	**$ 46.09**	**$41.62**	$45.21	$42.20
Third	**$45.13**	**$41.07**	$ 44.62	$40.62
Fourth	**$42.77**	**$40.34**	$46.97	$ 41.44

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 May 2004, the Board of Directors of Pitney Bowes authorized $300 million for repurchases of outstanding shares of our common stock in the open market during the subsequent 12 to 24 months. We repurchased 2.3 million shares in 2004 and 4.5 million shares during 2005 under this program for a total price of $300 million.

In September 2005, our Board of Directors authorized $300 million for repurchases of outstanding shares of our common stock in the open market during the subsequent 12 to 24 months. We repurchased 1.4 million shares during 2005 under this program for a total price of $58.8 million, leaving $241.2 million remaining for future repurchases under this program.

In March 2006, our Board of Directors authorized the repurchase of up to an additional $300 million of our common stock in the open market during the subsequent 12 to 24 months.

Company Purchases of Equity Securities

The following table summarizes our share repurchase activity in 2005:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans	Approximate dollar value of shares that may yet be purchased under the plans (in thousands)
May 2004 Program				
January 2005	-	-	-	$ 200,002
February 2005	663,400	$46.50	663,400	$169,153
March 2005	718,800	$ 45.74	718,800	$ 136,277
April 2005	-	-	-	$ 136,277
May 2005	504,250	$45.05	504,250	$113,559
June 2005	1,447,500	$ 43.11	1,447,500	$ 51,154
July 2005	34,100	$ 44.71	34,100	$ 49,630
August 2005	383,081	$ 43.76	383,081	$ 32,865
September 2005	539,732	$ 42.27	539,732	$ 10,050
October 2005	162,569	$ 41.70	162,569	$ 3,271
November 2005	79,509	$ 41.14	79,509	-
	4,532,941		4,532,941	
September 2005 Program				
November 2005	615,791	$ 41.14	615,791	$274,669
December 2005	797,046	$41.99	797,046	$241,199
	1,412,837		1,412,837	
Total	5,945,778		5,945,778	

ITEM 6 — SELECTED FINANCIAL DATA

The following tables summarize selected financial data for the Company, and should be read in conjunction with the more detailed consolidated financial statements and related notes thereto included under Item 8 of this Form 10-K.

Summary of Selected Financial Data
(Dollars in thousands, except per share amounts)

	Years ended December 31				
	2005	2004	2003	2002	2001
Total revenue	**$ 5,492,183**	$ 4,957,440	$ 4,576,853	$ 4,409,758	$ 4,122,474
Total costs and expenses	**4,625,059**	4,257,992	3,855,762	3,790,313	3,356,090
Income from continuing operations before income taxes	**867,124**	699,448	721,091	619,445	766,384
Provision for income taxes	**340,546**	218,922	226,244	181,739	252,064
Income from continuing operations	**526,578**	480,526	494,847	437,706	514,320
Discontinued operations	-	-	3,270	38,044	(25,977)
Net income	**$ 526,578**	$ 480,526	$ 498,117	$ 475,750	$ 488,343
Basic earnings per share:					
Continuing operations	**$ 2.30**	$ 2.08	$ 2.12	$ 1.83	$ 2.09
Discontinued operations	-	-	0.01	0.16	(0.11)
Net income	**$ 2.30**	$ 2.08	$ 2.13	$ 1.99	$ 1.99
Diluted earnings per share:					
Continuing operations	**$ 2.27**	$ 2.05	$ 2.10	$ 1.81	$ 2.08
Discontinued operations	-	-	0.01	0.16	(0.10)

Net income	**$ 2.27**	$ 2.05	$ 2.11	$ 1.97	$ 1.97
Total cash dividends on common, preference and preferred stock	**$ 284,348**	$ 282,265	$ 280,870	$ 282,225	$ 285,164
Cash dividends per share of common stock	**$ 1.24**	$ 1.22	$ 1.20	$ 1.18	$ 1.16
Average common and potential common shares outstanding	**231,771,812**	234,133,211	236,165,024	241,483,539	247,615,560
Cash provided by operating activities	**$ 539,593**	$ 944,639	$ 851,261	$ 502,559	$ 1,035,887
Depreciation and amortization	**$ 331,963**	$ 306,750	$ 288,808	$ 264,250	$ 317,449
Capital expenditures	**$ 291,550**	$ 316,982	$ 285,681	$ 224,834	$ 256,204
Balance sheet at December 31					
Total assets	**$ 10,621,382**	$10,211,626	$ 8,891,388	$ 8,732,314	$ 8,318,471
Long-term debt	**$ 3,849,623**	$ 3,164,688	$ 2,840,943	$ 2,316,844	$ 2,419,150
Total debt	**$ 4,710,019**	$ 4,380,010	$ 3,573,784	$ 3,968,551	$ 3,494,310
Long-term capital lease obligations	**$ 2,654**	$ 4,847	$ 4,183	$ 4,369	$ 3,103
Preferred stockholders' equity in a subsidiary company	**$ 310,000**	$ 310,000	$ 310,000	$ 310,000	$ 310,000
Stockholders' equity	**$ 1,301,941**	$ 1,290,081	$ 1,087,362	$ 853,327	$ 891,355
Book value per common share	**$ 5.74**	$ 5.60	$ 4.68	$ 3.62	$ 3.68
Other					
Common stockholders of record	**23,639**	26,129	27,011	27,418	27,849
Total employees	**34,165**	35,183	32,474	33,130	32,724

Note: — Certain 2004 amounts have been revised to conform with the current year presentation. See Note 19 to the consolidated financial statements.

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

ITEM 7 — 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 and elsewhere in this report.

Overview

We were pleased with our financial results in 2005 which featured strong growth in revenue and earnings. We were also pleased with the progress we made throughout 2005 as successful execution of our growth strategies resulted in more solutions, for more customers, in more places worldwide. We are realizing the benefits from our previous actions to strengthen revenue growth, expand into new market spaces and enhance our operating efficiencies.

Revenue grew 11% in 2005 driven by six growth engines that propelled our momentum through the year and acquisitions, which contributed 5%. These growth engines included mail services, small business, supplies, international, payment solutions and software. Strategic transactions in 2005 included the acquisitions of Imagitas, Inc., Danka Canada Inc., and Compulit, Inc. We also continued actions to reduce our investment in Capital Services.

Income from continuing operations was $527 million in 2005 compared with $481 million in 2004 and diluted earnings per share from continuing operations was $2.27 in 2005 compared with $2.05 in 2004. In 2005, diluted earnings per share was reduced by restructuring charges of 16 cents, an increase in our tax reserves related to corporate owned life insurance (COLI) of 24 cents and three cents per diluted share relating to foundation contributions. In 2004, diluted earnings per share was reduced by restructuring charges of 43 cents and five cents resulting from a legal settlement. We were able to grow our earnings despite increases in interest rates, a higher effective tax rate and reduced earnings contribution from Capital Services compared to the prior year.

See Results of Continuing Operations for 2005, 2004 and 2003 for a more detailed discussion of our results of operations.

Outlook for 2006

We anticipate that we will experience continued strength in our financial results in 2006. We expect that revenue growth will continue to be driven by the growth engines discussed above, as we continue to experience a changing mix of our product line, where a greater percentage of the revenue is coming from diversified revenue streams associated with fully featured smaller systems and less from larger system sales. In addition, we expect to continue our market expansion and derive further synergies from our recent acquisitions.

During 2006, we expect to record additional restructuring charges related primarily to the completion of programs initiated in 2005. We expect that these charges will be significantly less than in 2005. We remain focused on disciplined expense control initiatives and will continue to allocate capital to optimize our returns.

While it is always difficult to predict future economic and interest rate trends, we expect that our interest costs will increase further in 2006 due to an increase in rates compared with the prior year. We will also continue to be impacted by the year-over-year decline in earnings from Capital Services, consistent with our strategy for this business.

On February 9, 2006, the United States Senate approved postal reform legislation. On July 26, 2005, the House of Representatives passed its version of the bill on postal reform. The legislation is currently being referred to a joint House and Senate Committee to reconcile the differences between the two bills. We are confident that the legislation, which ultimately emerges from the House-Senate Conference Committee, will be beneficial.

Results of Continuing Operations 2005 Compared to 2004

Business segment revenue

The following table shows revenue in 2005 and 2004 by business segment:

(Dollars in millions)

	2005	2004	% change	% Contribution from Acquisitions
Inside the U.S. — Mailing	**$2,273**	$2,185	4%	-
— DMT	**430**	350	23%	19%
Outside the U.S.	**1,173**	1,011	16%	8%
Global Mailstream Solutions	**3,876**	3,546	9%	4%
Global Management Services	**1,072**	1,078	-	1%
Mail Services	**405**	192	110%	56%
Global Business Services	**1,477**	1,270	16%	9%
Capital Services	**139**	141	(2%)	-
Total revenue	**$ 5,492**	$4,957	11%	5%

Global Mailstream Solutions revenue increased 9% over the prior year driven by growth in our worldwide operations, and the acquisitions of Group 1, Groupe MAG and Danka Canada. Inside the U.S., revenue growth was favorably impacted by placements of small and mid-sized networked digital mailing systems, mail creation equipment and supplies. The year's results also included higher revenue from DMT that was driven by placements of our Advanced Productivity Systems and Flexible Productivity Systems and Group 1 software that was acquired in July 2004. Outside of the U.S., revenue grew 16%. These results included an increase in placements of mailing equipment with small businesses and increased sales of supplies. Revenue also benefited from the acquisition of Groupe MAG and Danka Canada, and favorable foreign currency translation, which contributed 4%.

Global Business Services revenue increased 16% driven by Mail Services which more than doubled in revenue compared with the prior year. Global Management Services revenue declined slightly, reflecting our continued focus on enhancing profitability for this business segment. Mail Services growth was driven by the continued expansion of our presort and international mail consolidation network, growth in our customer base and the acquisitions of International Mail Express, Inc. (IMEX), Ancora and Imagitas. During the year, Imagitas expanded its marketing services for the motor vehicle registration process to a fifth state and launched a catalog request form as an enhanced offering in the USPS move update kit.

Capital Services revenue decreased 2% over the prior year, consistent with our strategy for this business.

Business segment earnings before interest and taxes (EBIT)

We use EBIT as a measure of our segment profitability. See Note 20 to the consolidated financial statements.

The following table shows EBIT in 2005 and 2004 by business segment:

(Dollars in millions)

	2005	2004	% change
Inside the U.S. — Mailing	**$ 906**	$ 864	5%
— DMT	**62**	38	62%
Outside the U.S.	**203**	174	17%
Global Mailstream Solutions	**1,171**	1,076	9%
Global Management Services	**72**	56	28%
Mail Services	**26**	10	160%
Global Business Services	**98**	66	48%
Capital Services	**83**	88	(5%)
Total EBIT	**$1,352**	$ 1,230	10%

Global Mailstream Solutions EBIT increased 9% driven by revenue growth and the effect of our continued emphasis on reducing costs and controlling operating expenses. EBIT margins for Global Mailstream Solutions were adversely affected by the increase in mix of lower margin DMT and Outside the U.S. revenue.

Global Business Services EBIT increased 48% driven by revenue growth and margin improvements. Global Management Services EBIT margins improved versus the prior year, driven by our focus on higher margin service offerings and ongoing administrative cost reduction measures. Mail Services EBIT margins improved, driven by our continued integration of recently acquired sites, as well as the addition of higher margin Imagitas revenue.

EBIT decreased 5% in the Capital Services segment, consistent with our strategy for this business.

Revenue by source

The following table shows revenue in 2005 and 2004 by source:

(Dollars in millions)

	2005	2004	% change
Sales	**$1,634**	$ 1,463	12%
Rentals	**801**	804	-
Financing	**650**	598	9%
Support services	**791**	681	16%
Business services	**1,477**	1,270	16%
Capital services	**139**	141	(2%)
Total revenue	**$ 5,492**	$4,957	11%

Sales revenue increased 12% over the prior year due to strong growth in worldwide sales of digital mailing equipment, mail creation equipment and supplies; the acquisitions of Group 1, Groupe MAG and Danka Canada, which contributed 5%; and the favorable impact of foreign currency, which contributed 1%.

Rentals revenue remained flat compared with the prior year. Rentals revenue was negatively impacted by downsizing to smaller machines. At December 31, 2005, digital meters represented approximately 84% of our 1.3 million U.S. meter base, up from 75% in 2004.

Financing revenue increased 9% due primarily to growth in our worldwide equipment leasing volumes, higher revenue from payment solutions and the favorable impact of foreign currency, which contributed 1%.

Support services revenue increased 16% due primarily to the acquisitions of Group 1, Groupe MAG and Danka Canada, which in the aggregate contributed 11%; the favorable impact of foreign currency, which contributed 1%; a larger population of international and DMT equipment maintenance agreements; and the addition of hardware equipment services contracts from Standard Register Inc. in late 2004.

Business services revenue increased 16% due primarily to growth at our existing and new mail services sites and the acquisitions of IMEX, Ancora,

Compulit, and Imagitas, which contributed 9% in aggregate.

Capital Services revenue decreased 2%, consistent with our strategy for this business.

Costs of revenue

The following table summarizes costs of revenue as a percentage of related revenue in 2005 and 2004:

(Dollars in millions)

			Percentage of Revenue	
	2005	**2004**	**2005**	**2004**
Cost of sales	**$ 711**	$ 664	**43.6%**	45.4%
Cost of rentals	**$ 166**	$ 164	**20.7%**	20.4%
Cost of support services	**$ 407**	$ 354	**51.4%**	52.0%
Cost of business services	**$1,195**	$1,047	**80.9%**	82.4%

Cost of sales, as a percentage of sales revenue, decreased compared with 2004, primarily due to lower costs resulting from our successful transition to outsourcing of parts for digital equipment and an increase in mix of higher margin software and supplies revenue.

Cost of rentals, as a percentage of rentals revenue, increased compared with 2004, as a result of higher depreciation costs from new meter placements.

Cost of support services, as a percentage of support services revenue, decreased compared with 2004 primarily due to higher margin software revenue at Group 1, partially offset by the increase in mix of lower margin international revenue.

Cost of business services, as a percentage of business services revenue, decreased compared with 2004, primarily due to our ongoing focus on cost containment and efficiency in our management services operations, integration of new sites in our mail services operations and the addition of higher margin revenue at Imagitas.

Selling, general and administrative expenses

The following table shows selling, general and administrative expenses as a percentage of total revenue in 2005 and 2004:

(Dollars in millions)

		Percentage of Revenue	
2005	**2004**	**2005**	**2004**
$1,685	$1,506	**30.7%**	30.4%

Selling, general and administrative expenses, as a percentage of total revenue, increased compared with 2004. The increase was due to the impact of our acquisitions and cost associated with our Capital Services strategy, which more than offset our continued focus on controlling operating expenses and benefits from our transformation programs.

Research and development expenses

The following table shows research and development expenses in 2005 and 2004:

(Dollars in millions)

2005	**2004**	**% change**
$165	$160	3%

Research and development expenses increased in 2005 due primarily to research and development at Group 1. Our investment in research and development reflects our continued focus on developing new technologies and enhancing features for all our products.

Net interest expense

The following table shows net interest expense in 2005 and 2004:

(Dollars in millions)

2005	**2004**	**% change**
$208	$173	20%

Net interest expense increased in 2005 due to higher average interest rates and higher borrowings during the year. Our variable and fixed rate debt mix, after adjusting for the effect of interest rate swaps, was 21% and 79%, respectively, at December 31, 2005. Based on our borrowings at December 31, 2005, a 25 basis point change in short-term interest rates would impact our earnings by approximately 1 cent per diluted share.

Effective tax rate

The following table shows the effective tax rate in 2005 and 2004:

2005	2004
39.3%	31.3%

In 2005, the effective tax rate was negatively impacted by 6.5% by a $56 million increase in our tax reserve related to an adverse court opinion that another company received related to the tax treatment of COLI. This was partially offset by tax benefits of 0.4% from restructuring charges and 0.8% from favorable adjustments to the Capital Services tax provisions. The effective tax rate in 2004 included tax benefits of 1.0% from restructuring charges.

Results of Continuing Operations 2004 Compared to 2003

Business segment revenue

The following table shows revenue in 2004 and 2003 by business segment:

(Dollars in millions)

	2004	2003	% change	% Contribution from Acquisitions
Inside the U.S. — Mailing	**$2,185**	$ 2,184	-	-
— DMT	**350**	274	28%	19%
Outside the U.S.	**1,011**	846	20%	2%
Global Mailstream Solutions	**3,546**	3,304	7%	2%
Global Management Services	**1,078**	1,006	7%	5%
Mail Services	**192**	113	70%	33%
Global Business Services	**1,270**	1,119	13%	8%
Capital Services	**141**	154	(8%)	-
Total revenue	**$ 4,957**	$4,577	8%	3%

Global Mailstream Solutions revenue increased 7% over the prior year driven by growth in our worldwide operations, the favorable impact of foreign currency, which contributed 3%, and the acquisitions of Group 1 and Groupe MAG. During the year our mailing business continued to experience an ongoing changing mix of our products, where a greater percentage of the revenue is coming from more fully featured smaller systems, supplies, payment solutions, software and less from larger system sales. International revenue grew 8% on a constant currency basis as a result of strong growth throughout most of Europe, driven by an increase in production mail equipment placements with large customers and increased meter and mailing equipment placements by our small business operations. In particular, revenue in the U.K. grew at a double-digit rate on a local currency basis due to positive customer reception to our new product lines and improved sales force productivity. Inside the U.S. DMT's revenue increased 28% over the prior year driven by the acquisition of Group 1, and ongoing demand for DMT's leading edge, information-based inserting and sorting equipment. Group 1, which provides industry leading document composition and mail address hygiene software, experienced strong demand for its software products and services during the year.

Global Business Services revenue increased 13% over the prior year driven by a 70% increase at Mail Services and a 7% increase at Global Management Services. Our Mail Services operations grew at a double-digit rate as a result of strong performance at existing sites and the continued expansion of our Mail Services network with the acquisitions of IMEX and Ancora. Global Management Services revenue increased 7% over the prior year due primarily to the acquisition of DDD Company (DDD). Revenue also benefited from new business and a continued improvement in transactional reprographic volumes. Also, the consolidation and reduction of business with existing accounts subsided. Revenue growth was adversely affected by our focus on enhancing the profitability of this business.

Capital Services revenue decreased 8% over the prior year, consistent with our strategy to reduce our exposure to this business.

Business segment earnings before interest and taxes (EBIT)

The following table shows EBIT in 2004 and 2003 by business segment:

(Dollars in millions)

	2004	2003	% change
Inside the U.S. — Mailing	**$ 864**	$ 847	2%
— DMT	**38**	29	32%
Outside the U.S.	**174**	132	31%
Global Mailstream Solutions	**1,076**	1,008	7%
Global Management Services	**56**	52	8%
Mail Services	**10**	11	(9%)
Global Business Services	**66**	63	5%
Capital Services	**88**	104	(15%)
Total EBIT	**$1,230**	$1,175	5%

Global Mailstream Solutions EBIT increased 7% driven by revenue growth and the effect of our continued emphasis on reducing costs and controlling operating expenses. EBIT margins were adversely affected by the increase in mix of lower margin international and DMT revenues.

Global Business Services EBIT increased 5%. Mail Services EBIT decreased due primarily to higher costs for the integration of recently added sites and the acquisition of Ancora. Global Management Services EBIT margins improved slightly versus the prior year, helped by our focus on higher margin service offerings and ongoing administrative cost reduction measures.

EBIT decreased 15% in the Capital Services segment, consistent with our strategy to reduce our exposure to this business.

Revenue by source

The following table shows revenue in 2004 and 2003 by source:

(Dollars in millions)

	2004	2003	% change
Sales	**$1,463**	$1,325	10%
Rentals	**804**	785	2%
Financing	**598**	576	4%
Support services	**681**	618	10%
Business services	**1,270**	1,119	13%
Capital services	**141**	154	(8%)
Total revenue	**$ 4,957**	$4,577	8%

Sales revenue increased 10% over the prior year due to strong growth in sales of international mailing equipment, DMT equipment and supplies, the acquisition of Group 1 which contributed 2% and the favorable impact of foreign currency which contributed 4%.

Rentals revenue increased 2% due to the favorable impact of foreign currency. At December 31, 2004, digital meters represented approximately 75% of our U.S. meter base, up from 67% in 2003.

Financing revenue increased 4% due primarily to growth in postal payment solutions and the favorable impact of foreign currency which contributed 2%.

Support services revenue increased 10% due primarily to the acquisition of Group 1, which contributed 5%; the favorable impact of foreign currency, which contributed 3%; a larger population of international equipment maintenance agreements; and higher professional services revenue at DMT.

Business services revenue increased 13% due primarily to the acquisitions of IMEX, Ancora and DDD which contributed 8% and strong growth at our existing mail services sites.

Capital Services revenue decreased 8%, consistent with our strategy to reduce our exposure to this business.

Costs of revenue

The following table summarizes costs of revenue as a percentage of related revenue in 2004 and 2003:

(Dollars in millions)

			Percentage of Revenue	
	2004	2003	2004	2003
Cost of sales	**$ 664**	$612	**45.4%**	46.1%
Cost of rentals	**$ 164**	$ 171	**20.4%**	21.7%
Cost of support services	**$ 354**	$ 323	**52.0%**	52.3%
Cost of business services	**$1,047**	$ 921	**82.4%**	82.3%

Cost of sales, as a percentage of sales revenue, decreased compared with 2003, primarily due to lower costs resulting from our transition to outsourcing of parts for digital equipment and an increase in mix of higher margin software and supplies revenue.

Cost of rentals, as a percentage of rentals revenue, decreased compared with 2003, as a result of lower depreciation costs associated with our standalone meters and lower repair costs resulting from the shift from electronic to digital meters.

Cost of support services, as a percentage of support services revenue, decreased compared with 2003, primarily due to higher margin software support services revenue at Group 1, partially offset by the increase in mix of lower margin international support services revenue.

Cost of business services, as a percentage of business services revenue, increased compared with 2003, primarily due to initial higher costs associated with our expansion to new sites in our mail services operations.

Selling, general and administrative expenses

The following table shows selling, general and administrative expenses as a percentage of total revenue in 2004 and 2003:

(Dollars in millions)

		Percentage of Revenue	
2004	2003	2004	2003
$1,506	$1,397	**30.4%**	30.5%

Selling, general and administrative expenses, as a percentage of total revenue, decreased compared with 2003, as a result of our 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

The following table shows research and development expenses in 2004 and 2003:

(Dollars in millions)

2004	2003	% change
$160	$147	9%

Research and development expenses increased 9% in 2004 due primarily to research and development at Group 1. The increase also reflects our continued investment in developing new technologies and enhancing features for all our products, including expenditures for new digital meters and mailing machines, billing and statement software, distribution and logistics software, advanced inserting equipment and mail sorting equipment.

Net interest expense

The following table shows net interest expense in 2004 and 2003:

(Dollars in millions)

2004	2003	% change
$173	$169	3%

Net interest expense increased 3% in 2004 due to higher average debt outstanding during the year. Our variable and fixed rate debt mix, after adjusting for the effect of interest rate swaps, was 27% and 73%, respectively, at December 31, 2004. Based on our borrowings at December 31, 2004, a one-percentage point change in short-term interest rates would impact annual diluted earnings per share by approximately one cent.

Effective tax rate

The following table shows the effective tax rate in 2004 and 2003:

	2004	2003
	31.3%	31.4%

The effective tax rate in 2004 and 2003 included tax benefits of 1.0% and 0.6%, respectively, from restructuring charges. The effective tax rate was negatively impacted by our Capital Services strategy. The tax rate continued to benefit from our international expansion and our continued investment in developing new technologies.

Other Income (Expense)

Charitable contributions

In 2005 and 2003, we contributed $10 million ($6 million after-tax) to the Pitney Bowes Literacy and Education Fund and the Pitney Bowes Employee Involvement Fund.

Capital Services charge

In 2005, we recorded a $24 million pre-tax charge ($5 million after-tax) resulting primarily from the revision of the accounting for certain Capital Services lease transactions and favorable adjustments to the Capital Services tax provisions. In accordance with these revisions, we grossed up the related lease assets and non-recourse debt and reduced our investment in leveraged leases on our Consolidated Balance Sheets. See Note 19 to the consolidated financial statements.

Legal settlements, net

In 2004, we recorded a pre-tax charge of approximately $20 million associated with the settlement of lawsuits related to a program we offer to some of our leasing customers to replace equipment if it is lost, stolen or destroyed. The $20 million charge relates to the following settlement costs: certificates to be provided to members of the class for purchase of office products through our diverse supply line; and the cost of legal fees and related expenses.

In 2003, we recorded pre-tax income of $10 million related to the expiration of product award certificates previously provided to certain customers in connection with a legal settlement.

Capital Services

Capital Services strategy

In December 2004, our Board of Directors approved a plan to pursue a sponsored spin-off of our Capital Services external financing business. The new entity (Spinco) would be an independent publicly traded company consisting of most of the assets in our Capital Services segment. On March 31, 2005, Pitney Bowes Credit Corporation, a wholly-owned subsidiary of the Company, entered into a Subscription Agreement with Cerberus Capital Management, L.P. through its investment vehicle, JCC Management LLC (Investor). Under the terms of the Subscription Agreement, the Investor is expected to invest in excess of $100 million for common and preferred stock representing up to 19.9% of the voting interest and up to 48% economic interest in the spun-off entity. The Subscription Agreement anticipates that Pitney Bowes stockholders would receive 80.1% of the common stock of Spinco in a tax-free distribution. In accordance with the Subscription Agreement, both parties have the right to terminate this agreement at March 31, 2006. The Subscription Agreement was filed as Exhibit 10 to the Quarterly Report on Form 10-Q for the three months ended March 31, 2005.

We estimate that we would incur after-tax transaction costs of about $20 million to $35 million in connection with the spin-off. The majority of these costs would be incurred at the time of the spin-off. These costs are composed primarily of professional fees, taxes on asset transfers and lease contract termination fees.

In addition, in accordance with current accounting guidelines, at the time of the spin-off we would be required to compare the book and fair market values of the assets and liabilities spun-off and record any resulting deficit as a charge in discontinued operations. We currently estimate this potential non-cash after-tax charge to be in the range of $150 million to $250 million. The ultimate amount of this charge, if any, would be determined by the fair market value of Spinco at the time of the spin-off and the resolution of the related tax liabilities.

The spin-off is not subject to a vote by Pitney Bowes stockholders. The transaction is subject to regulatory review and other customary conditions. In January 2006, we received a favorable ruling from the IRS that the spin-off would be tax free to our stockholders. In March 2006, based on a recent communication we initiated, the SEC staff indicated that we would need to include three years of historical audited financial statements for Pitney Bowes Credit Corporation, the legal entity holding the assets of the Capital Services external financing business rather than for the Capital Services business alone. Fulfillment of this requirement could extend the timeframe for completion of the spin into the first half of 2007. As a result, consistent with our previously stated desire to exit the Capital Services business in a way that maximizes stockholder value, we are assessing a broader range of asset and business disposition options, including spin-off, a sale of the business, or sale of all or a portion of the assets. Several factors, including improved economic conditions, make this range of options more attractive now, than when we first announced our intention to look at options for exiting this business in January 2003.

In July 2005, we received notice of termination of our agreement to provide future lease financing to Imagistics International, Inc. This agreement was replaced with successive thirty-day lease financing agreements that have been extended each month since October 2005. In March 2006, we announced that we had signed a definitive agreement to sell our Imagistics International, Inc. lease portfolio for approximately $280 – $290 million to De Lage Landen, a subsidiary of Rabobank NV. The final purchase price will be a function of the receivables balance in the portfolio at closing. This lease portfolio is part of the external financing assets included in the proposed

spin-off. The completion of the sale of the Imagistics lease portfolio is subject to customary closing conditions. In addition, if we decide to pursue the spin-off in its current form, the sale will be subject to receipt of a supplemental Internal Revenue Service ruling that the proposed spin-off of our Capital Services external financing business would be tax free to Pitney Bowes stockholders. The Imagistics lease portfolio contributed approximately five cents to our diluted earnings per share in 2005 and 2004.

Capital Services portfolio

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

December 31

(Dollars in millions)

	2005	**2004**
Leveraged leases	**$1,470**	$ 1,478
Finance receivables	**520**	587
Rental property and equipment, net	**585**	625
Total	**$2,575**	$2,690

Leveraged leases

Our investment in leveraged lease assets is composed of the following:

December 31

(Dollars in millions)

	2005	**2004**
Rental receivables	**$ 6,711**	$ 7,243
Residual value	**305**	312
Principal and interest on non-recourse loans	**(4,985)**	(5,477)
Unearned income	**(561)**	(600)
Investment in leveraged leases	**1,470**	1,478
Less: Deferred taxes related to leveraged leases	**(1,151)**	(1,126)
Net investment in leveraged leases	**$ 319**	$ 352

- Rental receivables represent total lease payments from our customers over the remaining term of the leveraged leases.
- Residual value represents the value of the property anticipated at the end of the leveraged lease terms and is based on appraisals or other sources of estimated value. We review the recorded residual value for impairments deemed to be other than temporary at least once annually and record adjustments as appropriate.
- Principal and interest on non-recourse loans represent amounts due to unrelated third parties from our customers over the remaining term of the leveraged leases. The non-recourse loans are secured by the lessees' rental obligations and the leased property. If a lessee defaults and if the amounts realized from the sale of these assets are insufficient, we have no obligation to make any payments due on these non-recourse loans to the unrelated third parties. Accordingly, we are required by accounting principles generally accepted in the United States of America (GAAP) to subtract the principal and interest over the remaining term of the non-recourse loans from our rental receivables and residual value. At December 31, 2005 and 2004, the principal balances on the non-recourse loans totaled $2.8 billion and $3.2 billion, respectively, and the related interest payments over the remaining terms of the leases totaled $2.2 billion and $2.3 billion, respectively.
- Unearned income represents our future financing income that will be earned over the remaining term of the leases.
- Investment in leveraged leases represents the amount that is recorded in our Consolidated Balance Sheets.

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

December 31 (Dollars in millions)	2005	2004	Original Lease Term (in years)
Locomotives and rail cars	**$ 399**	$ 382	20 – 40
Postal equipment	**365**	358	15 – 24
Commercial aircraft	**230**	268	22 – 25
Commercial real estate	**142**	140	17 – 25
Telecommunications	**141**	141	14 – 16
Rail and bus	**133**	133	27 – 37
Shipping and handling	**60**	56	24
Investment in leveraged leases	**$1,470**	$1,478	

At December 31, 2005, approximately 57% of our total leveraged lease portfolio is further secured by equity defeasance accounts or other third-party credit arrangements. In addition, at December 31, 2005, approximately 9% of the remaining leveraged lease portfolio represents leases to highly rated government related organizations that have guarantees or supplemental credit enhancements upon the occurrence of certain events.

Finance receivables

Capital services finance receivables are composed of the following:

December 31 (Dollars in millions)	2005	2004
Large ticket single investor leases	**$ 267**	$ 327
Imagistics lease portfolio	**253**	260
Total finance receivables	**$ 520**	$ 587

Rental property and equipment, net

Rental property and equipment, net is composed of the following:

December 31 (Dollars in millions)	2005	2004
Commercial real estate	**$ 393**	$ 396
Imagistics lease portfolio	**17**	23
Rail and other	**175**	206
Total rental property and equipment, net	**$ 585**	$ 625

Investment in commercial passenger and cargo aircraft leasing transactions

At December 31, 2005 and 2004, our net investment in commercial passenger and cargo aircraft leasing transactions, net of related debt and minority interest, was $231 million and $268 million, respectively, which is composed of transactions with U.S. airlines of $22 million and $21 million, respectively, and foreign airlines of $209 million and $247 million, respectively. 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 Capital Partners LLC (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 December 31, 2005, approximately 45% of our remaining net investment in commercial passenger and cargo aircraft leasing investments was further secured by approximately $105 million of equity defeasance accounts or third-party credit arrangements.

During the first quarter of 2005, Japan Airlines exercised its early buy-out option. We received approximately $47 million from this transaction, reflecting the net investment at that time.

During the second quarter of 2005, we sold the aircraft associated with our remaining leases with United Air Lines. We received approximately $14 million and recorded a pre-tax gain of approximately $7 million, net of minority interest, from this transaction.

Off-Balance Sheet Items

Finance receivable sales

As part of our Capital Services programs, we have from time-to-time sold, through securitizations, net finance receivables with limited recourse. In these transactions, we have surrendered control over the transferred assets in accordance with paragraph 9 of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," and received a cash payment from the transferee. Specifically, the finance receivables were sold to a bankruptcy remote limited liability company. In certain cases, at the time of sale, we obtained legal counsel's opinion that the assets were isolated and that the sale qualified as a true sale at law. Under the terms of the sale, the transferee has the right to pledge or exchange the assets it received. There are no conditions that both constrain the transferee from taking advantage of its right to pledge or exchange and provide more than a trivial benefit to the transferor. We do not maintain effective control over the transferred assets.

We have accounted for these transactions as a sale, recognizing assets obtained and liabilities incurred in consideration for proceeds of the sale. Any resulting gain or loss was recognized in income at the time of sale. The maximum risk of loss in these transactions arises from the possible non-performance of lessees to meet the terms of their contracts. We believe adequate provisions for losses have been established for receivables sold which may become uncollectible and for which we have recourse obligation, in accordance with paragraph 113 of SFAS No. 140.

In selective cases, when we have sold net finance receivables, we 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 $32 million and $99 million at December 31, 2005 and 2004, respectively. In accordance with GAAP, we do not record these amounts as liabilities in our Consolidated Balance Sheets.

Our maximum risk of loss on these net finance 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 supported by the creditworthiness of our customers. At December 31, 2005 and 2004, the underlying equipment value exceeded the sum of the uncollected principal balance of receivables sold and the guarantee contracts. As part of our review of our risk exposure, we believe we have made adequate provision for sold receivables and guarantee contracts which may not be collectible. See Notes 17, 19 and 21 to the consolidated financial statements.

Restructuring Charges

In connection with our previously announced restructuring initiatives, we recorded pre-tax restructuring charges of $54 million, $158 million and $117 million for the years ended December 31, 2005, 2004 and 2003, respectively. The 2005 charge is net of a $30 million gain on the sale of our main plant manufacturing facility. These restructuring initiatives were substantially completed by the end of 2005. We currently estimate 2006 pre-tax restructuring charges to be in the range of $20 million to $35 million. These charges relate primarily to the completion of programs initiated in 2005. The ultimate amount and timing of the restructuring charges may differ from our current estimates.

The cash outflows related to restructuring charges are funded primarily by cash from operating activities. The restructuring initiatives are expected to continue to increase our operating efficiency and effectiveness in 2006 and beyond while enhancing growth, primarily as a result of reduced personnel-related expenses. We realized incremental pre-tax benefits of approximately $50 million, $45 million and $25 million in 2005, 2004 and 2003, respectively, from these restructuring initiatives and currently estimate incremental pre-tax benefits from these initiatives of approximately $25 million in 2006. See Note 1 to the consolidated financial statements for our accounting policy related to restructuring charges.

The pre-tax restructuring charges are composed of:

(Dollars in millions)	Restructuring charges	Non-cash charges	Cash payments	Balance December 31
2003				
Severance and benefit costs	$ 81	$ -	$ (54)	$ 27
Asset impairments	27	(27)	-	-
Other exit costs	9	-	(4)	5
	$ 117	$ (27)	$ (58)	$ 32
2004				
Severance and benefit costs	$ 76	$ -	$ (55)	$ 48
Asset impairments	73	(73)	-	-
Other exit costs	9	-	(11)	3
	$ 158	$ (73)	$ (66)	$ 51
2005				
Severance and benefit costs	$ 71	$ -	$ (74)	$ 45
Asset impairments	7	(7)	-	-
Other exit costs	6	-	(4)	5
Gain on sale of main plant	(30)	-	30	-
	$ 54	$ (7)	$ (48)	$ 50

All restructuring charges, except for asset impairments, will result in cash outflows. The severance and benefit costs relate to a reduction in workforce of

approximately 3,500 employees worldwide from the inception of this plan through December 31, 2005 and expected future workforce reductions of approximately 800 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 62% of the workforce reductions to date are in the U.S. The majority of the international workforce reductions are in Europe and Canada. Asset impairments in 2003 included a $24 million charge as a result of our decision to exit our main plant manufacturing facility in Connecticut in connection with our product sourcing and real estate optimization strategy. During the first quarter of 2005, following the successful rezoning of our main plant facility, we recorded a pre-tax gain of $30 million related to the sale of this facility. Restructuring charges in 2004 included a pre-tax charge of $28 million related to the planned closure of a manufacturing facility in Germany. Asset impairments in 2004 included a $47 million charge related to the write-down of capitalized system development costs, related to order management processes, as a result of our changing business profile and our organizational realignment. Other asset impairments in 2005 and 2004 relate primarily to the write-down of property, plant and equipment resulting from the closure or streamlining of certain facilities and systems. The fair values of the impaired long-lived assets were determined primarily using probability weighted expected cash flows in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." 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.

