Pitney Bowes

Straight to the Point

Annual Report **2007**

Gain greater insights from my customer data | Reach customers when they're ready to buy | Speed production of sensitive communications | Expedite delivery of domestic and international mail | Cut postage costs | Create targeted marketing campaigns | Pick the best location for my next retail store | Track incoming mail and packages | Give my international mail a local look and feel | Protect my corporate brand | Manage multi-carrier shipping | Cleanse my address database | Merge multiple databases | Get purchasing power for all my mailstream needs | Gain greater insights from my customer data | Reach customers when they're ready to buy | Speed production of sensitive communications | Expedite delivery of domestic and international mail | Cut postage costs | Create targeted marketing campaigns | Pick the best location for my next retail store | Track incoming mail and packages | Give my international mail a local look and feel | Protect my corporate brand | Manage multi-carrier shipping | Cleanse my address database | Merge multiple databases | Get purchasing power for all my mailstream needs | Gain greater insights from my customer data | Reach customers when they're ready to buy | Speed production of sensitive communications | Expedite delivery of domestic and international mail | Cut postage costs | Create targeted

"Everything we do has one goal—to ensure that *our customers* achieve their goals."

Murray D. Martin President and Chief Executive Officer

Feels like home: Boost global response rates with a local approach

DIABETES WELLNESS NETWORK

THE FOUNDERS OF THE DIABETES Wellness Network bring their own personal passion to the pursuit of a cure for type 1 diabetes, also known as juvenile diabetes, a devastating illness that can lead to a host of life-threatening conditions.

Michael Gretschel and John Alahouzos began raising money for diabetes research more than 30 years ago after Gretschel's son and then his daughter were diagnosed with the disease. Their foundation has raised more than $150 million and helped establish the first pancreatic islet cell transplant center in the U.K., at Oxford University. It also supports groundbreaking work at the University of Minnesota, Harvard University's Joslin Diabetes Center, the University of Miami and other major research centers.

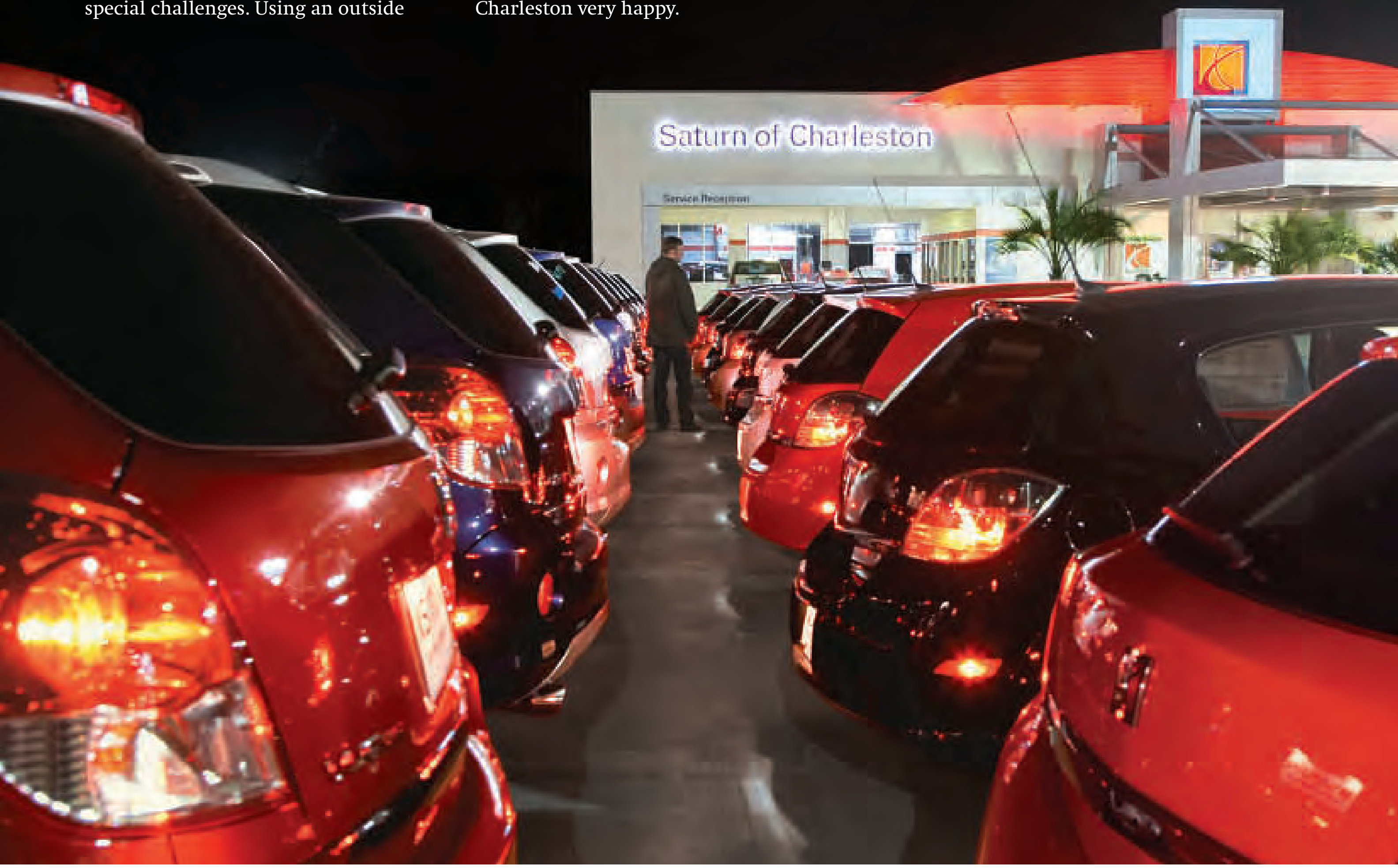
The foundation also does its fund-raising on an international scale, conducting direct-mail campaigns in the U.S. and Europe to raise more than 90 percent of its contributions. It relies on Pitney Bowes International Mail Services to consolidate its mail in the U.S. and ship it to various countries. Each mail piece displays the destination country's postal indicia and a local return address, as if it were created and mailed there. The result: faster, more economical delivery—and better response rates.

SATURN OF CHARLESTON

AS MARKETING DIRECTOR FOR THE Saturn dealership in Charleston, South Carolina, Ken French knows that timing is everything. When Saturn introduces special promotions, it's his job to get prospective buyers into the showroom to take advantage of these limited-time offers. The salespeople can take care of the rest.

French has been extremely successful using a multichannel marketing strategy—Saturn of Charleston ranks ninth among more than 460 Saturn dealerships. But direct mail had always posed special challenges. Using an outside vendor, it often took up to 10 days for a mailing to reach prospects. The lost time spelled lost opportunity.

Pitney Bowes showed the dealership how it could reduce turnaround time and cut costs in half by moving the direct-mail operation in-house. The solution includes Pitney Bowes address-cleansing software, folding and inserting equipment, and an advanced digital mailing system. Now, it takes just one day to produce and send as many as 4,000 direct-mail pieces. This makes the salespeople at Saturn of Charleston very happy.



Strike while the iron is hot—without burning through the marketing budget

LA CURACAO

AS A SMALL BUT GROWING RETAIL chain catering to the Latino population in the Southwest, La Curacao cannot afford to make mistakes when picking new store locations. It uses AnySite® Online from Pitney Bowes to help ensure that doesn't happen.

La Curacao uses our AnySite® tool to analyze income levels, shopping patterns, drive times, and a wealth of other information to assess the profitability of potential new sites. La Curacao currently operates 10 big-box stores in Southern California and Arizona and plans to open a store in Nevada in 2009.

Location is a critical factor in countless other strategic and operational decisions—whether it's deploying police, planning a network or assigning risk for insurance purposes. Our expertise and advanced technology help businesses and governments worldwide gain deeper insights from location-related data.

➡ Map the path to growth with our location intelligence tools

"Carnaval" © 1994 Precita Eyes Muralists. 19th & Harrison Streets, San Francisco, CA.
Directed and Designed by Joshua Sarantitis with Emmanuel Montoya.
www.precitaeyes.org 415.285.2287

BOUYGUES TELECOM

IN LITTLE MORE THAN A DECADE, Bouygues Telecom has emerged as one of the leading communication companies in France. Its strategy? Innovative pricing plans, creative use of technology and, most important, an unwavering commitment to exceptional customer service.

Its monthly statements represent an essential component of the company's customer communications strategy. Bouygues relies on Pitney Bowes to print, insert, send and track this large, complex mailing to as many as 9 million customers—and to protect the integrity of these sensitive documents.

The company does not undertake such relationships lightly—for instance, it operates its own call centers rather than entrusting this other critical customer touch point to a vendor.

Says Laurent Biojoux, Bouygues Telecom's executive vice president for customer relations: "We want our bills to be as clear as possible, inspire confidence, arrive on time, communicate our latest offers and do anything else that will make life easier for our customers."

Get the right information to millions of customers, on time, every time

Turn that routine report into a must-read for your clients

JOHN HANCOCK

TO IMPROVE CLIENT COMMUNICA-tions, John Hancock Retirement Plan Services knew it needed to communicate less. Counterintuitive, perhaps. And surprisingly difficult to do.

The nation's leading provider of 401(k) plans, John Hancock typically sent its 45,000 plan sponsors updated fund information twice a year. It had been a generic document containing information on the full universe of John Hancock investment options.

Using our expertise in both communications and in managing vast amounts of variable data, we worked with John Hancock RPS to design a process for the mass customization of these complex documents.

Now, each of the 45,000 plan sponsors receives an enhanced communication that includes just the information that he or she needs. And while John Hancock is still delivering the necessary information to the plan sponsors, it is also winning awards for its customer communications.

To our shareholders

This annual report begins with stories about our customers to make a simple but important point: *Our success* depends on our ability to make *our customers* successful. It is only by achieving this goal that we are able to create value for all our stakeholders—our employees, our communities and, of course, you, our shareholders.

We made investments to strengthen our customer value proposition and expand our capabilities in faster-growing areas of the mailstream—software, marketing services, and mail services.

With this in mind, how did we do in 2007? Despite delivering less growth than planned in the second half of the year, we had a number of significant accomplishments that we are confident will yield benefits in 2008 and beyond. We made investments to strengthen our customer value proposition and expand our capabilities in faster-growing areas of the mailstream—software, marketing services, and mail services. We also reorganized our businesses to be more customer-centric and launched a comprehensive effort to improve the end-to-end customer experience. And, we maintained a steady focus on operational efficiencies, free cash flow, and expense management.

In the area of U.S. postal reform, we continue to be actively engaged in the industry dialogue to implement the legislation that is transforming the mail-stream market environment in the United States. Postal reform sets the stage for long-term benefits arising from unprecedented flexibility in rate structure, the integration of more technology into the mailstream, and more incentives for partnerships to enhance the efficiency of the postal network.

Successful organizations continually reinvent themselves by building on their strengths and pursuing new opportunities. That is exactly what we are doing as we innovate across every segment of our business.

Since we first announced our growth strategies in 2001, we have been expanding our value proposition beyond our traditional strengths in the production phase of the mailstream—our mail-finishing solutions. We recognized the need to move up the value chain and provide solutions that help our customers make more meaningful connections with their own customers. It is for this reason that we have been moving aggressively into the software and marketing services spaces.

Successful organizations continually reinvent themselves by building on their strengths and pursuing new opportunities. That is exactly what we are doing as we innovate across every segment of our business.

Our capabilities in these two areas enable us to increase the Value and Quality of mail for our customers. By being involved in the design, creation, and targeting of a mail piece, we can help our customers reach the right people with mail that is more likely to be opened and acted upon by the recipient. The value added through our software and marketing solutions goes beyond the mail piece itself. Our software applications allow users to cleanse and integrate multiple databases to get a more accurate, complete view of their customers. With our marketing services capabilities, Pitney Bowes can offer customers a powerful suite of solutions to maximize the revenue value of customer relationships. Two acquisitions we made in 2007 immediately strengthened our capabilities in both areas.

MapInfo, our largest acquisition to date, is now a part of Pitney Bowes Software. Its capabilities move our software value proposition into a whole new area known as location intelligence. This emerging category utilizes a host of location-related data beyond just the street address to improve decision-making in critical areas. Applications range from the more precise targeting of marketing offerings to the more accurate assessment of risk for insurance purposes.

By being involved in the design, creation, and targeting of a mail piece, we can help our customers reach the right people with mail that is more likely to be opened and acted upon by the recipient.

The other acquisition, Digital Cement, complements our existing direct mail applications and adds to our suite of integrated marketing services solutions. It provides innovative relationship management strategies and programming to help clients build and maintain long-term, high-value customer engagement across multiple channels and touch points.

We of course continue to innovate in our core mailing businesses to add customer value. Our new DI 900/950 series tabletop inserters with integrated printing bring production-like capabilities to mid-range mailers. These systems allow users to design, print, assemble, and meter complex mailings in a single operation, for the highest levels of document integrity. Our mail services segment forged new strategic agreements that increased its customer base, extended its global distribution network, and strengthened its ability to market the services of our postal partners worldwide. Our advanced capabilities in production mail continue to find broad application in the market place. Jurisdictions across the country are using our Relia-Vote mail balloting system to increase the efficiency and integrity of the entire vote-by-mail process.

In our international business, customers are looking for a partner to help them address changing technology and regulatory requirements; we are focused on meeting these needs. We are particularly excited about the opportunities to add value in the fast-growing Asia-Pacific region, where we continue to experience strong growth in our core mailing and production mail businesses.

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Over the next 12 months, we will be analyzing the more than 450 million touch points we have with our customers each year. Our goal is to improve their total experience with Pitney Bowes, from the bills they receive and the conversations they have with our call centers to their meetings with our sales representatives. We are creating a blended support model to ensure that the experience of dealing with us is seamless across multiple customer communication channels—in-person, online, and on the phone.

As we evolve and grow, we remain true to our core values. Our involvement in efforts like the Eco-Patent Commons demonstrates our continued commitment to corporate citizenship and environmental stewardship. In this first-of-its-kind program, Pitney Bowes, IBM, Nokia, and Sony, in cooperation with the World Business Council for Sustainable Development, agreed to release innovative, environmentally responsible patents into the public domain. In another area, *Black Enterprise* magazine named Pitney Bowes to its third annual list of the "40 Best Companies for Diversity." We also continue to win recognition for our leadership in the area of healthcare. The Institute for Health and Productivity Management honored us with its Leadership Award for Value-Based Benefits.

We remain confident in the underlying strength of our business. Our strong free cash flow enables us to invest in the future as we maintain our active stock repurchase program and continue to increase the dividend to shareholders year after year. This financial model, together with our advanced technologies, market understanding, customer base, distribution capabilities, and industry leadership, should enable us to deliver above-average shareholder value at relatively low risk into the foreseeable future.

We remain confident in the underlying strength of our business. Our strong free cash flow enables us to invest in the future as we maintain our active stock repurchase program and continue to increase the dividend to shareholders year after year.

Everything we do has one goal, and that is to ensure that our customers achieve their goals. We are excited about our opportunities to help them grow revenue and manage information, relationships, cash flow, and operational efficiency. That is what matters to them. By making the success of our customers our top priority, we create value for all of our stakeholders.

That's the point.

Murray D. Martin CHIEF EXECUTIVE OFFICER, PITNEY BOWES

Directors and Corporate Officers*

DIRECTORS

Rodney C. Adkins
Senior Vice President
IBM Corporation

Linda G. Alvarado
President and Chief Executive Officer
Alvarado Construction, Inc.

Anne M. Busquet
Principal
AMB Advisors, LLC

Michael J. Critelli
Executive Chairman
Pitney Bowes Inc.

Anne Sutherland Fuchs
Consultant

Ernie Green
President
Ernie Green Industries, Inc.

James H. Keyes
Retired Chairman
Johnson Controls, Inc.

Murray D. Martin
President and Chief Executive Officer
Pitney Bowes Inc.

John S. McFarlane
Interim Chief Executive Officer
and President
Exar Corporation

Eduardo R. Menascé
Retired President
Enterprise Solutions Group
Verizon Communications Inc.

Michael I. Roth
Chairman and Chief Executive Officer
The Interpublic Group of Companies, Inc.

David L. Shedlarz
Retired Vice Chairman
Pfizer Inc.

David B. Snow, Jr.
Chairman and Chief Executive Officer
Medco Health Solutions, Inc.

Robert E. Weissman
Retired Chairman
IMS Health Incorporated

Stockholders may visit the Pitney Bowes corporate governance Web site at www.pb.com/corporategovernance for information concerning the Company's governance practices, including the Governance Principles of the Board of Directors, charters of the committees of the Board, the Company's Business Practices Guidelines and the Directors' Code of Business Conduct and Ethics. Stockholders who wish to obtain copies of these documents may do so by writing to the corporate secretary at our headquarters address.

*Information as of April 1, 2008.

CORPORATE OFFICERS

Murray D. Martin
President and Chief Executive Officer

Michael J. Critelli
Executive Chairman

Leslie Abi-Karam
Executive Vice President and President,
Mailing Solutions Management

Gregory E. Buoncontri
Senior Vice President and
Chief Information Officer

Amy C. Corn
Vice President, Secretary and
Chief Governance Officer

Elise DeBois
Executive Vice President and President,
Global Financial Services

Vincent R. De Palma
Executive Vice President and President,
Pitney Bowes Management Services

Steven J. Green
Vice President—Finance and
Chief Accounting Officer

Juanita T. James
Vice President and
Chief Communications Officer

Luis A. Jimenez
Senior Vice President and
Chief Industry Policy Officer

Patrick J. Keddy
Executive Vice President and President,
Mailstream International

Neil Metviner
Vice President and President,
Global Mailstream Europe

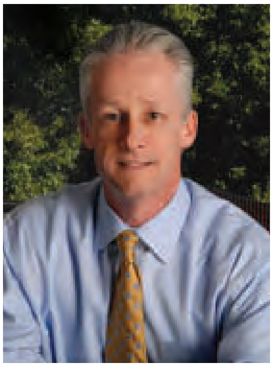
Michael Monahan
Executive Vice President and
Chief Financial Officer

Helen Shan
Vice President and Treasurer

Johnna G. Torsone
Senior Vice President and
Chief Human Resources Officer

Joseph E. Wall
Senior Vice President and
Chief Technology Officer

Financial Highlights From Our CFO



Michael Monahan

The year 2007 held both successes and challenges for Pitney Bowes. Although we made significant progress in advancing our growth strategies and generated unprecedented levels of free cash flow, we did not achieve our earnings objectives and our stock price declined during the year.