Acquisitions

On February 8, 2006, we acquired all of the outstanding shares of Emtex Ltd. (Emtex) for approximately $41 million in cash. Emtex's software and services allow large-volume mailers to simplify document production and centrally manage complex multi-vendor and multi-site print operations.

On June 30, 2005, we acquired Danka Canada Inc. (Danka), a subsidiary of Danka Business Systems PLC, for a net purchase price of $14 million in cash. Danka is a leading provider of office systems services, supplies and equipment in Canada. This acquisition strengthens our Canadian operations by enhancing our geographic coverage and extending our offerings.

On May 26, 2005, we acquired Imagitas for a net purchase price of $231 million in cash, net of unrestricted cash. Imagitas is a marketing services company that specializes in using mail to help companies connect with hard to reach consumers. This acquisition expands our presence in the mailstream and adds to the array of valuable services that we currently deliver to our customers.

On March 24, 2005, we acquired Compulit for a net purchase price of $24 million in cash. Compulit is a leading provider of litigation support services to law firms and corporate clients. This acquisition expands our ability to provide a broader range of high value services for our legal vertical.

On December 16, 2004, we acquired Groupe MAG for a net purchase price of $43 million of cash. Groupe MAG is a distributor of production mail equipment, software and services in France, Belgium and Luxembourg.

On November 1, 2004, we acquired a substantial portion of the assets of Ancora for a net purchase price of $37 million of cash. Ancora is a provider of first class, standard letter and international mail processing and presort services with five operations in southern California, Pennsylvania and Maryland.

On July 20, 2004, we acquired Group 1 for a net purchase price of $329 million of cash. Group 1 is an industry leader in software that enhances mailing efficiency, data quality and customer communications.

On May 21, 2004, we acquired substantially all of the assets of IMEX for a net purchase price of $30 million of cash. IMEX consolidates letters and flat-sized mail headed to international addresses to reduce postage costs and expedite delivery.

On October 23, 2003, we acquired DDD for a purchase price of $49 million, which consisted of approximately half of cash and half of common stock issuance. DDD offers a broad array of services including fulfillment services, secure mail processing, messenger services, logistics support, and record and information management.

We accounted for these acquisitions using the purchase method of accounting and accordingly, the operating results of these acquisitions have been included in our consolidated financial statements since the date of acquisition. These acquisitions did not materially impact income from continuing operations for the years ended December 31, 2005, 2004 and 2003.

During 2005, 2004 and 2003, we also completed several smaller acquisitions, including additional sites for our mail services operations and some international dealers. We also acquired the hardware equipment services business of Standard Register Inc. at the end of 2004 and one of our address printing suppliers in 2003. The cost of these acquisitions in the aggregate was less than $75 million in each year. These acquisitions did not have a material impact on our financial results either individually or on an aggregate basis.

See Note 14 to the consolidated financial statements.

Liquidity and Capital Resources

Our ratio of current assets to current liabilities increased to 0.94 to 1 at December 31, 2005 compared with 0.81 to 1 at December 31, 2004. The increase in this ratio was due primarily to the decrease in notes payable, current portion of long-term debt and income taxes payable during the year. See Financings and Capitalization for further details.

To manage interest rate risk, we use a balanced mix of debt maturities, variable and fixed rate debt and interest rate swap agreements. Our fixed to floating percentages were 79% and 21% at December 31, 2005 and 73% and 27% at December 31, 2004.

The ratio of total debt to total debt and stockholders' equity was 78.3% at December 31, 2005 versus 77.2% at December 31, 2004. Including the preferred stockholders' equity in a subsidiary company as debt, the ratio of total debt to total debt and stockholders' equity was 79.4% at December 31, 2005 compared to 78.4% at December 31, 2004. The increase in this ratio was driven primarily by an increase in debt, stock repurchases and the payment of dividends.

The following table summarizes our cash flows in 2005 and 2004:

(Dollars in millions)	2005	2004
Cash flows from operating activities:		
Net income	**$ 527**	$ 481
Restructuring and other charges, net	**42**	113
Restructuring and other payments	**(89)**	(66)
Bond posted with Internal Revenue Service	**(200)**	-
Depreciation and amortization	**332**	307
Increase in deferred taxes on income and income taxes payable	**204**	211
Pension plan contributions	**(77)**	-
Net investment in internal finance receivables	**(105)**	(74)
Other operating assets and liabilities	**(95)**	(27)
Net cash provided by operating activities	**539**	945
Net cash used in investing activities	**(472)**	(772)
Net cash used in financing activities	**(137)**	(194)
Effect of exchange rate changes on cash	**(3)**	7
Decrease in cash and cash equivalents	**$ (73)**	$ (14)

2005 Cash flows

Net cash provided by operating activities consisted primarily of net income adjusted for non-cash items, changes in operating assets and liabilities, contributions to our pension funds, restructuring payments and a $200 million tax bond posted with the IRS in April 2005. The increase in our deferred taxes and income taxes payable balances contributed $204 million to cash from operations, resulting from continued tax benefits from our internal financing and the run-off of Capital Services leasing activities. The increase in our internal finance receivables balances reduced cash from operations by $105 million, reflecting growth in equipment placements and our payment solutions business during the year. Other operating assets and liabilities reduced our cash from operations by $95 million primarily due to higher accounts receivable balances that resulted from strong growth in our businesses.

Net cash used in investing activities was $472 million and consisted primarily of capital expenditures and acquisitions, partially offset by cash generated from Capital Services asset sales, reserve account deposits and proceeds from the sale of the main plant.

Net cash used in financing activities was $137 million and consisted primarily of dividends paid to stockholders and stock repurchases, partially offset by the issuance of debt and stock.

2004 Cash flows

Net cash provided by operating activities consisted primarily of net income adjusted for non-cash items and changes in operating assets and liabilities and restructuring payments. The increase in our deferred taxes and income taxes payable balances contributed $211 million to cash from operations, resulting from continued tax benefits from our internal financing and run-off of Capital Services leasing activities. The increase in our internal finance receivables balances reduced cash from operations by $74 million, reflecting growth in equipment placements and our postal payment business during the year. Other operating assets and liabilities reduced our cash from operations by $27 million primarily due to higher accounts receivable balances that resulted from strong equipment sales at the end of the year.

Net cash used in investing activities was $772 million and consisted primarily of capital expenditures, acquisitions and investments, partially offset by cash generated from Capital Services asset sales and reserve account deposits.

Net cash used in financing activities was $194 million and consisted primarily of dividends paid to stockholders and stock repurchases, partially offset by the issuance of debt and stock.

Financings and Capitalization

At December 31, 2005, $1.6 billion remained available under the shelf registration statement filed in February 2005 with the SEC, permitting issuances of up to $2.5 billion in debt securities, preferred stock, preference stock, common stock, purchase contracts, depositary shares, warrants and units.

At December 31, 2005, we had unused lines of credit and revolving credit facilities of $1.5 billion in the U.S. and $1.6 million outside the U.S., primarily to support commercial paper issuance.

In October 2005, Pitney Bowes Nova Scotia II ULC, a wholly owned subsidiary of the Company, issued $150 million floating rate notes maturing in October 2010. These notes bear interest at an annual rate of LIBOR plus 15 basis points and pay interest quarterly beginning December 2005. The proceeds from these notes were used for general corporate purposes, including the repayment of commercial paper, the financing of acquisitions and the repurchase of company stock.

In July 2005, we issued $500 million of unsecured fixed rate notes maturing in January 2016. These notes bear interest at an annual rate of 4.75% and pay interest semi-annually beginning January 2006. The proceeds from these notes were used for general corporate purposes, including the repayment of commercial paper, the financing of acquisitions and the repurchase of company stock.

In March 2005, we issued $400 million of unsecured fixed rate notes maturing in March 2015. These notes bear interest at an annual rate of 5.0% and pay interest semi-annually beginning September 2005. The proceeds from these notes were used for general corporate purposes, including the repayment of commercial paper, financing of acquisitions and the repurchase of company stock.

We believe our financing needs in the short and long-term can be met from cash generated internally, money from existing credit agreements, debt issued under new and existing shelf registration statements and our existing commercial paper programs. Information on debt maturities is presented in Note 5 to the consolidated financial statements.

The following summarizes our known contractual obligations at December 31, 2005 and the effect that such obligations are expected to have on our liquidity and cash flow in future periods:

	Payments due by period				
(Dollars in millions)	Total	Less than 1 year	1–3 years	3–5 years	More than 5 years
Commercial paper borrowings	**$ 519**	$ 519	$ -	$ -	$ -
Long-term debt and current portion of long-term debt	**4,187**	337	719	392	2,739
Non-cancelable capital lease obligations	**4**	2	2	-	-
Non-cancelable operating lease obligations	**242**	70	90	39	43
Purchase obligations (1)	**174**	166	8	-	-
Other non-current liabilities (2)	**327**	-	162	54	111
Total	**$5,453**	$1,094	$981	$485	$2,893

(1) Purchase obligations include unrecorded agreements to purchase goods or services that are enforceable and legally binding upon us and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Purchase obligations exclude agreements that are cancelable without penalty.

(2) Other non-current liabilities relate primarily to our non-pension postretirement benefits. See Note 11 to the consolidated financial statements.

Capital Expenditures

During 2005, capital expenditures included net additions of $147 million to property, plant and equipment and $145 million of net additions to rental equipment and related inventories compared with $185 million and $132 million, respectively, in 2004. The addition of rental equipment relates primarily to postage meters and increased over the prior year due to higher placements of our digital meters during 2005.

We expect capital expenditures in 2006 to be approximately the same as 2005. These investments will also be affected by the timing of our customers' transition to digital meters.

Critical Accounting Policies

We have identified the policies below as critical to our business operations and to the understanding of our results of operations. We have discussed the impact and any associated risks on our results of operations related to these policies throughout the MD&A. For a detailed discussion on the application of these and other accounting policies, see Note 1 to the consolidated financial statements.

The preparation of our financial statements in conformity with GAAP requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. These estimates include, but are not limited to, customer cancellations, bad debts, inventory obsolescence, residual

values of leased assets, useful lives of long-lived assets and intangible assets, warranty obligations, restructuring, pensions and other postretirement benefits, contingencies and litigation, and allocation of purchase price to tangible and intangible assets acquired in business combinations. Our actual results could differ from those estimates and assumptions. We believe the assumptions and estimates used are reasonable and appropriate in accordance with GAAP.

Revenue recognition

Multiple element and internal financing arrangements

We derive our revenue from multiple sources including sales, rentals, financing and services. Certain of our transactions are consummated at the same time and can therefore generate revenue from multiple sources. The most common form of these transactions involves a non-cancelable equipment lease, a meter rental and an equipment maintenance agreement. As a result, we are required to determine whether the deliverables in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes, and if so, how the price should be allocated among the delivered elements and when to recognize revenue for each element.

In multiple element arrangements, we recognize revenue for each of the elements based on their respective fair values in accordance with Emerging Issues Task Force (EITF) Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables." We recognize revenue for delivered elements only when the fair values of undelivered elements are known and uncertainties regarding customer acceptance are resolved. Our allocation of the fair values to the various elements does not change the total revenue recognized from a transaction, but impacts the timing of revenue recognition. Revenue is allocated to the meter rental and equipment maintenance agreement elements first using their respective fair values, which are determined based on prices charged in standalone and renewal transactions. Revenue is then allocated to the equipment based on the present value of the remaining minimum lease payments. We then compare the allocated equipment fair value to the range of cash selling prices in standalone transactions during the period to ensure the allocated equipment fair value approximates average cash selling prices.

We provide lease financing for our products primarily through sales-type leases. We classify our leases in accordance with SFAS No. 13, "Accounting for Leases." The vast majority of our leases qualify as sales-type leases using the present value of minimum lease payments classification criteria outlined in SFAS No. 13. We believe that our sales-type lease portfolio contains only normal collection risk with no important uncertainties with respect to future costs. Accordingly, we record the fair value of equipment as sales revenue, the cost of equipment as cost of sales and the minimum lease payments plus the estimated residual value as gross finance receivables. The difference between the gross finance receivable and the equipment fair value is recorded as unearned income and is amortized as income over the lease term using the interest rate implicit in the lease.

Equipment residual values are determined at inception of the lease using estimates of equipment fair value at the end of the lease term. Estimates of future equipment fair value are based primarily on our historical experience. We also consider forecasted supply and demand for our various products, product retirement and future product launch plans, end of lease customer behavior, regulatory changes, remanufacturing strategies, used equipment markets, if any, competition and technological changes. We evaluate residual values on an annual basis or as changes to the above considerations occur. We have not experienced any material changes to our residual values during 2005, 2004 or 2003 nor do we expect any material changes to residual values in the foreseeable future.

See Note 1 to the consolidated financial statements for our accounting policies on revenue recognition.

Allowances for doubtful accounts and credit losses

Allowance for doubtful accounts

We estimate our accounts receivable risks and provide allowances for doubtful accounts accordingly. We evaluate the adequacy of the allowance for doubtful accounts on a periodic basis. Our evaluation includes historical loss experience, length of time receivables are past due, adverse situations that may affect a customer's ability to repay and prevailing economic conditions. We make adjustments to our allowance if our evaluation of allowance requirements differs from our actual aggregate reserve. This evaluation is inherently subjective because our estimates may be revised as more information becomes available. Based on historical experience, we have not had any material revisions to our recorded allowance for doubtful accounts.

Allowance for credit losses

We estimate our finance receivables risks and provide allowances for credit losses accordingly. We establish credit approval limits based on the credit quality of our customers and the type of equipment financed. We charge finance receivables to the allowance for credit losses after collection efforts are exhausted and we deem the account uncollectible. We base credit decisions primarily on a customer's financial strength. We believe that our concentration of credit risk for finance receivables in our internal financing division is limited because of our large number of customers, small account balances and customer geographic and industry diversification. In addition, in our Capital Services programs, we have considered collateral values.

Our general policy for finance receivables contractually past due for over 120 days is to discontinue revenue recognition. We resume revenue recognition when payments reduce the account to 60 days or less past due. In our Capital Services programs, we discontinue revenue recognition as soon as it is apparent that the obligor will not be making payments in accordance with lease terms, such as in the event of bankruptcy. Otherwise, we discontinue revenue recognition when accounts are over 120 days past due or as circumstances warrant.

We evaluate the adequacy of allowance for credit losses on a periodic basis. Our evaluation includes historical loss experience, the nature and volume of our portfolios, adverse situations that may affect a customer's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. We make adjustments to our allowance for credit losses if the evaluation of reserve requirements differs from the actual aggregate reserve. This evaluation is inherently subjective because our estimates may be revised as more information becomes available.

Accounting for income taxes

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. When we prepare our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. We record this amount as a provision for our taxes in accordance with SFAS No. 109, "Accounting for Income Taxes."

We regularly assess the likelihood of tax adjustments in each of the tax jurisdictions in which we operate and account for the related financial statement implications. We have established tax reserves which we believe to be appropriate given the possibility of tax adjustments. Determining the appropriate level of tax reserves requires us to exercise judgment regarding the uncertain application of tax law. We adjust the amount of reserves when information becomes available or when an event occurs indicating a change in the reserve is appropriate. Future changes in tax reserve requirements could have a material impact on our results of operations.

Based on our 2005 income from continuing operations before income taxes, a 1% change in our effective tax rate would impact income from continuing operations by approximately $9 million.

Long-lived assets

Useful lives of long-lived assets

We depreciate property, plant and equipment and rental property and equipment principally using the straight-line method over estimated useful lives: machinery and equipment principally three to 15 years and buildings up to 50 years. We depreciate other depreciable assets using either the straight-line method or accelerated methods. We amortize properties leased under capital leases on a straight-line basis over the primary lease terms. We amortize capitalized costs related to internally developed software using the straight-line method over the estimated useful life, which is principally three to ten years. Intangible assets with finite lives are amortized over their estimated

useful lives, which are principally four to 15 years. Our estimates of useful lives could be affected by changes in regulatory provisions, technology or business plans.

Impairment review

We evaluate the recoverability of our long-lived assets, including goodwill and intangible assets, on an annual basis or as circumstances warrant. Our goodwill impairment review requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units and determining the fair value of each reporting unit. Significant judgments required to estimate the fair value of reporting units include estimating future cash flows, determining appropriate discount rates and other assumptions. We use internal discounted cash flow estimates, quoted market prices when available and appraisals as appropriate to determine fair value. We derive the cash flow estimates from our historical experience and our future long-term business plans and apply an appropriate discount rate. When available and as appropriate, we use comparative market multiples to corroborate discounted cash flow results. Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment for each reporting unit.

We believe that we have no unrecorded asset impairments at December 31, 2005. However, future events and circumstances, some of which are described below, may result in an impairment charge:

- Changes in postal regulations governing the types of meters allowable for use. However, regulations were issued in November 2001, and therefore we do not expect new regulations for the foreseeable future.
- New technological developments that provide significantly enhanced benefits over current digital technology.
- Significant negative economic or industry trends.
- Changes in our business strategy that alters the expected usage of the related assets.
- Significant increase or decrease in our cost of capital.
- Future economic results that are below our expectations used in the current assessments.

Pension benefits

Assumptions and estimates

Our net pension expense, assets and obligations are dependent on various assumptions and estimates. We make assumptions relating to discount rates, rate of compensation increase, expected return on plan assets and other factors. These assumptions are evaluated and updated annually and are described in further detail in Note 11 to the consolidated financial statements. The following assumptions relate to our U.S. qualified pension plan, which is our largest plan. We

determine our discount rate for the U.S. retirement benefit plan by using a model that discounts each year's estimated benefit payments by an applicable spot rate. These spot rates are derived from a yield curve created from a large number of high quality corporate bonds. Accordingly, our discount rate assumption was 5.60% at December 31, 2005 and 5.75% at December 31, 2004. The rate of compensation increase assumption reflects our actual experience and best estimate of future increases. Our estimate of the rate of compensation increase was 4.50% and 4.75% at December 31, 2005 and 2004, respectively. Our expected return on plan assets is determined based on historical portfolio results, the plan's asset mix and future expectations of market rates of return on the types of assets in the plan. Our expected return on plan assets assumption was 8.5% in 2005 and 2004.

Sensitivity to changes in assumptions:

- Discount rate — a 0.25% increase in the discount rate would decrease annual pension expense by approximately $2 million.
- Rate of compensation increase — a 0.25% increase in the rate of compensation increase would increase annual pension expense by approximately $2 million.
- Expected return on plan assets — a 0.25% increase in the expected return on assets of our principal plans would decrease annual pension expense by approximately $4 million.

Delayed recognition principles

In accordance with SFAS No. 87, "Employers' Accounting for Pensions," actual pension plan results that differ from our assumptions and estimates are accumulated and amortized over the estimated future working life of the plan participants and will therefore affect pension expense recognized and obligations recorded in future periods. We also base our net pension expense primarily on a market related valuation of plan assets. In accordance with this approach we recognize differences between the actual and expected return on

plan assets primarily over a five-year period and as a result future pension expense will be impacted when these previously deferred gains or losses are recorded.

Investment related risks and uncertainties

We invest our pension plan assets in a variety of investment securities in accordance with our strategic asset allocation policy. The composition of our U.S. pension plan assets at December 31, 2005 was approximately 70% equity securities, 25% fixed income securities and 5% real estate investments. Investment securities are exposed to various risks such as interest rate, market and credit risks. In particular, due to the level of risk associated with equity securities, it is reasonably possible that changes in the values of such investment securities will occur and that such changes could materially affect our future results.

New Accounting Pronouncements

In January 2003, FIN No. 46, "Consolidation of Variable Interest Entities," was issued. 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 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. As a result, we consolidated the operations of PBG on March 31, 2004. Prior to March 31, 2004, we accounted for PBG under the equity method of accounting. PBG's minority interest of $29 million and $33 million respectively is included in other non-current liabilities in the Consolidated Balance Sheets at December 31, 2005 and December 31, 2004. The consolidation of PBG did not have a material impact on our results of operations or cash flows.

In May 2004, the FASB issued FASB Staff Position (FSP) No. SFAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." The FSP provides accounting guidance for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") to a sponsor of a postretirement health care plan that has concluded that prescription drug benefits available under the plan are actuarially equivalent and thus qualify for the subsidy under the Act. The provisions of FSP No. SFAS 106-2 were effective July 1, 2004. We have concluded that the prescription drug benefits provided under our non-pension postretirement benefit plans are actuarially equivalent to the prescription drug benefits offered under Medicare Part D. We adopted the provisions of FSP No. SFAS 106-2 on a prospective basis on July 1, 2004. See Note 11 to the consolidated financial statements.

In November 2004, SFAS No. 151, "Inventory Costs," was issued. SFAS No. 151 amends and clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). The provisions of SFAS No. 151 are effective for fiscal years beginning after June 15, 2005. The adoption of this provision did not have a material impact on our financial position, results of operations or cash flows.

In December 2004, SFAS No. 123 (revised 2004), "Share-Based Payment," was issued. SFAS No. 123R supersedes Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees." The revised statement addresses the accounting for share-based payment transactions with employees and other third parties, eliminates the ability to account for share-based transactions using APB No. 25 and requires that the compensation costs relating to such transactions be recognized in the consolidated financial statements. SFAS No. 123R requires compensation cost to be recognized immediately for awards granted to retirement eligible employees or over the period from the grant date to the date retirement eligibility is achieved, if that is expected to occur during the nominal vesting period. We currently use the nominal vesting period approach to determine the pro forma stock based compensation expense for all awards. SFAS No. 123R also requires additional disclosures relating to the income tax and cash flow effects resulting from share-based payments. We adopted

the provisions of SFAS No. 123R on January 1, 2006 using the modified retrospective application. We estimate that our adoption of these provisions will reduce annual diluted earnings per share in 2006 by approximately eight to nine cents, which compares with eight cents in 2005.

In December 2004, the FASB issued FSP No. SFAS 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004." The FSP provides guidance under SFAS No. 109, "Accounting for Income Taxes," with respect to recording the potential impact of the repatriation provisions of the American Jobs Creation Act of 2004 (the "Jobs Act") on enterprises' income tax expense and deferred tax liability. The Jobs Act was enacted on October 22, 2004. FSP No. SFAS 109-2 states that companies are allowed time beyond the financial reporting period of enactment to evaluate the effect of the Jobs Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS No. 109. Under the Jobs Act, the Company repatriated $15 million of foreign earnings in 2005. Additional tax of less than $1 million was accrued as a result of this repatriation.

In June 2005, the FASB issued FASB Staff Position (FSP) No. SFAS 143-1, "Accounting for Electronic Equipment Waste Obligations," that provides guidance on how commercial users and producers of electronic equipment should recognize and measure asset retirement obligations associated with the European Directive 2002/96/EC on Waste Electrical and Electronic Equipment (the "Directive"). The adoption of this FSP did not have a material effect on our financial position, results of operations or cash flows for those European Union (EU) countries that enacted the Directive into country-specific laws. We are currently evaluating the impact of applying this FSP in the remaining countries in future periods and do not expect the adoption of this provision to have a material effect on our financial position, results of operations or cash flows.

See Note 1 to the consolidated financial statements for further details.

Legal and Regulatory Matters

Legal

See Legal Proceedings in Item 3 of this Form 10-K for information regarding our legal proceedings.

Other

The European Union has instituted two environmental directives that impact our international operations. The Waste Electrical and Electronic Equipment legislation, effective August 13, 2005, makes manufacturers responsible for the disposal of their equipment. This directive is progressively being rolled out by member states and is expected to be fully implemented in 2006. The Restriction of Hazardous Substances directive (RoHS) effective July 2006, requires the removal of substances that are now considered actually or potentially hazardous, from future equipment placements. As a result of the RoHS directive, we are required to modify or change certain components in our products and in some instances these changes will require us to seek re-approval for the placement of postage meters from the appropriate postal authorities in each country.

Income taxes

We are continually under examination by tax authorities in the United States, other countries and local jurisdictions in which we have operations. The years under examination vary by jurisdiction.

In December 2003, the IRS issued a closing agreement reflecting additional U.S. tax, interest and penalties related to 1992 through 1994. In January 2006, the IRS proposed adjustments that may result in the assessment of additional U.S. tax, interest and penalties related to 1995 through 2000. We are not disputing certain of these adjustments and the impact of these adjustments has been reflected in our financial statements.

We are disputing other adjustments the IRS has proposed that may result in the assessment of additional U.S. tax, interest and penalties related to 1994 through 2000. These disputed adjustments relate primarily to the tax treatment of COLI and related interest expense, the tax effect of the sale of certain preferred share holdings and the tax treatment of certain lease transactions. The IRS will likely make similar adjustments to lease transactions when examining years subsequent to 2000. We disagree with these disputed adjustments and intend to contest them. We have requested a review of these adjustments by the administrative appeals division of the IRS. If negotiations at the administrative appeals level are not successful, we intend to file for judicial review of the disputed adjustments.

The disputed adjustments from 1994 through 2000 could result in the assessment of additional tax of up to $390 million plus penalties of up to $65 million, a significant portion of which has already been accrued. Certain of these adjustments would result in future tax deductions and, therefore, are only temporary in nature. We have bonds posted with the IRS of $330 million to mitigate interest assessments on any otherwise underpaid tax that would result from a final settlement.

In January 2006, the U.S. Circuit Court of Appeals reversed a District Court decision that another company received related to the tax treatment of COLI and related interest deductions. As a result, we recorded an additional tax reserve of $56 million in 2005.

We have accrued for our best estimate of the probable tax, interest and penalties that may result from these disputed matters as it relates to 1992 through 2005 and we believe that the accrual for tax liabilities is appropriate. However, the resolution of such matters could have a material impact on our results of operations, financial position and cash flow.

Effects of Inflation and Foreign Exchange

Inflation, although moderate in recent years, continues to affect worldwide economies and the way companies operate. It increases labor costs and operating expenses, and raises costs associated with replacement of fixed assets such as rental equipment. Despite these growing costs and the USPS meter migration initiatives, we have generally been able to maintain profit margins through productivity and efficiency improvements, continual review of both manufacturing capacity and operating expense levels, and, to an extent, price increases.

Our 2005 earnings performance was helped by currency translation gains of approximately one cent per diluted share. Based on the current contribution from our international operations, a 1% increase in the value of the U.S. dollar would result in a decline in revenue of approximately $14 million and a decline in income from continuing operations before income taxes of approximately $2 million.

Although not affecting income, balance sheet related deferred translation losses of $54 million were recorded in 2005 resulting from the weaker British pound and Euro, partially offset by the stronger Canadian dollar, as compared to the U.S. dollar. During 2004 and 2003, we recorded deferred translation gains of $115 million and $143 million relating to the stronger British pound, Euro and Canadian dollar as compared with the U.S. dollar.

The results of our international operations are subject to currency fluctuations. We enter into foreign exchange contracts primarily to minimize our risk of loss from such fluctuations. Exchange rates can also impact settlement of our intercompany receivables and payables that result from transfers of finished goods inventories between our affiliates in different countries, and intercompany loans.

At December 31, 2005, we had approximately $406 million of foreign exchange contracts outstanding, all maturing in 2006, to buy or sell various currencies. Risks arise from the possible non-performance by counterparties in meeting the terms of their contracts and from movements in securities values, interest and/or exchange rates. However, we do not anticipate non-performance by the counterparties as they are composed of a number of major international financial institutions. Maximum risk of loss on these contracts is limited to the amount of the difference between the spot rate at the date of the contract delivery and the contracted rate.

Dividend Policy

Our Board of Directors has a policy to pay a cash dividend on common stock each quarter. In setting dividend payments, our board considers the dividend rate in relation to our recent and projected earnings and our capital investment opportunities and requirements. We have paid a dividend each year since 1934.

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-K, other reports or press releases or made by our management involve risks and uncertainties which may change based on various important factors. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. 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 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, including risks associated with commercial passenger and cargo aircraft leasing transactions
- the Company's success at managing costs associated with its strategy of outsourcing functions and operations not central to its business
- changes in interest rates

- foreign currency fluctuations

- cost, timing and execution of the restructuring plan including any potential asset impairments
- regulatory approvals and satisfaction of other conditions to consummation of any acquisitions and integration of recent acquisitions
- interrupted use of key information systems
- changes in privacy laws
- intellectual property infringement claims
- 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, including the spin-off or other disposition of the majority of the assets in this segment
- changes in pension and retiree medical costs
- acts of nature

ITEM 7A — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to the impact of interest rate changes and foreign currency fluctuations due to our investing and funding activities and our operations in different foreign currencies.

Our objectives in managing our exposure to interest rate changes are to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve our objectives, we use a balanced mix of debt maturities and variable and fixed rate debt together with interest rate swaps.

Our objective in managing our exposure to foreign currency fluctuations is to reduce the volatility in earnings and cash flows associated with the effect of foreign exchange rate changes on transactions that are denominated in foreign currencies. Accordingly, we enter into various contracts, which change in value as foreign exchange rates change, to protect the value of external and intercompany transactions.

The principal currencies hedged are the British pound, Canadian dollar and Euro.

We employ established policies and procedures governing the use of financial instruments to manage our exposure to such risks. We do not enter into foreign currency or interest rate transactions for speculative purposes. The gains and losses on these contracts offset changes in the value of the related exposures.

We utilize a "Value-at-Risk" (VaR) model to determine the maximum potential loss in fair value from changes in market conditions. The VaR model utilizes a "variance/co-variance" approach and assumes normal market conditions, a 95% confidence level and a one-day holding period. The model includes all of our debt and all interest rate and foreign exchange derivative contracts. The model excludes anticipated transactions, firm commitments, and receivables and accounts payable denominated in foreign currencies, which certain of these instruments are intended to hedge.

The VaR model is a risk analysis tool and does not purport to represent actual losses in fair value that will be incurred by us, nor does it consider the potential effect of favorable changes in market factors.

During 2005 and 2004, our maximum potential one-day loss in fair value of our exposure to foreign exchange rates and interest rates, using the variance/co-variance technique described above, was not material.

ITEM 8 — FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Consolidated Statements of Income
(Dollars in thousands, except per share data)

	Years ended December 31		
	2005	2004	2003
Revenue from:			
Sales	**$1,633,348**	$1,462,967	$ 1,325,490

Rentals	**801,285**	804,351	785,130
Financing	**650,226**	597,792	575,574
Support services	**791,360**	680,702	617,800
Business services	**1,477,459**	1,270,113	1,119,146
Capital Services	**138,505**	141,515	153,713
Total revenue	**5,492,183**	4,957,440	4,576,853
Costs and expenses:			
Cost of sales	**711,373**	663,584	611,620
Cost of rentals	**165,963**	164,074	170,557
Cost of support services	**407,044**	353,658	323,279
Cost of business services	**1,194,649**	1,046,747	921,027
Cost of Capital Services	**-**	13,017	-
Selling, general and administrative	**1,685,419**	1,506,308	1,396,848
Research and development	**164,806**	159,835	147,262
Restructuring charges	**53,650**	157,634	116,713
Other expense (income)	**33,897**	19,666	(117)
Interest expense	**213,556**	177,126	171,281
Interest income	**(5,298)**	(3,657)	(2,708)
Total costs and expenses	**4,625,059**	4,257,992	3,855,762
Income from continuing operations before income taxes	**867,124**	699,448	721,091
Provision for income taxes	**340,546**	218,922	226,244
Income from continuing operations	**526,578**	480,526	494,847
Gain on disposal of discontinued operations, net of income tax	**-**	-	3,270
Net income	**$ 526,578**	$ 480,526	$ 498,117
Basic earnings per share:			
Income from continuing operations	**$ 2.30**	$ 2.08	$ 2.12
Discontinued operations	**-**	-	0.01
Net income	**$ 2.30**	$ 2.08	$ 2.13
Diluted earnings per share:			
Income from continuing operations	**$ 2.27**	$ 2.05	$ 2.10
Discontinued operations	**-**	-	0.01
Net income	**$ 2.27**	$ 2.05	$ 2.11

See Notes to consolidated financial statements

Consolidated Balance Sheets
(Dollars in thousands, except share data)

	December 31	
	2005	2004
Assets		
Current assets:		
Cash and cash equivalents	**$ 243,509**	$ 316,217
Short-term investments	**56,193**	3,933
Accounts receivable, less allowances: 2005, $46,261; 2004, $50,254	**658,198**	567,772
Finance receivables, less allowances: 2005, $52,622; 2004, $70,958	**1,342,446**	1,396,269
Inventories	**220,918**	206,697
Other current assets and prepayments	**221,051**	197,874
Total current assets	**2,742,315**	2,688,762
Property, plant and equipment, net	**621,954**	644,495
Rental property and equipment, net	**1,022,031**	1,046,336
Property leased under capital leases, net	**2,611**	3,081
Long-term finance receivables, less allowances: 2005, $76,240; 2004, $102,074	**1,841,673**	1,779,805
Investment in leveraged leases	**1,470,025**	1,477,755

Goodwill	**1,611,786**	1,411,381
Intangible assets, net	**347,414**	323,737
Other assets	**961,573**	836,274
Total assets	**$10,621,382**	$10,211,626
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 1,538,860**	$ 1,487,239
Income taxes payable	**55,903**	218,605
Notes payable and current portion of long-term obligations	**857,742**	1,210,475
Advance billings	**458,392**	421,819
Total current liabilities	**2,910,897**	3,338,138
Deferred taxes on income	**1,922,258**	1,765,113
Long-term debt	**3,849,623**	3,164,688
Other non-current liabilities	**326,663**	343,606
Total liabilities	**9,009,441**	8,611,545
Preferred stockholders' equity in a subsidiary company	**310,000**	310,000
Stockholders' equity:		
Cumulative preferred stock, $50 par value, 4% convertible	**17**	19
Cumulative preference stock, no par value, $2.12 convertible	**1,158**	1,252
Common stock, $1 par value (480,000,000 shares authorized; 323,337,912 shares issued)	**323,338**	323,338
Retained earnings	**4,485,051**	4,243,404
Accumulated other comprehensive income	**76,917**	135,526
Treasury stock, at cost (shares: 2005, 96,630,706; 2004, 93,019,539)	**(3,584,540)**	(3,413,458)
Total stockholders' equity	**1,301,941**	1,290,081
Total liabilities and stockholders' equity	**$10,621,382**	$10,211,626

See Notes to consolidated financial statements

Consolidated Statements of Cash Flows
(Dollars in thousands)

	Years ended December 31		
	2005	2004	2003
Cash flows from operating activities:			
Net income	**$ 526,578**	$ 480,526	$ 498,117
Restructuring and other charges, net	**42,248**	113,473	71,354
Restructuring and other payments	**(88,544)**	(66,055)	(72,751)
Bond posted with the Internal Revenue Service	**(200,000)**	-	-
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**331,963**	306,750	288,808
Pension plan contributions	**(76,508)**	-	(50,000)
Change in assets and liabilities, net of effects of acquisitions:			
Accounts receivable	**(87,646)**	(51,085)	(21,557)
Net investment in internal finance receivables	**(105,358)**	(73,726)	(60,197)
Inventories	**(7,835)**	17,079	19,021
Other current assets and prepayments	**(12,114)**	6,272	(2,223)
Accounts payable and accrued liabilities	**3,324**	15,385	(4,870)
Deferred taxes on income and income taxes payable	**204,036**	210,687	194,519
Advance billings	**19,508**	(4,636)	(1,790)
Other, net	**(10,059)**	(10,031)	(7,170)

Net cash provided by operating activities	**539,593**	944,639	851,261
Cash flows from investing activities:			
Capital expenditures	**(291,550)**	(316,982)	(285,681)
Investments	**(44,099)**	(1,740)	3,631
Net proceeds from sale of main plant	**30,238**	-	-
Net investment in Capital Services	**117,595**	17,465	304,204
Acquisitions, net of cash acquired	**(294,176)**	(498,712)	(106,547)
Reserve account deposits	**9,800**	27,782	50,389
Net cash used in investing activities	**(472,192)**	(772,187)	(34,004)
Cash flows from financing activities:			
(Decrease) increase in notes payable, net	**(31,150)**	256,360	(581,991)
Proceeds from long-term obligations	**1,050,000**	450,897	1,026,738
Principal payments on long-term obligations	**(695,724)**	(491,904)	(866,872)
Proceeds from issuance of stock	**83,012**	73,316	52,341
Stock repurchases	**(258,803)**	(199,998)	(200,000)
Dividends paid	**(284,348)**	(282,265)	(280,870)
Net cash used in financing activities	**(137,013)**	(193,594)	(850,654)
Effect of exchange rate changes on cash	**(3,096)**	6,927	12,053
(Decrease) in cash and cash equivalents	**(72,708)**	(14,215)	(21,344)
Cash from consolidation of PBG Capital Partners LLC	**-**	36,620	-
Cash and cash equivalents at beginning of year	**316,217**	293,812	315,156
Cash and cash equivalents at end of year	**$ 243,509**	$ 316,217	$ 293,812
Interest paid	**$ 196,964**	$ 167,761	$ 182,986
Income taxes paid, net	**$ 164,068**	$ 75,958	$ 59,045

See Notes to consolidated financial statements

Consolidated Statements of Stockholders' Equity
(Dollars in thousands, except per share data)

	Preferred stock	Preference stock	Common stock	Capital in excess of par value	Comprehensive income	Retained earnings	Accumulated other comprehensive income	Treasury stock at cost
Balance, January 1, 2003	$ 24	$ 1,432	$323,338	$ -		$3,848,562	$(121,615)	$(3,198,414)
Net income					$ 498,117	498,117		
Other comprehensive income:								
Translation adjustments					143,158		143,158	
Net unrealized gain on derivative instruments					384		384	
Minimum pension liability					(3,864)		(3,864)	
Comprehensive income					$ 637,795			
Cash dividends:								
Preferred ($2.00 per share)						(1)		
Preference ($2.12 per share)						(107)		
Common ($1.20 per share)						(280,762)		
Issuances of common stock						(9,448)		82,796
Conversions to common stock	(5)	(117)				(2,469)		2,591
Repurchase of common stock								(200,000)
Tax credits relating to stock options						3,762		
Balance, December 31, 2003	19	1,315	323,338	-		4,057,654	18,063	(3,313,027)
Net income					$480,526	480,526		
Other comprehensive								

income:								
Translation adjustments					115,111		115,111	
Net unrealized gain on derivative instruments					1,777		1,777	
Minimum pension liability					575		575	
Comprehensive income					$597,989			
Cash dividends:								
Preferred ($2.00 per share)						(1)		
Preference ($2.12 per share)						(100)		
Common ($1.22 per share)						(282,164)		
Issuances of common stock						(18,658)		98,162
Conversions to common stock		(63)				(1,342)		1,405
Repurchase of common stock								(199,998)
Tax credits relating to stock options						7,489		
Balance, December 31, 2004	**19**	**1,252**	**323,338**	**-**		**4,243,404**	**135,526**	**(3,413,458)**
Net income					**$ 526,578**	**526,578**		
Other comprehensive income:								
Translation adjustments					**(54,499)**		**(54,499)**	
Net unrealized gain on derivative instruments					**1,605**		**1,605**	
Minimum pension liability					**(5,715)**		**(5,715)**	
Comprehensive income					**$ 467,969**			
Cash dividends:								
Preferred ($2.00 per share)						**(1)**		
Preference ($2.12 per share)						**(93)**		
Common ($1.24 per share)						**(284,254)**		
Issuances of common stock						**(9,051)**		**85,569**
Conversions to common stock	**(2)**	**(94)**				**(2,056)**		**2,152**
Repurchase of common stock								**(258,803)**
Tax credits relating to stock options						**10,524**		
Balance, December 31, 2005	**$ 17**	**$1,158**	**$ 323,338**	**$ -**		**$ 4,485,051**	**$ 76,917**	**$ (3,584,540)**

Treasury shares of 2.3 million, 2.7 million and 2.3 million were issued under employee plans in 2005, 2004 and 2003, respectively. The Company repurchased 5.4 million, 4.7 million and 5.4 million shares in 2005, 2004 and 2003, respectively.

See Notes to consolidated financial statements

Notes to Consolidated Financial Statements

(Dollars in thousands except per share data or as otherwise indicated)

1. Description of business and summary of significant accounting policies

Description of business

Pitney Bowes is a provider of leading-edge, global, integrated mail and document management solutions for organizations of all sizes. The Company operates in the following business groups: Global Mailstream Solutions, Global Business Services and Capital Services. The Company operates both inside and outside the United States. See Note 20 to the consolidated financial statements for financial information concerning revenue, earnings before interest and taxes (EBIT) and identifiable assets, by reportable segment and geographic area.

Consolidation

The accompanying consolidated financial statements of the Company were prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Operating results of acquired companies are included in the consolidated financial statements from the date of acquisition. Intercompany transactions and balances have been eliminated in consolidation.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. These estimates include, but are not limited to, customer cancellations, bad debts, inventory obsolescence, residual values of leased assets, useful lives of long-lived assets and intangible assets, warranty obligations, restructuring, pensions and other postretirement benefits, contingencies and litigation, and allocation of purchase price to tangible and intangible assets acquired in business combinations. Actual results could differ from those estimates and assumptions.

Cash equivalents and short-term investments

Cash equivalents include short-term, highly liquid investments with maturities of three months or less at the date of acquisition. The Company places its temporary cash and highly liquid short-term investments with a maturity of greater than three months but less than one year from the reporting date with financial institutions or investment managers and/or invests in highly rated short-term obligations.

Accounts receivable and allowance for doubtful accounts

The Company estimates its accounts receivable risks and provides allowances for doubtful accounts accordingly. The Company believes that its credit risk for accounts receivable is limited because of its large number of customers and the relatively small account balances for most of its customers. Also, the Company's customers are dispersed across different business and geographic areas. The Company evaluates the adequacy of the allowance for doubtful accounts on a periodic basis. The evaluation includes historical loss experience, length of time receivables are past due, adverse situations that may affect a customer's ability to repay and prevailing economic conditions. The Company makes adjustments to its allowance if the evaluation of allowance requirements differs from the actual aggregate reserve. This evaluation is inherently subjective and estimates may be revised as more information becomes available.

Allowance for credit losses

The Company estimates its finance receivables risks and provides allowances for credit losses accordingly. The Company's financial services businesses establish credit approval limits based on the credit quality of the customer and the type of equipment financed. The Company charges finance receivables through the allowance for credit losses after collection efforts are exhausted and the Company deems the account uncollectible. The Company's financial services businesses base credit decisions primarily on a customer's financial strength and, particularly in its Capital Services programs, the Company may also consider collateral values. The Company believes that its concentration of credit risk for finance receivables in its internal financing division is limited because of its large number of customers, small account balances and customer geographic and industry diversification.

The Company's general policy for finance receivables contractually past due for over 120 days is to discontinue revenue recognition. The Company resumes revenue recognition when payments reduce the account to 60 days or less past due. In its Capital Services programs, the Company discontinues revenue recognition as soon as it is apparent that the obligor will not be making payments in accordance with lease terms, such as in the event of bankruptcy. Otherwise, the Company discontinues revenue recognition when accounts are over 120 days past due.

The Company evaluates the adequacy of allowance for credit losses on a periodic basis. The Company's evaluation includes historical loss experience, the nature and volume of its portfolios, adverse situations that may affect a customer's ability to repay, and prevailing economic conditions. The Company makes adjustments to its allowance for credit losses if the evaluation of reserve requirements

differs from the actual aggregate reserve. This evaluation is inherently subjective and estimates may be revised as more information becomes available.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined on the last-in, first-out (LIFO) basis for most U.S. inventories, and on the first-in, first-out (FIFO) basis for most non-U.S. inventories.

Other current assets and prepayments

Other current assets and prepayments includes primarily postage meter receivables billed in advance and costs paid in advance.

Fixed assets and depreciation

Property, plant and equipment and rental property and equipment are stated at cost and depreciated principally using the straight-line method over their estimated useful lives: machinery and equipment principally three to 15 years and buildings up to 50 years. Rental property and equipment includes accrued rental income. Major improvements which add to productive capacity or extend the life of an asset are capitalized while repairs and maintenance are charged to expense as incurred. Properties leased under capital leases are amortized on a straight-line basis over the primary lease terms.

Fully depreciated assets are retained in fixed assets and depreciation until they are removed from service. In the case of disposals, assets and related depreciation are removed from the accounts, and the net amounts, less proceeds from disposal, are included in income.

Capitalized software development costs

The Company capitalizes certain costs of software developed for internal use in accordance with SOP 98-1, "Accounting for the Costs of Computer Software

Developed or Obtained for Internal Use.” Capitalized costs include purchased materials and services, payroll and payroll-related costs and interest costs. The cost of internally developed software is amortized on a straight-line basis over its estimated useful life, principally three to ten years.

The Company capitalizes software development costs related to software to be sold, leased, or otherwise marketed in accordance with Statement of Financial Accounting Standards (SFAS) No. 86, “Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed.” Software development costs are expensed as incurred until technological feasibility has been established, at which time such costs are capitalized until the product is available for general release to the public. Capitalized software development costs include purchased materials and services, payroll and payroll-related costs attributable to programmers, software engineers, quality control and field certifiers and interest costs. Capitalized software development costs are amortized over the estimated product useful life, principally three to five years, using the greater of the straight-line method or the ratio of current product revenues to total projected future revenues. Research and product development costs not subject to SFAS No. 86 are expensed as incurred. Total capitalized software development costs were $7 million and $2 million in 2005 and 2004, respectively. There were no software development costs capitalized in 2003 due to the fact that the period between technological feasibility and the availability for general release to the public was short and the related software development costs qualifying for capitalization in accordance with SFAS No. 86 were insignificant.

Business combinations, goodwill and intangible assets

The Company accounts for business combinations using the purchase method of accounting which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. Goodwill represents the excess of the purchase price over the estimated fair values of net tangible and intangible assets acquired in business combinations. Goodwill is tested for impairment on an annual basis or as circumstances warrant. Intangible assets with finite lives acquired under business combinations are amortized over their estimated useful lives, principally four to 15 years. See Note 15 to the consolidated financial statements.

Impairment review

Long-lived assets, including goodwill and intangible assets, are reviewed for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. If such a change in circumstances occurs, the related estimated future undiscounted cash flows expected to result from the use of the asset and its eventual disposition are compared to the carrying amount. If the sum of the expected cash flows is less than the carrying amount, the Company records an impairment charge. The impairment charge is measured as the amount by which the carrying amount exceeds the fair value of the asset. The fair values of impaired long-lived assets are determined using probability weighted expected cash flow estimates, quoted market prices when available and appraisals as appropriate in accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.”

Retirement plans

In accordance with SFAS No. 87, “Employers’ Accounting for Pensions,” and SFAS No. 106, “Employers’ Accounting for Postretirement Benefits Other Than Pensions,” actual results that differ from the Company’s assumptions and estimates are accumulated and amortized over the estimated future working life of the plan participants and will therefore affect pension expense recognized and obligations recorded in future periods. Net pension expense is based primarily on a market related valuation of plan assets. In accordance with this approach differences between the actual and expected return on plan assets are recognized over a five-year period and as a result future pension expense will be impacted when these previously deferred gains or losses are recorded. The Company uses a measurement date of December 31 for all of its retirement plans. See Note 11 to the consolidated financial statements for further details.

Revenue Recognition

The Company derives its revenue from the following sources:

- sales
- rentals
- financing
- support services
- business services; and
- capital services

In accordance with GAAP, the Company recognizes revenue from these sources as follows:

Sales revenue

Sales of equipment

The Company sells equipment to its customers, as well as to distributors and dealers (re-sellers) throughout the world. The Company recognizes revenue from these sales upon the transfer of title, which is generally at the point of shipment. The Company does not offer any rights of return or stock balancing rights.

The Company's sales revenue from customized equipment, mail creation equipment and shipping products is generally recognized when installed.

Sales of supplies

Revenue related to supplies is recognized at the point of title transfer, which is upon shipment.

Embedded software sales

The Company sells equipment with embedded software to its customers. The embedded software is not sold separately, is not a significant focus of the marketing effort and the Company does not provide post-contract customer support specific to the software or incur significant costs that are within the scope of SFAS No. 86. Additionally, the functionality that the software provides is marketed as part of the overall product. The software embedded in the equipment is incidental to the equipment as a whole such that Statement of Position No. 97-2, "Software Revenue Recognition," is not applicable. Sales of these products are recognized in accordance with either SEC Staff Accounting Bulletin No. 104 "Revenue Recognition" or SFAS No. 13, "Accounting for Leases," for sales-type leases.

Standalone software sales and integration services

The Company recognizes revenue from standalone software licenses upon delivery of the product when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed and determinable and collectibility is probable. For software licenses that are included in a lease contract, the Company recognizes revenue upon shipment of the software unless the lease contract specifies that the license expires at the end of the lease or the price of the software is deemed not fixed or determinable based on historical evidence of similar software leases. In these instances, revenue is recognized on a straight-line basis over the term of the lease contract. The Company recognizes revenue from software requiring integration services at the point of customer acceptance. The Company recognizes revenue related to off-the-shelf perpetual software licenses upon transfer of title, which is upon shipment.

Rentals revenue

The Company rents equipment to its customers, primarily postage meters and mailing equipment, under short-term rental agreements, generally for periods of three months to three years. Rental revenue includes revenue from the subscription for digital meter services. The Company invoices in advance the charges for postage meter rentals. The Company defers the billed revenue and includes it initially

in advance billings. Rental revenue is recognized on a straight-line basis over the term of the rental agreement. The Company defers certain initial direct costs incurred in consummating a transaction and amortizes these costs over the term of the agreement.

Financing revenue

The Company provides lease financing of its products in the U.S. and outside the U.S. primarily through sales-type leases. When a sales-type lease is consummated, the Company records the gross finance receivable, unearned income and the estimated residual value of the leased equipment. Residual values are estimated based upon the average expected proceeds to be received at the end of the lease term. Management evaluates recorded residual values at least on an annual basis or as circumstances warrant. A reduction in estimated residual values could require an impairment charge as well as a reduction in future financing income.

Unearned income represents the excess of the gross finance receivable plus the estimated residual value over the sales price of the equipment. The Company recognizes the equipment sale at the inception of the lease. The Company recognizes unearned income as financing revenue using the interest method over the term of the transaction.

Support services revenue

The Company provides support services for its equipment and software primarily through maintenance contracts. Revenue related to these agreements is recognized on a straight-line basis over the term of the agreement, which typically is one to five years in length.

Business services revenue

Business services revenue includes revenue from management services and mail services.

Management services, which includes outsourcing of mailrooms, copy centers, or other document management functions, are typically one to five year contracts that contain a monthly service fee and in many cases a "click" charge based on the number of copies made, machines in use, etc. Revenue is recognized over the term of the agreement, based on monthly service charges, with the exception of the "click" charges, which are recognized as earned.

Mail services include the preparation, sortation and aggregation of mail to earn postal discounts and expedite delivery for customers and direct mail marketing services. Revenue is recognized over the term of the agreement as the services are provided.

Capital services revenue

The Company provides financing for non-Pitney Bowes equipment through direct financing leases, operating leases and leveraged leases.

When a direct financing lease is consummated, the Company records the gross finance receivable, unearned income and the estimated residual value of the leased equipment. Unearned income represents the excess of the gross receivable plus the estimated residual value over the cost of the equipment. The Company accounts for initial direct costs incurred in consummating a transaction as part of the investment in the lease and amortizes these costs using the interest method over the term of the lease. The Company recognizes unearned income as Capital Services revenue using the interest method over the term of the transaction.

From time to time, the Company sells selected finance assets. The Company follows SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,” when accounting for its sale of finance assets. The Company recognizes all assets obtained or liabilities incurred in consideration as proceeds of the sale and recognizes any gain or loss on the sale as Capital Services revenue.

Revenue from operating leases is generally recognized on a straight-line basis over the term of the lease agreement.

The Company’s investment in leveraged leases consists of rentals receivable net of principal and interest on the related non-recourse debt, estimated residual value of the leased property and unearned income. At lease inception, unearned income represents the excess of rentals receivable, net of that portion of the rental applicable to principal and interest on the non-recourse debt, plus the estimated residual value of the leased property over the Company’s investment in the transaction. The Company recognizes the unearned income as Capital Services revenue over the lease term.

Multiple element arrangements

Certain of the Company’s transactions are consummated at the same time. The most common form of these transactions involves the sale or lease of equipment, a cancelable meter rental and/or a cancelable equipment maintenance agreement. In these cases, revenue is recognized for each of the elements based on their relative fair values in accordance with EITF 00-21 and SAB 104. Fair values of any meter rental or equipment maintenance agreement are determined by reference to the prices charged in standalone and renewal transactions. Fair value of equipment is determined based upon the present value of the minimum lease payments.

Costs and expenses

The Company has a centralized treasury system and does not allocate interest costs to its business segments. Accordingly, all interest costs are included in interest expense on the Consolidated Statements of Income and are not allocated to cost of financing or cost of Capital Services. Cost of Capital Services in 2004 relates to the sale of a non-core Capital Services operating lease.

Deferred marketing costs

The Company capitalizes certain direct mail, telemarketing, internet, and retail marketing costs, associated with the acquisition of new customers and amortizes these costs over the expected revenue stream in accordance with Statement of Position 93-7. The Company reviews individual marketing programs for impairment on a periodic basis or as circumstances warrant.

Other assets on the Company’s Consolidated Balance Sheets at December 31, 2005 and 2004 include $113 million and $106 million, respectively, of deferred marketing costs. The Consolidated Statements of Income include related expense of $45 million, $42 million, and $41 million for the years ended December 31, 2005, 2004 and 2003, respectively.

Restructuring charges

In 2002, SFAS No. 146, “Accounting for Costs Associated with Exit or Disposal Activities,” was issued. This statement nullifies EITF No. 94-3, “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring).” SFAS No. 146 requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. The Company adopted the provisions of SFAS No. 146, which are effective for one-time benefit arrangements and exit or disposal activities initiated after December 31, 2002. The Company accounts for ongoing benefit arrangements under SFAS No. 112, “Employers’ Accounting for Postemployment Benefits,” which requires that a liability be recognized when the costs are probable and reasonably estimable. See Note 13 to the consolidated financial statements.

Income taxes

Deferred tax assets and liabilities represent the tax effects, based on current law, of any temporary differences in the timing of when revenues and expenses are recognized for tax purposes and when they are recognized for financial statement purposes. Deferred tax assets are reviewed periodically for recoverability.

It has not been necessary to provide for income taxes on $625 million of cumulative undistributed earnings of subsidiaries outside the U.S. These earnings will be either indefinitely reinvested or remitted substantially free of additional tax. Determination of the liability that would result in the event all of these earnings were remitted to the U.S. is not practicable. It is estimated, however, that withholding taxes on such remittances would approximate $16 million.

Earnings per share

Basic earnings per share is based on the weighted average number of common shares outstanding during the year, whereas diluted earnings per share also gives effect to all dilutive potential common shares that were outstanding during the period. Dilutive potential common shares include preference stock, preferred stock, stock option and purchase plan shares.

Accounting for stock-based compensation

In April 2005, the SEC approved a new rule delaying the effective date of SFAS No. 123 (revised 2004), “Share-Based Payment,” to January 1, 2006. The Company adopted the provisions of SFAS No. 123R on January 1, 2006 using the modified retrospective application method. SFAS No. 123R supersedes Accounting Principles Board (APB) Opinion No. 25, “Accounting for Stock Issued to Employees.” The revised statement addresses the accounting for share-based payment transactions with employees and other third parties, eliminates the ability to account for share-based transactions using APB No. 25 and requires that the compensation costs relating to such transactions be recognized in the consolidated financial statements. SFAS No. 123R requires compensation cost for options that vest upon retirement to be recognized immediately for awards granted to retirement eligible employees or over the period from the grant date to the date retirement eligibility is achieved, if that is expected to occur during the nominal vesting period. The Company used the nominal vesting period approach to determine the pro forma stock based compensation expense for all awards. SFAS No. 123R requires additional disclosures relating to the income tax and cash flow effects resulting from share-based payments.

The Company adopted the disclosure-only provisions of SFAS No. 148, “Accounting for Stock-Based Compensation — Transition and Disclosure,” which amends SFAS No. 123, “Accounting for Stock-Based Compensation,” and requires more prominent and more frequent disclosures in the financial statements of the effects of stock-based compensation.

The Company applies APB 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 SFAS No. 123, net income and earnings per share for the years ended December 31, 2005, 2004 and 2003 would have been reduced to the following pro forma amounts:

	2005	2004	2003
Net Income			
As reported	**$526,578**	$ 480,526	$498,117
Deduct: Stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	**(17,967)**	(18,531)	(21,305)
Pro forma	**$508,611**	$461,995	$476,812
Basic earnings per share			
As reported	**$ 2.30**	$ 2.08	$ 2.13
Pro forma	**$ 2.22**	$ 2.00	$ 2.04
Diluted earnings per share			
As reported	**$ 2.27**	$ 2.05	$ 2.11
Pro forma	**$ 2.19**	$ 1.97	$ 2.02

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 using the following weighted average assumptions:

	2005	2004	2003
Expected dividend yield	**2.8%**	3.1%	3.2%
Expected stock price volatility	**18.5%**	25.0%	28.0%
Risk-free interest rate	**3.5%**	3.0%	3.0%
Expected life (years)	**5**	5	5

See Note 8 to the consolidated financial statements.

Translation of non-U.S. currency amounts

Assets and liabilities of subsidiaries operating outside the U.S. are translated at rates in effect at the end of the period and revenue and expenses are translated at average monthly rates during the period. Net deferred translation gains and losses are included in accumulated other comprehensive income in stockholders’ equity in the Consolidated Balance Sheets.

Derivative instruments

In the normal course of business, the Company enters into foreign exchange contracts for purposes other than trading primarily to minimize its risk of loss from exchange rate fluctuations on the settlement of intercompany receivables and payables arising in connection with transfers of finished goods inventories between affiliates and certain intercompany loans. Foreign exchange contracts are primarily designated as cash flow hedges and the resulting gains and losses on these contracts are included in other comprehensive income. At December 31, 2005, the Company had approximately $406 million of foreign exchange contracts outstanding, all maturing in 2006, to buy or sell various currencies. Risks arise from the possible non-performance by counterparties in meeting the terms of their contracts and from movements in securities values, interest and/or exchange rates. However, the Company does not anticipate non-performance

by the counterparties as they are composed of a number of major international financial institutions. Maximum risk of loss on these contracts is limited to the amount of the difference between the spot rate at the date of the contract delivery and the contracted rate.

In the normal course of business, the Company uses a variety of derivative financial instruments, principally interest rate swaps, to manage the impact of interest rate changes on earnings and cash flows. To qualify for hedge accounting, the Company requires that the instruments be effective in reducing the risk exposure that they are designed to hedge. For instruments that are associated with the hedge of an anticipated transaction, hedge effectiveness criteria also require that it be probable that the underlying transaction will occur. Instruments that meet these hedging criteria are formally designated as hedges at the inception of the contract. Derivatives designated as cash flow hedges include primarily interest rate swaps related to variable-rate debt. Derivatives designated as fair value hedges include primarily interest rate swaps related to fixed-rate debt.

All derivative instruments are recognized as either assets or liabilities in the Consolidated Balance Sheets, measured at fair value. Changes in the fair value of those instruments are reflected as gains or losses. The accounting for the gains or losses depends on the intended use of the derivative, the resulting designation and the effectiveness of the instrument in offsetting the risk exposure it is designed to hedge.

Accounting for variable interest entities

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 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 $29 million and $33 million is included in other non-current liabilities in the Consolidated Balance Sheets at December 31, 2005 and 2004. The consolidation of PBG did not have a material impact on the Company’s results of operations or cash flows.

Reclassification

Certain prior year amounts in the consolidated financial statements have been reclassified to conform to the current year presentation.

2. Inventories

Inventories are composed of the following:

December 31	2005	2004
Raw materials and work in process	**$ 96,669**	$ 75,508
Supplies and service parts	**63,441**	67,666
Finished products	**60,808**	63,523
Total	**$220,918**	$206,697

If all inventories valued at LIFO had been stated at current costs, inventories would have been $21.7 million and $20.2 million higher than reported at December 31, 2005 and 2004, respectively.

3. Fixed assets

Fixed assets are composed of the following:

December 31	2005	2004
Land	**$ 32,926**	$ 36,681
Buildings	**382,895**	440,480
Machinery and equipment	**1,322,087**	1,279,319
	1,737,908	1,756,480
Accumulated depreciation	**(1,115,954)**	(1,111,985)
Property, plant and equipment, net	**$ 621,954**	$ 644,495
Rental property and equipment	**$1,840,221**	$ 1,721,362
Accumulated depreciation	**(818,190)**	(675,026)
Rental property and equipment, net	**$1,022,031**	$ 1,046,336
Property leased under capital leases	**$ 8,662**	$ 8,662
Accumulated amortization	**(6,051)**	(5,581)
Property leased under capital leases, net	**$ 2,611**	$ 3,081

Depreciation expense was $292.2 million, $277.7 million and $261.1 million for the years ended December 31, 2005, 2004 and 2003, respectively. Rental property and equipment primarily includes the rental of postage meters and commercial real estate at Capital Services. In connection with the Company's meter transition plan, the Company wrote-off fully depreciated rental equipment during 2005 and 2004.

4. Current liabilities

Accounts payable and accrued liabilities and notes payable and current portion of long-term obligations are composed of the following:

December 31

	2005	2004
Accounts payable-trade	**$ 306,721**	$ 295,610
Reserve account deposits	**430,747**	420,944
Accrued salaries, wages and commissions	**228,577**	206,110
Accrued restructuring charges	**49,870**	51,463
Accrued nonpension postretirement benefits	**30,747**	35,758
Accrued postemployment benefits	**5,100**	3,650
Miscellaneous accounts payable and accrued liabilities	**487,098**	473,704
Accounts payable and accrued liabilities	**$1,538,860**	$1,487,239
Notes payable	**$ 519,663**	$ 538,138
Current portion of long-term debt	**337,199**	670,827
Current portion of capital lease obligations	**880**	1,510
Notes payable and current portion of long-term obligations	**$ 857,742**	$1,210,475

In countries outside the U.S., banks generally lend to non-finance subsidiaries of the Company on an overdraft or term-loan basis. These overdraft arrangements and term-loans, for the most part, are extended on an uncommitted basis by banks and do not require compensating balances or commitment fees.

Notes payable were issued as commercial paper, loans against bank lines of credit, or to trust departments of banks and others at below prevailing prime rates. Fees paid to maintain lines of credit were $0.7 million in 2005 and $0.6 million in 2004 and 2003.

At December 31, 2005, U.S. notes payable totaled $519.7 million. Unused credit facilities outside the U.S. totaled $1.6 million at December 31, 2005. In the U.S., the Company had unused credit facilities of $1.5 billion at December 31, 2005, primarily to support commercial paper issuances. The weighted average interest rates were 4.3% and 2.3% on notes payable and overdrafts outstanding at December 31, 2005 and 2004, respectively.

5. Long-term debt

December 31

	2005	2004
Recourse debt		
5.88% notes due 2006	**$ -**	$ 300,000
5.75% notes due 2008 (1)	**350,000**	350,000
8.63% notes due 2008 (1)	**100,000**	100,000
9.25% notes due 2008 (1)	**100,000**	100,000
8.55% notes due 2009 (1)	**150,000**	150,000
4.65% notes due 2010	**150,000**	-
4.63% notes due 2012	**400,000**	400,000
7.51% notes due 2006 through 2012	**28,109**	31,149
3.88% notes due 2013	**375,000**	375,000
4.88% notes due 2014	**450,000**	450,000
5.00% notes due 2015	**400,000**	-
4.75% notes due 2016	**500,000**	-
0.93% to 3.02% notes due 2018	**350,000**	350,000
Non-recourse debt		
6.27% to 6.41% notes due 2008 (2)	**17,161**	29,692
6.85% notes due 2006 through 2010 (2)	**60,001**	85,861
6.77% notes due 2006 through 2011 (2)	**10,138**	15,687

7.95% notes due 2006 through 2013	**12,019**	-
9.78% notes due 2006 through 2007 (3)	**13,500**	14,258

December 31

	2005	2004
Non-recourse debt (continued)		
3.50% notes due 2006 through 2008 (3)	**14,203**	14,227
7.25% notes due 2006 through 2011 (3)	**22,817**	24,239
8.66% notes due 2006 through 2012 (3)	**69,339**	77,004
6.79% notes due 2006 through 2013 (3)	**25,938**	28,304
4.56% notes due 2006 through 2013 (3)	**11,001**	11,769
4.56% notes due 2006 through 2014 (3)	**11,154**	11,887
6.52% notes due 2006 through 2016 (3)	**14,313**	15,020
7.25% notes due 2006 through 2016 (3)	**56,401**	57,651
2.75% to 4.13% notes due 2019 (3)	**15,521**	29,335
8.67% notes due 2006 through 2020 (3)	**82,100**	82,100
Fair value hedges basis adjustment	**49,328**	63,819
Other (4)	**11,580**	(2,314)
Total long-term debt	**$3,849,623**	$3,164,688

(1) In 2002, the Company received $95 million in cash from the termination of four swap agreements associated with these notes. This amount will be reflected as a reduction of interest expense over the remaining term of these notes. As a result of this transaction, the weighted average effective rate on these notes is 4.77%.

(2) On March 31, 2004, the Company adopted the provisions of FIN No. 46 and consolidated the assets and liabilities of PBG. The non-recourse debt reflects the consolidated non-recourse debt of PBG. See Note 1 to the consolidated financial statements for further details on the impact of adopting FIN No. 46.

(3) In 2005, the Company revised its accounting for certain lease transactions. The non-recourse debt reflects the debt associated with these leases. See Note 19 to the consolidated financial statements.

(4) Other consists primarily of debt discounts and premiums.

On December 31, 2005, $1.6 billion remained available under the shelf registration statement filed in February 2005 with the SEC, permitting issuances of up to $2.5 billion in debt securities, preferred stock, preference stock, common stock, purchase contracts, depositary shares, warrants and units.

In October 2005, Pitney Bowes Nova Scotia II ULC, a wholly owned subsidiary of the Company, issued $150 million floating rate notes maturing in October 2010. These notes bear interest at an annual rate of LIBOR plus 15 basis points and pay interest quarterly beginning December 2005. The proceeds from these notes will be used for general corporate purposes, including the repayment of commercial paper, the financing of acquisitions and the repurchase of company stock.

In July 2005, the Company issued $500 million of unsecured fixed rate notes maturing in January 2016. These notes bear interest at an annual rate of 4.75% and pay interest semi-annually beginning January 2006. The proceeds from these notes were used for general corporate purposes, including the repayment of commercial paper, the financing of acquisitions and the repurchase of company stock.

In March 2005, the Company issued $400 million of unsecured fixed rate notes maturing in March 2015. These notes bear interest at an annual rate of 5.0% and pay interest semi-annually beginning September 2005. The proceeds from these notes were used for general corporate purposes, including the repayment of commercial paper, financing of acquisitions and the repurchase of company stock.

In November 2004, the Company issued $100 million of unsecured fixed rate notes maturing in August 2014. These notes bear interest at an annual rate of 4.875% and pay interest semi-annually beginning February 2005. This issuance was a reopening of the 4.875% notes due August 2014, originally issued in August 2004. The proceeds from these notes were used for general corporate purposes, including the repayment of commercial paper and the repurchase of company stock.

In August 2004, the Company issued $350 million of unsecured fixed rate notes maturing in August 2014. These notes bear interest at an annual rate of 4.875% and pay interest semi-annually beginning February 2005. The proceeds from these notes were used for general corporate purposes, including the repayment of commercial paper, financing of acquisitions and the repurchase of company stock.

The annual maturities of the outstanding debt during each of the next five years are as follows: 2006, $337 million; 2007, $96 million; 2008, $623 million; 2009, $197 million; and $2,934 million thereafter.

The fair value hedges basis adjustment represents the revaluation of fixed rate debt that has been hedged in accordance with SFAS No. 133. See Note 1 to the consolidated financial statements.

6. Preferred stockholders' equity in a subsidiary company

Preferred stockholders' equity in a subsidiary company represents 3,000,000 shares of variable term voting preferred stock issued by Pitney Bowes International Holdings, Inc., a subsidiary of the Company, which are owned by certain outside institutional investors. These preferred shares are entitled to 25% of the combined voting power of all classes of capital stock. All outstanding common stock of Pitney Bowes International Holdings, Inc., representing the remaining 75% of the combined voting power of all classes of capital stock, is owned directly or indirectly by Pitney Bowes Inc. The preferred stock, $.01 par value, is entitled to cumulative dividends at rates set at auction. The weighted average dividend rate in 2005 and 2004 was 3.0% and 1.6%, respectively. Preferred dividends are included in interest expense in the Consolidated Statements of Income. The preferred stock is subject to mandatory redemption based on certain events, at a redemption price not less than $100 per share, plus the amount of any dividends accrued or in arrears. No dividends were in arrears at December 31, 2005 or 2004.

In 1998, the Company sold 100 shares of 9.11% Cumulative Preferred Stock, mandatorily redeemable in 20 years, in a subsidiary company to an institutional investor for approximately $10 million.

7. Capital stock and capital in excess of par value

At December 31, 2005, 480,000,000 shares of common stock, 600,000 shares of cumulative preferred stock, and 5,000,000 shares of preference stock were authorized, and 226,707,206 shares of common stock (net of 96,630,706 shares of treasury stock), 335 shares of 4% Convertible Cumulative Preferred Stock (4% preferred stock) and 42,946 shares of $2.12 Convertible Preference Stock ($2.12 preference stock) were issued and outstanding. In the future, the Board of Directors can issue the balance of unreserved and unissued preferred stock (599,665 shares) and preference stock (4,957,054 shares). This will determine the dividend rate, terms of redemption, terms of conversion (if any) and other pertinent features. At December 31, 2005, unreserved and unissued common stock (exclusive of treasury stock) amounted to 114,608,571 shares.

The 4% preferred stock outstanding, entitled to cumulative dividends at the rate of $2 per year, can be redeemed at the Company's option, in whole or in part at any time, at the price of $50 per share, plus dividends accrued to the redemption date. Each share of the 4% preferred stock can be converted into 24.24 shares of common stock, subject to adjustment in certain events.

The $2.12 preference stock is entitled to cumulative dividends at the rate of $2.12 per year and can be redeemed at the Company's option at the rate of $28 per share. Each share of the $2.12 preference stock can be converted into 16.53 shares of common stock, subject to adjustment in certain events.

At December 31, 2005, a total of 718,017 shares of common stock were reserved for issuance upon conversion of the 4% preferred stock (8,120 shares) and $2.12 preference stock (709,897 shares). In addition, 18,738,855 shares of common stock were reserved for issuance under the Company's dividend reinvestment and other corporate plans.

8. Stock plans

The Company has the following stock plans that are described below: the U.S. and U.K. Stock Option Plans (ESP), the U.S. and U.K. Employee Stock Purchase Plans (ESPP), and the Directors' Stock Plan.

Stock Option Plans

Under the Company's stock option plans, certain officers and employees of the U.S. and the Company's participating subsidiaries are granted options at prices equal to the market value of the Company's common shares at the date of grant. Options granted in 2004 and prior generally become exercisable in three equal installments during the first three years following their grant and expire after ten years. Options granted in 2005 generally become exercisable in four equal installments during the first four years following their grant and expire ten years from the date of grant. At December 31, 2005, there were 11,306,401 options available for future grants under these plans. The per share weighted average fair value of options granted was $7 in 2005, 2004 and 2003.

The following table summarizes information about stock option transactions:

	Shares	Per share weighted average exercise price
Options outstanding at January 1, 2003	18,919,399	$ 39
Granted	3,512,850	$ 32
Exercised	(932,663)	$ 26
Canceled	(877,976)	$ 42
Options outstanding at December 31, 2003	20,621,610	$ 39

Granted	3,253,168	$ 40
Exercised	(2,117,654)	$ 28
Canceled	(617,836)	$ 46
Options outstanding at December 31, 2004	21,139,288	$ 40
Granted	**3,334,345**	**$ 47**
Exercised	**(1,785,643)**	**$ 32**
Canceled	**(650,182)**	**$ 43**
Options outstanding at December 31, 2005	**22,037,808**	**$ 41**
Options exercisable at December 31, 2003	13,187,133	$ 42
Options exercisable at December 31, 2004	14,513,301	$ 41
Options exercisable at December 31, 2005	**15,833,333**	**$ 41**

The following table summarizes information about stock options outstanding and exercisable at December 31, 2005:

Options Outstanding			
Range of per share exercise prices	Number	Weighted average remaining contractual life	Per share weighted average exercise price
$23.73 – $35.00	7,344,356	6.0years	$ 30
$36.00 – $45.99	6,643,311	6.8years	$ 42
$46.00 – $56.99	5,721,879	7.7years	$ 47
$57.00 – $65.72	2,328,262	4.0years	$ 64
	22,037,808	6.5years	

Options Exercisable		
Range of per share exercise prices	Number	Per share weighted average exercise price
$23.73 – $35.00	6,365,949	$ 30
$36.00 – $45.99	4,576,283	$ 42
$46.00 – $56.99	2,562,839	$ 47
$57.00 – $65.72	2,328,262	$ 64
	15,833,333	

Beginning in 1997, certain employees eligible for performance-based compensation may defer up to 100% of their annual awards, subject to the terms and conditions of the Pitney Bowes Deferred Incentive Savings Plan. Participants may allocate deferred compensation among specified investment choices. Previously the investment choices offered included stock options under the U.S. stock option plan. Stock options acquired under this plan were generally exercisable three years following their grant and expired after a period not to exceed ten years from the date of grant. There were 372,525, 353,367 and 387,923 options outstanding under this plan at December 31, 2005, 2004 and 2003, respectively, which are included in outstanding options under the Company's U.S. stock option plan.