We have taken decisive actions to achieve stronger performance going forward and to deliver enhanced shareholder value. To this end, we have launched a series of transition initiatives to reduce costs, accelerate improvements in operational efficiencies, and position our product line for the current and future regulatory environment.

In addition, we continue to investigate strategic alternatives for our U.S. Management Services business to best align our resources for sustained profitable growth.

Our revenue grew by 7 percent during 2007. This includes 2 percent from favorable currency translation and 4 percent from acquisitions, including that of MapInfo, our largest acquisition to date.

Excluding the transition initiatives charges and other items, we grew our adjusted earnings per share from $2.69 to $2.72 per share. However, this performance was below our expectations of $2.90 to $2.98 when we started the year. (See page 15 for a reconciliation of adjusted-to-GAAP earnings per share.) Our earnings per share from continuing operations on a GAAP basis was $1.63, which was less than the prior year, primarily because of the charges related to our transition initiatives.

In the fourth quarter, we took a pretax charge of $264 million related to the transition initiatives. This included a non-cash charge of $173 million related to the write-down of certain products that will be discontinued, as well as $85 million related to net headcount reductions of approximately 1,400. Other write-downs accounted for the remaining $6 million. We expect these actions to generate annualized savings of $150 million by 2009, half of which we expect to reinvest in the business to enhance our growth and competitiveness.

Some of our businesses performed much better than expected, notably our software and mail services segments and our operations in the Asia-Pacific region. However, these strong results were offset by a confluence of other factors, including the wind-down of electronic-to-digital meter migration in the U.S. and Canada, disappointing results in Europe, and weakness in the legal solutions business of our management services segment.

Although our recurring revenue model largely insulates us from economic conditions, we did see some impact from the weakness in the U.S. economy, especially the unsettled conditions in the financial services sector.

We have launched a series of transition initiatives to reduce costs, accelerate improvements in operational efficiencies, and position our product line for the current and future regulatory environment.

Despite our disappointing earnings, we enjoyed remarkable success in generating free cash flow—a total of $924 million, which was 154 percent of our adjusted net income for the year and exceeded the $550–$625 million projected at the beginning of the year.

The substantial increase in free cash flow was the result of our increased emphasis on cash flow management, including the optimization of working capital requirements and worldwide tax deferrals, as well as lower growth in finance receivables and reduced capital expenditures for rental assets.

Our free cash flow enabled us to pay $289 million in dividends to shareholders, repurchase $400 million of stock, and make 18 acquisitions for a net investment of $583 million. Our strong cash flow also was an important factor in our decision to increase the quarterly dividend rate to $0.35, the 26th consecutive annual increase. In addition, we are maintaining an active share repurchase program, with $407 million of authorization available at the start of 2008.

We enjoyed remarkable success in generating free cash flow—a total of $924 million, which was 154 percent of our adjusted net income for the year and exceeded the $550–$625 million projected at the beginning of the year.

As we look ahead, we expect to achieve a stronger earnings performance in 2008, especially in the second half of the year. We are redoubling our efforts to enhance our competitiveness in all aspects of our business, while continually working to improve how we interact with our customers. We should see improving year-over-year comparisons in our business segments, and we expect to realize benefits from our transition initiatives and lower interest rates.

We remain resolutely committed to delivering double-digit returns to our shareholders through an attractive dividend yield and steadily increasing earnings per share. We believe that our long-term strategies and our recent actions have positioned the company to meet this expectation for the foreseeable future.

Michael Monahan

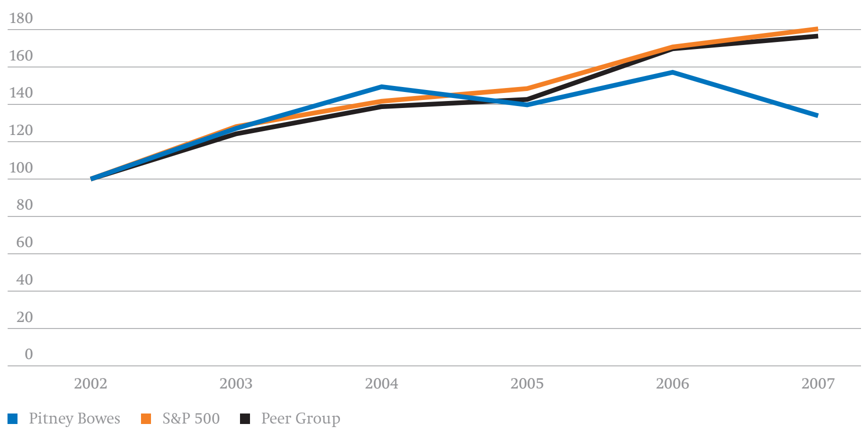
Michael Monahan EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

Summary of Selected Financial Data

For the year (Dollars in thousands, except per share amounts)	**2007**	2006	2005
AS REPORTED			
Revenue	**$6,129,795**	$5,730,018	$5,366,936
Income from continuing operations	**$361,247**	$565,659	$473,243
Diluted earnings per share from continuing operations	**$1.63**	$2.51	$2.04
Cash provided by (used in) operating activities	**$1,060,465**	$(286,574)	$530,441
Depreciation and amortization	**$383,141**	$363,258	$331,963
Capital expenditures	**$264,656**	$327,877	$291,550
Cash dividends per share of common stock	**$1.32**	$1.28	$1.24
Average common and potential common shares outstanding	**221,219,746**	225,443,060	232,089,178
Total assets	**$9,549,943**	$8,608,944	$10,621,382
Total debt	**$4,755,842**	$4,338,157	$4,707,365
Stockholders' equity	**$643,303**	$699,189	$1,364,249
Total employees	**36,165**	34,454	34,165
AS ADJUSTED			
EBIT	**$1,186,097**	$1,160,063	$1,063,194
Income from continuing operations	**$601,114**	$606,765	$571,491
Diluted earnings per share from continuing operations	**$2.72**	$2.69	$2.46
Free cash flow	**$923,914**	$523,439	$542,527
EBIT to interest	**4.9**	5.5	5.7

Stock Performance Graph

VALUE OF $100 INVESTED ON DECEMBER 31, 2002, THROUGH DECEMBER 31, 2007



The accompanying graph compares the most recent five-year performance of Pitney Bowes common stock with the Standard & Poor's (S&P) 500 Composite Index, and a Peer Group Index at December 31, 2007, over the same five-year period. Total return for the Peer Group and the S&P 500 Composite Index is based on market capitalization, weighted for each year. All information is based on data provided to the Company by three separate independent organizations, all of which have been licensed by Standard & Poor's to use its official total return calculation. The graph shows that on a total return basis, assuming reinvestment of all dividends, $100 invested in the Company's common stock on December 31, 2002, would have been worth $135 by December 31, 2007. By comparison, $100 invested in the S&P 500 Composite Index on December 31, 2002, would have been worth $183 by December 31, 2007. An investment of $100 in the Peer Group in 2002 would have been worth $179 on December 31, 2007.

Peer Group
Pitney Bowes Inc.
Automatic Data Processing, Inc.
Diebold, Inc.
R.R. Donnelley & Sons Company
DST Systems, Inc.
FedEx Corporation
Hewlett-Packard Company
Ikon Office Solutions, Inc.
Lexmark International, Inc.
United Parcel Service, Inc.
Xerox Corporation

Reconciliation of Reported Consolidated Results to Adjusted Results

For the year (Dollars in thousands, except per share amounts)	**2007**	2006	2005
GAAP income from continuing operations before income taxes and minority interest, as reported	**$660,711**	$914,490	$811,668
Restructuring and asset impairments	**264,013**	35,999	53,650
MapInfo purchase accounting	**16,926**	–	–
Other income and expense	**2,956**	(3,022)	–
Legal settlements, net	**(380)**	–	–
Contributions to charitable foundations	**–**	–	10,000
Income from continuing operations before income taxes, as adjusted	**944,226**	947,467	875,318
Provision for income taxes, as adjusted	**323,870**	326,875	293,999
Minority interest	**19,242**	13,827	9,828
Income from continuing operations, as adjusted	**601,114**	606,765	571,491
Interest expense, net	**241,871**	212,596	187,876
Provision for income taxes, as adjusted	**323,870**	326,875	293,999
Minority interest	**19,242**	13,827	9,828
EBIT	**$1,186,097**	$1,160,063	$1,063,194
GAAP diluted earnings per share, as reported	**$1.66**	$0.47	$2.19
Loss (income) from discontinued operations	**(0.03)**	2.04	(0.15)
GAAP diluted earnings per share from continuing operations, as reported	**1.63**	2.51	2.04
Restructuring and asset impairments	**0.87**	0.10	0.16
Tax adjustments	**0.16**	–	0.24
MapInfo purchase accounting	**0.05**	–	–
Tax settlement	**–**	0.09	–
Other income	**–**	(0.01)	–
Contributions to charitable foundations	**–**	–	0.03
Diluted earnings per share from continuing operations, as adjusted	**$2.72**	$2.69	$2.46
GAAP net cash provided by (used in) operating activities, as reported	**$1,060,465**	$(286,574)	$530,441
Capital expenditures	**(264,656)**	(327,877)	(291,550)
Free cash flow	**795,809**	(614,451)	238,891
Reserve account deposits	**62,666**	28,780	9,800
Payments related to restructuring charges	**31,568**	51,566	88,544
Proceeds from sale of training facility	**29,608**	–	–
Discontinued operations	**4,263**	16,844	(81,216)
Pension plan contribution	**–**	–	76,508
Contributions to charitable foundations	**–**	–	10,000
IRS / Capital Services tax payment	**–**	1,040,700	–
IRS bond payment	**–**	–	200,000
Free cash flow, as adjusted	$923,914	$523,439	$542,527

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

Management believes this presentation provides a reasonable basis on which to present the adjusted financial information. The Company's financial results are reported in accordance with generally accepted accounting principles (GAAP). The earnings per share and free cash flow results are adjusted to exclude the impact of special items such as restructuring charges and write-downs of assets, which materially impact the comparability of the Company's results of operations. The use of free cash flow has limitations. GAAP cash flow has the advantage of including all cash available to the Company after actual expenditures for all purposes. Free cash flow is the amount of cash that management could have available for discretionary uses if it made different decisions about employing its cash. It adds back long-term commitments such as capital expenditures and pension plan contributions, as well as special items such as charitable contributions and cash used for restructuring charges. All of these items use cash that is not otherwise available to the Company and are important expenditures. Management compensates for these limitations by using a combination of GAAP cash flow and free cash flow in doing its planning.

The adjusted financial information and certain financial measures such as EBIT and EBIT to interest are intended to be more indicative of the ongoing operations and economic results of the Company. EBIT excludes interest and taxes, and as a result has the effect of showing a greater amount of earnings than net income. The Company believes that interest and taxes, though important, do not reflect management effectiveness as these items are largely outside of their control. In assessing performance, the Company uses both EBIT and net income.

This adjusted financial information should not be construed as an alternative to our reported results determined in accordance with GAAP. Further, our definition of this adjusted financial information may differ from similarly titled measures used by other companies.

Stockholder Information

WORLD HEADQUARTERS

Pitney Bowes Inc.
1 Elmcroft Road, Stamford, CT 06926-0700
203.356.5000
www.pb.com

ANNUAL MEETING

Stockholders are cordially invited to attend the Annual Meeting at 9:00 a.m., Monday, May 12, 2008, at Pitney Bowes World Headquarters in Stamford, Connecticut. Notice of the meeting and proxy information will be mailed to stockholders of record as of March 18, 2008. Please refer to the Proxy Statement for information concerning admission to the meeting.

10-K REPORT

Included in this Annual Report to Stockholders is a copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, as filed with the Securities and Exchange Commission. This Annual Report 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 the Forward-Looking Statements section of the Form 10-K. The CEO/CFO certifications required to be filed with the SEC under Section 302 of the Sarbanes-Oxley Act of 2002 were filed as exhibits to our Annual Report on Form 10-K for the fiscal year ended December 31, 2007. The CEO certification required to be submitted to the NYSE pursuant to Section 303A.12(a) of the NYSE Listed Company Manual was submitted on May 24, 2007.

Additional copies of our Form 10-K will be sent to stockholders free of charge upon written request to:
MSC 00-63-02
Investor Relations
Pitney Bowes Inc.
1 Elmcroft Road, Stamford, CT 06926-0700

STOCK EXCHANGES

Pitney Bowes common stock is traded under the symbol "PBI." The principal market on which it is listed is the New York Stock Exchange. The stock is also traded on the Chicago, Philadelphia, Boston, Pacific and Cincinnati stock exchanges.

INVESTOR INQUIRIES

All investor inquiries about Pitney Bowes should be addressed to:
MSC 00-63-02
Investor Relations
Pitney Bowes Inc.
1 Elmcroft Road, Stamford, CT 06926-0700

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company, N.A.
PO Box 43078
Providence, RI 02940-3078
Stockholders may call Computershare at (800) 648-8170
www.computershare.com

STOCKHOLDER INQUIRIES

Communications concerning transfer requirements, lost certificates, dividends, change of address or other stockholder inquiries may be made by calling (800) 648-8170, TDD phone service for the hearing impaired (800) 952-9245, for foreign holders (781) 575-2725, or by writing to the address above.

DIVIDEND REINVESTMENT PLAN

Owners of Pitney Bowes Inc. common stock may purchase common stock, $1 par value, with their dividends through the Dividend Reinvestment Plan. A prospectus and enrollment card may be obtained by calling (800) 648-8170 or by writing to the agent at the address above.

DIRECT DEPOSIT OF DIVIDENDS

For information about direct deposit of dividends, please call (800) 648-8170 or write to the agent at the address above.

DUPLICATE MAILINGS

If you receive duplicate mailings because you have more than one account listing, you may wish to save your company money by consolidating your accounts. Please call (800) 648-8170 or write to the agent at the address above.

STOCK INFORMATION

Dividends per common share:

Quarter	2007	2006
First	$ .33	$ .32
Second	$ .33	$ .32
Third	$ .33	$ .32
Fourth	$ .33	$ .32
Total	$ 1.32	$ 1.28

Quarterly price ranges of common stock:

2007 Quarter	High	Low
First	$ 48.95	$ 44.61
Second	$ 49.70	$ 45.22
Third	$ 48.91	$ 43.04
Fourth	$ 47.07	$ 36.40

2006 Quarter	High	Low
First	$ 44.63	$ 41.01
Second	$ 44.24	$ 40.18
Third	$ 45.12	$ 40.38
Fourth	$ 47.97	$ 44.19

Comments concerning the Annual Report should be sent to:
MSC 00-63-03
Corporate Communications and Marketing
Pitney Bowes Inc.
1 Elmcroft Road, Stamford, CT 06926-0700

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2007 Commission file number: 1-3579

PITNEY BOWES INC.

Incorporated in Delaware
1 Elmcroft Road, Stamford, Connecticut 06926-0700
(203) 356-5000

I.R.S. Employer Identification No.
06-0495050

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 ☑ 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 ☑

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 ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (section 229.405 of this chapter) 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. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer”, “accelerated filer”, and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer ☑Accelerated filer ☐Non-accelerated filer ☐Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☑
As of June 30, 2007, the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was $10,295,378,321 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 26, 2008: 211,088,288 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s proxy statement to be filed with the Commission on or before March 31, 2008 and to be delivered to stockholders in connection with the 2008 Annual Meeting of Stockholders to be held May 12, 2008, are incorporated by reference in Part III.

PITNEY BOWES INC.
TABLE OF CONTENTS

PITNEY BOWES INC.
PART I

ITEM 1. – BUSINESS

General

Pitney Bowes Inc. was incorporated in the state of Delaware on April 23, 1920, as the Pitney Bowes Postage Meter Company. Today, Pitney Bowes Inc. is the largest provider of mail processing equipment and integrated mail solutions in the world. In the report, the terms "we," "us," "our," or "Company" are used to refer collectively to Pitney Bowes Inc. and its subsidiaries.

We offer a full suite of equipment, supplies, software and services for end-to-end mailstream solutions which enable our customers to optimize the flow of physical and electronic mail, documents and packages across their operations.

We operate in two business groups, Mailstream Solutions and Mailstream Services. We operate both inside and outside the United States. See Note 19 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

We conduct our business activities in seven business segments within the Mailstream Solutions and Mailstream Services business groups. The principal products and services of each of our business segments are as follows:

Mailstream Solutions:

> *U.S. Mailing*: Includes the U.S. revenue and related expenses from the sale, rental and financing of our mail finishing, mail creation, shipping equipment and software; supplies, support and other professional services; and payment solutions.
>
> *International Mailing*: Includes the non-U.S. revenue and related expenses from the sale, rental and financing of our mail finishing, mail creation, shipping equipment and software; supplies, support and other professional services; and payment solutions.
>
> *Production Mail*: Includes the worldwide sale, financing, support and other professional services of our high-speed, production mail systems and sorting equipment.
>
> *Software:* Includes the worldwide sale and support services of non-equipment-based mailing and customer communication and location intelligence software.