The U.S. stock option plan permits the issuance of restricted stock and restricted stock units. Restricted stock awards are subject to one or more restrictions, which may include continued employment over a specified period or the attainment of specified financial performance goals. Where a restricted stock award is subject to both tenure and attainment of financial performance goals, the restrictions would be released, in total or in part, only if the executive is still employed by the Company at the end of the performance period and if the performance objectives are achieved. Where the sole restriction of a restricted stock award is continued employment over a specified period, such period may not be less than three years. The compensation expense for each award is recognized over the performance period. The Company issued 8,150 shares, 104,790 shares and 157,300 shares of restricted stock in 2005, 2004 and 2003, respectively. Compensation expense recorded by the Company was $1.9 million, $1.0 million and $1.1 million in 2005, 2004 and 2003, respectively.

Effective in 2006, the Company changed the components of its long-term incentive compensation structure. This change will increase the amount of restricted stock units and cash incentive awards issued to employees and will reduce the number of stock options granted.

Employee Stock Purchase Plans

The U.S. ESPP enables substantially all U.S. employees to purchase shares of the Company's common stock at a discounted offering price. In 2005, the offering price was 85% of the average price of the Company's common stock on the New York Stock Exchange on the offering date. At no time will the exercise price be less than the lowest price permitted under Section 423 of the Internal Revenue Code. The U.K. ESPP also enables eligible employees of the Company's participating U.K. subsidiaries to purchase shares of the Company's stock at a discounted offering price. In 2005, the offering price was 90% of the average closing price of the Company's common stock on the New York Stock Exchange for the three business days preceding the offering date. The Company may grant rights to purchase up to 7,546,374 common shares to its regular employees under these plans. The Company granted rights to purchase

434,428 shares in 2005, 518,457 shares in 2004 and 534,954 shares in 2003. The per share fair value of rights granted was $7 in 2005, $8 in 2004 and $6 in 2003 for the U.S. ESPP and $8 in 2005, $9 in 2004 and $10 in 2003 for the U.K. ESPP.

Directors' Stock Plan

Under this plan, each non-employee director is granted 1,400 shares of restricted common stock annually. Shares granted at no cost to the directors were 13,563 in 2005 and 15,400 in 2004 and 2003. Compensation expense, net of taxes, recorded by the Company was $0.4 million in 2005, $0.4 million in 2004 and $0.3 million in 2003. The shares carry full voting and dividend rights but, except as provided herein, may not be transferred or alienated until the later of (1) termination of service as a director, or, if earlier, the date of a change of control, or (2) the expiration of the six-month period following the grant of such shares. If a director terminates service as a director prior to the expiration of the six-month period following a grant of restricted stock, that award would be forfeited. The Directors' Stock Plan permits certain dispositions of restricted common stock to family members, trusts or partnerships, as well as donations to charity after the expiration of the six-month holding period, provided the director retain a specified minimum dollar value of restricted common stock. The minimum value of common stock a director must retain is 7,500 shares.

Beginning in 1997, non-employee directors may defer up to 100% of their eligible compensation, subject to the terms and conditions of the Pitney Bowes Deferred Incentive Savings Plan for directors. Participants may allocate deferred compensation among specified investment choices. Previously the investment choices offered included stock options under the Directors' Stock Plan. Stock options acquired under this plan were generally exercisable three years following their grant and expired after a period not to exceed ten years. There were 48,019, 62,504 and 62,504 options outstanding under this plan at December 31, 2005, 2004 and 2003, respectively. Beginning with the 2004 plan year, options were not offered as an investment choice and therefore there were no options granted in 2004 or 2005. The per share weighted average fair value of options granted was $8 in 2003.

9. Earnings per share

A reconciliation of the basic and diluted earnings per share computations for income from continuing operations for the years ended December 31, 2005, 2004 and 2003 is as follows:

	2005		
	Income	**Shares**	**Per Share**
Income from continuing operations	**$526,578**		
Less:			
Preferred stock dividends	**(1)**		
Preference stock dividends	**(93)**		
Basic earnings per share	**526,484**	**229,037,051**	**$2.30**
Effect of dilutive securities:			
Preferred stock	**1**	**8,307**	
Preference stock	**93**	**732,276**	
Stock options		**1,894,783**	
Other		**99,395**	
Diluted earnings per share	**$526,578**	**231,771,812**	**$2.27**

	2004		
	Income	**Shares**	**Per Share**
Income from continuing operations	$480,526		
Less:			
Preferred stock dividends	(1)		
Preference stock dividends	(100)		
Basic earnings per share	480,425	231,105,572	$2.08
Effect of dilutive securities:			
Preferred stock	1	9,333	
Preference stock	100	780,249	
Stock options		2,096,545	
Other		141,512	
Diluted earnings per share	$480,526	234,133,211	$2.05

	2003		
	Income	**Shares**	**Per Share**
Income from continuing operations	$494,847		

Less:			
Preferred stock dividends	(1)		
Preference stock dividends	(107)		
Basic earnings per share	494,739	233,826,741	$2.12
Effect of dilutive securities:			
Preferred stock	1	10,474	
Preference stock	107	839,743	
Stock options		1,421,076	
Other		66,990	
Diluted earnings per share	$494,847	236,165,024	$2.10

In accordance with SFAS No. 128, "Earnings per Share," 1.5 million, 1.5 million and 3.6 million common stock equivalent shares in 2005, 2004 and 2003, respectively, issuable upon the exercise of stock options were excluded from the above computations 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 anti-dilutive.

10. Taxes on income

Income from continuing operations before income taxes and the provision for income taxes consist of the following:

	Years ended December 31		
	2005	**2004**	**2003**
Income from continuing operations before income taxes:			
U.S.	**$ 678,985**	$ 571,742	$ 600,375
Outside the U.S.	**188,139**	127,706	120,716
Total	**$867,124**	$699,448	$ 721,091
Provision for income taxes:			
U.S. federal:			
Current	**$ 166,590**	$ (6,717)	$ (40,809)
Deferred	**89,110**	166,102	207,505
	255,700	159,385	166,696
U.S. state and local:			
Current	**18,867**	(7,192)	(2,042)
Deferred	**11,568**	30,226	27,667
	30,435	23,034	25,625
Outside the U.S.:			
Current	**36,552**	22,038	(7,932)
Deferred	**17,859**	14,465	41,855
	54,411	36,503	33,923
Total current	**222,009**	8,129	(50,783)
Total deferred	**118,537**	210,793	277,027
Total	**$ 340,546**	$218,922	$ 226,244

Including discontinued operations, the provision for income taxes consists of the following:

	Years ended December 31		
	2005	**2004**	**2003**
U.S. federal	**$255,700**	$159,385	$164,871
U.S. state and local	**30,435**	23,034	25,270
Outside the U.S.	**54,411**	36,503	33,923
Total	**$340,546**	$218,922	$ 224,064

A reconciliation of the U.S. federal statutory rate to the Company's effective tax rate for continuing operations follows:

	2005	**2004**	**2003**

U.S. federal statutory rate	**35.0%**	35.0%	35.0%
Life insurance tax reserve, federal and state	**6.5**	-	-
State and local income taxes	**2.3**	2.1	2.3
Foreign tax differential	**(1.3)**	(1.2)	(1.2)
Partnership leasing transactions	**(1.2)**	(1.2)	(2.0)
Tax exempt income	**(0.6)**	(1.2)	(0.6)
Federal income tax credits	**(0.4)**	(1.6)	(0.9)
Other, net	**(1.0)**	(0.6)	(1.2)
Effective income tax rate	**39.3%**	31.3%	31.4%

The effective tax rate for discontinued operations in 2003 differs from the statutory rate due primarily to state and local income taxes.

Deferred tax liabilities and (assets)

December 31

	2005	2004
Deferred tax liabilities:		
Depreciation	**$ 96,274**	$ 153,007
Deferred profit (for tax purposes) on sales to finance subsidiaries	**394,716**	329,772
Lease revenue and related depreciation	**1,353,189**	1,504,837
Pension	**217,588**	196,214
Other	**305,604**	229,158
Deferred tax liabilities	**2,367,371**	2,412,988
Deferred tax assets:		
Nonpension postretirement benefits	**(31,463)**	(60,709)
Inventory and equipment capitalization	**(21,925)**	(17,698)
Meter transition and restructuring charges	**(13,652)**	(41,959)
Net operating loss carry forwards	**(67,282)**	(56,586)
Other	**(196,336)**	(164,701)
Valuation allowance	**21,777**	18,427
Deferred tax assets	**(308,881)**	(323,226)
Net deferred taxes	**2,058,490**	2,089,762
Less: Current net deferred taxes (1)	**136,232**	324,649
Deferred taxes on income (2)	**$ 1,922,258**	$1,765,113

(1) The table of deferred tax liabilities and (assets) above includes $136.2 million and $324.6 million for 2005 and 2004, respectively, of current net deferred taxes, which are included in income taxes payable in the Consolidated Balance Sheets.

(2) The table of deferred tax liabilities and (assets) above includes $145.1 million and $166.9 million for 2005 and 2004, respectively, of non-deferred tax liabilities, which are included as a component of deferred tax liabilities in the Consolidated Balance Sheets.

During 2005, the deferred tax asset and related valuation allowances for net operating losses changed due to acquisitions. As of December 31, 2005 and 2004, approximately $135.7 million and $148.8 million, respectively, of net operating loss carry forwards were available to the Company. Most of these losses can be carried forward indefinitely. The valuation allowance in 2005 includes approximately $1.8 million related to current deferred taxes.

Other tax matters

The Company regularly assesses the likelihood of tax adjustments in each of the tax jurisdictions in which it has operations and accounts for the related financial statement implications. Tax reserves have been established which the Company believes to be appropriate given the possibility of tax adjustments. Determining the appropriate level of tax reserves requires management to exercise judgment regarding the uncertain application of tax law. The amount of reserves is adjusted when information becomes available or when an event occurs indicating a change in the reserve is appropriate. Future changes in tax reserve requirements could have a material impact on the Company's results of operations.

The Company is continually under examination by tax authorities in the United States, other countries and local jurisdictions in which the Company has operations. The years under examination vary by jurisdiction.

In December 2003, the IRS issued a closing agreement reflecting additional U.S. tax, interest and penalties related to 1992 through 1994. In January 2006, the IRS proposed adjustments that may result in the assessment of additional U.S. tax, interest and penalties related to 1995 through 2000. The Company is not disputing certain of these adjustments and the impact of these adjustments has been reflected in the Company's financial statements.

The Company is disputing other adjustments the IRS has proposed that may result in the assessment of additional U.S. tax, interest and penalties related to 1994 through 2000. These disputed adjustments relate primarily to the tax treatment of COLI and related interest expense, the tax effect of the sale of certain preferred share holdings and the tax treatment of certain lease transactions. The IRS will

likely make similar adjustments to lease transactions when examining years subsequent to 2000. The Company disagrees with these disputed adjustments and intends to contest them. The Company has requested a review of these adjustments by the administrative appeals division of the IRS. If negotiations at the administrative appeals level are not successful, the Company intends to file for judicial review of the disputed adjustments.

These disputed adjustments from 1994 through 2000 could result in the assessment of additional tax of up to $390 million plus penalties of up to $65 million, a significant portion of which has already been accrued. Certain of these adjustments would result in future tax deductions and, therefore, are only temporary in nature. The Company has posted bonds of $330 million with the IRS to mitigate interest assessments on any otherwise underpaid tax that would result from a final settlement.

In January 2006, the U.S. Circuit Court of Appeals reversed a District Court decision that another company received related to the tax treatment of COLI and related interest deductions. As a result, the Company recorded additional tax reserves of $56 million in its 2005 financial results.

The Company has accrued its estimate of the probable tax, interest and penalties that may result from these disputed matters as it relates to 1992 through 2005 and the Company believes that the accrual for tax liabilities is appropriate. However, the resolution of such matters could have a material impact on the Company's results of operations, financial position and cash flow.

11. Retirement plans and nonpension postretirement benefits

The Company has several defined benefit and defined contribution retirement plans covering substantially all employees worldwide. Benefits are primarily based on employees' compensation and years of service. Company contributions are determined based on the funding requirements of U.S. federal and other governmental laws and regulations.

The Company uses a measurement date of December 31 for all of its pension and other postretirement benefit plans.

The Company contributed $22.6 million, $21.7 million and $21.4 million to its defined contribution plans in 2005, 2004 and 2003, respectively.

U.S. employees hired after January 1, 2005, Canadian employees hired after April 1, 2005, and U.K. employees hired after July 1, 2005, are not eligible for defined benefit retirement plans.

Defined Benefit Pension Plans

The change in benefit obligations and plan assets and the funded status for defined benefit pension plans is as follows:

	Pension Benefits			
	United States		Foreign	
December 31	2005	2004	2005	2004
Change in benefit obligation:				
Benefit obligation at beginning of year	**$1,542,750**	$ 1,472,410	**$392,006**	$328,507
Service cost	**29,241**	30,055	**8,881**	9,094
Interest cost	**90,993**	88,401	**20,899**	20,116
Plan participants' contributions	**-**	-	**1,856**	1,968
Plan amendments	**8,551**	-	**719**	-
Actuarial loss	**67,865**	57,940	**68,029**	17,762
Foreign currency changes	**-**	-	**(4,255)**	28,550
Curtailment	**-**	-	**(1,052)**	352
Benefits paid	**(101,148)**	(106,056)	**(15,663)**	(14,343)
Benefit obligation at end of year	**$1,638,252**	$1,542,750	**$471,420**	$392,006

December 31	United States		Foreign	
	2005	2004	**2005**	2004
Change in plan assets:				
Fair value of plan assets at beginning of year	**$ 1,456,050**	$1,411,197	**$ 340,271**	$ 289,096
Actual return on plan assets	**115,189**	147,008	**57,938**	32,383
Company contributions	**58,826**	3,901	**29,761**	5,949
Plan participants' contributions	**-**	-	**1,856**	1,968
Foreign currency changes	**-**	-	**(2,645)**	25,218
Benefits paid	**(101,148)**	(106,056)	**(15,663)**	(14,343)
Fair value of plan assets at end of year	**$1,528,917**	$1,456,050	**$ 411,518**	$ 340,271
Funded status	**$ (109,335)**	$ (86,700)	**$ (59,901)**	$ (51,735)
Unrecognized actuarial loss	**558,394**	509,244	**127,156**	99,805
Unrecognized prior service (benefit) cost	**(7,479)**	(18,157)	**3,129**	2,653
Unrecognized transition cost	**-**	-	**(1,123)**	(1,590)
Prepaid benefit cost	**$ 441,580**	$ 404,387	**$ 69,261**	$ 49,133

Information for pension plans, that are included above, with an accumulated benefit obligation in excess of plan assets is as follows:

	2005	2004	**2005**	2004
Projected benefit obligation	**$ 93,778**	$ 81,627	**$ 33,882**	$ 30,293
Accumulated benefit obligation	**$ 81,204**	$ 65,524	**$ 32,669**	$ 28,614
Fair value of plan assets	**$ 1,711**	$ 2,128	**$ 8,866**	$ 7,416

The accumulated benefit obligation for all U.S. defined benefit plans at December 31, 2005 and 2004 were $1.5 billion and $1.4 billion respectively. The accumulated benefit obligation for all foreign defined benefit plans at December 31, 2005 and 2004 were $433 million and $357 million respectively.

	United States		Foreign	
	2005	2004	**2005**	2004
Amounts recognized in the Consolidated Balance Sheets consist of:				
Prepaid benefit cost	**$ 500,024**	$ 456,246	**$ 86,387**	$ 65,895
Accrued benefit liability	**(58,444)**	(51,859)	**(17,126)**	(16,762)
Additional minimum liability	**(21,493)**	(11,850)	**(9,230)**	(6,237)
Intangible asset	**2,620**	2,930	**1,601**	1,614
Accumulated other comprehensive income	**18,873**	8,920	**7,629**	4,623
Prepaid benefit cost	**$ 441,580**	$ 404,387	**$ 69,261**	$ 49,133
Weighted average assumptions used to determine end of year benefit obligations:				
Discount rate	**5.60%**	5.75%	**2.25% – 5.00%**	2.25% – 5.75%
Rate of compensation increase	**4.50%**	4.75%	**1.75% – 4.10%**	1.75% – 4.00%

The actuarial loss in the Company's foreign pension plan in 2005 resulted primarily from a decrease in the discount rates in the U.K. and Canada.

At December 31, 2005, 11,400 shares of the Company's common stock with a fair value of $0.5 million were included in the plan assets of the Company's pension plan. At December 31, 2004, no shares of the Company's common stock were included in the plan assets of the Company's pension plan.

The Company anticipates making contributions of up to $7 million and up to $15 million, respectively, to its U.S. and foreign pension plans during 2006.

The components of the net periodic benefit cost for defined pension plans are as follows:

	Pension Benefits					
	United States			Foreign		
	2005	2004	2003	**2005**	2004	2003
Service cost	**$ 29,241**	$ 30,055	$ 26,232	**$ 8,881**	$ 9,094	$ 7,934
Interest cost	**90,993**	88,401	89,205	**20,899**	20,116	17,180
Expected return on plan assets	**(123,498)**	(128,804)	(125,518)	**(26,180)**	(24,161)	(21,574)
Amortization of transition cost	**-**	-	-	**(624)**	(575)	(531)

Amortization of prior service cost	**(2,123)**	(2,762)	(2,758)	**899**	540	538
Recognized net actuarial loss	**27,021**	14,537	1,833	**6,038**	6,123	3,865
Curtailment	**-**	-	-	**430**	352	1,162
Net periodic benefit cost (income)	**$ 21,634**	$ 1,427	$ (11,006)	**$ 10,343**	$ 11,489	$ 8,574

	Pension Benefits					
	United States			Foreign		
	2005	2004	2003	2005	2004	2003
Discount rate	5.75%	6.00%	6.75%	2.25% – 5.75%	2.25% – 6.00%	2.50% – 6.50%
Expected return on plan assets	8.50%	8.50%	8.50%	3.50% – 8.25%	4.00% – 8.25%	4.00% – 8.25%
Rate of compensation increase	4.75%	4.75%	4.75%	1.75% – 4.00%	1.75% – 4.00%	2.00% – 4.50%

U.S. pension plans' investment strategy and asset allocation

The Company's U.S. pension plans' investment strategy supports the objectives of the fund, which are to maximize returns within reasonable and prudent levels of risk, to achieve and maintain full funding of the accumulated benefit obligations and the actuarial liabilities, and to earn a nominal rate of return of at least 8.50%. The fund has established a strategic asset allocation policy to achieve these objectives. Investments are diversified across asset classes and within each class to minimize the risk of large losses and are periodically rebalanced. Derivatives, such as swaps, options, forwards and futures contracts may be used for market exposure, to alter risk/return characteristics and to manage foreign currency exposure. The pension plans' liabilities, investment objectives and investment managers are reviewed periodically.

The expected long-term rate of return on plan assets is based on historical and projected rates of return for current and planned asset classes in the plans' investment portfolio after analyzing historical experience and future expectations of the returns and volatility of the various asset classes. The overall expected rate of return for the portfolio was determined based on the target asset allocations for each asset class, adjusted for historical and expected experience of active portfolio management results, when compared to the benchmark returns, based on the target asset allocations for each asset class.

The target allocation for 2006 and the asset allocation for the U.S. pension plan at December 31, 2005 and 2004, by asset category, are as follows:

	Target Allocation	Percentage of Plan Assets at December 31	
Asset category	2006	2005	2004
U.S. equities	**50%**	**48%**	49%
Non-U.S. equities	**20%**	**22%**	22%
Fixed income	**25%**	**25%**	24%
Real estate	**5%**	**5%**	5%
Total	**100%**	**100%**	100%

The fair value of plan assets was $1.5 billion at December 31, 2005 and 2004, and the expected long-term rate of return on these plan assets was 8.50% in 2005 and 2004.

Foreign pension plans' investment strategy

The Company's foreign pension plan assets are managed by outside investment managers and monitored regularly by local trustees, in conjunction with the Company's corporate personnel. The investment strategies adopted by the Company's foreign plans vary by country and plan, with each strategy tailored to achieve the expected rate of return within an acceptable or appropriate level of risk, depending upon the liability profile of plan participants, local funding requirements, investment markets and restrictions. The Company's largest foreign pension plan is the U.K. plan, which represents 76% of the non-U.S. pension assets. The Company's U.K. pension plan's investment strategy supports the objectives of the fund, which are to maximize returns within reasonable and prudent levels of risk, to achieve and maintain full funding of the accumulated benefit obligations and the actuarial liabilities, and to earn a nominal rate of return of at least 8.0%. The fund has established a strategic asset allocation policy to achieve these objectives. Investments are diversified across asset classes and within each class to minimize the risk of large losses and are periodically rebalanced. Derivatives, such as swaps, options, forwards and futures contracts may be used for market exposure, to alter risk/return characteristics and to manage foreign currency exposure. The pension plans' liabilities, investment objectives and investment managers are reviewed periodically.

The expected long-term rate of return on plan assets is based on historical and projected rates of return for current and planned asset classes in the plan's investment portfolio after analyzing historical experience and future expectations of the returns and volatility of the various asset classes. The overall expected rate of return for the portfolio was determined based on the target asset allocations for each asset class, adjusted for historical and expected experience of active portfolio management results, when compared to the benchmark returns.

The target allocation for 2006 and the asset allocation for the U.K. pension plan at December 31, 2005 and 2004, by asset category, are as follows:

Asset category	Target Allocation	Percentage of Plan Assets at December 31	
	2006	2005	2004
U.K. equities	**35%**	**33%**	38%
Non-U.K. equities	**35%**	**35%**	34%
Fixed income	**30%**	**24%**	27%
Cash	—	**8%**	1%
Total	**100%**	**100%**	100%

The fair value of plan assets was $314 million and $255 million at December 31, 2005 and 2004, respectively, and the expected long-term rate of return on these plan assets was 8.0% in 2005 and 2004.

Nonpension postretirement benefits

The Company provides certain health care and life insurance benefits to eligible retirees and their dependents. The cost of these benefits is recognized over the period the employee provides credited services to the Company. Substantially all of the Company's U.S. and Canadian employees become eligible for retiree health care benefits after reaching age 55 and with the completion of the required service period. U.S. employees hired after January 1, 2005, and Canadian employees hired after April 1, 2005, are not eligible for retiree health care benefits.

On July 1, 2004 the Company adopted the provisions of FASB Staff Position (FSP) No. 106-2 on a prospective basis. The adoption of FSP No. 106-2 reduced the Company's nonpension postretirement accumulated benefit obligation by approximately $72 million, which has been recognized as a reduction in the Company's unrecognized actuarial loss.

The change in benefit obligations and plan assets and the funded status for nonpension postretirement benefit plans is as follows:

December 31	Nonpension Postretirement Benefits	
	2005	2004
Change in benefit obligation:		
Benefit obligations at beginning of year	**$ 311,915**	$ 339,576
Service cost	**3,154**	3,387
Interest cost	**14,716**	17,638
Plan participants' contributions	**5,987**	5,535
Plan amendments	**246**	-
Actuarial (gain)	**(22,310)**	(18,674)
Foreign currency changes	**686**	607
Benefits paid	**(41,712)**	(36,154)
Benefit obligations at end of year	**$ 272,682**	$ 311,915
Change in plan assets:		
Fair value of plan assets at beginning of year	**$ -**	$ -
Company contribution	**35,725**	30,619
Plan participants' contributions	**5,987**	5,535
Benefits paid	**(41,712)**	(36,154)
Fair value of plan assets at end of year	**$ -**	$ -
Funded status	**$(272,682)**	$(311,915)
Unrecognized actuarial loss	**44,557**	68,482
Unrecognized prior service benefit	**(12,839)**	(15,208)
Accrued benefit cost	**$ (240,964)**	$(258,641)

The assumed weighted average discount rate used in determining the accumulated nonpension postretirement benefit obligations was 5.60% in 2005 and 5.75% in 2004.
In 2003, the Company amended the retiree medical program to award retiree medical benefits based on each year of service after age 45.
The components of the net periodic benefit cost for nonpension postretirement benefit plans are as follows:

Nonpension Postretirement Benefits

	2005	2004	2003
Service cost	**$ 3,154**	$ 3,387	$ 3,590
Interest cost	**14,716**	17,638	19,670
Amortization of prior service benefit	**(2,122)**	(8,139)	(8,581)
Recognized net actuarial loss	**1,871**	4,684	4,182
Net periodic benefit cost	**$ 17,619**	$ 17,570	$ 18,861

Weighted average assumptions used to determine	Nonpension Postretirement Benefits		
net periodic costs during the years:	**2005**	2004	2003
Discount rate	**5.75%**	6.00%	6.75%

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligations was 8.00% for 2006, 9.00% for 2005 and 10.00% for 2004. This was assumed to gradually decline to 5.00% by the year 2009 and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total of service and interest cost components	$ 634	$ 537
Effect on postretirement benefit obligations	$9,516	$8,480

Estimated future benefit payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Benefits	Nonpension Postretirement Benefits
For the year ending 12/31/06	$ 104,424	$ 30,747
For the year ending 12/31/07	108,995	30,204
For the year ending 12/31/08	113,179	28,544
For the year ending 12/31/09	118,682	27,327
For the year ending 12/31/10	126,652	26,222
For the years ending 12/31/11–12/31/15	727,322	110,877
	$1,299,254	$253,921

Nonpension postretirement benefit payments represent expected contributions, net of the annual Medicare Part D subsidy of approximately $3 million in 2006 and $4 million in each year thereafter.

12. Discontinued operations

On January 14, 2000, the Company sold Atlantic Mortgage & Investment Corporation (AMIC), a wholly-owned subsidiary of the Company, to ABN AMRO North America. In connection with this transaction, the Company recorded a gain of $2.3 million (net of taxes of $1.6 million) for the year ended December 31, 2003. The gain resulted from the favorable resolution of certain contingent liabilities recorded at the time of sale.

On October 30, 1998, Colonial Pacific Leasing Corporation (CPLC), a wholly-owned subsidiary of the Company, transferred the operations, employees, and substantially all assets related to its broker-oriented external financing business to General Electric Capital Corporation, a subsidiary of the General Electric Company. In connection with this transaction, the Company recorded a gain of $0.9 million (net of taxes of $0.6 million) for the year ended December 31, 2003. The gain resulted from the favorable resolution of certain contingent liabilities recorded at the time of sale.

13. Restructuring charges

In January 2003, the Company undertook restructuring initiatives related to realigned infrastructure requirements and reduced manufacturing needs for digital equipment. In connection with this plan, the Company recorded pre-tax restructuring charges of $54 million, $158 million and $117 million for the years ended December 31, 2005, 2004 and 2003, respectively. The 2005 charge is net of a $30 million gain on the sale of our main plant manufacturing facility. See Note 1 to the consolidated financial statements for the Company's accounting policy related to restructuring charges.

The pre-tax restructuring charges are composed of:

(Dollars in millions)	Restructuring charges	Non-cash charges	Cash payments	Balance December 31
2003				
Severance and benefit costs	$ 81	$ -	$ (54)	$ 27
Asset impairments	27	(27)	-	-
Other exit costs	9	-	(4)	5
	$ 117	$ (27)	$ (58)	$ 32
2004				
Severance and benefit costs	$ 76	$ -	$(55)	$ 48
Asset impairments	73	(73)	-	-
Other exit costs	9	-	(11)	3
	$ 158	$ (73)	$(66)	$ 51
2005				
Severance and benefit costs	$ 71	$ -	$ (74)	$ 45
Asset impairments	7	(7)	-	-
Other exit costs	6	-	(4)	5
Gain on sale of main plant	(30)	-	30	-
	$ 54	$ (7)	$ (48)	$ 50

All restructuring charges, except for asset impairments, will result in cash outflows. The severance and benefit costs relate to a reduction in workforce of approximately 3,500 employees worldwide from the inception of this plan through December 31, 2005 and expected future workforce reductions of approximately 800 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 62% of the workforce reductions to date are in the U.S. The majority of the international workforce reductions are in Europe and Canada. Asset impairments in 2003 included a $24 million charge as a result of the Company's decision to exit its main plant manufacturing facility in Connecticut in connection with its product sourcing and real estate optimization strategy. During the first quarter of 2005, following the successful rezoning of it's main plant facility, the Company recorded a pre-tax gain of $30 million related to the sale of this facility. Restructuring charges in 2004 included a pre-tax charge of $28 million related to the planned closure of a manufacturing facility in Germany. Asset impairments in 2004 included a $47 million charge related to the write-down of capitalized system development costs, related to order management processes, as a result of the changing business profile of the Company and its organizational realignment. Other asset impairments in 2004 and 2003 relate primarily to the write-down of property, plant and equipment resulting from the closure or streamlining of certain facilities and systems. The fair values of the impaired long-lived assets were determined primarily using probability weighted expected cash flows in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." 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.

14. Acquisitions

On June 30, 2005, the Company completed the acquisition of Danka Canada Inc. (Danka), a subsidiary of Danka Business Systems PLC, for a net purchase price of $14 million in cash. Danka is a leading provider of office systems services, supplies and equipment in Canada. This acquisition strengthens the Company's Canadian operations by enhancing its geographic coverage and extending its offerings. The goodwill was assigned to the Outside the U.S. segment.

On May 26, 2005, the Company completed the acquisition of Imagitas, Inc. (Imagitas) for a net purchase price of $231 million in cash, net of unrestricted cash. Imagitas is a marketing services company that specializes in using mail to help companies connect with hard to reach consumers. This acquisition expands the Company's presence in the mailstream and adds to the array of valuable services that it currently delivers to its customers. The goodwill was assigned to the Mail Services segment.

On March 24, 2005, the Company completed the acquisition of Compulit, Inc. (Compulit) for a net purchase price of $24 million in cash. Compulit is a leading provider of litigation support services to law firms and corporate clients. This acquisition expands the Company's ability to provide a broader range of high value services to its legal vertical. The goodwill was assigned to the Global Management Services segment.

On December 16, 2004, the Company completed the acquisition of Groupe MAG for a net purchase price of $43 million in cash. Groupe MAG is a distributor of production mail equipment, software and services in France, Belgium and Luxembourg. This acquisition extends the Company's distribution capabilities internationally. The goodwill was assigned to the Outside the U.S. segment.

On November 1, 2004, the Company completed the acquisition of a substantial portion of the assets of Ancora Capital & Management Group LLC (Ancora) for a net purchase price of $37 million in cash. Ancora is a provider of first class, standard letter and international mail processing and presort services with five operations in southern California, Pennsylvania and Maryland. This acquisition expanded the Company's mail services operations. The goodwill was

assigned to the Mail Services segment.

On July 20, 2004, the Company completed the acquisition of Group 1 Software, Inc. (Group 1) for a net purchase price of $329 million in cash. Group 1 is an industry leader in software that enhances mailing efficiency, data quality and customer communications. The goodwill was assigned to Inside the U.S.-DMT and Outside the U.S. segments.

On May 21, 2004, the Company completed the acquisition of substantially all of the assets of International Mail Express, Inc. (IMEX) for a net purchase price of $30 million in cash. IMEX consolidates letters and flat-sized mail headed to international addresses to reduce postage costs and expedite delivery. This acquisition expanded the Company's mail services operations. The goodwill was assigned to the Mail Services segment.

The following table summarizes selected financial data for these acquisitions:

(Dollars in thousands)	Danka	Imagitas	Compulit	Groupe MAG	Ancora	Group 1	IMEX
Purchase price allocation							
Current assets	$ 12,502	$ 40,577	$ 4,462	$ 31,427	$ 2,711	$ 34,575	$ 7,991
Other non-current assets	5,627	3,267	656	832	13,834	5,827	310
Intangible assets	4,203	59,600	2,797	12,179	13,923	82,067	9,600
Goodwill	8,358	195,234	17,541	25,304	20,791	293,593	20,180
Current liabilities	(16,690)	(42,600)	(1,130)	(22,867)	(14,297)	(78,424)	(7,954)
Non-current liabilities	-	(25,216)	-	(3,617)	-	(8,517)	-
Purchase price	$ 14,000	$230,862	$24,326	$ 43,258	$ 36,962	$329,121	$ 30,127
Intangible assets							
Customer relationships	$ 3,327	$ 18,300	$ 2,366	$ 10,356	$ 13,923	$ 32,267	$ 8,100
Supplier relationships	-	33,300	-	-	-	-	-
Mailing software and technology	-	4,000	-	-	-	43,600	900
Trademarks and trade names	876	4,000	431	1,823	-	6,200	600
Total intangible assets	$ 4,203	$ 59,600	$ 2,797	$ 12,179	$ 13,923	$ 82,067	$ 9,600
Intangible assets amortization period							
Customer relationships	15 years	5 years	4 years	15 years	15 years	15 years	15 years
Supplier relationships	-	9 years	-	-	-	-	-
Mailing software and technology	-	5 years	-	-	-	9 years	5 years
Trademarks and trade names	4 years	5 years	5 years	5 years	-	9 years	2 years
Total weighted average	13 years	8 years	4 years	14 years	15 years	11 years	13 years

Allocation of the purchase price to the assets acquired and liabilities assumed has not been finalized for certain of these acquisitions. Final determination of the purchase price and fair values to be assigned may result in adjustments to the preliminary estimated values assigned at the date of acquisition.

Consolidated impact of acquisitions

The consolidated financial statements include the results of operations of the acquired businesses from their respective dates of acquisition. These acquisitions 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 of operations have been prepared as if the acquisitions of Danka, Imagitas, Compulit, Groupe MAG, Ancora, Group 1 and IMEX had occurred at the beginning of each period presented:

	Years ended December 31,	
	2005	2004
Total revenue	**$5,550,483**	$5,272,240

The pro forma consolidated results do not purport to be indicative of results that would have occurred had the acquisitions been completed on January 1, 2004, nor do they purport to be indicative of the results that will be obtained in the future. The pro forma earning results of these acquisitions were not material to earnings on either a per share or an aggregate basis.

During 2005 and 2004 the Company also completed several smaller acquisitions, including additional sites for its mail services operations and some international dealers. The Company also acquired the hardware equipment services business of Standard Register Inc. at the end of 2004. The cost of these acquisitions was in the aggregate less than $75 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.

15. Goodwill and intangible assets

Intangible assets are composed of the following:

December 31	2005		2004	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer relationships	**$273,674**	**$53,966**	$255,512	$33,168
Supplier relationships	**33,300**	**2,194**	-	-
Mailing software and technology	**113,475**	**30,525**	111,876	20,730
Trademarks and trade names	**21,841**	**9,702**	15,897	6,685
Non-compete agreements	**5,122**	**3,611**	3,922	2,887
	$447,412	**$ 99,998**	$ 387,207	$63,470

Amortization expense for intangible assets was $39.8 million, $29.1 million and $27.7 million for the years ended December 31, 2005, 2004 and 2003, respectively. Estimated intangible assets amortization expense for the next five years is as follows:

For the year ending 12/31/06	$42,700
For the year ending 12/31/07	$40,100
For the year ending 12/31/08	$ 40,000
For the year ending 12/31/09	$38,000
For the year ending 12/31/10	$32,300

Intangible assets acquired during the year ended December 31, 2005 are as follows:

	Weighted Average Amortization Period	Acquisition Cost
Customer relationships	7 years	$ 27,124
Supplier relationships	9 years	33,300
Mailing software and technology	5 years	4,750
Trademarks and trade names	5 years	5,307
Non-compete agreements	5 years	87
Weighted average	8 years	$70,568

Changes in the carrying amount of goodwill for the years ended December 31, 2004 and 2005 are as follows:

	Balance at January 1, 2004	Acquired	Other	Balance at December 31, 2004
Inside the U.S. — Mailing	$ 49,193	$ 15,605	$ (835)	$ 63,963
— DMT	42,734	292,236	(405)	334,565
Outside the U.S.	308,771	38,366	32,816	379,953
Global Mailstream Solutions	400,698	346,207	31,576	778,481
Global Management Services	420,149	-	7,425	427,574
Mail Services	135,437	68,187	1,702	205,326
Global Business Services	555,586	68,187	9,127	632,900
Total	$ 956,284	$ 414,394	$ 40,703	$1,411,381

	Balance at January 1, 2005	Acquired	Other	Balance at December 31, 2005
Inside the U.S. — Mailing	**$ 63,963**	**$ 5,399**	**$ (3,140)**	**$ 66,222**
— DMT	**334,565**	**-**	**1,835**	**336,400**
Outside the U.S.	**379,953**	**11,618**	**(29,786)**	**361,785**
Global Mailstream Solutions	**778,481**	**17,017**	**(31,091)**	**764,407**

Global Management Services	**427,574**	**18,287**	**(10,555)**	**435,306**
Mail Services	**205,326**	**202,899**	**3,848**	**412,073**
Global Business Services	**632,900**	**221,186**	**(6,707)**	**847,379**
Total	**$1,411,381**	**$238,203**	**$(37,798)**	**$1,611,786**

"Other" includes the impact of post closing acquisition and foreign currency translation adjustments.

During the fourth quarter of 2005 and 2004 the Company performed impairment tests for goodwill. As a result of this review, it was determined that no goodwill impairments existed.

16. Commitments, contingencies and regulatory matters

At December 31, 2005, as part of the Company's Capital Services programs, the Company has committed to potentially extend credit of $48 million to pre-approved creditworthy customers. The Company will sell or syndicate transactions that are funded during the commitment period.

Legal

In the ordinary course of business, the Company is routinely a defendant in or party to a number of pending and threatened legal actions. These may involve litigation by or against the Company relating to, among other things: contractual rights under vendor, insurance or other contracts; intellectual property or patent rights; equipment, service, payment or other disputes with customers; or disputes with employees.

The Company is a defendant in a patent action brought by Ricoh Company, Ltd. in which there are allegations of infringement against certain of the Company's important mailing products, including the DM Series™. The plaintiff seeks both large and unspecified damages and injunctive relief. Ricoh Corporation et al. v. Pitney Bowes Inc. (United States District Court, District of New Jersey, filed November 26, 2002). Although a trial date has not been set, the Company anticipates it will be scheduled for 2006. The parties respective motions on the issue of inequitable conduct during the patent application process were denied, leaving this issue for trial. In addition, the issue of the interpretation of the proper scope of the patents (referred to as claims construction) has been fully briefed and is before the court.

Although the Company cannot predict the outcome of this matter based on current knowledge, the Company does not believe that the ultimate outcome of the litigation will have a material adverse effect on the Company's financial position, results of operations or cash flows. However, litigation is inherently unpredictable, and if Ricoh does prevail, the result may have a material effect on the Company's financial position, future results of operations or cash flows, including, for example, the Company's ability to offer certain types of goods or services in the future.

In December 2001, the Company recorded a pre-tax charge of approximately $24 million associated with the settlement of a lawsuit related to lease upgrade pricing in the early to mid-1990's. The $24 million charge relates to the following settlement costs: award certificates to be provided to members of the class for purchase of office products through Pitney Bowes supply line and the cost of legal fees and related expenses. This charge was included in other income in the Consolidated Statements of Income for the year ended December 31, 2001. In 2003, the Company recorded income of $10 million related to the expiration of product award certificates previously provided to certain customers in connection with this legal settlement.

In December 2004, the Company recorded a pre-tax charge of approximately $20 million associated with the settlement of a lawsuit related to a program the Company's wholly owned subsidiary, Pitney Bowes Credit Corporation, offers to some of its leasing customers to replace the leased equipment if it is lost, stolen or destroyed. The $20 million charge relates to the following settlement costs: award certificates to be provided to members of the class for purchase of office products through Pitney Bowes supply line and the cost of legal fees and related expenses. This charge was included in other income in the Consolidated Statements of Income for the year ended December 31, 2004.

17. Guarantees

The Company applies FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," to its agreements that contain guarantees or indemnifications. The provisions of FIN No. 45 require that at the time a company issues a guarantee, the Company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under the guarantee and must disclose that information in its interim and annual financial statements. The provisions related to recognizing a liability at inception of the guarantee for the fair value of the guarantor's obligations does not apply to product warranties or to guarantees accounted for as derivatives.

In connection with its Capital Services programs, the Company has sold finance receivables and entered into guarantee contracts with varying amounts of recourse. See Off-Balance Sheet Items in Note 19 to the consolidated financial statements.

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 claim experience, which has not been significant, and other currently available evidence. Accordingly, the Company's product warranty liability at December 31, 2005 and 2004, respectively, was not material.

18. Leases

In addition to factory and office facilities owned, the Company leases similar properties, as well as sales and service offices, equipment and other properties, generally under long-term lease agreements extending from three to 25 years. Certain of these leases have been capitalized at the present value of the net minimum lease payments at inception. Amounts included under liabilities represent the present value of remaining lease payments.

Future minimum lease payments under both capital and non-cancelable operating leases at December 31, 2005 are as follows:

Years ending December 31	Capital leases	Operating leases
2006	$ 1,814	$ 69,778
2007	1,126	51,749
2008	666	38,279
2009	200	24,112
2010	4	14,901
Thereafter	—	42,715
Total minimum lease payments	3,810	$241,534
Less: Amount representing interest	(276)	
Present value of net minimum lease payments	$ 3,534	

Rental expense was $158.4 million, $154.3 million and $137.9 million in 2005, 2004 and 2003, respectively.

19. Financial Services

Capital Services strategy

In December 2004, the Company's Board of Directors approved a plan to pursue a sponsored spin-off of its Capital Services external financing business. The new entity (Spinco) would be an independent publicly traded company consisting of most of the assets in the Company's Capital Services segment. On March 31, 2005, Pitney Bowes Credit Corporation, a wholly-owned subsidiary of the Company, entered into a Subscription Agreement with Cerberus Capital Management, L.P. through its investment vehicle, JCC Management LLC (Investor). Under the terms of the Subscription Agreement, the Investor is expected to invest in excess of $100 million for common and preferred stock representing up to 19.9% of the voting interest and up to 48% economic interest in the spun-off entity. The Subscription Agreement anticipates that Pitney Bowes stockholders would receive 80.1% of the common stock of Spinco in a tax-free distribution. In accordance with the Subscription Agreement, both parties have the right to terminate this agreement at March 31, 2006. The Subscription Agreement was filed as Exhibit 10 to the Quarterly Report on Form 10-Q for the three months ended March 31, 2005.

The Company estimates that it would incur after-tax transaction costs of about $20 million to $35 million in connection with the spin-off. The majority of these costs would be incurred at the time of the spin-off. These costs are composed primarily of professional fees, taxes on asset transfers and lease contract termination fees.

In addition, in accordance with current accounting guidelines, at the time of the spin-off the Company would be required to compare the book and fair market values of the assets and liabilities spun-off and record any resulting deficit as a charge in discontinued operations. The Company currently estimates this potential non-cash after-tax charge to be in the range of $150 million to $250 million. The ultimate amount of this charge, if any, would be determined by the fair market value of Spinco at the time of the spin-off and the resolution of the related tax liabilities.

The spin-off is not subject to a vote by Pitney Bowes stockholders. The transaction is subject to regulatory review and other customary conditions. In January 2006, the Company received a favorable ruling from the IRS that the spin-off would be tax free to its stockholders. In March 2006, based on a recent communication initiated by the Company, the SEC staff indicated that the Company would need to include three years of historical audited financial statements for Pitney Bowes Credit Corporation, the legal entity holding the assets of the Capital Services external financing business rather than for the Capital Services business alone. Fulfillment of this requirement could extend the timeframe for completion of the spin into the first half of 2007. As a result, consistent with its previously stated desire to exit the Capital Services business in a way that maximizes stockholder value, the Company is assessing a broader range of asset and business disposition options, including spin-off, a sale of the business, or sale of all or a portion of the assets. Several factors, including improved economic conditions, make this range of options more attractive now, than when the Company first announced its intention to look at options for exiting this business in January 2003.

In July 2005, the Company received notice of termination of its agreement to provide future lease financing to Imagistics International, Inc. This agreement was replaced with successive thirty-day lease financing agreements that have been extended each month since October 2005. In March 2006, the Company announced that it has signed a definitive agreement to sell its Imagistics International, Inc. lease portfolio for approximately $280 – $290 million to De Lage Landen, a subsidiary of Rabobank NV. The final purchase price will be a function of the receivables balance in the portfolio at closing. This lease portfolio is part of the external financing assets included in the proposed spin-off. The completion of the sale of the Imagistics lease portfolio is subject to customary closing conditions. In addition, if the Company decides to pursue the spin-off in its current form, the sale will be subject to receipt of a supplemental Internal Revenue Service ruling that the proposed spin-off of its Capital Services external financing business would be tax free to Pitney Bowes stockholders. The Imagistics lease portfolio contributed approximately five cents to the Company's diluted earnings per share in 2005 and 2004.

Capital Services charge

In the process of preparing for the regulatory filing related to the spin-off, the Company determined the need to adjust the accounting for certain Capital Services lease transactions and certain Capital Services tax provisions. As a result, the Company recorded a pre-tax charge of $24 million ($5 million after-tax) in the fourth quarter of 2005. This charge reflects the cumulative effect of these adjustments. These adjustments did not have a material impact on the Company during any quarterly or annual period. As a result of these adjustments, the Company also grossed-up the related leased assets and non-recourse debt and reduced its investment in leveraged leases on its Consolidated Balance Sheet at December 31, 2005. The Company revised the following 2004 amounts to conform with the current year presentation:

December 31 (Dollars in millions)	2004
Finance receivables	$ (4)
Rental property and equipment, net	570
Long-term finance receivables	(41)
Investment in leveraged leases	(107)
Other assets	(27)
Total assets	$ 391
Accounts payable	$ 12
Notes payable and current portion of long-term debt	32
Deferred taxes on income	(7)
Long-term debt	366
Other non-current liabilities	(12)
Retained earnings	—
Total liabilities & stockholders' equity	$ 391

Capital Services portfolio

The Company's investment in Capital Services lease related assets included in its Consolidated Balance Sheets was composed of the following:

December 31 (Dollars in millions)	2005	2004
Leveraged leases	**$ 1,470**	$ 1,478
Finance receivables	**520**	587
Rental property and equipment, net	**585**	625
Total	**$ 2,575**	$ 2,690

Leveraged Leases

The Company's investment in leveraged lease assets consists of the following:

December 31 (Dollars in millions)	2005	2004
Rental receivables	**$ 6,711**	$ 7,243
Residual value	**305**	312
Principal and interest on non-recourse loans	**(4,985)**	(5,477)
Unearned income	**(561)**	(600)
Investment in leveraged leases	**1,470**	1,478
Less: Deferred taxes related to leveraged leases	**(1,151)**	(1,126)
Net investment in leveraged leases	**$ 319**	$ 352

Following is a summary of the components of income from leveraged leases:

December 31 (Dollars in millions)	2005	2004	2003
Pre-tax leveraged lease income	**$ 38.3**	$ 52.6	$ 73.8
Income tax effect	**9.5**	17.7	21.6
Income from leveraged leases	**$ 28.8**	$ 34.9	$52.2

- Rental receivables represent total lease payments from the Company's customers over the remaining term of the leveraged leases.
- Residual value represents the value of the property anticipated at the end of the leveraged lease terms and is based on appraisals or other sources of estimated value. The Company reviews the recorded residual value for impairments deemed to be other than temporary at least once annually and records adjustments as appropriate.
- Principal and interest on non-recourse loans represent amounts due to unrelated third parties from the Company's customers over the remaining term of the leveraged leases. The non-recourse loans are secured by the lessees' rental obligations and the leased property. If a lessee defaults and if the amounts realized from the sale of these assets are insufficient to pay the non-recourse debt, the Company has no obligation to make any payments due on these non-recourse loans to the unrelated third parties. Accordingly, the Company is required by GAAP to subtract the principal and interest over the remaining term of the non-recourse loans from its rental receivables and residual value. At December 31, 2005 and 2004, the principal balances on the non-recourse loans totaled $2.8 billion and $3.2 billion, respectively, and the related interest payments over the remaining terms of the leases totaled $2.2 billion and $2.3 billion, respectively.
- Unearned income represents the Company's future financing income that will be earned over the remaining term of the leases.
- Investment in leveraged leases represent the amount that is recorded in the Company's Consolidated Balance Sheets.

The investment in leveraged leases in the Company's Consolidated Balance Sheets is diversified across the following types of assets:

December 31 (Dollars in millions)	2005	2004	Original Lease Term (in years)
Locomotives and rail cars	**$ 399**	$ 382	20 – 40
Postal equipment	**365**	358	15 – 24
Commercial aircraft	**230**	268	22 – 25
Commercial real estate	**142**	140	17 – 25
Telecommunications	**141**	141	14 – 16
Rail and bus	**133**	133	27 – 37
Shipping and handling	**60**	56	24
Total leveraged leases	**$1,470**	$1,478	

At December 31, 2005 approximately 57% of the Company's total leveraged lease portfolio is further secured by equity defeasance accounts or other third-party credit arrangements. In addition, at December 31, 2005, approximately 9% of the remaining leveraged lease portfolio represents leases to highly rated government related organizations that have guarantees or supplemental credit enhancements upon the occurrence of certain events.

Finance receivables

Capital Services finance receivables are composed of the following:

December 31 (Dollars in millions)	**2005**	2004
Large ticket single investor leases	**$ 267**	$ 327
Imagistics lease portfolio	**253**	260
Total finance receivables	**$ 520**	$ 587

Rental property and equipment, net

Rental property and equipment, net are composed of the following:

December 31 (Dollars in millions)	**2005**	2004
Commercial real estate	**$ 393**	$ 396
Imagistics lease portfolio	**17**	23
Rail and other	**175**	206
Total rental property and equipment, net	**$ 585**	$ 625

The operating lease receivables related to gross rental property and equipment are $68 million in 2006, $71 million in 2007, $55 million in 2008, $56 million in 2009, $61 million in 2010, and $341 million thereafter.

Selling, general and administrative expense in the Company's consolidated financial statements includes $7 million, $14 million and $2 million of depreciation of rental property and equipment and residual impairments related to Capital Service for the years ended December 31, 2005, 2004 and 2003, respectively.

Investment in commercial passenger and cargo aircraft leasing transactions

At December 31, 2005 and 2004, the Company's net investment in commercial passenger and cargo aircraft leasing transactions, net of related debt and minority interest, was $231 million and $268 million, respectively, which is composed of transactions with U.S. airlines of $22 million and $21 million, respectively, and foreign airlines of $209 million and $247 million, respectively. The Company's 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 the Company's 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) the Company's inability to generate sufficient cash flows either through the sale of the aircraft or secondary lease transactions to recover its 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 December 31, 2005, approximately 45% of the Company's net investment in commercial passenger and cargo aircraft leasing investments was further secured by approximately $105 million of equity defeasance accounts or third-party credit arrangements.

During the first quarter of 2005, Japan Airlines exercised its early buy-out option. The Company received approximately $47 million from this transaction, reflecting the net investment at that time.

During the second quarter of 2005, the Company sold the aircraft associated with the Company's remaining leases with United Air Lines. The Company received approximately $14 million and recorded a pre-tax gain of approximately $7 million, net of minority interest, from this transaction.

Finance Receivables

Finance receivables are generally due in monthly, quarterly or semi-annual installments over periods ranging from three to 25 years.

The components of net finance receivables were as follows:

December 31	**2005**	**2004**
Gross finance receivables	**$ 3,784,531**	$3,826,009
Residual valuation	**364,327**	363,745
Initial direct cost deferred	**10,888**	12,158
Allowance for credit losses	**(128,862)**	(173,032)
Unearned income	**(846,765)**	(852,806)
Net finance receivables	**$ 3,184,119**	$3,176,074

Maturities of gross finance receivables for the finance operations are as follows:

Years ending December 31	Internal financing	Capital Services	Total
2006	$1,559,768	$ 183,068	$1,742,836
2007	751,494	155,451	906,945
2008	530,490	65,873	596,363
2009	274,198	39,033	313,231
2010	82,130	18,218	100,348
Thereafter	11,015	113,793	124,808
Total	$ 3,209,095	$ 575,436	$3,784,531

Credit Risk

The Company regularly reviews its risk of default on both an individual lessee basis as well as its overall exposure by industry. The Company also regularly reviews its equipment and property values. This may include industry and equipment studies, physical inspections and appraisals.

A summary of the allowance for credit losses is as follows:

Years ended December 31	**2005**	**2004**	**2003**

Beginning balance	**$173,032**	$141,184	$154,008
Additions charged to continuing operations	**51,566**	86,368	51,910
Amounts written-off, net of recoveries:			
Internal financing	**(55,479)**	(45,108)	(48,732)
Capital Services	**(40,257)**	(9,412)	(16,002)
Total write-offs, net of recoveries	**(95,736)**	(54,520)	(64,734)
Ending balance	**$ 128,862**	$173,032	$141,184

The additions charged to continuing operations in 2004 included $30 million from the consolidation of PBG.

Off-Balance Sheet Items

Finance receivables sales

As part of the Company's Capital Services programs, the Company has from time-to-time sold, through securitizations, net finance receivables with limited recourse. In these transactions, the Company has surrendered control over the transferred assets in accordance with paragraph 9 of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," and received a cash payment from the transferee. Specifically, the finance receivables were sold to a bankruptcy remote limited liability company. In certain cases, at the time of sale, the Company obtained legal counsel's opinion that the assets were isolated and that the sale qualified as a true sale at law. Under the terms of the sale, the transferee has the right to pledge or exchange the assets it received. There are no conditions that both constrain the transferee from taking advantage of its right to pledge or exchange and provide more than a trivial benefit to the transferor. The Company does not maintain effective control over the transferred assets.

The Company has accounted for these transactions as a sale, recognizing assets obtained and liabilities incurred in consideration as proceeds of the sale. Any resulting gain or loss was recognized in income at the time of sale. The maximum risk of loss in these transactions arises from the possible non-performance of lessees to meet the terms of their contracts. The Company believes adequate provisions for losses have been established for receivables sold which may become uncollectible and for which it has recourse obligation, in accordance with paragraph 113 of SFAS No. 140.

The Company has sold net finance receivables and in selective cases 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 $32 million and $99 million at December 31, 2005 and 2004, 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 net 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 supported by the creditworthiness of its customers. At December 31, 2005 and 2004, the underlying equipment value exceeded the sum of the uncollected principal balance of receivables sold and the guarantee contracts. As part of the Company's review of its risk exposure, the Company believes it has made adequate provision for sold receivables and guarantee contracts that may not be collectible. See Notes 17 and 21 to the consolidated financial statements.

20. Business segment information

In light of the Company's recent organizational realignment, effective January 1, 2005, the Company revised its segments to reflect its product-based businesses separately from its service-based businesses. Prior year amounts have been reclassified to conform to the current year presentation. For a description of the Company's reportable segments and the types of products and services from which each reportable segment derives its revenue, see Item 1 — Business on page 3. That information is incorporated herein by reference. The information set forth below should be read in conjunction with such information. The accounting policies of the segments are the same as those described in the summary of significant accounting policies, with the exception of the items outlined below.

EBIT is determined by deducting from revenue the related costs and expenses attributable to the segment. Segment EBIT excludes general corporate expenses, restructuring charges, interest expense, other income (expense) and income taxes. Identifiable assets are those used in the Company's operations and exclude cash and cash equivalents, short-term investments and general corporate assets. Long-lived assets exclude finance receivables and investment in leveraged leases.

Revenue and EBIT by business segment and geographic area follows:

(Dollars in millions)	**Revenue**		
	2005	**2004**	**2003**
Business segments:			
Inside the U.S. — Mailing	**$2,273**	$2,185	$ 2,184
— DMT	**430**	350	274
Outside the U.S.	**1,173**	1,011	846
Global Mailstream Solutions	**3,876**	3,546	3,304

Global Management Services	**1,072**	1,078	1,006
Mail Services	**405**	192	113
Global Business Services	**1,477**	1,270	1,119
Capital Services	**139**	141	154
Total	**$ 5,492**	$4,957	$4,577
Geographic areas:			
United States	**$ 4,091**	$ 3,703	$ 3,507
Outside the United States	**1,401**	1,254	1,070
Total	**$ 5,492**	$4,957	$4,577

(Dollars in millions)	EBIT		
	2005	2004	2003
Business segments:			
Inside the U.S. — Mailing	**$ 906**	$ 864	$ 847
— DMT	**62**	38	29
Outside the U.S.	**203**	174	132
Global Mailstream Solutions	**1,171**	1,076	1,008
Global Management Services	**72**	56	52
Mail Services	**26**	10	11
Global Business Services	**98**	66	63
Capital Services	**83**	88	104
Total	**$1,352**	$ 1,230	$1,175
Geographic areas:			
United States	**$1,121**	$ 1,023	$ 1,004
Outside the United States	**231**	207	171
Total	**$1,352**	$ 1,230	$1,175

Additional segment information is as follows:

(Dollars in millions)	Years ended December 31		
	2005	2004	2003
Depreciation and amortization:			
Inside the U.S. — Mailing	**$ 112**	$ 114	$ 122
— DMT	**36**	36	30
Outside the U.S.	**61**	52	43
Global Mailstream Solutions	**209**	202	195
Global Management Services	**59**	64	58
Mail Services	**27**	22	15
Global Business Services	**86**	86	73
Capital Services	**8**	5	9
Total	**$ 303**	$ 293	$ 277

(Dollars in millions)	Years ended December 31		
	2005	2004	2003
Capital expenditures:			
Inside the U.S. — Mailing	**$ 142**	$ 150	$ 133
— DMT	**3**	6	5
Outside the U.S.	**71**	76	57
Global Mailstream Solutions	**216**	232	195

Global Management Services	**48**	58	60
Mail Services	**21**	19	21
Global Business Services	**69**	77	81
Capital Services	**-**	-	-
Total	**$ 285**	$ 309	$ 276
Revenue by products and services:			
Equipment sales and rentals	**$ 1,954**	$ 1,873	$1,793
Equipment financing	**482**	439	433
Equipment support services	**663**	591	564
Supplies	**361**	321	284
Software	**248**	163	87
Payment solutions	**168**	159	143
Management services	**1,072**	1,078	1,006
Mail services	**405**	192	113
Capital services	**139**	141	154
Total	**$ 5,492**	$4,957	$4,577

	Years ended December 31	
(Dollars in millions)	**2005**	2004
Identifiable assets:		
Inside the U.S. — Mailing	**$3,392**	$ 3,136
— DMT	**714**	705
Outside the U.S.	**1,718**	1,732
Global Mailstream Solutions	**5,824**	5,573
Global Management Services	**789**	797
Mail Services	**712**	419
Global Business Services	**1,501**	1,216
Capital Services	**2,580**	2,676
Total	**$ 9,905**	$9,465
Identifiable long-lived assets by geographic areas:		
United States	**$3,303**	$2,971
Outside the United States	**862**	885
Total	**$ 4,165**	$3,856

Reconciliation of segment amounts to consolidated totals:

	Years ended December 31		
(Dollars in millions)	**2005**	**2004**	**2003**
EBIT:			
Total EBIT for reportable segments	**$ 1,352**	$ 1,230	$1,175
Unallocated amounts:			
Interest, net	**(208)**	(173)	(168)
Corporate expense	**(189)**	(180)	(169)
Restructuring charges	**(54)**	(158)	(117)
Other income (expense)	**(34)**	(20)	-
Income from continuing operations before income taxes	**$ 867**	$ 699	$ 721
Depreciation and amortization:			
Total depreciation and amortization for reportable segments	**$ 303**	$ 293	$ 277
Corporate depreciation	**29**	14	12
Consolidated depreciation and amortization	**$ 332**	$ 307	$ 289

Capital expenditures:			
Total additions for reportable segments	**$ 285**	$ 309	$ 276
Unallocated amounts	**7**	8	10
Consolidated capital expenditures	**$ 292**	$ 317	$ 286

	December 31	
(Dollars in millions)	**2005**	2004
Total assets:		
Total identifiable assets by reportable segments	**$ 9,905**	$ 9,465
Cash and cash equivalents and short-term investments	**300**	320
General corporate assets	**416**	427
Consolidated assets	**$10,621**	$10,212

21. Fair value of financial instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash, cash equivalents, short-term investments, accounts receivable, accounts payable and notes payable

The carrying amounts approximate fair value because of the short maturity of these instruments.

Investment securities

The fair value of investment securities is estimated based on quoted market prices, dealer quotes and other estimates.

Loans receivable

The fair value of loans receivable is estimated based on quoted market prices, dealer quotes or by discounting the future cash flows using current interest rates at which similar loans would be made to borrowers with similar credit ratings and similar remaining maturities.

Long-term debt

The fair value of long-term debt is estimated based on quoted dealer prices for the same or similar issues.

Interest rate swap agreements and foreign currency exchange contracts

The fair values of interest rate swaps and foreign currency exchange contracts are obtained from dealer quotes. These values represent the estimated amount the Company would receive or pay to terminate agreements, taking into consideration current interest rates, the creditworthiness of the counterparties and current foreign currency exchange rates.

Transfer of receivables with recourse

The fair value of the recourse liability represents the estimate of expected future losses and has accordingly been recorded in the Company's Consolidated Balance Sheets. The Company periodically evaluates the adequacy of reserves and estimates of expected losses; if the resulting evaluation of expected losses differs from the actual reserve, adjustments are made to the reserve.

The estimated fair value of the Company's financial instruments follows:

December 31	2005 Carrying value (1)	2005 Fair value	2004 Carrying value (1)	2004 Fair value
Investment securities	**$ 122,644**	**$ 122,644**	$ 39,257	$ 39,257
Loans receivable	**$ 371,140**	**$ 371,140**	$ 410,699	$ 410,699
Long-term debt	**$(3,893,329)**	**$(3,854,295)**	$(3,192,979)	$(3,270,580)
Interest rate swaps	**$ (766)**	**$ (766)**	$ (2,255)	$ (2,255)
Foreign currency exchange contracts	**$ (4,374)**	**$ (4,374)**	$ (6,247)	$ (6,247)
Transfer of receivables with recourse	-	-	$ (354)	$ (354)

(1) Carrying value includes accrued interest and deferred fee income, where applicable.

22. Quarterly financial data (unaudited)

Summarized quarterly financial data (dollars in millions, except for per share data) for 2005 and 2004 follows:

2005	Three Months Ended				
	Mar. 31	June 30	Sept. 30	Dec. 31	2005 Year
Total revenue	**$1,318**	**$1,360**	**$1,356**	**$1,458**	**$ 5,492**
Gross profit (1)	**719**	**743**	**746**	**805**	**3,013**
Restructuring charges	**(16)**	**26**	**13**	**30**	**54**
Other income (expense)	**(10)**	**-**	**-**	**(24)**	**(34)**
Income from continuing operations	**150**	**139**	**144**	**94**	**527**
Net income	**$ 150**	**$ 139**	**$ 144**	**$ 94**	**$ 527**
Basic earnings per share	**$ 0.65**	**$ 0.61**	**$ 0.63**	**$ 0.41**	**$ 2.30**
Net income	**$ 0.65**	**$ 0.61**	**$ 0.63**	**$ 0.41**	**$ 2.30**
Diluted earnings per share	**$ 0.64**	**$ 0.60**	**$ 0.62**	**$ 0.41**	**$ 2.27**
Net income	**$ 0.64**	**$ 0.60**	**$ 0.62**	**$ 0.41**	**$ 2.27**

2004	Three Months Ended				
	Mar. 31	June 30	Sept. 30	Dec. 31	Year 2004
Total revenue	$1,172	$1,206	$1,218	$1,362	$4,957
Gross profit (1)	639	660	673	744	2,716
Restructuring charges	15	16	16	111	158
Other income (expense)	-	-	-	20	20
Income from continuing operations	127	135	137	83	481
Net income	$ 127	$ 135	$ 137	$ 83	$481
Basic earnings per share	$ 0.55	$ 0.58	$ 0.59	$ 0.36	$2.08
Net income	$ 0.55	$ 0.58	$ 0.59	$ 0.36	$2.08
Diluted earnings per share	$ 0.54	$ 0.58	$ 0.58	$ 0.35	$2.05
Net income	$ 0.54	$ 0.58	$ 0.58	$ 0.35	$2.05

(1) Gross profit is defined as total revenue less cost of sales, cost of rentals, cost of business services, cost of support services and cost of capital services.

The sum of the quarters and earnings per share amounts may not equal the annual and total amounts due to rounding.

Report of Independent Registered Public Accounting Firm
To the Stockholders and Board of Directors of Pitney Bowes Inc.:

We have completed integrated audits of Pitney Bowes Inc.'s 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005, and an audit of its 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Pitney Bowes Inc. and its subsidiaries (the Company) at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement

presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control — Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Stamford, Connecticut
March 9, 2006

ITEM 9 — CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A — CONTROLS AND PROCEDURES

Conclusion Regarding Disclosure Controls and Procedures

Under the direction of our Chief Executive Officer and Chief Financial Officer, we evaluated our disclosure controls and procedures and internal control over financial reporting. The CEO and CFO concluded that our disclosure controls and procedures were effective as of December 31, 2005. In addition, no change in internal control over financial reporting occurred during the quarter ended December 31, 2005, that has materially affected, or is reasonably likely to materially affect, such internal control over financial reporting. It should be noted that any system of controls is based in part upon certain assumptions designed to obtain reasonable (and not absolute) assurance as to its effectiveness, and there can be no assurance that any design will succeed in achieving its stated goals. Notwithstanding this caution, the CEO and CFO have reasonable assurance that the disclosure controls and procedures were effective as of December 31, 2005.

Management's Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with internal control policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework*. Management's assessment included evaluating the design of the Company's internal control over financial reporting and testing of the

operational effectiveness of the Company's internal control over financial reporting. Based on our assessment, we concluded that, as of December 31, 2005, the Company's internal control over financial reporting was effective based on the criteria issued by COSO in *Internal Control — Integrated Framework*.

Management's assessment of internal control over financial reporting as of December 31, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which is included on page 74.

ITEM 9B — OTHER INFORMATION

None

PART III

ITEM 10 — DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Except for information regarding the Company's executive officers, which is provided under the caption "Executive Officers of the Registrant" in Part I of this annual report on Form 10-K, the information called for by this Item is incorporated herein by reference to the sections entitled "Election of Directors," "How much stock is owned by directors and executive officers?," "Which stockholders own at least 5% of Pitney Bowes?," "Security Ownership," "Audit Committee" and "Corporate Governance" of the Pitney Bowes Inc. Notice of the 2006 Annual Meeting and Proxy Statement.

ITEM 11 — EXECUTIVE COMPENSATION

The sections entitled "Directors' Compensation," "Executive Officer Compensation," "Severance and Change of Control Arrangements" and "Pension Benefits" of the Pitney Bowes Inc. Notice of the 2006 Annual Meeting and Proxy Statement are incorporated herein by reference.

ITEM 12 — SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

EQUITY COMPENSATION PLAN INFORMATION TABLE

The following table provides information as of December 31, 2005 regarding the number of shares of the Company's common stock that may be issued under the Company's equity compensation plans.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (a)
Equity compensation plans approved by security holders	22,437,808	$ 41.21	17,762,322
Equity compensation plans not approved by security holders	158,410	$ 36.18	1,323,939
Total	22,596,218	$ 41.16	19,086,261

The sections entitled "How much stock is owned by directors and executive officers?" and "Security Ownership" of the Pitney Bowes Inc. Notice of the 2006 Annual Meeting and Proxy Statement, to be filed with the SEC on or before March 31, 2006, are incorporated herein by reference.

ITEM 13 — CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

As part of the spin-off of Imagistics International Inc. (IGI), Pitney Bowes entered into several agreements with IGI that govern the ongoing relations between the two companies. The purpose of the agreements is to provide an orderly transition for both companies. Additional or modified agreements, arrangements or transactions, which would be negotiated at arm's length, may be entered into between Pitney Bowes and IGI.

Agreements included matters such as cross-indemnification, employee benefits, non-competition provisions, restrictions on solicitation or employment of employees, access of information, provision of witnesses, confidentiality, transaction expenses, employee termination, transition services, tax separation, intellectual property, vendor financing, real estate and a credit agreement.

ITEM 14 — PRINCIPAL ACCOUNTANT FEES AND SERVICES

The section entitled "Principal Accountant Fees and Services" of the Pitney Bowes Inc. Notice of the 2006 Annual Meeting and Proxy Statement, to be filed with the Commission on or before March 31, 2006, is incorporated herein by reference.

PART IV

ITEM 15 — EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial statements — see Item 8 on page 35 and "Index to Financial Schedules" on page 81.

2. Financial statement schedules — see "Index to Financial Schedules" on page 81.

3. Exhibits (numbered in accordance with Item 601 of Regulation S-K).

Reg. S-K exhibits	Description	Status or incorporation by reference
(3)(a)	Restated Certificate of Incorporation, as amended	Incorporated by reference to Exhibit (3a) to Form 10-K as filed with the Commission on March 30, 1993. (Commission file number 1-3579)
(a.1)	Certificate of Amendment to the Restated Certificate of Incorporation (as amended May 29, 1996)	Incorporated by reference to Exhibit (a.1) to Form 10-K as filed with the Commission on March 27, 1998. (Commission file number 1-3579)
(b)	By-laws, as amended	Incorporated by reference to Exhibit (3)(ii) to Form 10-Q as filed with the Commission on November 16, 1998. (Commission file number 1-3579)
(4)(a)	Preference Share Purchase Rights Agreement dated December 11, 1995 between the Company and Chemical Mellon Shareholder Services, LLC., as Rights Agent, as amended	Incorporated by reference to Exhibit (4) to Form 8-K as filed with the Commission on March 13, 1996. (Commission file number 1-3579)
(a.1)	Certificate of amendment to the Preference Share Purchase Rights Agreement dated December 11, 1995 between the Company and Chemical Mellon Shareholder Services, LLC., as Rights Agent, as amended December 8, 1998	Incorporated by reference to Exhibit (4.4) to Form 8-A/A as filed with the Commission on December 19, 2003. (Commission file number 1-3579)
(b)	Form of Indenture between the Company and SunTrust Bank, as Trustee	Incorporated by reference to Exhibit 4.4 to Registration Statement on Form S-3 (No. 333-72304) as filed with the Commission on October 26, 2001.
(c)	Supplemental Indenture No. 1 dated April 23, 2004 between the Company and SunTrust Bank, as Trustee	Incorporated by reference to Exhibit 4.1 to Form 8-K as filed with the Commission on August 18, 2004.
(d)	Form of Indenture between the Company and Citibank, N.A., as Trustee	Incorporated by reference to Exhibit 4(a) to Registration Statement on Form S-3 (No. 333-120525) as filed with the Commission on November 16, 2004.

The Company has outstanding certain other long-term indebtedness. Such long-term indebtedness does not exceed 10% of the total assets of the Company; therefore, copies of instruments defining the rights of holders of such indebtedness are not included as exhibits. The Company agrees to furnish copies of such instruments to the SEC upon request.