Mailstream Services:

> *Management Services*: Includes worldwide facilities management services; secure mail services; reprographic, document management services; and litigation support and eDiscovery services.
>
> *Mail Services*: Includes presort mail services and cross-border mail services.
>
> *Marketing Services*: Includes direct marketing services for targeted customers; web-tools for the customization of promotional mail and marketing collateral; and other marketing consulting services.

Support Services

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

Marketing

Our products and services are marketed through an extensive network of direct sales 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 existing and potential 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.

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, management services, mail services and marketing services. Our meter base and our continued ability to place and finance 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 of mailing equipment 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. In addition, 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. We offer a complete line of products and services as well as a variety of finance and payment offerings to our customers. We finance the majority of our products through our captive financing business and we are a major provider of business services to the corporate, financial services, professional services and government markets, competing against national, regional and local firms specializing in facilities and document management throughout the world.

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.

Research, Development and Intellectual Property

Our significant investment in research and development operations differentiates us from our competitors. We have many research and development programs that are directed toward developing new products and service offerings. 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. Our expenditures on research and development were $186 million, $165 million and $166 million in 2007, 2006 and 2005, respectively.

Material Supplies

We depend on third party suppliers for a variety of services, components, supplies and a portion of our product manufacturing. We believe we have adequate sources for our purchases of materials, components, services and supplies for 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 involving our postage meters. 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.

Employees and Employee Relations

At December 31, 2007, we employed 26,267 persons in the U.S. and 9,898 persons outside the U.S. Headcount increased in 2007 compared to 2006 primarily due to our acquisitions in 2007. We believe that our current relations with employees are very good. 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

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 these risks. Nevertheless, the following risks, some of which may be beyond our control, could materially impact our brand and reputation or results of operations or could cause future results to differ materially 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. We also depend on a healthy postal sector in the geographic markets where we do business, which could be influenced positively or negatively by legislative or regulatory changes in the United States, another country or in the European Union. 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.

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. Accelerated decline in physical mail could also result from government actions such as executive orders, legislation or regulations that either mandate electronic substitution, prohibit certain types of mailings, increase the difficulty of using information or materials in the mail, or impose higher taxes or fees on mailing or postal services. 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 other displacement of physical mail could adversely affect our business.

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 effect on our business.

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 our reputation and customer relationships and adversely affect our business.

Access to additional liquidity

We provide financing services to our customers for equipment, postage, and supplies. Our ability to provide these services is largely dependent upon our continued access to the U.S. capital markets. An additional source of liquidity for the company consists of deposits held in our wholly-owned industrial loan corporation, Pitney Bowes Bank ("Bank"). A significant credit rating downgrade, material capital market disruptions, significant withdrawals by depositors at the Bank, or adverse changes to our industrial loan charter could impede our ability to maintain adequate liquidity, and impact our ability to provide competitive offerings to our customers.

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. We also provide third party benefits administrators with access to our employees' personal information. Privacy laws and similar regulations in many jurisdictions where we do business, as well as contractual provisions, require that we and our benefits administrators take significant steps to safeguard this information. Failure to comply with any of these laws, regulations or contract provisions could adversely affect our reputation and business and subject us to significant liability.

Dependence on information systems

Our portfolio of product, service and financing solutions increases our dependence on information technologies. We maintain a secure system to collect revenue 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 effect on our reputation and business.

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, or our suppliers, may be subject to third-party claims of infringement on 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, including private civil litigations or proceedings brought by governmental entities, 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, pay significant damages, or 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.

ITEM 1B. – UNRESOLVED STAFF COMMENTS

None.

ITEM 2. – PROPERTIES

Our world headquarters and certain other facilities are located in Stamford, Connecticut. We have over 500 facilities that are either leased or owned throughout the U.S. and other countries. Our Mailstream Solutions and Mailstream Services businesses utilize these facilities jointly and separately. Our products are manufactured or assembled in a number of locations, principally in Danbury, Connecticut; Harlow, United Kingdom; 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.

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, contractual or other disputes with customers
- disputes with employees

These litigations are on occasion brought on behalf of purported classes of customers, employees or others.

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™. Ricoh Corporation et al. v. Pitney Bowes Inc. (United States District Court, District of New Jersey, filed November 26, 2002). The plaintiff in this action is seeking both large damages and injunctive relief. We prevailed at the trial held in this matter in the fall of 2006. The jury found the Ricoh patents at issue to be invalid. Even though a finding of invalidity means that the plaintiff's claim must fail, the jury was also required to rule on infringement and found that we infringed the Ricoh patents and did so willfully. As a result of the invalidity finding, we prevailed and no damages were awarded. The matter is currently on appeal to the United States Court of Appeals for the Federal Circuit.

Our wholly-owned subsidiary, Imagitas, Inc., is a defendant in ten purported class actions filed in six different states. These litigations have been consolidated into a single federal multi-district litigation in the United States District for the Middle District of Florida, In re: Imagitas, Driver's Privacy Protection Act (Consolidated, May 28, 2007). Each of these lawsuits alleges that the Imagitas DriverSource program violates the federal Drivers Privacy Protection Act (DPPA). Under the DriverSource program, Imagitas enters into contracts with state governments to mail out automobile registration renewal materials along with third party advertisements, without revealing the personal information of any state resident to any advertiser. The DriverSource program assists the state in performing its function of delivering these mailings and funding the costs of them. The plaintiffs in these actions are seeking both statutory damages under the DPPA and an injunction against the continuation of the program. The plaintiffs have also sued state officials in four of the affected states, Florida, Minnesota, Missouri, and Ohio. Those suits have also been consolidated into the multi-district litigation. The state officials from Florida who were sued in their individual capacity have reached a settlement with the plaintiffs. As a result of that settlement, Imagitas has agreed to voluntarily suspend a portion of the program, pending a ruling in the litigation against it. During this period, Imagitas will still be placing advertisements in the registration renewal forms in Florida.

We expect to prevail in both the Ricoh litigation and the lawsuits against Imagitas; however, as litigation is inherently unpredictable, there can be no assurance in this regard. If the plaintiffs do prevail, the results 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, 2007.

PART II

ITEM 5. – MARKET FOR THE COMPANY'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, 2007, we had 21,574 common stockholders of record.

On November 14, 2007, our Board of Directors authorized a two-cent increase of our quarterly common stock dividend to $0.35 per share, marking the 26th consecutive year that we have increased the dividend on our common stock. This represents a 6 percent increase and applies to the dividend with a record date of February 18, 2008.

See Equity Compensation Plan Information Table in Item 12 of this Form 10-K for information regarding securities for issuance under our equity compensation plans.

Stock Information

Dividends per common share:

Quarter	2007	2006
First	**$ 0.33**	$ 0.32
Second	**0.33**	0.32
Third	**0.33**	0.32
Fourth	**0.33**	0.32
Total	**$ 1.32**	$ 1.28

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

	2007		2006	
Quarter	**High**	**Low**	High	Low
First	**$ 48.95**	**$ 44.61**	$ 44.63	$ 41.01
Second	**$ 49.70**	**$ 45.22**	$ 44.24	$ 40.18
Third	**$ 48.91**	**$ 43.04**	$ 45.12	$ 40.38
Fourth	**$ 47.07**	**$ 36.40**	$ 47.97	$ 44.19

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. We have not repurchased or acquired any other shares of our common stock during 2007 in any other manner.

In March 2006, our Board of Directors authorized $300 million for repurchases of outstanding shares of our common stock in the open market of which $141.2 million remained for future purchases at December 31, 2006. We repurchased 3.0 million shares during the first five months of 2007 under this program for a total price of $141.2 million. There are no further funds available under this authorization for the repurchase of outstanding shares.

In March 2007, our Board of Directors authorized $300 million for repurchases of outstanding shares of our common stock in the open market. In November 2007, our Board of Directors increased this share repurchase authorization by $365.4 million. We repurchased 6.1 million shares at a total price of $258.8 million during 2007 under this program. As of December 31, 2007, there was $406.6 million available for future repurchases under this program.

For the combined 2006 and 2007 programs, we repurchased a total of 9.1 million shares for a total price of $400.0 million during 2007.