Executive Compensation Plans:

Reg. S-K exhibits	Description	Status or incorporation by reference
(10)(a)	Retirement Plan for Directors of Pitney Bowes Inc.	Incorporated by reference to Exhibit (10a) to Form 10-K as filed with the Commission on March 30, 1993. (Commission file number 1-3579)
(b)	Pitney Bowes Inc. Directors' Stock Plan (as amended and restated 1999)	Incorporated by reference to Exhibit (i) to Form 10-K as filed with the Commission on March 30, 2000. (Commission file number 1-3579)
(b.1)	Pitney Bowes Inc. Directors' Stock Plan (Amendment Number 1, effective as of May 12, 2003)	Incorporated by reference to Exhibit (10) to Form 10-Q as filed with the Commission on August 11, 2003. (Commission file number 1-3579)
(c)	Pitney Bowes 1991 Stock Plan (as amended and restated)	Incorporated by reference to Exhibit (10) to Form 10-Q as filed with the Commission on May 14, 1998. (Commission file number 1-3579)

Executive Compensation Plans:

(c.1)	Pitney Bowes 1998 Stock Plan (as amended and restated)	Incorporated by reference to Exhibit (ii) to Form 10-K as filed with the Commission on March 30, 2000. (Commission file number 1-3579)
(c.2)	Pitney Bowes Stock Plan (as amended and restated as of January 1, 2002)	Incorporated by reference to Annex 1 to the proxy statement for the 2002 annual meeting of stockholders. (Commission file number 1-3579)
(d)	Pitney Bowes Inc. Key Employees' Incentive Plan (as amended and restated)	Incorporated by reference to Exhibit (i) to Form 10-K as filed with the Commission on March 26, 2001. (Commission file number 1-3579)
(e)	Pitney Bowes Severance Plan (as amended, and restated effective January 1, 1999)	Exhibit (iv)
(f)	Pitney Bowes Senior Executive Severance Policy (amended and restated as of January 1, 2000)	Exhibit (v)
(g)	Pitney Bowes Inc. Deferred Incentive Savings Plan for the Board of Directors	Incorporated by reference to Exhibit (i) to Form 10-Q as filed with the Commission on May 15, 1997. (Commission file number 1-3579)
(g.1)	Pitney Bowes Inc. Deferred Incentive Savings Plan for the Board of Directors (as amended and restated 1999)	Incorporated by reference to Exhibit (iii) to Form 10-K as filed with the Commission on March 30, 2000. (Commission file number 1-3579)
(h)	Pitney Bowes Inc. Deferred Incentive Savings Plan (amended and restated January 1, 2003)	Exhibit (vi)
(i)	Pitney Bowes U.K. Stock Option Plan (as amended and restated 1999)	Incorporated by reference to Exhibit (iv) to Form 10-K as filed with the Commission on March 30, 2000. (Commission file number 1-3579)
(j)	Pitney Bowes Separation Agreement with Karen M. Garrison dated December 5, 2003	Incorporated by reference to Exhibit (iv) to Form 10-K as filed with the Commission on March 9, 2004. (Commission file number 1-3579)
(k)	Pitney Bowes Separation Agreement with Matthew S. Kissner dated December 16, 2004	Incorporated by reference to Exhibit (10.1) to Form 8-K as filed with the Commission on December 22, 2004. (Commission file number 1-3579)
(l)	Pitney Bowes Terms of Employment Arrangements for the Named Executive Officers for 2005 dated February 14, 2005	Incorporated by reference to Exhibit (10.1) to Form 8-K as filed with the Commission on February 18, 2005. (Commission file number 1-3579)
Other:		
(m)	Subscription Agreement between Pitney Bowes Credit Corporation and JCC Management LLC dated as of March 31, 2005	Incorporated by reference to Exhibit (10) to Form 10-Q as filed with the Commission on May 6, 2005. (Commission file number 1-3579)
(12)	Computation of ratio of earnings to fixed charges	Exhibit (i)
(21)	Subsidiaries of the registrant	Exhibit (ii)
(23)	Consent of experts and counsel	Exhibit (iii)
(31.1)	Certification of Chief Executive Officer Pursuant to Section 302 of the	See page 86

	Sarbanes — Oxley Act of 2002	
(31.2)	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes — Oxley Act of 2002	See page 87
(32.1)	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350	See page 88
(32.2)	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350	See page 89

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ Michael J. Critelli
(Michael J. Critelli)
Chairman and Chief
Executive Officer
Date: March 13, 2006

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Michael J. Critelli Michael J. Critelli	Chairman and Chief Executive Officer — Director	March 13, 2006
/s/ Bruce P. Nolop Bruce P. Nolop	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 13, 2006
/s/ Steven J. Green Steven J. Green	Vice President — Finance and Chief Accounting Officer (Principal Accounting Officer)	March 13, 2006
/s/ Linda G. Alvarado Linda G. Alvarado	Director	March 13, 2006
/s/ Colin G. Campbell Colin G. Campbell	Director	March 13, 2006
/s/ Anne S. Fuchs Anne S. Fuchs	Director	March 13, 2006
/s/ Ernie Green Ernie Green	Director	March 13, 2006

/s/ James H. Keyes James H. Keyes	Director	March 13, 2006
/s/ John S. McFarlane John S. McFarlane	Director	March 13, 2006
/s/ Eduardo R. Menascé Eduardo R. Menascé	Director	March 13, 2006
/s/ Michael I. Roth Michael I. Roth	Director	March 13, 2006
/s/ David L. Shedlarz David L. Shedlarz	Director	March 13, 2006
/s/ Robert E. Weissman Robert E. Weissman	Director	March 13, 2006

INDEX TO FINANCIAL SCHEDULES

The financial schedules should be read in conjunction with the financial statements included in Item 8 in this Form 10-K. Schedules not included herein have been omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

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Pitney Bowes Inc.:	
Financial statement schedule for the years ended December 31, 2005, 2004 and 2003:	
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PITNEY BOWES INC.
SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
FOR THE YEARS ENDED DECEMBER 31, 2003 TO 2005

(Dollars in thousands)

Description	Balance at beginning of year	Additions	Deductions	Balance at end of year
Allowance for doubtful accounts				
2005	$ 50,254	$ 8,707(1)	$ 12,700(2)	$ 46,261
2004	$ 39,778	$ 23,692(1)	$ 13,216(2)	$ 50,254
2003	$ 35,139	$ 15,810(1)	$ 11,171(2)	$ 39,778
Allowance for credit losses on finance receivables				
2005	$173,032	$51,566	$95,736(2)	$128,862
2004	$141,184	$ 86,368(3)	$ 54,520(2)	$ 173,032
2003	$154,008	$ 51,910	$ 64,734(2)	$ 141,184
Valuation allowance for deferred tax asset (4)				
2005	$ 18,427	$ 7,641	$ 4,291	$ 21,777
2004	$ 4,517	$ 15,208	$ 1,298	$ 18,427
2003	$ 13,398	$ 2,459	$ 11,340	$ 4,517

(1) Includes additions charged to expenses, additions from acquisitions and impact of foreign exchange translation.

(2) Principally uncollectible accounts written off.

(3) Includes $30 million of additions related to the consolidation of PBG Capital Partners LLC.

(4) Included in Consolidated Balance Sheets as a liability.

EXHIBIT (i)

PITNEY BOWES INC.
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES (1)

(Dollars in thousands)

	Years ended December 31				
	2005	2004	2003	2002	2001 (2)
Income from continuing operations before income taxes	**$ 867,124**	$699,448	$721,091	$619,445	$ 766,384
Add:					
Interest expense	**213,556**	177,126	171,281	190,652	202,174
Portion of rents representative of the interest factor	**52,823**	51,445	45,978	43,032	36,032
Amortization of capitalized interest	**986**	1,473	1,473	1,348	973
Minority interest in the income of subsidiary with fixed charges	**8,917**	4,791	3,924	5,415	9,995
Income as adjusted	**$1,143,406**	$ 934,283	$ 943,747	$859,892	$1,015,558
Fixed charges:					
Interest expense	**$ 213,556**	$177,126	$171,281	$190,652	$ 202,174
Portions of rents representative of the interest factor	**52,823**	51,445	45,978	43,032	36,032
Minority interest, excluding taxes, in the income of subsidiary with fixed charges	**14,683**	6,974	5,718	7,663	14,893
Total fixed charges	**$ 281,062**	$235,545	$222,977	$ 241,347	$ 253,099
Ratio of earnings to fixed charges	**4.07**	3.97	4.23	3.56	4.01

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

(2) Amounts reclassified to reflect IGI, CPLC and AMIC as discontinued operations. Interest expense and the portion of rents representative of the interest factor of these discontinued operations have been excluded from fixed charges in the computation.
Including these amounts in fixed charges, the ratio of earnings to fixed charges would be 3.87 for the year ended December 31, 2001.

PITNEY BOWES INC.
SUBSIDIARIES OF THE REGISTRANT

The Registrant, Pitney Bowes Inc., a Delaware Corporation, has no parent.

The following are subsidiaries of the Registrant (as of December 31, 2005)

Company name	Country or state of incorporation
Addressing Systems International Holdings Limited	England
Adrema Leasing Corporation	Delaware
Adrema Maschinen — und — Auto Leasing GmbH	Germany
Adrema Maschinenbau Inc.	Delaware
Andeen Enterprises, Inc.	Panama
Archiver Limited f/k/a Micromedia Limited	England
Artec International Corporation	California
Bell & Howell France Holding SAS	France
B. Williams Funding Corp.	Delaware
B. Williams Holding Corp.	Delaware
Burmas voorheen Buroservice NV	Belgium
Canadian Office Services (Toronto) Limited	Canada
Cascade Microfilm Systems, Inc.	California
CPLC Inc.	Delaware
Danka Canada, Inc.	Canada
Document Process S.A.	France
ECL Finance Company, NV	Netherlands
Elmcroft Road Realty Corporation	Connecticut
FSL Holdings Inc.	Connecticut
FSL Risk Managers Inc.	New York
Group 1 Software China Ltd.	Hong Kong
Group 1 Software Korea Ltd.	Korea
Group 1 Software Asia Pacific Pte Ltd.	Singapore
Group 1 Software Beijing Ltd.	China
Group 1 Software Europe Ltd. (U.K.)	UK
Group 1 Software France SA	France
Group 1 Software Germany GmbH	Germany
Group 1 Software Japan KK	Japan
Group 1 Software Inc.	Delaware
Harlow Aircraft Inc.	Delaware
Imagitas, Inc.	Delaware
Imagitas Security Corporation	Massachusetts
Informatech Inc.	California
International Asset Residual Management Ltd.	Bermuda
International Imaging Limited	England
La Agricultora Ecuatoriana S.A.	Ecuador
Logestim Logiciels et Systèmes, Texte et Image SAS	France
Mag Expansion SA	France
Mag Systèmes SAS	France
Mag Graphic SAS	France
MailCode Holdings, Inc.	Indiana
MailCode, Inc.	Delaware
Norlin Australia Investments Pty. Limited	Australia
Oy Adrema Helsinki	Finland
PB Air Inc.	Nevada
PB Aircraft Finance Inc.	Delaware
PB Australia Funding Pty. Limited	Australia
PB Canada Funding Ltd.	Canada

PB CFSC I Inc.	Virgin Islands
PB Equipment Management Inc.	Delaware
PB Forms, Inc.	Nebraska
PB Funding Corporation	Delaware
PB Global Financial Services Inc.	Delaware
PB Global Holdings Inc.	Connecticut
PB Global Holdings II Inc.	Connecticut
PB Global Holdings III Inc.	Connecticut
PB Global Holdings IV Inc.	Connecticut
PB Lease Holdings Inc.	Nevada
PB Leasing Corporation	Delaware
PB Leasing Services Inc.	Nevada
PB Miles Inc.	Delaware
PB Municipal Funding Inc.	Nevada
PB Nihon FSC Ltd.	Bermuda
PB Nikko FSC Ltd.	Bermuda
PB Nova Scotia II ULC	Canada
PB Partnership Financing Inc.	Delaware
PB Production International Corp.	Delaware
PB Professional Services Inc.	Delaware
PB Public Finance Inc.	Delaware
PB Texas LP	Delaware
PB World Trade Corp.	Delaware
PBA Foreign Sales Corporation	Barbados
PBG Holdings Inc.	Delaware
PCAN Mailing Solutions, Inc./Solutions D’Affranchissement PCAN Inc.	Canada
Pitney Bowes Australia FAS Pty. Limited	Australia
Pitney Bowes Australia Pty.	Australia
Pitney Bowes Austria Ges.m.b.H	Austria
Pitney Bowes Belgium NV	Belgium
Pitney Bowes of Canada Ltd.—Pitney Bowes du Canada Ltee	Canada
Pitney Bowes Canada Holdings Limited	Canada
Pitney Bowes China Inc.	Delaware
Pitney Bowes Credit Australia Limited	Australia
Pitney Bowes Credit Corporation	Delaware
Pitney Bowes Cross Border Services, Inc	Delaware
Pitney Bowes Danmark A/S (formerly Haro Systemer AS)	Denmark
Pitney Bowes Data Systems, Ltd.	Delaware
Pitney Bowes de Mexico, S.A. de C.V.	Mexico
Pitney Bowes Deutschland GmbH	Germany
Pitney Bowes Document Messaging Technologies Limited (formerly Bell & Howell Limited)	England
Pitney Bowes Espana, S.A.	Spain
Pitney Bowes Finans Norge AS	Norway
Pitney Bowes Finance plc (formerly PB Leasing Ltd.)	England
Pitney Bowes Finance Ireland Limited	Ireland
Pitney Bowes France S.A.	France
Pitney Bowes Global Limited	England
Pitney Bowes Government Solutions, Inc.	Delaware
Pitney Bowes Holding SNC	France
Pitney Bowes Holdings B.V.	Netherlands
Pitney Bowes Holdings Denmark ApS	Denmark
Pitney Bowes Holdings Limited	England
Pitney Bowes Hong Kong Inc.	Delaware
Pitney Bowes Hong Kong Limited	Hong Kong
Pitney Bowes India Inc.	Delaware
Pitney Bowes India Private Limited	India
Pitney Bowes Insurance Agency, Inc.	Connecticut
Pitney Bowes International	Ireland

Pitney Bowes International Funding	Ireland
Pitney Bowes International Holdings, Inc.	Delaware
Pitney Bowes Italia S.r.l.	Italy
Pitney Bowes Japan KK	Japan
Pitney Bowes Korea Ltd.	Korea

PITNEY BOWES INC.
SUBSIDIARIES OF THE REGISTRANT

The Registrant, Pitney Bowes Inc., a Delaware Corporation, has no parent.

The following are subsidiaries of the Registrant
(as of December 31, 2005)

Company name	Country or state of incorporation
Pitney Bowes (Ireland) Limited	Ireland
Pitney Bowes Limited	England
Pitney Bowes Luxembourg SARL	Luxembourg
Pitney Bowes (Macau) Limited	Macau
Pitney Bowes Mail and Messaging Systems (Shanghai) Co., Ltd.	Shanghai
Pitney Bowes Management Services Belgium, NV	Belgium
Pitney Bowes Management Services Canada, Inc. Services de Gestion Pitney Bowes Canada, Inc.	Canada
Pitney Bowes Management Services Denmark, A/S	Denmark
Pitney Bowes Management Services Deutschland GmbH	Germany
Pitney Bowes Management Services France S.A.S.	France
Pitney Bowes Management Services Italia S.r.l.	Italy
Pitney Bowes Management Services Limited	England
Pitney Bowes Management Services Netherlands, B.V.	Netherlands
Pitney Bowes Management Services Norway A.S.	Norway
Pitney Bowes Management Services Sweden AB	Sweden
Pitney Bowes Management Services, Inc.	Delaware
Pitney Bowes Netherlands B.V.	Netherlands
Pitney Bowes New Zealand Limited	New Zealand
Pitney Bowes Oy	Finland
Pitney Bowes Norge AS	Norway
Pitney Bowes Portugal Sociedade Unipessoal, Lda.	Portugal
Pitney Bowes Nova Scotia ULC	Canada
Pitney Bowes Properties Inc.	Connecticut
Pitney Bowes Real Estate Financing Corporation	Delaware
Pitney Bowes SA (Pty) Ltd.	South Africa
Pitney Bowes Semco Equipamentos E Servicos Ltda	Brazil
Pitney Bowes Service Solutions, Inc.	Delaware
Pitney Bowes Servicios, S.A. de C.V.	Mexico
Pitney Bowes Shelton Realty Inc.	Connecticut
Pitney Bowes (Singapore) Pte Ltd.	Singapore
Pitney Bowes Svenska Aktiebolag	Sweden
Pitney Bowes (Switzerland) AG	Switzerland
Pitney Bowes (Thailand) Limited	Thailand
Pitney Structured Funding I Inc.	Delaware
Pitney B2B Capital.com Connecticut Inc.	Delaware

PitneyWorks.com Inc.	Delaware
PREFCO Dover Inc.	Delaware
PREFCO Onze Inc.	Delaware
PREFCO I LP Inc.	Delaware
PREFCO II SPE Inc.	Delaware
PREFCO II Inc.	Delaware
PREFCO III LP Inc.	Delaware
PREFCO IV LP Inc.	Delaware
PREFCO V LP Inc.	Delaware
PREFCO VI Inc.	Delaware
PREFCO VI LP Inc.	Delaware
PREFCO VII Inc.	Delaware
PREFCO VII LP Inc.	Delaware
PREFCO VIII LP Inc.	Delaware
PREFCO IX LP Inc.	Delaware
PREFCO XI LP Inc.	Delaware
PREFCO XII LP Inc.	Delaware
PREFCO XIII Inc.	Delaware
PREFCO XIII LP Inc.	Delaware
PREFCO XIV LP Inc.	Delaware
PREFCO XV LP Inc.	Delaware
PREFCO XVI Inc.	Delaware
PREFCO XVI LP Inc.	Delaware
PREFCO XVII Inc.	Delaware
PREFCO XVII LP Inc.	Delaware
PREFCO XVIII LP Inc.	Delaware
PREFCO XIX LP Inc.	Delaware
PREFCO XXI Inc.	Delaware
PREFCO XXI LP Inc.	Delaware
PREFCO XXII Inc.	Delaware
PREFCO XXII LP Inc.	Delaware
PREFCO XXIV Inc.	Delaware
PREFCO XXV Inc.	Delaware
PREFCO — Dayton Community Urban Redevelopment Corporation	Ohio
PREFCO Twelve Holdings Inc.	Delaware
Printing and Post Processing Company NV	Belgium
PRINTLINX CORPORATION	Canada
PSI Group, Inc.	Delaware
P. Technical Services Limited	England
Remington Customer Finance Pty. Limited	Australia
RMPB Limited	England
ROM Holdings Pty. Limited	Australia
ROM Securities Pty. Limited	Australia
Sagent Inc. (Taiwan)	Taiwan
Sagent UK, Ltd.	UK
Sagent (Indonesia) Pte Ltd.	Singapore
Sagent (Malaysia) Sdn Bhd	Malaysia
Sagent (Singapore) Pte Ltd.	Singapore
Sales and Service Training Center Inc.	Georgia
SCI François Gillet	France
SCI Méditerranée	France
Secap (Groupe Pitney Bowes) SAS	France
Secap Technologies Limited	England
Technopli SARL	France
The Pitney Bowes Bank, Inc.	Utah
Time-Sensitive Delivery Guide Inc.	Delaware
Tower FSC, Ltd.	Bermuda

Universal Postal Frankers Ltd.	England
Waterview Resolution Corporation	Massachusetts
Wheeler Insurance, Ltd.	Vermont
1136 Corporation	Delaware

EXHIBIT (iii)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Prospectus constituting part of the Registration Statements on:

Form	Reference
Form S-8	No. 33-5291
Form S-8	No. 33-4549
Form S-8	No. 33-22238
Form S-8	No. 33-5765
Form S-8	No. 33-41182
Form S-8	No. 333-66735
Form S-3	No. 33-5289
Form S-3	No. 33-5290
Form S-3	No. 33-18280
Form S-3	No. 33-25730
Form S-3	No. 33-21723
Form S-3	No. 33-27244
Form S-3	No. 33-33948
Form S-3	No. 333-51281
Form S-3	No. 333-72304
Form S-3	No. 33-10966
Form S-3	No. 333-120525
Form S-3	No. 333-122481

of Pitney Bowes Inc. of our report dated March 9, 2006 relating to the financial statements, financial statement schedules, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Stamford, Connecticut
March 9, 2006

Pitney Bowes Severance Pay Plan
As Amended and Restated Effective January 1, 1999

FOR EBC APPROVAL JANUARY 2000

Pitney Bowes Severance Pay Plan
(As Amended and Restated Effective as of January 1,1999)

I Purpose and Introduction

The purpose of the Pitney Bowes Severance Pay Plan is to provide income to Employees who are involuntarily terminated by the Company for certain reasons. The provisions of this Plan generally do not apply in the case of an Employee's voluntary termination. However, the Plan contains provisions providing certain benefits to Employees who resign under specified circumstances following a Change of Control. The Plan was originally effective June 1988. The Plan is hereby amended and restated effective as of January 1, 1999. Employees who terminated employment prior to January 1, 1999 shall have any rights in the Plan determined under the Plan document in effect prior to January
1, 1999.

II. Definitions

A. "Board" means the board of directors of Pitney Bowes Inc.

B. "Cause" means with respect to the Company, embezzlement, malfeasance, commission of a felony, the non-performance of one's job or duties as determined by the Company in its sole discretion and acts of moral turpitude.

C. "Change of Control" means the following where:

(i) there is an acquisition, in any one transaction or a series of transactions, other than from Pitney Bowes Inc., by any individual, entity or group (within the meaning of Section l3(d)(3) or l4(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), of beneficial ownership (within the meaning of Rule 13(d)(3) promulgated under the Exchange Act) of 20% or more of either the then outstanding shares of Common Stock or the combined voting power of the then outstanding voting securities of Pitney Bowes Inc. entitled to vote generally in the election of directors, but excluding, for this purpose, any such acquisition by Pitney Bowes Inc. or any of its subsidiaries, or any employee benefit plan (or related trust) of Pitney Bowes Inc. or its subsidiaries, or any corporation with respect to which, following such acquisition, more than *50%* of the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by the individuals and entities who were the beneficial owners, respectively, of the common stock and voting securities of Pitney Bowes Inc. immediately prior to such acquisition in substantially the same proportion as their ownership, immediately prior to such acquisition, of the then outstanding shares of Common Stock or the combined voting power of the then outstanding voting securities of Pitney Bowes Inc. entitled to vote generally in the election of directors, as the case may be; or

(ii) individuals who, as of January 1, 1999, constitute the Board (as of such date, the "Incumbent Board") cease for any reason to constitute at least a majority of the Board, provided

that any individual becoming a director subsequent to January 1, 1999, whose election, or nomination for election by Pitney Bowes' shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of Pitney Bowes Inc. (as such terms are used in Rule 14(a)(11) or Regulation 14A promulgated under the Exchange Act); or

(iii) there occurs either (A) the consummation of a reorganization, merger or consolidation, in each case, with respect to which the individuals and entities who were the respective beneficial owners of the common stock and voting securities of Pitney Bowes Inc. immediately prior to such reorganization, merger or consolidation do not, following such reorganization, merger or consolidation, beneficially own, directly or indirectly, more than *50%* of respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such reorganization, merger or consolidation, or (B) an approval by the shareholders of Pitney B owes Inc. of a complete liquidation of dissolution of Pitney Bowes Inc. or of the sale or other disposition of all or substantially all of the assets of Pitney B owes Inc.

D. "Committee" means the Employee Benefits Committee established by the Company.

E. "Company" means Pitney Bowes Inc. (and any successor entity) and the following related companies: Pitney Bowes Credit Corporation, Pitney Bowes Management Services, Inc. and Pitney Bowes Professional Services Inc.

F. "Contract Employee" means an employee who is employed by the Company pursuant to a written agreement and who is employed only for the duration of a particular project.

G. "DSR Employees" means employees who function at the district level and whose job responsibilities are primarily limited to inspection, maintenance, delivery and pickup of meters, collection of customer accounts payable, and maintenance of the metered mail system under statutory requirements.

H. "Employee" means any Employee who is employed by the Company other than contract Employees, Leased Employees, DSR Employees, PB Credit Union Employees, Temporary Employees, Part-Time Employees and independent contractors.

For purposes of determining an individual's eligibility to participate in the plan, an individual who is an independent contractor and is reclassified by the Company, and governmental agency or a court as an employee for any purpose, including for purposes of employment taxes and wage withholding for Federal income taxes, shall not be eligible for participation in the Plan for the period during which such individual was an independent contractor. Subsequent participation in the Plan by a reclassified employee shall be based on eligibility requirements under the Plan then applicable to the employee.

I. “ERISA” means the Employee Retirement Income Security Act of 1974, as amended.

J. “Executive Leadership Committee” means the Company’s Executive Leadership Committee or a similar successor committee.

K. “Leased Employees” means any individuals who meet the definition of “leased employee” in Section 414(n) of the Internal Revenue Code, as amended and related regulations.

L. “Part-Time Employees” means employees who regularly work less than 30 hours per week.

M. “Participant” means any Employee who is covered by the Plan.

N. “Pay” means the base rate of pay (including merit rating and shift premium, where applicable) that is effective on the last working day of employment. For sales representatives, “Pay” will be the earnings paid to the Employee during the preceding 12 months. The following items will not be considered “Pay”: overtime, profit sharing, compensation in lieu of vacation, suggestion awards, special awards and prizes, adoption payments, severance payments, relocation payments, referral payments, year-end override bonus, performance-based compensation, cash incentive unit awards, bonuses, or any forms of deferred compensation, and sales representatives’ vacation pay, except in the case of Change of Control, in which event, profit sharing and bonuses other than performance-based compensation and cash incentive unit award shall be considered “Pay” for purposes of this Plan.

O. “PB Credit Union Employee” means an employee of the Pitney Bowes Credit Union.

P. “PBC Employee” means any Employee who is eligible for the Performance Based Compensation Program at the Company.

Q. “Pitney Bowes” means Pitney Bowes Inc.

R. “Plan” means the Pitney Bowes Severance Pay Plan effective as of January 1, 1999, as amended and restated from time to time.

S. “Temporary Employees” means an employee whose employment with the Company is intended to be for a period not to exceed 12 months and whose work activity consists of short-term projects other than as a Contract Employee.

T. “Years of Service” means completed years and months of service with Company based on the period of service beginning with the Employee’s employment date (the date he or she first performs an hour of service as an Employee) to his or her termination date. The Employee shall continue to accrue Years of Service during approved leaves of absence, military service absences, paid holidays, paid vacations, temporary absences due to illness or injury, disability, or any other reason, if service is customarily accrued for purposes of the Pitney Bowes. Pension Plan or the retirement plan of the Company’s subsidiary for which the Employee works. In case of reemployment, subsequent termination pay

entitlement will be based upon credited service beginning on the date of rehire.

III. Eligibility

A. Eligibility. Each Employee shall be entitled to severance pay under the Plan payable in accordance with the applicable severance benefit formula set forth in this Section III. A, provided his or her employment is terminated by the Company for the following reasons:

1. The full or partial shutdown of a business or a facility or department.
2. The sale of all or part of a business of the Company by means of a sale of assets or stock, or any form of merger and reorganization where the Employee is not reemployed by the Company or a subsidiary or division thereof or by the buyer of the business.
3. The elimination of the Employee's job or the consolidation or restructuring of his or her job functions on account of reorganization.
4. Employment termination within two years after a Change of Control of the Company.
5. In other circumstances deemed appropriate by the Company in its sole discretion from time to time, subject to Section III. C. hereof

B. Exception. Notwithstanding any other provision hereunder, an Employee shall not be eligible for severance pay hereunder if

1. Prior to or immediately after termination other than for reasons set forth in Section III.A.2. he or she is offered a comparable job with another subsidiary, division, or unit of the Company, except that an offer of continued employment or reemployment after a Change of Control shall be subject to the limitations set forth in Section IV. E. herein;
2. Within 60 days of termination for reasons set forth in Section III. A.2., he or she is offered a comparable job with another subsidiary, division or unit of the Company, except that an offer of continued employment or reemployment after a Change of Control shall be subject to the limitations set forth in Section IV. E. herein; or
3. The Employee is terminated for Cause.

C. Release. Notwithstanding any other provision hereunder to the contrary, any additional discretionary payments made pursuant to Section III.A.5. and Section IVA. may at the Company's discretion be conditioned on the Employee's signing a waiver or release of claims to the satisfaction of the company.

IV. *Payment Formula*

A. Base Formula. Pursuant to Section III.A., the Company shall pay a minimum of one week of Pay for each completed full Year of Service (and prorated week of Pay for each completed partial Year of Service), with a minimum of two weeks of Pay (hereinafter, this is referred to as the “Minimum Payment”). In addition, subject to Section III.C., the Company reserves the right to pay additional amounts to Employees, but the Company may exercise its discretion to pay no additional amount at all.

Notwithstanding the foregoing formula, the Company reserves the right to make discretionary severance payments as business conditions warrant in lieu of payments based on the normal severance benefit formula described herein.

B. Change of Control Exception. If any Employee employed by the Company as of the date of a Change of Control resigns for the reasons set forth in Section IV. E. hereof and is then not subject to termination of employment by the Company for Cause or, if any Employee is terminated by the Company for the reasons set forth in Section III. A. (and an exception under Section III.B. is not applicable) within two years after a Change of Control occurs whether or not such termination is in connection with such Change of Control (“Change of Control Termination”), such Employee shall be entitled to severance pay in accordance with the following:

1. For non-exempt Employees, two weeks of Pay for each completed full or partial Year of Service, with a minimum of four weeks.

2. For exempt Employees, three weeks of Pay for each completed full or partial Year of Service, with a minimum of three months.

3. For PBC Employees or any other Employees whose job descriptions are rated at 1,000 or more job points under the Hay method of job evaluation, four weeks of Pay for each full or partial Year of Service, with a minimum of six months.

4. For members of the Executive Leadership Committee, four weeks of Pay for each full or partial Year of Service, with a minimum of one year of Pay.

C. Applicability of. Change of Control. “Change of Control” provisions only apply if Pitney Bowes Inc. incurs a “Change of Control.” Such provisions do not apply to employees of a Pitney Bowes’ subsidiary if that subsidiary or affiliated company undergoes a change of control.

D. Maximum Severance Benefit. Notwithstanding anything to the contrary, the maximum severance pay benefit payable hereunder to any Employee shall be an amount equal to two years of Pay.

E. Change of Control Termination. A “Change of Control Termination” shall include termination of the Employee’s employment by the Employee for the following reasons:

1. The assignment to an Employee of any duties inconsistent in any respect with the Employee’s position, authority, duties or responsibilities as existed on the day immediately prior to the Change of Control, or any other action by the Company which results in a diminution in such

position, authority, duties, or responsibilities, excluding for this purpose an isolated, insubstantial, and inadvertent action taken in good faith and remedied by the Company or subsidiary, as applicable, promptly after receipt of notice thereof given by the Employee;

2. Any failure by the Company following a Change of Control to continue to provide the Employee with Pay, benefits, or other compensation equal to or greater than that to which such Employee was entitled immediately prior to the date of the Change of Control, other than an isolated, insubstantial, and inadvertent failure occurring in good faith and remedied by the Company promptly after receipt of notice thereof given by the Employee;

3. The Company's requiring the Employee to be based at any office or location more than 35 miles farther from the Employee's place of residence or the office or location at which the Employee is employed immediately prior to the date of the Change of Control; or

4. Any failure by Pitney Bowes Inc. to require any successor company who acquires all or substantially all of the business and/or assets of Pitney Bowes Inc. (whether direct or indirect, by purchase, merger, consolidation or otherwise) to expressly assume and agree to perform the Company's obligations under the Plan in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place.

For purposes of subparagraphs 1 through 4 of Section IV, any good faith determination made by an affected Employee shall be conclusive.

F. As a condition of receiving any severance pay hereunder in connection with a Change of Control Termination, any termination by the Employee shall be communicated by a Notice of Termination to the Company. Any Notice of Termination shall be by written instrument which (i) indicates the specific termination provision in paragraph E above relied upon, (ii) sets forth in reasonable detail the facts - and circumstances claimed to provide a basis for termination of the Employee's employment under the provision so indicated, and (iii) if the date of termination is other than the date of receipt of such notice, specifies the termination date (which date shall not be more than 15 days after the giving of such notice). The failure by any Employee to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of entitlement to terminate under subparagraphs 1 through 4 of paragraph E above shall not waive any right of such Employee or preclude such Employee from asserting such fact or circumstance in enforcing his rights.

G. Any severance pay benefits made hereunder shall be reduced by the amount of statutory severance benefits paid to an Employee if Pitney Bowes had contributed to the fund or statutory scheme under which benefits are paid.

H. If severance payments under the Plan, plus payments or benefits under other severance types plans or arrangements designated by Pitney Bowes result in any excise or other special federal tax on any portion of the severance payments hereunder, the Company will reimburse any affected Employee an additional amount so that the affected Employee shall receive a net benefit that is approximately the amount he or she would have received as if no excise or other special tax had been payable.

V. Forms of Payment

The Company may in its discretion make the payments provided for herein in a single lump sum payment or pursuant to a payment schedule, provided, however, that payments made as a result of termination occurring within two years after a Change of Control shall be made in a single lump sum payment. However, in no event shall the payment schedule extend over a period of more than two years. In the case of lump sum payout, payment shall be made as soon as practicable following the termination of employment date, which shall be determined in the sole discretion of the Company.

VI. Death

If an Employee dies during a period of severance payment hereunder, any remaining severance pay that would otherwise be payable if the Employee had not died shall be paid to the Employee's estate. No severance benefits not otherwise payable hereunder shall be payable under this Plan by reason of the Employee's death.

VII. *Claim Procedure*

A. Administrative Review. If an Employee makes a written request alleging a right to receive payments under this Plan or alleging a right to receive an adjustment in benefits being paid under this Plan, such actions shall be treated as a claim for benefits. All claims for benefits under this Plan shall be administered by the appropriate administrator at the Employee's business unit. If the administrator determines that any individual who has claimed a right to receive benefits, or different benefits, under this Plan is not entitled to receive all or any part of the benefits claimed, the administrator shall inform the claimant in writing of such determination and the reasons therefor in terms calculated to be understood by the claimant. The notice shall be sent within 90 days of the claim unless the administrator determines that additional time, not exceeding 90 days, is needed. The notice shall make specific reference to the pertinent Plan provisions on which the denial is based, and shall describe any additional material or information that is necessary. Such notice shall, in addition, inform the claimant of the procedure that the claimant should follow to take advantage of the review procedure set forth below in the event the claimant desires to contest the denial of the claim. If the Employee is not notified within the 90 day period specified herein, he or she may assume the claim has been denied.

B. Appeal to the Committee. The claimant may within 90 days thereafter submit in writing to the Committee a notice that the claimant contests the denial of his or her claims and desires a further review by the Committee. The Committee shall within 60 days thereafter review the claim. The Committee will render a final decision on behalf of the Company with specific reasons there for in writing and will transmit it to the claimant within 60 days of the written request for review, unless it is determined that additional time, not exceeding 60 days, is needed, and so notifies the Employee. If the Committee fails to respond to a claim filed in accordance with the foregoing within 60 days or any such extended period, the Company shall be deemed to have denied the claim.

C. Reimbursement of Claimant's Expenses. Upon and following the occurrence of a Change of Control, any decision rendered under the Plan may be contested by any claimant and the Company agrees to pay, to the full extent permitted by law, all legal - fees and expenses which a claimant may reasonably

incur as a result of any contest, provided the claimant substantially prevails in the outcome thereof.

VIII. *Amendment and Termination*

A. This Plan is established by the Company on a voluntary basis and not on past consideration for services rendered, and the benefits herein are provided at the will of the Company. Neither the establishment of this Plan nor the payment of benefits by the Company shall be construed or interpreted as a condition of employment, nor shall this Plan modify or enlarge any rights of any person covered by it to be continued or to be retained in the employ of the Company.

B. Prior to the time a Change of Control has occurred, the Company may, in its sole discretion, without notice, amend or modify, in whole or in part, all of the terms and conditions of this Plan; provided, however, that this Plan may not be so amended or modified in connection with an actual or threatened Change of Control in any manner which would adversely affect the interests of Employees. Such amendment or modification may be retroactive in application; provided, however, such retroactive application shall not require or provide for the return or repayment of any benefits paid prior to the date of the adoption of the amendment or modification.

C. Prior to the time a Change of Control has occurred, the Company shall have the sole and absolute right to terminate this Plan without notice at any time; provided, however, that this Plan may not be so terminated in connection with an actual or threatened Change of Control. Such termination shall be effective as of the date specified by the Company and, if no date is specified, the date of the action of termination by the Company. Upon termination, the Company will continue to make payments according to the terms of any effective terminated pay agreements, which have not been fully paid.

D. When a Change of Control, as defined herein, occurs, then all rights to severance payments contained herein shall vest in all covered Employees and shall be considered a contract right enforceable against the Company and any successors thereto.

IX. Plan Administration

A. The Committee shall be authorized to adopt administrative rules and procedures concerning the Plan or delegate to the business units such authority and any such rules and procedures shall be binding upon Participants.

B. All expenses reasonably incurred in the administration of the Plan shall be paid by the Company, as the Company.

C. The determination or action of the Committee with respect to any question arising out of or in connection with the administration of the Plan shall, to the extent not inconsistent with the provisions of the Plan, be final, conclusive, and binding upon all persons having an interest in the Plan.

D. The Committee shall have the following powers and duties concerning the Plan:

1. to interpret and construe the terms and provisions of the Plan, to apply such terms and provisions as the Committee may exclusively determine, to determine questions of eligibility and of the status and rights of Participants;

2. to make and enforce such rules and regulations as it shall deem necessary or proper for the efficient administration of the Plan;

3. to delegate to the business units at Pitney Bowes such powers and duties to enable them to administer the Plan.

E. The Committee shall be the “Plan Administrator” of the Plan for purposes of ERISA. However, the Committee has delegated to the appropriate Human Resources professionals in the business units the day-to-day, on-going administrative responsibilities of the Plan. In addition, the Committee has delegated to the Human Resources professionals’ administrative responsibility regarding employee eligibility for the Plan. It is intended that Human Resources administrators in the business units shall have no discretion such that these individuals performing services in these business units with respect to the Plan would not be considered to be “fiduciaries” within the meaning of Section (3)(21) of ERISA.

F. All fiduciaries shall discharge their duties with respect to the Plan solely in the interest of the Employees and for the exclusive purpose of providing benefits to Employees and of defraying reasonable expenses of administering the Plan, with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Company shall purchase and maintain liability insurance (which insurance shall not permit recourse against the insured parties), with scope of coverage and limits of liability sufficient to protect the fiduciaries from monetary liability for any breach of their responsibilities not resulting from their own gross negligence or willful misconduct.

X Miscellaneous

A. Benefits under the Plan are not in any way subject to the debts or other obligations of the persons entitled thereto and may not be voluntarily or involuntarily sold, transferred, hypothecated, pledged or assigned. When any person entitled to benefits under the Plan is under a legal disability or in the opinion of the Committee is in any way incapacitated so as to be unable to manage his or her affairs, the Committee may cause such person’s benefits to be paid to or for the benefit of such person in any manner that the Committee may determine without responsibility of the Committee or the Company. Payments made pursuant to such power shall operate as a complete discharge of the obligation under the Plan to make such payments. Payments hereunder are, however, subject to all applicable withholding taxes.

B. The headings of the section in this Plan are placed herein for convenience of reference and, in the

case of any conflict, the text of the Plan, rather than such headings, shall control.

C. The masculine or feminine pronoun used herein refers to both men and women and, used in singular, is intended to include the plural, whenever appropriate.

D. To the extent not inconsistent with ERISA, the provisions of this Plan shall be construed in accordance with the laws of the State of Connecticut other than its choice of law rules.

E. In the event a person receives a benefit payment under the Plan which is in excess of the benefit payment that should have been made, the Committee shall have the right to recover the amount of such excess from such person. The Committee may at its option, deduct the amount of such excess from any subsequent benefits payable under the Plan to, or for, the person.

F. Any action required or permitted to be taken under the Plan by the Company may be taken by such individual, Committee or entity as the Company may designate from time to time.

G. No payment may be made under this Plan that would cause it to be a “pension” plan as distinguished from a “welfare” plan under the Employees Retirement Income Security Act of 1974 and the Department of Labor Regulations 29 CFR 2510.3-2(b) and successor regulations.

H. This Plan shall have no effect on the Employee’s eligibility for other benefits customarily provided after termination unless otherwise stated in a written agreement executed by an authorized representative of the Company or in the applicable employee benefit plan document. The payments of benefits under this Plan shall not be deemed to be a continuation of employment.

I. This Plan is intended to be an unfunded plan. All payments pursuant to the Plan shall be made from the general funds of the Company and no special or separate fund shall be established or other segregation of assets made to assure payment. No Participant or other person shall have under any circumstances any interest in any particular property or assets of the Company as a result of participating in the Plan.

J. The invalidity or unenforceability of any provision of this Plan shall not affect the validity or enforceability of any other provision of this Plan, which shall remain in full force and effect, and any prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

PITNEY BOWES SENIOR EXECUTIVE SEVERANCE POLICY

(As Amended and Restated Effective as of January 1, 2000)

FOR BOARD APPROVAL JULY 2000

PITNEY BOWES
SENIOR EXECUTIVE SEVERANCE POLICY

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SECTION ONE

INTRODUCTION AND PURPOSE

1.1 The Pitney Bowes Senior Executive Severance Policy was initially adopted in December 1995 and is hereby amended and restated effective as of January 1, 2000. The purpose of the Plan is to provide certain designated senior executive employees with continued compensation and benefits, subject to the specific terms and conditions set forth in the Plan, in the event there is a Change of Control and the covered executive incurs a Termination of Employment. In addition, the Plan is intended to provide an incentive to covered executives to continue to perform their job duties on behalf of the Company where the Company is faced with a Change of Control. No Change of Control occurred under the terms of the Plan as in effect prior to January 1, 2000.

SECTION TWO

DEFINITIONS

For the purposes of the Plan, the following words and phrases shall have the following respective meanings unless the context clearly indicates otherwise.

2.1 "Annual Incentive" shall mean the annual Performance Based Compensation Incentive that a Participant is eligible to earn pursuant to the Pitney Bowes Key Employee Incentive Plan.

2.2 "Annual Incentive Award" shall mean the highest Annual Incentive amount Participant received in any of the three consecutive twelve month periods prior to the Date of Termination.

2.3 "Annual Salary" shall mean the Participant's regular annual base salary in effect immediately prior to his or her Date of Termination, including cash compensation converted to other benefits under a flexible benefit arrangement maintained by the Company or deferred pursuant to a written plan or agreement with the Company, but excluding any type of allowances, reimbursements, premium pay, Cash Incentive Units, sign-on bonus, stock options and any actual gain thereon, prizes, awards, special bonuses and incentive payments other than the Annual Incentive Award.

2.4 "Board" shall mean the Board of Directors of the Company.

2.5 "Change of Control" For purposes of this Plan, a "Change of Control" shall be deemed to have occurred if:

(i) there is an acquisition, in any one transaction or a series of transactions other than from Pitney Bowes Inc., by any individual, entity or group (within the meaning of Section l3(d)(3) or l4(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), of beneficial ownership (within the meaning of Rule 13(d)(3) promulgated under the Exchange Act) of 20% or more of either the then outstanding shares of common stock or the combined voting power of the then outstanding voting securities of Pitney Bowes Inc. entitled to vote generally in the election of directors, but excluding, for this purpose, any such acquisition by Pitney Bowes Inc. or any of its subsidiaries, or any employee benefit plan (or related trust) of Pitney Bowes Inc. or its subsidiaries, or any corporation with respect to which, following such acquisition, more than 50% of the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by the individuals and entities who were the beneficial owners, respectively, of the common stock and voting securities of Pitney Bowes Inc. immediately prior to such acquisition in substantially the same proportion as their ownership, immediately prior to such acquisition, of the then outstanding shares of Common stock or the combined voting power of the then outstanding voting securities of Pitney Bowes Inc. entitled to vote generally in the election of directors, as the case may be; or

(ii) individuals who, as of January 1, 2000, constitute the Board (as of such date, the "Incumbent Board") cease for any reason to constitute at least a majority of the Board, provided that any individual becoming a

director subsequent to January 1, 2000, whose election, or nomination for election by Pitney Bowes shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of Pitney Bowes Inc. (as such terms are used in Rule 14(a)(l 1) or Regulation l4A promulgated under the Exchange Act); or

(iii) there occurs either (A) the consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company, in each case, with respect to which the individuals and entities who were the respective beneficial owners of the common stock and voting securities of Pitney Bowes Inc. immediately prior to such reorganization, merger or consolidation do not, following such reorganization, merger or consolidation, beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such reorganization, merger or consolidation, or (B) an approval by the shareholders of Pitney Bowes Inc. of a complete liquidation of dissolution of Pitney Bowes Inc. or of the sale or other disposition of all or substantially all of the assets of Pitney Bowes Inc.

2.6 "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

2.7 "Company" shall mean Pitney Bowes Inc. and any successor thereto

2.8 "Date of the Change of Control" shall mean the date on which a Change of Control is determined to first occur.

2.9 "Date of Termination" shall mean the date on which a Participant incurs a Termination of Employment as defined in Section hereof.

2.10 "Employee" shall mean any regular full-time employee of the Company or a subsidiary or affiliate of the Company, as determined by the Company.

2.11 "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended, and the regulations there under.

2.12 "Participant" shall mean an Employee who is designated as a Participant pursuant to Section III hereof

2.13 "Plan" shall mean the Pitney Bowes Senior Executive Severance Policy.

2.14 "Restatement Effective Date" shall mean January 1, 2000.

2.15 "Separation Period" shall mean (i) for Participants who are in Executive Bands A, B, C, or D, the period beginning on a Participant's Date of Termination and ending on the third anniversary thereof (ii) for Participants who are in Executive Bands E, F or G or who are corporate officers of Pitney Bowes Inc. but do not participate in the Long Term Incentive Program, the period beginning on a Participant's Date of Termination and ending on the second anniversary thereof.

SECTION THREE

PARTICIPATION

3.1 Each Employee who falls within Executive Bands A, B, C, D, E, F or G, or who is a corporate officer of Pitney Bowes Inc. shall be a Participant in the Plan.

3.2 Prior to the time a Change of Control has occurred, the Board may, in its sole discretion, without notice, amend, modify or terminate the eligibility of certain individual Employees or classes of Employees or Participants to participate in the Plan; provided, however, that such eligibility or participation may not be so amended, modified or terminated in connection with an actual, threatened, or proposed Change of Control in any manner which would result in an Employee or Participant otherwise becoming ineligible to participate in the Plan; and provided further that any amendment, modification or termination of an Employee is or Participant's participation in the Plan occurring within one year prior to a Change of Control shall be deemed to be in connection with an actual, threatened, or proposed Change of Control and shall be void.

In addition, when a Change of Control occurs, all rights of an Employee or Participant to eligibility and participation under the Plan shall vest and shall be considered a contract right enforceable against the Company and any successors thereto, subject to the terms and conditions hereof.

SECTION FOUR

SEPARATION BENEFITS

4.1 If any Participant incurs a Termination of Employment within two years after a Change of Control occurs (whether or not such termination is a result of such Change of Control) or a Participant is terminated before a Change of Control at the request of a third party who has taken steps reasonably calculated to effect a Change of Control or otherwise in connection with or in anticipation of a Change of Control, and a Change of Control subsequently occurs, the Company shall pay such Participant, within ten days of the Date of Termination, a cash payment in one lump sum as determined in Section 4.2 hereof and the benefits as determined in Sections 4.3 and 4.4 hereof. For purposes of determining the benefits set forth in Sections 4.3 and 4.4, if the Participant incurs a Termination of Employment following a reduction of the Participant's Annual Salary, opportunity to earn an Annual Incentive, or other compensation or employee benefits, such reduction shall be not be given effect.

4.2 The cash payment in one lump sum described in Section 4.1 hereof shall be determined by aggregating amounts described in Sections 4.2(a) and (b).

(a) For a Participant in Executive Bands A, B, C, or D, an amount equal to the product of (1) three times (2) the sum of (x) the Participant's Annual Salary and (y) the Participant's Annual Incentive Award.

For a Participant in Executive Bands E, F, or G, or who is a corporate officer of Pitney Bowes Inc but does not participate in the Long Term Incentive Program, an amount equal to the product of (1) two times (2) the sum of (x) the Participant's Annual Salary and (y) the Participant's Annual Incentive Award.

(b) An amount equal to the difference between (1) the lump sum actuarial equivalent of the benefit under the Company's qualified defined benefit retirement plan (the "Retirement Plan") and any excess or supplemental retirement plans in which the Participant participates (collectively, the "SERP") which the Participant would receive if his or her employment continued during the Separation Period, assuming that the Participant's compensation during the Separation Period would have been equal to his or her compensation as in effect immediately before the termination and assuming the Participant is fully vested in his or her benefit under the Retirement Plan as of the Date of Termination, and (2) the lump sum actuarial equivalent of the Participant's actual benefit (paid or payable), if any, under the Retirement Plan and the SERP as of the Date of Termination. The actuarial determination hereunder shall be made as of the Date of Termination and the actuarial assumptions used for purposes of determining actuarial equivalence shall be no less favorable to the Participant than the most favorable of those in effect under the Retirement Plan and the SERP on the Date of Termination and the Effective Date.

4.3 During the Separation Period, the Participant and his or her Dependents shall continue to be provided with the medical, prescription drug, dental and life insurance and other health and welfare benefits in which the

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Participant has coverage under the plans or programs of the Company or its affiliates at the Date of Termination as if the Participant's employment had not been terminated; provided, however, that if the Participant becomes reemployed with another employer and is eligible to receive a particular benefit described above under another employer-provided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility. For purposes of determining eligibility (but not the time of

commencement of benefits) of the Participant for retiree medical, dental and life insurance benefits under the Company's plans, practices, programs and policies, the Participant shall be considered to have remained employed during the Separation Period and to have retired or terminated employment on the last day of such period. The "COBRA" continuation period for a Participant shall commence following the last day of the Separation Period.

4.4 The Company shall, at its sole expense as incurred, provide the Participant with outplacement services the scope and provider of which shall be selected by the Company, but at a cost to the Company of not more than the lesser of (i) 12% of Annual Salary and (ii) fifty thousand dollars ($50,000.00).

4.5 To the extent any benefits described in this Section 4.1 cannot be provided to the Participant pursuant to the appropriate plan or program maintained for Company employees in which a Participant participates, the Company shall provide such benefits outside such plan or program at no additional cost (including without limitation tax cost) to the Participant.

4.6 The cash lump sum payment and continuation benefits set forth in Sections 4.1, 4.2, 4.3 and 4.4 shall be payable in addition to, and not in lieu of, all other accrued or vested or earned but deferred rights, options or other benefits which may be owed to a Participant upon or following termination, including but not limited to regular Annual Salary earned but unpaid as of the Date of Termination, Annual Incentives earned but unpaid as of the Date of Termination, accrued vacation or sick pay, amounts or benefits payable under any incentive (other than the Annual Incentive) or other compensation plans, stock option plan, stock ownership plan, stock purchase plan, life insurance plan, health plan, disability plan or similar or successor plan, but excluding any severance pay or pay in lieu of notice required to be paid to such Participant under applicable law or any other severance plan, program or policy of the Company and it affiliates.

SECTION FIVE

TERMINATION OF EMPLOYMENT

5.1 For purposes of the Plan, "Termination of Employment" shall mean (i) a termination of a Participant's employment by the Company other than because of (x) the willful and continued failure of the Participant to perform substantially the Participant's duties with the Company or any of its affiliates (other than any such failure resulting from incapacity due to physical or mental illness) or (y) the willful engaging by the Participant in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Company, and (ii) a termination of employment by the Participant for any reason during the 30-day period. Immediately following the first anniversary of the Date of the Change of Control termination of employment by the Participant or for any of the following reasons:

1. The assignment following a Change of Control to a Participant of any duties inconsistent in any respect with the Participant's position, authority, duties and responsibilities as existed on the day immediately prior to the Change of Control, or any other action by the Company which results in a diminution in such position, authority, duties, or responsibilities, excluding for this purpose an isolated, insubstantial, and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Participant;

2. Any failure by the Company following a Change of Control to continue to provide the Participant with Annual Salary, employee benefits, or other compensation equal to or greater than that to which such Participant was entitled immediately prior to the Date of the Change of Control, other than an isolated, insubstantial, and inadvertent failure not occurring in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Participant;

3. Any failure by the Company following a Change of Control to continue. to provide the Participant with the opportunity to earn Annual Incentives (and long-term incentive compensation as applicable) on a basis at least equal to that provided to the Participant prior to the Date of the Change of Control, taking into account the level of compensation that can be earned and the relative difficulty of any associated performance goals;

4. The Company's requiring the Participant to be based, after a Change of Control, at any office or location more than 35 miles farther from the Participant's place of residence than the office or location at which the Participant is employed immediately prior to the Date of the Change of Control or the Company's requiring the Participant to travel on Company business to a substantially greater extent than required immediately before the Change of Control;

5. Any failure by the Company, after a Change of Control, to require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) who acquired all or substantially all of the business and/or assets of the Company to expressly assume and

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agree to perform the Company's obligations under the Plan in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place.

Any good faith determination made by a Participant that an event described in subparagraphs 1 through *5* of this Section 5.1 has occurred shall be conclusive.

5.2 Any termination by the Company or by the Participant in accordance with Section 5.1 shall be communicated by a Notice of Termination to the other party. Any Notice of Termination shall be by written instrument which (i) indicates the specific termination provision in Section 5.1 above relied upon, (ii) sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Participant's employment under the provision so indicated, and (iii) if the Date of Termination is other than the date of receipt of such notice, specifies the Date of Termination (which date shall not be more than 15 days after the giving of such notice). The failure by any Participant to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of entitlement to terminate under subparagraphs 1 through 5 of Section 5.1 above shall not be deemed to be a waiver of any right of such Participant or preclude such Participant from asserting such fact or circumstance in enforcing his rights.

In case of death, any unpaid payment or benefits to which the Participant was entitled at the time of death shall be paid to the Participant's survivors or estate.

SECTION SIX

ADMINISTRATION AND CLAIMS

6.1 The Plan Administrator shall be the Board or its delegate. If an Employee or former Employee makes a written request alleging a right to receive benefits under this Plan or alleging a right to receive an adjustment in benefits being paid under the Plan, the Board shall treat it as a claim for benefits. All claims for benefits under the Plan shall be sent to the Executive Director, Corporate Compensation of the Company, or equivalent position, and must be received within 90 days after Termination of Employment. If the Board determines that any individual who has claimed a right to receive benefits, or different benefits, under the Plan is not entitled to receive all or any part of the benefits claimed, it will inform the claimant in writing of its determination and the reasons therefor in terms calculated to be understood by the claimant. The notice will be sent within 90 days of the claim unless the Board determines additional time, not exceeding 90 days, is needed. The notice shall make specific reference to the pertinent Plan provisions on which the denial is based, and describe any additional material or information as necessary. Such notice shall, in addition, inform the claimant what procedure the claimant should follow to take advantage of the review procedures set forth below in the event the claimant desires to contest the denial of the claim. The claimant may within 90 days thereafter submit in writing to the Board a notice that the claimant contests the denial of his or her claim by the Board and desires a further review. The Board shall within 60 days thereafter review the claim and authorize the claimant and his or her personal representative to appear personally and review pertinent documents and submit issues and comments relating to the claim to the persons responsible for making the determination on behalf of the Board. The Board will render its final decision with specific reasons therefor in writing and will transmit it to the claimant within 60 days of the written request for review, unless the Board determines additional time, not exceeding 60 days, is needed, and so notifies the Participant. If the Company fails to respond to a claim filed in accordance with the foregoing within 60 days or any such extended period, the Company shall be deemed to have denied the claim.

If, after a Change of Control, a Participant institutes any legal action seeking to obtain or enforce, or is required to defend in any legal action the validity or enforceability of, any right or benefit provided by this Plan, the Company will pay for all actual legal fees and expenses incurred (as incurred) by such Participant, regardless of the outcome of such action and whether such action is between the Company and the Participant or between either of them and any third party.

SECTION SEVEN

AMENDMENT AND TERMINATION

7.1 This Plan is established by the Company on a voluntary basis and not as consideration for services rendered in the past, and the benefits herein are provided at the will of the Company. Neither the establishment of this Plan nor the payment of benefits by the Company shall be construed or interpreted as a condition of employment, nor shall this Plan modify or enlarge any rights of any person covered by it to be continued or to be retained in the employ of the Company.

Prior to the time a Change of Control has occurred, the Board may, in its sole discretion, without notice, amend or modify, in whole or in part, all of the terms and conditions of this Plan; provided, however, that this Plan may not be so amended or modified in connection with an actual, threatened, or proposed Change of Control in any manner which would result in a reduction of benefits to any Participant; and provided further that any amendment or modification occurring within one year prior to a Change of Control shall be deemed to be "in connection with" an actual, threatened, or proposed Change of Control and shall be void unless the amended or modified Plan provides equivalent or greater benefits to every eligible Participant. Such amendment or modification may be retroactive in application; provided, however, such retroactive application shall not require or provide for the return or repayment of any benefits paid prior to the date of the adoption of the amendment or modification.

Prior to the time a Change of Control has occurred, the Board shall have the sole and absolute right to terminate this Plan without notice at any time; provided, however, that this Plan may not be so terminated in connection with an actual, threatened, or proposed Change of Control, unless a new severance plan is adopted which provides equivalent or greater benefits to every eligible Participant; and provided further that any termination occurring within one year prior to a Change of Control shall be deemed to be in connection with an actual, threatened, or proposed Change of Control, and shall be void unless a new severance plan is adopted which provides equivalent or greater benefits to every eligible Participant. Any valid termination shall be effective as of the date specified by the Board and, if no date is specified, the date of the action of termination by the Board. Upon termination, the Company will continue to make payments which have not been fully paid, in accordance with the terms of the Plan immediately prior to termination.

When a Change of Control, as defined herein, occurs, then all rights to severance payments contained herein shall vest in all covered Participants and shall be considered a contract right enforceable against the Company and any successors thereto, subject to the terms and conditions hereof.

SECTION EIGHT

CERTAIN ADDITIONAL PAYMENTS

8.1 Anything in this Plan to the contrary notwithstanding and except as set forth below, in the event it shall be determined that any Payment would be subject to the Excise Tax, the Participant shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Participant of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, the Participant retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. Notwithstanding the foregoing provisions of this Section 8.1, if it shall be determined that the Participant is entitled to a Gross-Up Payment, but that the Parachute Value of Payments does not exceed 110% of the Safe Harbor Amount, then no Gross-Up Payment shall be made to the Participant and the Plan Payments, in the aggregate, shall be reduced to (but not below zero) such that the Parachute Value of all Payments equals the Safe Harbor Amount, determined in such a manner as to maximize the Value of all Payments actually made to the Participant.

8.2 Subject to the provisions of Section 8.3, all determinations required to be made under this Section 8, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by such nationally recognized certified public accounting firm as may be designated by the Company (the "Accounting Firm"), which shall provide detailed supporting calculations both to the Company and the Participant within 15 business days of the receipt of notice from the Participant that there has been a Payment, or such earlier time as is requested by the Company. All fees and expenses of the Accounting Firm shall be borne solely by the Company. Subject to Section 8.5 below, any Gross-Up Payment, as determined pursuant to this Section 8, shall be paid by the Company to the Participant within five days of the receipt of the Accounting Firm's determination. Any determination by the Accounting Firm shall be binding upon the Company and the Participant. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 8.3, and the Participant thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Participant.

8.3 The Participant shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten business days after the Participant is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is• requested to be paid. The Participant shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the

Participant in writing prior to the expiration of such period that it desires to contest such claim, the Participant shall:

(a) give the Company any information reasonably requested by the Company relating to such claim,

(b) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company, cooperate with the Company in good faith in order effectively to contest such claim, and the Company to participate in any proceedings relating to such claim; provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Participant harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 8.3, the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Participant to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Participant agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Participant to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Participant, on an interest-free basis and shall indemnify and hold the Participant harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Participant with respect to which such contested amount claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Participant shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

8.4 If, after the receipt by the Participant of an amount advanced by the Company pursuant to Section 8.3, the Participant becomes entitled to receive any refund with respect to such claim the Participant shall (subject to the Company's complying with the requirements of Section 8.3) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Participant of an amount advanced by the Company pursuant to Section 8.3, a determination is made that the Participant shall not be entitled to any refund with respect to such claim and the Company does not notify the Participant in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

8.5 Notwithstanding any other provision of this Section 8, the Company may withhold and pay over to the Internal Revenue Service for the benefit of the Participant all or any portion of the Gross-Up Payment that it determines in good faith that it is or may be in the future required to withhold, and the Participant hereby consents to such withholding

8.6 Definitions. The following terms shall have the following meanings for purposes of this Section 8.

(a) "Excise Tax" shall mean the excise tax imposed by Section 4999 of the Code, together with any interest or penalties imposed with respect to such excise tax.

(b) The "Net After-Tax Amount" of a Payment shall mean the Value of a payment net of all taxes imposed on the Participant with respect thereto under sections 1 and 4999 of the Code and applicable state and local law, determined by applying the highest marginal rates that are expected to apply to the Participant's taxable income for the taxable year in which the Payment is made.

(c) "Parachute Value" of a Payment shall mean the present value as of the date of the event constituting the change of control for purposes of Section 280G of the Code of the portion of such Payment that constitutes a "parachute payment" under Section 280G(b)(2), as determined by the Accounting Firm for purposes of determining whether and to what extent the Excise Tax will apply to such Payment.

(d) A "Payment" shall mean any payment or distribution in the nature of compensation

(within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of a Participant, whether paid or payable pursuant to this Plan or otherwise.

(e) A "Plan Payment" shall mean a Payment paid or payable pursuant to this Plan (disregarding this Section 8).

(f) The "Safe Harbor Amount" means the maximum Parachute Value of all Payments that the Participant can receive without any Payments being subject to the Excise Tax.

(g) "Value" of a Payment shall mean the economic present value of a Payment as of the date of the event constituting the change of control for purposes of Section 280G of the Code, as determined by the Accounting Firm using the discount rate required by Section 280G(d)(4) of the Code.

SECTION NINE

MISCELLANEOUS

9.1 Non-Alienability. No benefit or payments provided hereunder shall be subject to any forms of sale, assignment or transfer. Benefits provided by this Plan shall not be subject to attachment, garnishment or other legal or equitable proceedings by creditors or persons representing creditors. Such payments are, however, subject to all applicable taxes and appropriate withholdings.

9.2 Eligibility for Other Benefits. This Plan shall have no effect on the Participant's eligibility for other benefits customarily provided after termination unless otherwise stated in a written agreement executed by an authorized representative of the Company. The payments of benefits under this Plan shall not be deemed to be a continuation of employment, pay, or credited service for purposes of determining the availability, nature, or extent of the Company's benefit plans, programs or policies, except as expressly set forth herein.

9.3 Unfunded Plan Status. This Plan is intended to be an unfunded plan maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees, within the meaning of Section 401 of ERISA. All payments pursuant to the Plan shall be made from the general funds of the Company and no special or separate fund shall be established or other segregation of assets made to assure payment. No Participant or other person shall have under any circumstances any interest in any particular property or assets of the Company as a result of participating in the Plan. Notwithstanding the foregoing, the Company may (but shall not be obligated to) create one or more grantor trusts, the assets of which are subject to the claims of the Company's creditors, to assist it in accumulating funds to pay its obligations under the Plan.

9.4 Validity and Severability. The invalidity or unenforceability of any provision of the Plan shall not affect the validity or enforceability of any other provision of the Plan, which shall remain in full force and effect, and any prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

9.5 Governing Law. The validity, interpretation, construction and performance of the Plan shall in all respects be governed by the laws of the State of Connecticut without reference to principles of conflict of law, except to the extent pre-empted by federal law.

9.6 Plan Records. The records for this Plan are kept on a plan year beginning on January 1 and ending on the following December 31.

9.7 Legal Service. The person designated to receive legal papers or summons in connection with this Plan is the Corporate Secretary, Pitney Bowes Inc., World Headquarters, Stamford, CT 06926-0700.

PITNEY BOWES INC.

DEFERRED INCENTIVE SAVINGS PLAN

As Amended and Restated
Effective January 1, 2003

(Previously amended and Restated Effective January 1, 2000)

This document constitutes part of a prospectus covering securities that have been registered under the Securities Act of 1933.

DCPP12

PITNEY BOWES INC.
DEFERRED INCENTIVE SAVINGS PLAN
(As amended and restated effective as of January 1, 2003)

ARTICLE I

INTRODUCTION

The purpose of the Pitney Bowes Inc. Deferred Incentive Savings Plan (hereinafter referred to as the “Plan”) is to aid Pitney Bowes Inc. and its subsidiaries in retaining and attracting executive employees by providing them with savings and tax deferral opportunities. The Plan first became effective for deferral elections made hereunder on or after September 9, 1996. The Plan has been amended and restated from time to time. The Plan was amended and restated to incorporate previous amendments and to make additional changes, effective for deferral elections made hereunder on or after January 1, 2000. The Plan was further amended - and restated to incorporate amendments and clarifications effective for deferral elections made hereunder on or after November 1, 2002. Participants who made a deferral election and incurred a Termination of Employment or Disability, entered Retirement or died prior to the effective date of any amendments shall have their deferrals and distributions governed by the terms of the Plan in effect prior to the effective date of any amendments. Effective the effective date of any amendments, the term “PBC” will no longer be used to describe the annual incentive compensation deferred under the Plan. Instead, annual incentive compensation will be known as Pitney Bowes Incentive Program.

ARTICLE LI

DEFINITIONS

For the purposes of this Plan, the following words and phrases shall have the meanings indicated, unless the context clearly indicates otherwise:

Section 2.01; **Account.** "Account" means-the bookkeeping account(s) established on the books of the Company by the Administrative Committee on behalf of the Participant comprised of the Deferral Account and the Gain Share Account. Accounts and Sub-Accounts will be established when the Deferred Amount would otherwise have been paid.

Section 2.02 **Administrative Committee.** "Administrative Committee" means the committee comprised of the Senior Vice President and Chief Human Resources Officer, Vice President and Treasurer, Vice President Employee Brand and Total Rewards, Director Strategic Leadership Total Rewards.

Section 2.03 **Annual Incentive Award.** "Annual Incentive Award" means the annual cash incentive payable to a Participant.

Section 2.04 **Base Salary.** "Base Salary" means the base salary of a Participant described in Section 4.01 (ii) of the Plan in effect at the time of the deferral rather that in effect at the time of the election to defer.

Section 2.05 **Beneficiary** "Beneficiary" means the person, persons or entity designated by the Participant to receive any benefits payable under the Plan pursuant to Article
VIII.

Section 2.06 **Board.** "Board" means the Board of Directors of Pitney Bowes Inc.

Section 2.07 **CIU Award.** "CIU Award" means any Cash Incentive Unit Award granted pursuant to the long-term incentive program under the Pitney Bowes Inc. Key Employees' Incentive Plan (as amended and restated as of February 12, 2001).

Section 2.08 **Change of Control.** For purposes of this Plan, a "Change of Control" shall be deemed to have occurred if:

(i) there is an acquisition, in any one transaction or a series of transactions, other than from Pitney Bowes Inc., by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), of beneficial ownership (within the meaning of Rule 13(d)(3) promulgated under the Exchange Act) of 20% or more of either the then outstanding shares of Common Stock or the combined voting power of the then outstanding voting securities of Pitney Bowes Inc. entitled to vote generally in the election of directors, but excluding, for this purpose, any such acquisition by Pitney Bowes Inc. or any of its subsidiaries, or any employee benefit plan (or related trust) of Pitney Bowes Inc. or its subsidiaries, or any corporation with respect to which, following such acquisition, more than 50% of the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by the individuals and entities who were the beneficial owners,

respectively, of the common stock and voting securities of Pitney Bowes Inc. immediately prior to such acquisition in substantially the same proportion as their ownership, immediately prior to such acquisition, of the then outstanding shares of Common Stock or the combined voting power of the then outstanding voting securities of Pitney Bowes Inc. entitled to vote generally in the election of directors, as the case may be; or

(ii) individuals who, as of January 1, 2002, constitute the Board (as of such date, the "Incumbent Board") cease for any reason to constitute at least a majority of the Board, provided that any individual becoming a director subsequent to January 1, 2002, whose election, or nomination for election by Pitney Bowes' shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of Pitney Bowes Inc. (as such terms are used in Rule 14(a)(11) or Regulation 14A promulgated under the Exchange Act); or

(iii) there occurs either (a) the consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company, in each case, with respect to which the individuals and entities who were the respective beneficial owners of the common stock and voting securities of Pitney Bowes Inc. immediately prior to such reorganization, merger or consolidation do not, following such reorganization, merger or consolidation, beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such reorganization, merger or consolidation, or (b) an approval by the shareholders of Pitney Bowes Inc. of a complete liquidation of dissolution of Pitney Bowes Inc. or of the sale or other disposition of all or substantially all of the assets of Pitney Bowes Inc.

Section 2.09 **Common Stock.** "Common Stock" means the common stock of Pitney Bowes Inc.

Section 2.10 **Company.** "Company" means Pitney Bowes Inc., its successors, any subsidiary or affiliated organizations authorized by the Board or the Executive Committee to participate in the Plan and any organization into which or with which Pitney Bowes Inc. may merge or consolidate or to which all or substantially all of its assets may be transferred.

Section 2.11 **Consideration Shares.** "Consideration Shares" means shares of Common Stock owned by the Participant for a period of at least six months prior to the Date of Exercise, and having a Fair Market Value equal to the exercise price for the number of Option Shares to be exercised.

Section 2.12 **Date of Exercise.** "Date of Exercise" means the date on which an Option is considered to be exercised.

Section 2.13 **Deferral Account.** "Deferral Account" means the total of all Sub-Accounts maintained on the books of the Company by the Administrative Committee for each Participant to reflect deferral of Eligible Compensation, adjusted for hypothetical gains, earnings, dividends, losses, distributions, withdrawals and other similar activity other than gains with respect to stock options granted pursuant to deferrals made under the Plan.

Section 2.14 **Deferral Period.** "Deferral Period" means the period beginning on the date the Eligible Compensation would otherwise have been paid or, in the case of Gain Shares, on the Date of Exercise, and

ending on the earlier of (i) the Participant's Retirement and (ii) the last day of the period during which the Participant elected to defer current enjoyment and distribution of the Eligible Compensation and Gain Shares

Section 2.15 **Deferred Amount.** "Deferred Amount" means the amount of Eligible Compensation for the Plan Year or performance period to which the Participation Agreement relates that is to be deferred under the Plan.

Section 2.16 **Disability.** "Disability" means eligibility for disability benefits under the terms of the Company's Long-Term Disability Plan as in effect from time to time.

Section 2.17 **Eligible Compensation.** "Eligible Compensation" means any cash award otherwise payable as annual incentive compensation or a CIU Award by the Company to a Participant with respect to a Plan Year or a performance period pursuant to the Pitney Bowes Inc. Key Employees' Incentive Plan or, effective January 1, 2000, Base Salary otherwise payable to the Participant.

Section 2.18 **ERISA**. "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

Section 2.19 **Executive Committee.** "Executive Committee" means the Executive Compensation Committee of the Board.

Section 2.20 **Fair Market Value.** "Fair Market Value" of a share of Common Stock means the closing price of the Common Stock on the New York Stock Exchange on the most recent day on which the Common Stock was so traded that precedes the date as of which Fair Market Value is to be determined.

Section 2.21 **Form of Payment.** "Form of Payment" means, with respect to In-Service Distributions, payment in one lump sum or in *5* annual installments, and with respect to Retirement distributions, payments in a lump sum, a partial lump sum, and/or in annual installments of 5, 10 or 15 years.

Section 2.22 **Gain Shares.** "Gain Shares" means the shares of Common Stock resulting from the exercise of any option pursuant to Article V.

Section 2.23 **Gain Share Account.** "Gain Share Account" means the account maintained on the books of the Company by the Administrative Committee for the Participant to reflect the number of Phantom Share Units related to Gains Shares, adjusted for hypothetical gains, earnings, dividends, losses, distributions, withdrawals and other similar activity.

Section 2.24 **In-Service Distribution.** "In-Service Distribution" means a payment by the Company to the Participant following a date elected by the Participant (the In-Service Distribution Date) of the amount represented by the Account balance in the In-Service Fund Sub-Account or In-Service Option Sub-Account pertaining to that In-Service Distribution. In-Service Distributions shall be made in accordance with Participants' In-Service Distribution Form of Payment election.

Section 2.25 **In-Service Fund Sub-Account.** "In-Service Fund Sub-Account" or "Fund Sub-Account" means an Account created to track Deferred Amounts allocated to hypothetical investments other than Options, and hypothetical - earnings thereon, which the Participant elects to receive as an In-Service Distribution.

Section 2.26 **In-Service Option Sub-Account.** "In-Service Option Sub-Account" or "Option Sub-Account" is

an Account created to track Deferred Amounts allocated to Options.

Section 2.27 **Option.** "Option" means an option to acquire shares of Common Stock granted pursuant to the Pitney Bowes Stock Option Plan as amended and restated January, 2002 or any predecessor or successor thereto.

Section 2.28 **Option Expiration Date.** "Option Expiration Date" means the last day of the option term.

Section 2.29 **Option Share.** "Option Share" means a share of Common Stock acquired (or deferred hereunder) pursuant to the exercise of an Option.

Section 2.30 **PBIP.** "PBIP" means the Pitney Bowes' Performance Based Compensation Incentive Program, or any successor thereto, and the "PBIP-like" compensation incentive program, or any successor thereto.

Section 2.31 **Participant.** "Participant" means any individual who is eligible to participate in this Plan and who elects to participate by filing a Participation Agreement or Stock Option Gain Agreement as provided in Article IV.

Section 2.32 **Participation Agreement.** "Participation Agreement" means an agreement filed by a Participant in accordance with Article IV.

Section 2.33 **Phantom Share Fund.** "Phantom Share Fund" means the hypothetical investment fund under the Plan which is comprised of Phantom Share Units and which is intended to mirror investment in Common Stock, including deemed reinvestment of dividends thereon.

Section 2.34 **Phantom Share Unit.** "Phantom Share Unit" means the accounting units established hereunder to track a Participant's hypothetical interest in the Phantom Share Fund.

Section 2.35 **Plan Year.** "Plan Year" means a twelve-month period beginning January 1 and ending the following December 31; provided that the first Plan Year shall be the partial year beginning on September 9, 1996 and ending on December 31, 1996.

Section 2.36 **Retirement.** "Retirement" means retirement of a Participant from the Company after attaining age 65 or 55 with at least ten years of service (in accordance with the method of determining retirement under the Pitney Bowes Pension Plan).

Section 2.37 **Retirement Sub-Account.** "Retirement Sub-Account" means an Account created to track all Deferred Amounts, and hypothetical earnings thereon, that Participants elect to receive upon Retirement or are otherwise not credited to an In-Service Sub-Account or to an Option Sub-Account.

Section 2.38 **Stock Option Gain Agreement.** "Stock Option Gain Agreement" means an agreement filed by a Participant in accordance with Article V intended to defer taxation of the gain from the exercise of an Option.

Section 2.39 **Sub-Account.** "Sub-Account" means an Account that is a portion of the Deferral Account created and maintained for purposes of enabling different allocation elections (among hypothetical investment funds),

different Form of Payment elections, and different distribution dates, or for other, reasons deemed necessary by the Administrative Committee to properly administer the Plan.

Section 2.40 **Termination of Employment.** “Termination of Employment” means the cessation of a Participant’s services as a full-time employee of the Company and its affiliates for any reason other than Retirement.

Section 2.41 **Unforeseeable Emergency.** “Unforeseeable Emergency” means severe financial hardship to the Participant resulting from a sudden and unexpected illness or accident of the Participant or a dependent of the Participant, loss of the Participant’s property due

to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant.

Section 2.42 **Valuation Date.** “Valuation Date” means the last day of the calendar month immediately preceding a distribution triggering event (e.g. an In-Service Distribution Date, the end of an Option Sub-Account Deferral Period, Retirement, Termination of Employment, Death, or Disability) or such other date as the Administrative Committee in its sole discretion may determine.