The following table summarizes our share repurchase activity during the fourth quarter for the 2007 program:

	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of a publicly announced plan	Approximate dollar value of shares that may yet be purchased under the plan (in thousands)
March 2007 Program				
October 2007	597,400	$44.54	597,400	$134,596
November 2007	832,000	$37.97	832,000	$468,413
December 2007	1,620,900	$38.13	1,620,900	$406,607
Total repurchases	3,050,300		3,050,300	

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,				
	2007	2006	2005	2004	2003
Total revenue	**$ 6,129,795**	$ 5,730,018	$ 5,366,936	$ 4,832,304	$ 4,440,312
Total costs and expenses	**5,469,084**	4,815,528	4,555,268	4,223,914	3,846,655
Income from continuing operations before income taxes and minority interest	**660,711**	914,490	811,668	608,390	593,657
Provision for income taxes	**280,222**	335,004	328,597	197,317	185,046
Minority interest	**19,242**	13,827	9,828	5,634	4,543
Income from continuing operations	**361,247**	565,659	473,243	405,439	404,068
Discontinued operations	**5,534**	(460,312)	35,368	56,557	72,744
Net income	**$ 366,781**	$ 105,347	$ 508,611	$ 461,996	$ 476,812
Basic earnings per share of common stock:					
Continuing operations	**$ 1.65**	$ 2.54	$ 2.07	$ 1.76	$ 1.73
Discontinued operations	**0.03**	(2.07)	0.15	0.24	0.31
Net income	**$ 1.68**	$ 0.47	$ 2.22	$ 2.00	$ 2.04
Diluted earnings per share of common stock:					
Continuing operations	**$ 1.63**	$ 2.51	$ 2.04	$ 1.73	$ 1.71
Discontinued operations	**0.03**	(2.04)	0.15	0.24	0.31
Net income	**$ 1.66**	$ 0.47	$ 2.19	$ 1.97	$ 2.02
Total cash dividends on common, preference and preferred stock	**$ 288,790**	$ 285,051	$ 284,348	$ 282,265	$ 280,870
Cash dividends per share of common stock	**$ 1.32**	$ 1.28	$ 1.24	$ 1.22	$ 1.20
Average common and potential common shares outstanding	**221,219,746**	225,443,060	232,089,178	234,229,987	236,183,715
Cash provided by (used in) operating activities	**$ 1,060,465**	$ (286,574)	$ 530,441	$ 935,487	$ 842,109
Depreciation and amortization	**$ 383,141**	$ 363,258	$ 331,963	$ 306,750	$ 288,808
Capital expenditures	**$ 264,656**	$ 327,877	$ 291,550	$ 316,982	$ 285,681
Balance sheet					
Total assets	**$ 9,549,943**	$ 8,608,944	$ 10,621,382	$ 10,211,626	$ 8,891,388
Long-term debt	**$ 3,802,075**	$ 3,847,617	$ 3,849,623	$ 3,164,688	$ 2,840,943
Total debt	**$ 4,755,842**	$ 4,338,157	$ 4,707,365	$ 4,375,163	$ 3,569,601
Preferred stockholders' equity in subsidiary companies	**$ 384,165**	$ 384,165	$ 310,000	$ 310,000	$ 310,000
Stockholders' equity	**$ 643,303**	$ 699,189	$ 1,364,249	$ 1,349,152	$ 1,145,416
Other					
Common stockholders of record	**21,574**	22,923	23,639	26,129	27,011
Total employees	**36,165**	34,454	34,165	35,183	32,474

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

Revenue grew 7% in 2007 to $6.1 billion. Acquisitions and foreign currency translation contributed about 4% and 2%, respectively to this growth. Acquisitions for this year included MapInfo Corporation, Digital Cement, and Asterion SAS.

Income from continuing operations was $361 million in 2007 compared with $566 million in 2006 and diluted earnings per share from continuing operations was $1.63 in 2007 compared with $2.51 in 2006. In 2007, diluted earnings per share from continuing operations was reduced by restructuring and impairment charges of 87 cents, 5 cents for the purchase accounting alignment for MapInfo, and 16 cents for tax adjustments, related principally to a valuation allowance for net operating losses outside the U.S. In 2006, diluted earnings per share from continuing operations was reduced by restructuring charges of 10 cents and tax adjustments of 9 cents and increased by 1 cent from net legal settlements.

Our Software and Mail Services segments experienced strong results during 2007. These strong performances were offset by disappointing results in Europe, weaker performance in the legal solutions portion of our Management Services segment, and lower sales at U.S. Mailing due to the wind-down of meter migration. In addition, weakness in certain sectors of the economy, such as financial services, adversely affected our results during the second half of 2007.

On November 15, 2007, we announced a plan to lower our cost structure, accelerate efforts to improve operational efficiencies, and to transition our product line. As a result of this program, we expect a net reduction of about 1,500 positions across business lines and geographies, representing approximately 4 percent of the global employment base. Also, following a comprehensive review of our portfolio, we decided to explore strategic alternatives to determine the best course of action for our U.S. Management Services business.

See Results of Operations for 2007, 2006 and 2005 for a more detailed discussion of our results of operations.

Outlook

We believe that the actions we took in the fourth quarter of 2007, and actions that we will continue to take in 2008, will position us for sustained, long-term improvement in earnings and increased shareholder value. We expect to realize approximately $70 million in pre-tax annual benefits from these actions in 2008. We intend to reinvest the majority of these benefits in programs to improve our customers' experience and our operational efficiencies. We are targeting $150 million in pre-tax annual benefits by 2009. We plan to use about half of these benefits to improve customer processes and generate revenue.

We expect our mix of revenue to continue to change, with a greater percentage of revenue coming from diversified revenue streams associated with fully featured smaller systems and a smaller percentage from larger system sales. We also expect a greater percentage of revenue growth from the Software and Mail Services segments. In addition, we expect to derive further synergies from our recent acquisitions. We will continue to remain focused on enhancing our productivity and to allocate capital in order to optimize our returns.

Results of Operations 2007 Compared to 2006

Business segment revenue

The following table shows revenue in 2007 and 2006 by business segment:

(Dollars in millions)	**2007**	2006	% change	% contribution from acquisitions
Revenue:				
U.S. Mailing	**$ 2,346**	$ 2,350	-%	1%
International Mailing	**1,070**	1,013	6%	-%
Production Mail	**603**	575	5%	2%
Software	**346**	203	71%	50%
Mailstream Solutions	**4,365**	4,141	5%	3%
Management Services	**1,135**	1,074	6%	3%
Mail Services	**459**	370	24%	5%
Marketing Services	**171**	145	18%	16%
Mailstream Services	**1,765**	1,589	11%	5%
Total Revenue	**$ 6,130**	$ 5,730	7%	4%

U.S. Mailing's revenue remained flat. Revenue benefited from growth in supplies, payment solutions, and the sale of equipment related to shape-based rating. However, results were unfavorably impacted by lower equipment sales due to the wind-down of meter migration and weak economic conditions. International Mailing's revenue grew by 6%, including favorable foreign currency translation of 8%. The segment's results were negatively impacted by lower sales and rentals in Europe as delays in postal liberalization across Europe affected customer purchases. Worldwide revenue for Production Mail grew by 5%, primarily driven by favorable foreign currency of 3% and acquisitions as higher equipment placements in the U.S. were offset by lower sales in Europe. Software's revenue grew by 71% driven by continued strong worldwide demand for our software solutions, the acquisition of MapInfo, and favorable foreign currency translation of 4%.

Management Services revenue increased by 6% due to the acquisition of Asterion SAS and favorable foreign currency translation of 2%. The segment's revenue growth was negatively impacted by weakness in our legal solutions vertical as well as print contracts in the prior year that did not repeat in 2007. Mail Services revenue increased by 24% due to continued growth in presort and cross-border mail services. Marketing Services revenue increased by 18% driven primarily by acquisitions. Revenue growth for this segment was negatively affected by lower revenue from our motor vehicle registration services program.

Business segment earnings before interest and taxes (EBIT)

We use EBIT as a measure of our segment profitability. Refer to the reconciliation of segment amounts to income from continuing operations before income taxes and minority interest in Note 19 to the Consolidated Financial Statements.

The following table shows EBIT in 2007 and 2006 by business segment:

(Dollars in millions)	**2007**	2006	% change
EBIT			
U.S. Mailing	**$ 957**	$ 944	1 %
International Mailing	**162**	179	(10)%
Production Mail	**73**	66	11 %
Software	**55**	33	66 %
Mailstream Solutions	**1,247**	1,222	2 %
Management Services	**76**	83	(9)%
Mail Services	**65**	43	51 %
Marketing Services	**9**	20	(55)%
Mailstream Services	**150**	146	2 %
Total EBIT	**$ 1,397**	$ 1,368	2 %

U.S. Mailing's EBIT grew 1% due to the increase in mix of higher margin revenue from payment solutions and supplies as well as our continued focus on controlling operating expenses. International Mailing EBIT decreased 10%. The segment's profitability was adversely impacted by lower equipment sales and rentals in Europe, and incremental costs in 2007 related to back office operations, including the outsourcing of our European order and financial processing. Production Mail EBIT increased 11% driven primarily by revenue growth and net legal recoveries of approximately $4 million in Europe. Software EBIT increased 66%, driven by revenue growth partially offset by integration costs for the MapInfo acquisition.

Management Services EBIT decreased 9% due to continued weakness in our legal solutions vertical. Mail Services EBIT grew by 51% driven by revenue growth, successful integration of acquired sites, and increased operating efficiencies. Marketing Services EBIT decreased 55%, principally due to lower revenue in our motor vehicle registration services program.