ARTICLE III

ADMINISTRATION

Section 3.01 **Executive and Administrative Committees; Duties.** The Executive Committee shall administer this Plan and shall be the named fiduciary of this Plan. A majority of the members of the Executive Committee shall constitute a quorum for the transaction of business. All resolutions or other action taken by the Executive Committee shall be by a vote of a majority of its members present at any meeting or, without a meeting, by an instrument in writing signed by all its members. Members of the Executive Committee may participate in a meeting of such committee by means of a conference telephone or similar communications equipment that enables all persons participating in the meeting to hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

The Executive Committee shall be responsible for the administration of this Plan and shall have all powers necessary to administer this Plan, including discretionary authority to determine eligibility for benefits and to decide claims under the terms of this Plan, except to the extent that any such powers are vested in any other fiduciary of this Plan by the Executive Committee. The Executive Committee may from time to time establish rules for the administration of this Plan, and it shall have the exclusive right to interpret this Plan and to decide any matters arising in connection with the administration and operation of this Plan. All rules, interpretations and decisions of the Executive Committee shall be conclusive and binding on the Company, Participants and Beneficiaries.

The Executive Committee has delegated to the Administrative Committee responsibility for performing certain administrative and ministerial functions under this Plan. The Administrative Committee shall be responsible for determining in the first instance issues related to eligibility, deemed investment choices, determination and distribution of Account balances, crediting of hypothetical earnings and debiting of hypothetical losses, in-service withdrawals, deferral elections and any other duties concerning the day-to-day operation of the Plan. The Executive Committee shall have discretion to delegate to the Administrative Committee such additional duties as it may determine. The Administrative Committee may designate one of its members as a chairperson and may retain and supervise outside providers and professionals (including in-house professionals) to perform any or all of the duties delegated to it hereunder.

Neither the Executive Committee nor a member of the Board nor any member of the Administrative Committee shall be liable for any act or action hereunder, whether of omission or commission, by any other member or employee or by any agent to whom duties in connection with the administration of this Plan have been delegated or for anything done or omitted to be done in connection with this Plan. The Executive Committee and the Administrative Committee shall keep records of all of their respective proceedings and the Administrative Committee shall keep records of all payments made to Participants or Beneficiaries and payments made for expenses or otherwise.

The Company shall, to the fullest extent permitted by law, indemnify each director, officer or employee of the Company (including the heirs, executors, administrators and other personal representatives of such person) and each member of the Executive Committee and the Administrative Committee against expenses (including attorneys' fees), judgments, fines, amounts paid in settlement, actually and reasonably incurred by such person in connection with any threatened, pending or actual suit, action or proceeding (whether civil, criminal, administrative or investigative in nature or otherwise) in which such person may be involved by reason of the fact that he or she is or was serving this Plan in any capacity at the request of the Company.

Any expense incurred by the Company, the Executive Committee or the Administrative Committee relative to the administration of this Plan shall be paid by the Company.

Section 3.02 **Claim Procedure.** If a Participant or Beneficiary makes a written request alleging a right to receive payments under this Plan or alleging a right to receive an adjustment in benefits being paid under this Plan, such actions shall be treated as a claim for benefits. All claims for benefits under this Plan shall be sent to the Administrative Committee. If the Administrative Committee determines that any individual who has claimed a right to receive benefits, or different benefits, under this Plan is not entitled to receive all or any part of the benefits claimed, the Administrative Committee shall inform the claimant in writing of such determination and the reasons therefore in terms calculated to be understood by the claimant. The notice shall be sent within 90 days of the claim unless the Administrative Committee determines that additional time, not exceeding 90 days, is needed. The notice shall make specific reference to the pertinent Plan provisions on which the denial is based, and shall describe any additional material or information that is necessary. Such notice shall, in addition, inform the claimant of the procedure that the claimant should follow to take advantage of the review procedure set forth below in the event the claimant desires to contest the denial of the claim. Such notice shall further inform the claimant of his or her right to bring a civil action under -ERISA Section 502(a) following an adverse benefit determination on appeal. The claimant may within 90 days thereafter submit in writing to the Administrative Committee a notice that the claimant contests the denial of his or her claims and desires a further review by the Executive Committee. The Executive Committee shall within 60 days thereafter review the claim and authorize the claimant to review relevant documents and submit issues, comments, documents - and other information relating to the claim to the Executive Committee. The Executive Committee will render a final decision on behalf of the Company with specific reasons therefore in writing and will transmit it to the claimant within 60 days of the written request for review, unless the Chairperson of the Executive Committee determines that additional time, not exceeding 60 days, is needed, and so notifies the claimant. If the claim is denied, wholly or in part, the notice shall further include specific references to the pertinent Plan provisions on which the denial is based, shall include a statement that the claimant is entitled to receive or review, upon request, documents relevant to the claim, and a statement of the claimant’s right to bring a civil action under ERISA Section 502(a). If the Committee fails to respond to a claim filed in accordance with the foregoing within 60 days or any such extended period, the Company shall be deemed to have denied the claim.

ARTICLE IV

PARTICIPATION AND DEFERRAL OF ELIGIBLE COMPENSATION

Section 4.01 **Participation.** Participation in the Plan shall be limited to executives who

(a) meet such eligibility criteria as the Executive Committee shall establish from time to time,

(b) in the case of deferral of Base Salary, are individuals whose compensation may be subject to the deductibility limitations of Section 162(m) of the Internal Revenue Code, as amended, and

(c) elect to Participate in the Plan by filing a Participation Agreement or a Stock Option Gain Agreement with the Administrative Committee. A Participation Agreement must be filed

(i) with respect to an Annual Incentive Award, prior to the December 1st immediately preceding the Plan Year with respect to which the award relates and

(ii) with respect to a CIU Award, prior to the December 1st that occurs during the year prior to the last year of the performance period to which the award relates.

Prior to January 1, 2001, the term "PBC award" was used to describe the annual incentive award that could be offered under the Plan. The Participation Agreement for deferral of awards and CIU Awards that would otherwise be payable in 1997 was required to be filed no later than December 1, 1996. The Administrative Committee shall have the discretion to establish special deadlines regarding the filing of Participation Agreements for specified groups of Participants.

Section 4.02 **Contents of Participation Agreement.** Each Participation Agreement shall set forth:
(i) the Deferred Amount, expressed as either a dollar amount or a percentage of the total Eligible Compensation for such Plan Year or performance period; provided, that the minimum Deferred Amount for any Plan Year or performance period shall not be less than $2,000;

(ii) the In-Service Distribution Date(s) and/or Deferral Period for portions, or all, of the Deferred Amount, which is not to be less than three years,

(iii) the Form of Payment for In-Service Distributions and Retirement distribution;

(iv) investment selections made by the Participant in hypothetical investment funds under the Plan; and

(v) and any other item determined to be appropriate by the Administrative Committee.

Section 4.03 **In-Service Distributions.** An In-Service Distribution election shall pertain to such portion of the Deferred Amount as elected by the Participant and shall cause a Fund Sub-Account or an Option Sub-Account, as the case may be, to be established (unless such Sub-Account already exists), to which such portion of Deferred Amount shall be credited. In the event an In-Service Sub-Account has already been established for the In-Service Distribution Date referred to in the deferral election, such portion of the Deferred Amount shall be credited to the existing In-Service Sub-Account.

(a) A Participant may maintain up to four (4) Fund Sub-Accounts and an unlimited number of Option Sub-Accounts.

(b) The minimum Deferral Period for an In-Service Distribution is three years.

(c) A Participant may change an In-Service Distribution Date or Form of Payment once only, as follows:

(i) An In-Service Distribution Date extension may be requested by submitting a new Participation Agreement or such other form as may be provided for In-Service Distribution Date extensions by the Administrative Committee (or completing and electronically submitting the appropriate screen on the Participant website, when available) at any time, so long as the date that such form is submitted is at least twelve (12) months prior to the In-Service Distribution Date being extended; and

(ii) The In-Service Distribution Date may be extended to a subsequent year (and must be extended by at least one year), but it may not be accelerated (made to occur sooner than the original date). An extension of an In-Service Distribution Date corresponding to an Option Sub-Account will not extend the Option term.

(iii) In-Service Distribution Dates corresponding to Fund Sub-Accounts may be cancelled, even after an extension. A cancellation of such an In-Service Distribution Date shall cause the Fund Sub-Account associated with it to be combined with the Retirement Sub-Account.

(iv) In-Service Distribution Dates corresponding to Option Sub-Accounts may not be cancelled.

(v) Extending or canceling an In-Service Distribution Date in accordance with the Plan is specific to the In-Service Distribution to which it refers, and shall not affect other In-Service Distribution Dates or the ability of the Participant to make new In-Service Distribution elections with respect to new Deferred Amounts (except to the extent the maximum number of In-Service-Fund Sub-Accounts are already established).

(vi) With the exception that Fund Sub-Account cancellations do not count as a change, only one change may be made for each In Service Sub-Account. More than one change (that is otherwise permitted under the Plan) may be made if made concurrently with other permissible changes (e.g. a Form of Payment change may be made in the same request as a request for a date extension). If made separately, any change (other than a cancellation of a Fund Sub-Account) constitutes a change to the In-Service Distribution and thereby extinguishes a Participant's right to request any additional change at another time.

(d) Any portion of a Deferred Amount not credited to a Fund Sub-Account or an Option Sub-Account will be credited to the Retirement Sub-Account.

(e) The Participation Agreement shall also indicate the Participant's Form of Payment election for each In-Service Distribution Date. Permitted payment schedules for In-Service Distributions are a single lump sum or five (5) annual-installment-payments.

(f) In-Service-Distributions corresponding to Fund Sub-Accounts shall be accelerated in the event of Retirement or Termination of Employment. In the event Retirement occurs prior to an In-Service Distribution Date, or prior to the completion of payment of an In-Service Distribution (in the case of installment payments) with respect to a Fund Sub-Account, the remaining balances in the Fund Sub-Accounts shall be added to the Retirement Sub-Account.

Payments shall thereafter be made by the Company in accordance with Plan provisions regarding Retirement or Termination of Employment, as the case may be.

(g) In-Service Distributions corresponding to In-Service Option Sub-Accounts shall not be accelerated in the event of Retirement, but shall be accelerated in the event of Termination of Employment, death, or Disability prior to Retirement.

Section 4.04 **Options and Deferral Periods.**

(a) A Participant may allocate a portion, or all, of a Deferred Amount to Options, if such hypothetical investment is made available by the Executive Committee (see Section 7.02(c)). When a Participant allocates Deferred Amounts to Options, the Participant must elect a Deferral Period, which must be at least three years but no more than ten years beginning on the date the Deferred Amount (or last installment of the Deferred Amount in the case of salary), is credited to the Deferral Account. The Deferral Period will also determine the term of the Option; however, if the minimum Deferral Period of three years is chosen, then the Option term will be four years.

(b) The allocation to Options and establishment of a corresponding Deferral Period creates an Option Sub-Account. There is no limit on the number of Option Sub-Accounts which a Participant may maintain.

(c) Option Sub-Accounts established prior to January 1, 2004 will be accelerated and combined with Retirement payments in progress (or, if none, then paid in accordance with the Participant's Form of Payment election for the Option Sub-Account) in the event of exercise of the Option following Retirement. For Option Sub-Accounts established on or after January 1, 2004, Option Sub-Account distributions shall not be accelerated due to Retirement or exercise of the Option following Retirement.

Section 4.05 **Changes to Participation Agreement.** Provisions of a Participation Agreement pertaining to the amount and source (e.g. salary, specific award, etc.) of Deferred Amounts may not be amended or revoked after the beginning of the Plan Year to which they pertain. Changes to the In-Service Distribution Dates, and Form of Payment elections for In-Service Distributions and Retirement distributions may be made in accordance with provisions in applicable Sections of the Plan.

Section 4.06 **Reduction in Deferred Amount for Tax Withholding.** The foregoing provisions of this Article IV notwithstanding, in the event a Participant's deferral election results in insufficient non-deferred compensation from which to withhold taxes in accordance with applicable law, the Deferred Amount shall be reduced as necessary to allow the Company to satisfy tax withholding requirements.

ARTICLE V

STOCK OPTION GAIN DEFERRALS

Section 5.01 **In General.** Subject to provisions of this Article V, Participants may elect to defer receipt and distribution of the gain related to Gain Shares until the end of an elected Deferral Period by filing with the Administrative Committee a Stock Option Gain Agreement. The stock option gain deferral features of the Plan are effective for deferral elections made on or after September 14, 1998. The deferral of gain related to Gain Shares, as described in Article V and other related provisions of the Plan, shall be available only to Participants who are employees of the Company at the time the Participant files a Stock Option Gain Agreement.

Section 5.02 **Timing of Filing Stock Option Gain Agreement.** A Stock Option Gain Agreement must be filed at least six months prior to the Date of Exercise, prior to the calendar year in which occurs the Date of Exercise and no later than the day before the first day of the six month period ending on the Option Expiration Date.

Section 5.03 **Contents of Stock Option Gain Agreement.** Each Stock Option Gain Agreement shall set forth: (i) the number of Option Shares to be exercised in connection with the deferrals hereunder; (ii) the date of grant of the Option Shares; (iii) the Deferral Period, which is not to be less than three years; (iv) the Form of Payment; and (v) any other item determined to be appropriate by the Administrative Committee. A Participant may elect to defer gain on Option Shares in increments of 25%, 50%, 75% or 100% of the number of Option Shares awarded on a particular date of grant.

Section 5.04 **Manner of Exercising Option Shares.** A Participant who desires to exercise an Option and to defer current receipt and distribution of the gain related to Gain Shares must follow the procedures and requirements that are applicable to the Option under the Pitney Bowes Stock Plan as amended and restated, January 1, 2002, including the procedures and requirements relating to the exercise of an Option; provided, however, that in the case of a deferral of Gain Shares under this Plan, the Participant shall only be permitted to tender Consideration Shares to pay the entire exercise price for any exercised Option. Notwithstanding the foregoing, the Administrative Committee may in its discretion accept the Participant's attestation that he or she owns the number of Consideration Shares necessary to effectuate the stock swap contemplated hereunder. The attestation method or any other procedure accepted by the Administrative Committee shall be consistent with applicable legal authority regarding the tax-free treatment of such a transaction.

Section 5.05 **Determination of Gain Shares.** Upon exercise of an Option, the gain of which the Participant has elected to defer hereunder, Gain Shares resulting from such exercise shall be determined as follows: (i) the aggregate exercise price for all exercised Option Shares shall be determined; (ii) the number of Consideration Shares needed to pay the exercise price for such Option Shares shall be determined; (iii) the difference between the number of exercised Option Shares and the number of Consideration Shares shall be the number of Gain Shares resulting from such exercise. Any fractional Gain Share that results from the computations hereunder shall be rounded up to the nearest whole number.

Section 5.06 **Conversion of Gain Shares to Phantom Stock Units.** As of the Date of Exercise, Gain Shares shall be converted to Phantom Share Units by dividing the amount of the aggregate Fair Market Value of the Gain Shares as of the Date of Exercise by the Fair Market Value of one share of Common Stock as of the Date of Exercise. The resulting number of Phantom Share Units shall be credited to the Participant's Gain Share Account. Any fractional

Phantom Share Unit that results from the- computations hereunder shall be rounded up to the nearest whole number.

Section 5.07 **Changes to the Stock Option Gain Agreement.** A Stock Option Gain Agreement may not be amended or revoked after the day on which it is filed with the Administrative Committee, except that the Deferral Period may be extended if an amended Stock Option Gain Agreement is filed with the Administrative Committee at least one full calendar year before the Deferral Period (as in effect before such amendment) ends; provided, that only one such amended Stock Option Deferral Agreement may be filed with respect to each Agreement.

Section 5.08 **Failure to Properly Exercise.** If a Participant who has. made a valid election under this Article V to defer the gain related to Gain Shares and if the Option expires without a proper exercise of the Option by the Participant or if the Participant fails to properly tender the Consideration Shares by the last day of the Option term, the Participant shall forfeit any opportunity to exercise the Option and the Option shall be cancelled as of the end of the last business day of the Option term.

ARTICLE VI

DEFERRAL OF ELIGIBLE COMPENSATION AND GAIN SHARES

Section 6.01 **Elective Deferred Incentive Compensation.** The Deferred Amount of a Participant with respect to each Plan Year of participation in the Plan shall be credited by the Administrative Committee to the Participant's Deferral Account or Sub-Account as and when such Deferred Amount would otherwise have been paid to the Participant. To the extent that the Company is required to withhold any taxes or other amounts from the Deferred Amount pursuant to any state, Federal or local law, such amounts shall be taken out of compensation to the Participant that is not deferred under this Plan. In the event a Participant's deferral election results in insufficient non-deferred compensation from which to withhold taxes in accordance with applicable law, the Deferred Amount shall be reduced as necessary to allow the Company to satisfy tax withholding requirements.

Section 6.02 **Vesting of Accounts.** Except as provided in Section 8.06, a Participant shall be 100% vested in his/her Account at all times.

Section 6.03 **Gain Shares.** The gain from the exercise of the Option which the Participant elects to defer under the Plan as Phantom Share Units shall be credited by the Administrative Committee to the Participant's Gain Share Account as of the Date of Exercise.

ARTICLE VII

MAINTENANCE AND INVESTMENT OF ACCOUNTS

Section 7.01 **Maintenance of Accounts.** A Deferral Account and a Gain Share Account, shall be separately maintained for each Participant in accordance with their Participation Agreements and Stock Option Gain Agreements. A Participant's interest in his/her Account, and all Sub-Accounts, shall be comprised of the deemed investments in the deemed investment funds offered under the Plan (including the Phantom Share Fund); provided, however, the Gain Share Account shall only reflect the Participant's interest in the Phantom Share Fund. A Participant's Account or Sub-Account shall be utilized solely as a device for the measurement and determination of the amounts to be paid to the Participant pursuant to this Plan, and shall not constitute or be treated as a trust fund of any kind. Accounts and Sub-Accounts shall be valued daily and balances shall be available on the Participant web site and in quarterly statements sent to Participants. For purposes of distributions, the Administrative Committee shall determine the balance of each Account, and Sub-Account, as of each Valuation Date.

Section 7.02 **Investment Choices.**

(a) Subject to Section 7.02(d), the Executive Committee shall permit the Participant to elect to have his/her Deferred Amounts and Deferral Account deemed to be invested in one or more of the deemed investment funds offered under the Plan, selecting among the investment choices, as determined by the Executive Committee from time to time, and in accordance with such rules, regulations and procedures as the Executive Committee may establish from time to time. A Participant may elect different hypothetical investment funds for each Sub-Account. Notwithstanding anything to the contrary herein, earnings and losses based on a Participant's investment elections shall begin to accrue as of the date such Participant's Deferred Amounts are credited to his/her Deferral Account or Sub-Account(s); provided, however, that with respect to a Participant who is participating in the Plan as a "PBIP-like" employee whose incentive award is determined on other than an annual basis, Deferred Amounts shall not be considered to be invested until January 1 following the Plan Year to which the Deferred Amount relates. Upon the Termination of Employment of a Participant who is participating in the Plan as a "PBC-like" employee, amounts credited to his/her Deferral Account for which earnings or losses have not begun to accrue as provided herein at the time of such Termination of Employment shall be paid Deferred Amount in cash in one lump sum without regard to any earnings or losses. Notwithstanding anything to the contrary in this Plan, if a Change of Control occurs within three years of the initial crediting of such Deferred Amounts to the Deferral Account, the net cumulative earnings with respect to such Deferred Amounts shall be based on the greater of (i) rate of return based on the actual investment elections of the Participant and (ii) the rate of return corresponding to the MONY Money Market Fund Rate of Return or such other competitive money market fund rate designated by the Executive Committee, in its sole discretion.

(b)

(i) Phantom Share Units shall be deemed to be invested in shares of Common Stock and shall comprise the Phantom Share Fund. Deferred Amounts that are deemed to be invested in the Phantom Share Fund and Gain Shares shall be converted into Phantom Share Units based upon the Fair Market Value of the Common Stock on the date(s) the Deferred Amounts or Gain Shares are to be credited to the Deferral Account or Gain Share Account, as the case may be. Gain Shares shall be converted into Phantom Stock Units in accordance with Section 5.06. Amounts allocated to the Gain Share Account shall remain hypothetically invested in the Phantom Share Fund at all times.

(ii) The portion of any Deferral Account that is invested in the Phantom Share Fund and the entire portion of

the Gain Share Account shall be credited, as of each Valuation Date, with additional Phantom Share Units related to cash dividends paid on the Common Stock with record dates during the period beginning on the day after the most recent preceding Valuation Date and ending on such Valuation Date, as follows. The credit shall be for a number of Phantom Share Units equal to the amount of the aggregate deemed dividend payments on the Phantom Share Units as of the record date, divided by the Fair Market Value of one share of Common Stock determined as of the record date, rounded up to the next whole share.

(iii) In the event of a stock dividend, split-up or combination of the Common Stock, merger, consolidation, reorganization, recapitalization, or other change in the corporate structure or capitalization affecting the Common Stock, such that an adjustment is determined by the Executive Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under this Plan, then the Executive Committee may make appropriate adjustments to the number of Phantom Share Units credited to the Deferral Account and Gain Share Account. The determination of the Executive Committee as to such adjustments, if any, to be made shall be conclusive.

(iv) Notwithstanding any other provision of this Plan, the Executive Committee shall adopt such procedures as it may determine are necessary to ensure that with respect to any Participant who is actually or potentially subject to Section 16(b) of the Securities Exchange Act of 1934, as amended, the crediting of deemed shares to his or her Deferral Account and Gain Share Account is not deemed to be a non-exempt purchase for purposes of such Section 16(b), including without limitation requiring that no shares of Common Stock or cash relating to such deemed shares may be distributed for six months after being credited to such Deferral Account or Gain Share Account, as the case may be. This Plan will conform in all relevant respects to the provisions of Sarbanes-Oxley Act of 2002.

(c) The Executive Committee may authorize Options as an investment choice under the Plan. The terms and conditions under which Options may be made available as an investment choice shall be determined and communicated by the Executive Committee to Participants from time to time. Any Options issueable under the Plan will be made pursuant to the Pitney Bowes Stock Plan, as amended and restated, January 2002. For purposes of determining the value of Options at the time of grant, the Executive Committee shall use the method of fair market value used for other grants under the Pitney Bowes Stock Option Plan as amended and restated, January 2002. Options shall not be a permitted investment choice with respect to the deferral of Base Salary under the Plan.

(d) Except with respect to retirees who exercise Options after retirement based on deferrals made before January 1, 2003, no deemed investment return under the Plan shall be allocated to Option Sub-Accounts, prior to the last day of the Deferral Period pertaining to the Option Sub-Account. Upon the expiration of the Deferral Period, the Participant shall receive a distribution equal to the original Deferred Amount allocated to the Option, unless he or she has exercised the right to extend the Distribution Date pursuant to Section 4.03(c) of the Plan, in which case he/she shall be entitled to elect to have his/her Deferred Amounts related to the granting of such Options deemed to be invested in one or more of the hypothetical investment funds offered under the Plan effective as soon as practicable following the end of the original Deferral Period.

Section 7.03 **Statement of Accounts.** The Administrative Committee shall submit to each Participant quarterly statements of his/her Account, in such form as the Administrative Committee deems desirable, setting forth the balance to the credit of such Participant in his/her Deferral Account, including Sub-Accounts, and Gain Share Account as of the end of the most recently completed quarter.

ARTICLE VIII

BENEFITS

Section 8.01 **Time and Form of Payment for In-Service Distributions and Gain Share Account Distributions.**

(a) At the end of the Deferral Period, the Company shall pay to the Participant the balance of the Fund Sub-Account, Option Sub-Account, or Gain Share Account, as the case may be, in accordance with the most current valid Form of Payment election pertaining to that Sub-Account or Gain Share Account on file with the Administration Committee or, if none, then as a single lump sum. If the Deferral Period was extended, then the Company shall pay to the Participant the balance of the Sub-Account as soon as administratively practicable following the end of the extended Deferral Period in accordance with the Form of Payment election made by the Participant or, if none, then in a single lump sum. Amounts allocated to the Gain Share Account shall only be paid in the form of actual shares of Common Stock in one lump sum or installments in accordance with the Participant's Stock Option Gain Agreement and applicable provisions of the Plan

(b) The most recent Participation Agreement or Stock Option Gain Agreement, as the case may be, making Form of Payment elections which is filed with the Administrative Committee at least twelve (12) months prior to an In-Service Distribution or Stock Option Gain distribution shall supersede all previous and subsequent Participation Agreements or Stock Option Gain Agreements, as the case may be, on file and the entire amount in the Participant's Sub-Account shall be distributed in accordance with such Form of Payment elections; provided, however, that only a subsequent Stock Option Gain Agreement can supersede a prior Stock Option Gain Agreement and cannot supersede a prior Participation Agreement, and vice versa.

Section 8.02 **Time and Form of Payment for Retirement Distributions.**

(a) In the event of Retirement, the Company shall distribute an amount equal to the balance in the Retirement Sub-Account together with remaining unpaid balances in all In-Service Sub-Accounts which do not correspond to Option Sub-Accounts (determined as of the applicable Valuation Date) to the Participant as soon as administratively practicable following the first day of the month following the date of Retirement in accordance with the most recent Form of Payment election made by the Participant which was filed at least twelve (12) months prior to the date of Retirement, or if none, then in five (5) annual installments.

(b) Notwithstanding Section 8.02 (a) hereof, and in accordance with Section 4.04 (c) hereof, a Participant who meets the definition of Retirement who has been granted Options pursuant to Section 7.02 (c) hereof in connection with Deferred Amounts prior to January 1, 2004 shall have that portion of his/her Deferral Account that relates to the granting of such Options distributed at the earlier of (i) the Date of Exercise of such Options and (ii) the last day of the Option term. A Participant who meets the definition of Retirement who has been granted Options pursuant to Section 7.02 (c) hereof in connection with Deferred Amounts and who has established Option Sub-Accounts on or after January 1, 2004 shall have the balance of such Option Sub-Accounts distributed at the end of the Option term in accordance with distribution provisions in the Plan notwithstanding an earlier exercise of the Option. Such Deferred Amounts shall be distributed in accordance with the Form of Payment elected by the Participant in his/her Participation Agreement or with

applicable provisions of the Plan; provided, however, that if the Deferred Amounts are to be distributed in installments, the Deferred Amounts related to the granting of Options shall be entirely distributed over the remaining installment schedule for Retirement distributions commencing with the next following installment payment due under the installment schedule. Any lump sum payment shall be paid as soon as practicable following the Date of Exercise of the Options or the last day of the Option term, as the case may be.

Section 8.03 **Time and Form of Payment for Distributions Upon Termination of Employment.** In the event of a Termination of Employment, the Company shall pay the balance in the Retirement Sub-Account and the remaining balance in any In-Service Sub-Accounts, valued as of the applicable Valuation Date, to the Participant in a single lump sum as soon as administratively practicable following the date of Termination of Employment.

Section 8.04 **Time and Form of Payment for distributions upon death or Disability.** In the event of death or Disability prior to Retirement or Termination of Employment, the Company shall pay the entire Deferral Account balance, including all remaining Sub-Account balances in a single lump sum to the Participant (in the event of Disability) or to the Beneficiary (in the event of death). In the event of death or Disability after Retirement, the Company shall continue to pay benefits in the same amounts and at the same time(s) as if the Participant had not died or become disabled; except that, in the case of death, such payments shall be paid to the Beneficiary.

Section 8.05 **Miscellaneous Distribution Provisions.** The foregoing provisions of this Article VII not withstanding:

(a) if a Participant has elected to receive a distribution in the form of a full or partial lump sum, the Administrative Committee may in its discretion distribute all or a portion of the Deferred Amounts deemed to be invested in the Phantom Share Fund in the form of actual shares of Common Stock. Installment payments from the Deferral Account shall only be paid in cash. All full or partial lump sum distributions hereunder will be made as soon as practicable following the In-Service Distribution Date, end of the Deferral Period, date of Retirement, date of Termination of Employment, or Death as the case may be, based on the most recent Valuation Date as of the distribution triggering event.

(b) If the Participant has elected to receive payments in installments, each payment shall consist of an amount equal to (i) the balance of the Deferral Account, as of the most recent Valuation Date preceding the payment date times (ii) a fraction, the numerator of which is one and the denominator of which is the number of remaining installments (including the installment being paid). The first such installment shall be paid as soon as practicable after the distribution triggering event (e.g. In-Service Distribution Date, end of the Deferral Period, Retirement, etc.) as the case may be, and each subsequent installment shall be paid on or about the anniversary of such first payment. In the case of the In-Service and Retirement Sub-Accounts, each such installment shall be deemed made on a pro rata basis from each of the different deemed investments of such Sub-Accounts (if there is more than one such deemed investment).

(c) In the event the balance in the Deferral Account (including all Sub-Accounts) is less than $50,000 at the time of the initial valuation immediately prior to the beginning of a Retirement distribution, then the Administrative Committee, in its sole discretion, may ignore the Form of Payment election made by the Participant and pay the benefit in a single lump sum.

Section 8.06 **Hardship Withdrawals.** Notwithstanding the provisions of Section 8.01 and any Participation

Agreement or Stock Option Gain Agreement, as the case may be, a Participant shall be entitled to request early payment of all or part of the balance in his/her Deferral Account and Gain Share Account in the event of an Unforeseeable Emergency, in accordance with this Section 8.06. A distribution pursuant to this Section 8.06 may only be made to the extent reasonably needed to satisfy the Unforeseeable Emergency need, and may not be made if such need is or may be relieved (i) through reimbursement or compensation by insurance or otherwise, (ii) by liquidation of the Participant's assets to the extent such liquidation would not itself cause severe financial hardship, or (iii) by cessation of participation in the Plan. An application for an early payment under this Section 8.06 shall be made to the Administrative Committee in such form and in accordance with such procedures as the Administrative Committee shall determine from time to time. The determination of whether and in what amount and form a distribution will be permitted pursuant to this Section 8.06 shall be made by the Administrative Committee. Distributions shall be made from In-Service and Option Sub-Accounts and Gain Share Accounts (beginning with the most distant) and then from the Retirement Sub-Account.

Section 8.07 **Voluntary Early Withdrawal.** Notwithstanding the provisions of Section 8.01 and any Participation Agreement or Stock Option Gain Agreement, a Participant shall be entitled to elect to withdraw all of the balances in his/her Deferral Account and Gain Share Account in accordance with this Section 8.07 by filing with the Administrative Committee such forms, in accordance with such procedures, as the Administrative Committee shall determine from time to time. As soon as practicable after receipt of such form by the Administrative Committee, the Company shall pay an amount equal to ninety percent of the balance in such Participant's Deferral Account(s) and ninety percent of any Gain Shares allocated to the Gain Share Account (determined as of the most recent Valuation Date preceding the date such election is filed) to the electing Participant in a lump sum in cash, or actual shares ofCommon Stock in the case of the Gain Share Account, and the Participant shall forfeit the remainder of such Deferral Account or Gain Share Account, as the case may be. The most recent Participation Agreement or the Stock Option Gain Agreement previously filed by a Participant who elects to make a withdrawal under this Section 8.07 shall be null and void as a result of a voluntary early withdrawal hereunder (including without limitation a Participation Agreement or the Stock Option Gain Agreement, as the case may be, with respect to Plan Years or performance periods that have not yet been completed). A Participant who does not have a Participation Agreement or Stock Option Gain Agreement on file at the time of the voluntary early withdrawal request shall not be permitted to file an additional Participation Agreement or Stock Option Gain Agreement for one year following the last day of the deferral election period immediately following the voluntary early withdrawal request. Distributions shall be made from In-Service or Option Sub-Accounts and Gain Share Accounts (beginning with the most distant) and then from the Retirement Sub-Account.

Section 8.08 **Payments in Connection with Change of Control.** Notwithstanding anything contained in this Plan to the contrary, upon a Change of Control, the Company shall immediately pay to each Participant in a lump sum in cash the balance in his/her Deferral Account or in actual shares of Common Stock in the case of the Gain Share Account (determined as of the most recent Valuation Date preceding the Change of Control).

Section 8.09 **Withholding of Taxes.** Notwithstanding any other provision of this Plan, the Company shall withhold from payments made hereunder any amounts required to be so withheld by any applicable law or regulation.

Section 8.10 **Modification of Payment Schedule.** Notwithstanding anything herein to the contrary, the Committee may in its sole and exclusive discretion modify the method and timing of payment of Deferred Amounts as previously elected by the Participant based on circumstances it has identified as being in the best interests of the Company.

ARTICLE IX

BENEFICIARY DESIGNATION

Section 9.01 **Beneficiary Designation.** Each Participant shall have the right, at any time, to designate any person, persons or entity as his Beneficiary or Beneficiaries to receive the balance of his or her Account upon the Participant's death. A Beneficiary designation shall be made, and may be amended, by the Participant by filing a written designation with the Administrative Committee, on such form and in accordance with such procedures as the Administrative Committee shall establish from time to time.

Section 9.02 **No Beneficiary Designation.** If a Participant fails to designate a Beneficiary as provided above, or if all designated Beneficiaries predecease the Participant, then the Participant's Beneficiary shall be deemed to be the Participant's estate.

ARTICLE X

AMENDMENT AND TERMINATION OF PLAN

Section 10.01 **Amendment.** The Board or the Executive Committee may at any time amend this Plan in whole or in part, provided, however, that no amendment shall be effective to decrease the balance in any Account as accrued at the time of such amendment, nor shall any amendment otherwise have a retroactive effect except if such retroactivity does not cause a materially adverse financial effect.

Section 10.02 **Company's Right to Terminate.** The Board or the Executive Committee may at any time terminate the Plan with respect to future Participation Agreements and Stock Option Gain Agreements. The Board or the Executive Committee may also terminate the Plan in its entirety or in part at any time for any reason, including without limitation if, in its judgment, the continuance of the Plan, the tax, accounting, or other effects thereof, or potential payments thereunder would not be in the best interests of the Company, and upon any such termination, the Company shall immediately pay to each Participant in a lump sum the accrued balance in his Account (determined as of the most recent Valuation Date preceding the termination date).

ARTICLE XI

MISCELLANEOUS

Section 11.01 **Unfunded Plan.** This Plan is intended to be an unfunded plan maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees, within the meaning of Section 401 of ERISA. All payments pursuant to the Plan shall be made from the general funds of the Company and no special or separate fund shall be established or other segregation of assets made to assure payment. No Participant or other person shall have under any circumstances any interest in any particular property or assets of the Company as a result of participating in the Plan. Notwithstanding the foregoing, the Company may (but shall not be obligated to) create one or more grantor trusts, the assets of which are subject to the claims of the Company's creditors, to assist it in accumulating funds to pay its obligations under the Plan.

Section 11.02 **Nonassignability.** Except as specifically set forth in the Plan with respect to the designation of Beneficiaries, neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate or convey in advance of actual receipt the amounts, if any; payable hereunder, or any part thereof, which are, and all rights to which are, expressly declared to be unassignable and non-transferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, nor be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency.

Section 11.03 **Validity and Severability.** The invalidity or unenforceability of any provision of this Plan shall not affect the validity or enforceability of any other provision of this Plan, which shall remain in full force and effect, and any prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

Section 11.04 **Governing Law.** The validity, interpretation, construction and performance of this Plan shall in all respects be governed by the laws of the State of Connecticut, without reference to principles of conflict of law, except to the extent pre-empted by federal law.

Section 11.05 **Employment Status.** This Plan does not constitute a contract of employment or impose on the Participant or the Company any obligation for the Participant to remain an employee of the Company or change the status of the Participant's employment or the policies of the Company and its affiliates regarding termination of employment.

Section 11.06 **Underlying Incentive Plans and Programs.** Nothing in this Plan shall prevent the Company from modifying, amending or terminating the compensation or the incentive plans and programs, including the Pitney Bowes Inc. Key Employees' Incentive Plan pursuant to which cash awards are earned and which are deferred under this Plan and the Pitney Bowes Stock Option Plan as amended and restated, January, 2002

Section 11.07 **Severance.** Notwithstanding anything to the contrary herein the Executive Committee may in its sole and exclusive discretion, determine that the Accounts of a Participant who has incurred, a Termination of Employment and who receives or will receive severance payments from the Company shall be paid in installments, at such intervals as the Executive Committee may decide.

Section 11.08 **Termination of Employment.** Upon Termination of Employment, Disability or death, a Participant shall forfeit all rights and entitlements to actively participate in the Plan, including the . opportunity to make further . deferral elections of Eligible Compensation, gain on related Gain Shares, direction of deemed investment funds and any other activities offered to active Participants, unless the Administrative Committee in its sole discretion decides otherwise.

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 Annual Report on Form 10-K of Pitney Bowes Inc.;

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

5. The registrant's other certifying officer 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: March 13, 2006

/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 Annual Report on Form 10-K of Pitney Bowes Inc.;

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

5. The registrant's other certifying officer 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: March 13, 2006

/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 Annual Report of Pitney Bowes Inc. (the “Company”) on Form 10-K for the year ended December 31, 2005 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
March 13, 2006

EXHIBIT (32.2)

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

The certification set forth below is being submitted in connection with the Annual Report of Pitney Bowes Inc. (the "Company") on Form 10-K for the year ended December 31, 2005 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
March 13, 2006