Revenue by source

(Dollars in millions)	**2007**	2006	% change
Equipment sales	**$ 1,336**	$ 1,373	(3)%
Supplies	**393**	340	16 %
Software	**346**	202	71 %
Rentals	**739**	785	(6)%
Financing	**790**	725	9 %
Support services	**761**	717	6 %
Business services	**1,765**	1,588	11 %
Total revenue	**$ 6,130**	$ 5,730	7 %

Equipment sales revenue decreased 3% from the prior year, primarily due to lower sales of mailing equipment in the U.S. and Europe, partially offset by favorable foreign currency translation of 3%.

Supplies revenue increased 16% from the prior year due to the continued transition of our meter base to digital technology. Acquisitions and foreign currency translation contributed 4% and 3% to this growth, respectively.

Software revenue increased 71% from the prior year primarily driven by strong worldwide demand for our software solutions, acquisitions which contributed 50%, and currency translation which contributed 4%.

Rentals revenue decreased 6% from the prior year due to the continued downsizing by customers to smaller machines.

Financing revenue increased 9% from the prior year primarily due to higher revenue from payment solutions and equipment leases. Foreign currency translation accounted for 2% of this growth.

Support services revenue increased 6% from the prior year due primarily to acquisitions, which contributed 2%, and foreign currency translation, which contributed 3% to this growth.

Business services revenue increased 11% over the prior year. This increase was driven by strong growth in our presort and cross-border mail services. Acquisitions contributed 5% and foreign currency translation contributed 1% to this growth.

Costs of revenue

(Dollars in millions)			Percentage of Revenue	
	2007	2006	**2007**	2006
Cost of equipment sales	**$ 697**	$ 694	**52.2%**	50.5%
Cost of supplies	**$ 107**	$ 90	**27.1%**	26.5%
Cost of software	**$ 82**	$ 43	**23.7%**	21.3%
Cost of rentals	**$ 171**	$ 171	**23.2%**	21.8%
Cost of support services	**$ 433**	$ 400	**56.9%**	55.8%
Cost of business services	**$ 1,381**	$ 1,242	**78.2%**	78.2%

Cost of equipment sales as a percentage of revenue increased to 52.2% in 2007 compared with 50.5% in the prior year, primarily due to the decrease in mix of higher margin equipment sales in the U.S.

Cost of supplies as a percentage of revenue increased to 27.1% in 2007 compared with 26.5% in the prior year, primarily due to increased sales of private label toner, ink and other supplies which have lower margins than our meter-related supplies.

Cost of software as a percentage of revenue increased to 23.7% in 2007 compared with 21.3% in the prior year, primarily due to the acquisition of MapInfo.

Cost of rentals as a percentage of revenue increased to 23.2% in 2007 compared with 21.8% in the prior year, primarily due to higher depreciation costs from placements of new digital meters.

Cost of support services as a percentage of revenue increased to 56.9% in 2007 compared with 55.8% in the prior year, primarily due to an increase in mix of production mail and international mailing revenue.

Cost of business services as a percentage of revenue remained flat at 78.2%. Improving margins in our presort and cross-border services were offset by lower margins in our legal solutions business.

Selling, general and administrative expenses

(Dollars in millions)			Percentage of Revenue	
	2007	2006	**2007**	2006
	$ 1,907	$ 1,764	**31.1%**	30.8%

Selling, general and administrative expenses, as a percentage of total revenue, increased to 31.1% compared with 30.8% in the prior year. This increase was due to the impact of acquisitions which offset the benefits from productivity initiatives.

Research and development expenses

(Dollars in millions)	**2007**	2006	% change
	$ 186	$ 165	12%

Research and development expenses increased 12% over the prior year, primarily due to the acquisition of MapInfo. Our investment in research and development reflects higher expenses for software development and our continued focus on developing new technologies and enhancing features for all of our different products.

Net interest expense

(Dollars in millions)	**2007**	2006	% change
	$ 242	$ 213	14%

Net interest expense increased 14% in 2007 due to higher average interest rates and higher average borrowings during the year. Also, last year we had interest income on the cash balance that resulted from the Capital Services divestiture. Our variable and fixed rate debt mix, after adjusting for the effect of interest rate swaps, was 19% and 81%, respectively, at December 31, 2007.

Income taxes / effective tax rate

2007	2006
42.4%	36.6%

The effective tax rate for continuing operations for 2007 included $54 million of tax charges related principally to a valuation allowance for certain deferred tax assets and tax rate changes outside the U.S. The effective tax rate for 2006 included a $20 million charge related to the IRS settlement discussed in Note 9 to the Consolidated Financial Statements.

Minority interest

(Dollars in millions)	**2007**	2006	% change
	$ 19	$ 14	39%

Minority interest includes dividends paid to preferred stockholders in subsidiary companies. Minority interest increased by $5 million compared with the prior year, primarily due to an increase in the average outstanding preferred shares and a higher weighted average dividend rate.

Discontinued operations

(Dollars in millions)

	2007	2006
Revenue	**$ -**	$ 81
Pretax income	**$ -**	$ 29
Net income	**$ 6**	$ 31
Gain on sale of Imagistics, net of $7 tax expense	**-**	11
FSC tax law change	**-**	(16)
Additional tax on IRS settlement	**-**	(41)
Loss on sale of Capital Services, net of $285 tax benefit	**-**	(445)
Total discontinued operations, net of tax	**$ 6**	$ (460)

Net income in 2007 includes a gain of $11.3 million from the conclusion of certain tax issues net of an interest accrual for uncertain tax positions of $5.8 million. In 2006, we completed the sale of our Capital Services external financing business and our Imagistics lease portfolio. See Note 2 to the Consolidated Financial Statements for further discussion and details of discontinued operations.

Results of Operations 2006 Compared to 2005

Business segment revenue

The following table shows revenue in 2006 and 2005 by business segment:

(Dollars in millions)	2006	2005	% change	% contribution from acquisitions
Revenue:				
U.S. Mailing	**$ 2,350**	$ 2,260	4%	1%
International Mailing	**1,013**	917	10%	3%
Production Mail	**575**	534	8%	1%
Software	**203**	174	16%	8%
Mailstream Solutions	**4,141**	3,885	7%	2%
Management Services	**1,074**	1,072	-%	2%
Mail Services	**370**	335	10%	-%
Marketing Services	**145**	75	93%	68%
Mailstream Services	**1,589**	1,482	7%	5%
Total Revenue	**$ 5,730**	$ 5,367	7%	2%

Mailstream Solutions revenue increased 7% over the prior year driven by growth in our worldwide operations, and the acquisitions of Print, Inc. and Emtex in 2006 and Danka Canada in 2005. U.S. Mailing's revenue grew by 4% due to solid growth in U.S. equipment sales, supplies, shipping solutions and financing as our meter base continued to transition to new digital technology and customers took advantage of our broad range of financial offerings. However, revenue continued to be adversely affected by the ongoing changing mix to more fully featured smaller systems. International Mailing's revenue grew by 10% driven by growth in mailing equipment and supplies. Worldwide revenue for Production Mail grew by 8% due to placements of inserting systems and strong demand for our advanced, high-speed Infinity metering system in the U.S., offset by lower sales in Europe. Software's revenue grew by 16% due to sales of document composition, and address management products.

Mailstream Services revenue increased 7% driven by growth in Mail Services and Marketing Services and the acquisitions of Advertising Audit Services and PMH Caramanning (collectively AAS) and Ibis Consulting in 2006 and Imagitas as well as Compulit in 2005. During the year, we expanded our marketing services for the motor vehicle registration process to a sixth state and launched a catalog request form as an enhanced offering in the USPS move update kit. Management Services revenue remained flat in 2006 as we continued to focus on enhancing the profitability of this segment. Mail Services revenue increased by 10% as a result of our continued expansion of our presort and international consolidation network and growth in our customer base. Revenue growth for Marketing Services was driven by existing and new direct marketing services and the acquisition of AAS.

Business segment earnings before interest and taxes (EBIT)

We use EBIT as a measure of our segment profitability. See reconciliation of segment amounts to Income from continuing operations before income taxes and minority interest in Note 19 to the Consolidated Financial Statements.

The following table shows EBIT in 2006 and 2005 by business segment:

(Dollars in millions)	2006	2005	% change
EBIT			
U.S. Mailing	**$ 944**	$ 906	4 %
International Mailing	**179**	182	(2)%
Production Mail	**66**	49	35 %
Software	**33**	27	24 %
Mailstream Solutions	**1,222**	1,164	5 %
Management Services	**83**	69	21 %
Mail Services	**43**	20	117 %
Marketing Services	**20**	10	97 %
Mailstream Services	**146**	99	48 %
Total EBIT	**$ 1,368**	$ 1,263	8 %

Mailstream Solutions EBIT increased 5% compared with the prior year. U.S. Mailing's EBIT grew 4% driven by revenue growth and increased demand for higher margin supplies and financing products and services. International Mailing EBIT margins were adversely impacted by investments to expand sales channels and transitional expenses related to the consolidation and outsourcing of administrative functions. Production Mail EBIT increased 35% driven primarily by strong demand for our Infinity meters. Software's EBIT increased 24% driven by revenue growth.

Mailstream Services EBIT grew 48% compared with the prior year. Management Services EBIT grew 21%, reflecting our continued strategy to focus on higher value services while reducing administrative costs. Mail Services EBIT grew 117% as a result of the ongoing successful integration of acquired sites and increased operating efficiencies. Marketing Services EBIT grew 97% driven by revenue growth.

Revenue by source

(Dollars in millions)	**2006**	2005	% change
Equipment sales	**$ 1,373**	$ 1,251	10 %
Supplies	**340**	297	14 %
Software	**202**	174	16 %
Rentals	**785**	801	(2)%
Financing	**725**	664	9 %
Support services	**717**	698	3 %
Business services	**1,588**	1,482	7 %
Total revenue	**$ 5,730**	$ 5,367	7 %

Equipment sales revenue increased 10% over the prior year due to growth in sales of networked digital mailing systems, inserting equipment, and shipping solutions.

Supplies revenue increased 14% driven by customers' migration to digital technology, price increases and the expansion through acquisition of our print management business. At December 31, 2006, digital meters represented approximately 93% of our 1.3 million U.S. meter base, up from 84% in 2005.

Software revenue increased 16% primarily due to higher sales of document composition, and address management products.

Rentals revenue decreased from the prior year due to the continued downsizing by customers to smaller machines, primarily in the U.S.

Financing revenue increased 9% primarily due to growth in our worldwide equipment leasing volumes and higher demand for our payment solutions.

Support services revenue increased 3% due to higher placements of equipment and shipping solutions and our acquisitions in the print management space which contributed 1%.

Business services revenue increased 7% primarily due to growth in mail and marketing services.

Costs of revenue

(Dollars in millions)			Percentage of Revenue	
	2006	2005	**2006**	2005
Cost of equipment sales	**$ 694**	$ 625	**50.5%**	50.0%
Cost of supplies	**$ 90**	$ 73	**26.5%**	24.6%
Cost of software	**$ 43**	$ 37	**21.3%**	21.3%
Cost of rentals	**$ 171**	$ 166	**21.8%**	20.7%
Cost of support services	**$ 400**	$ 386	**55.8%**	55.3%
Cost of business services	**$ 1,242**	$ 1,196	**78.2%**	80.7%

Cost of equipment sales as a percentage of revenue increased to 50.5% in 2006 compared with 50.0% in the prior year, primarily due to the increase in revenue mix of lower margin Production Mail and International Mailing sales.

Cost of supplies as a percentage of revenue increased to 26.5% in 2006 compared with 24.6% in the prior year, primarily due to sales of toner, ink and other supplies which have lower margins than our traditional meter supplies.

Cost of software as a percentage of revenue in 2006 remained flat at 21.3% compared with the prior year.

Cost of rentals as a percentage of revenue increased to 21.8% in 2006 compared with 20.7% in the prior year, primarily due to higher depreciation costs from new placements associated with our meter base migration.

Cost of support services as a percentage of revenue increased to 55.8% in 2006 compared with 55.3% in the prior year, primarily due to an increase in the mix of higher cost Production Mail and International Mail support services.

Cost of business services as a percentage of revenue decreased to 78.2% in 2006 compared with 80.7% in the prior year, primarily due to our ongoing focus on cost containment and efficiency in our Management Services operations, and the successful integration of new sites in our Mail Services operations.

Selling, general and administrative expenses

(Dollars in millions)

			Percentage of Revenue	
	2006	2005	**2006**	2005
	$ 1,764	$ 1,655	**30.8%**	30.8%

Selling, general and administrative expenses, as a percentage of total revenue, remained flat compared with 2005 as benefits from our transformation and productivity programs were offset by investments made in our selling and marketing capabilities as well as transition expenses related to the consolidation and outsourcing of administrative functions in Europe.

Research and development expenses

(Dollars in millions)	**2006**	2005	% change
	$ 165	$ 166	(1)%

Research and development expenses decreased 1% from the prior year. Our investment in research and development reflects our continued focus on developing new technologies and enhancing features for all of our different products as well as an increased mix of new software development.

Net interest expense

(Dollars in millions)	**2006**	2005	% change
	$ 213	$ 188	13%

Net interest expense increased by $25 million in 2006 due to higher average interest rates and higher average borrowings during the year partly offset by higher interest income from the investment of proceeds received upon the sale of Capital Services. Our variable and fixed rate debt mix, after adjusting for the effect of interest rate swaps, was 23% and 77%, respectively, at December 31, 2006.

Income taxes / effective tax rate

2006	2005
36.6%	40.5%

The reduction in our 2006 effective tax rate was primarily due to the COLI tax reserve that was recorded in 2005.

Minority interest

(Dollars in millions)

2006	2005	% change
$ 14	$ 10	40%

Minority interest includes dividends paid to preferred stockholders in a subsidiary. Minority interest increased compared with the prior year primarily due to an increase in the weighted average dividend rate which is repriced at each auction date.

Discontinued operations

(Dollars in millions)

	2006	2005
Revenue	**$ 81**	$ 125
Pretax income	**$ 29**	$ 38
Net income	**$ 31**	$ 35
Gain on sale of Imagistics, net of $7 tax expense	**11**	-
FSC tax law change	**(16)**	-
Additional tax on IRS settlement	**(41)**	-
Loss on sale of Capital Services, net of $285 tax benefit	**(445)**	-
Total discontinued operations, net of tax	**$ (460)**	$ 35

In 2006, we completed the sale of our Capital Services external financing business and our Imagistics lease portfolio. We have reported the results of these businesses as discontinued operations for all periods presented. See Note 2 to the Consolidated Financial Statements for further discussion and details of discontinued operations.

Other (Income) Expense

In 2007 and 2006, we recorded pre-tax gains of approximately $3 million and $5 million, respectively, related to a revised liability estimate associated with the settlement of a previous lawsuit and net pre-tax charges of approximately $3 million in 2007 and $2 million in 2006 for other legal matters. In 2005, we contributed $10 million to the Pitney Bowes Literacy and Education Fund and the Pitney Bowes Employee Involvement Fund. These amounts are included in other (income) expense in the Consolidated Statements of Income.

Restructuring Charges and Asset Impairments

We recorded pre-tax restructuring charges and asset impairments of $264 million in 2007. These charges relate primarily to a program we announced in November 2007 to lower our cost structure, accelerate efforts to improve operational efficiencies, and transition our product line. The program includes charges primarily associated with older equipment that we have stopped selling upon transition to the new generation of fully digital, networked, and remotely-downloadable equipment. The asset impairment charges related to these initiatives include the write-off of inventory ($48 million), rental assets ($61 million), lease residual values ($46 million), and other assets ($9 million). The cash portion of the restructuring charges includes employee termination costs ($85 million) and other exit costs ($6 million) and relates primarily to our efforts to lower our cost structure and accelerate improvements in operational efficiencies. As a result of this program, we expect a net reduction of about 1,500 positions. About half of these reductions will be outside of the U.S. As of December 31, 2007, 401 employees had been terminated under this program. Other exit costs relate primarily to lease termination costs and other costs associated with exiting product lines and business activities. The cash outflows related to the cash charges will be funded primarily by cash from operating activities. We expect to incur approximately $20 million of additional restructuring charges in 2008 associated with these actions, however, we continue to evaluate additional actions in conjunction with this program. We expect to complete the majority of this program by the end of 2008. We are targeting to achieve $150 million in pre-tax annual benefits from these initiatives by 2009.

In addition, asset impairments also include the write-down of certain intangible assets for $9 million.

The pre-tax restructuring charges and asset impairments are composed of:

(Dollars in millions)	Restructuring charges	Non-cash Charges	Cash payments	Balance December 31, 2007
Severance and benefit costs	**$ 85**	**$ -**	**$ (4)**	**$ 81**
Asset impairments	**173**	**(173)**	**-**	**-**
Other exit costs	**6**	**-**	**-**	**6**
Total	**$ 264**	**$ (173)**	**$ (4)**	**$ 87**

In connection with our 2003 restructuring program, we recorded pre-tax restructuring charges of $36 million and $54 million for the years ended December 31, 2006 and 2005, respectively. The 2005 charge is net of a $30 million gain on the sale of our main plant manufacturing facility. The activities associated with this program were substantially completed in 2006. We made restructuring payments of $29 million, $51 million and $48 million (net of the $30 million gain) during 2007, 2006, and 2005, respectively. The remaining restructuring liability associated with this program at December 31, 2007 is $5 million. See Note 1 to the Consolidated Financial Statements for our accounting policy related to restructuring charges and asset impairments.

Acquisitions

On September 12, 2007, we acquired Asterion SAS for $28 million in cash, net of cash acquired. Asterion is a leading provider of outsourced transactional print and document process services in France. We assigned the goodwill to the Management Services segment.

On May 31, 2007, we acquired the remaining shares of Digital Cement, Inc. for a total purchase price of $49 million in cash, net of cash acquired. Digital Cement, Inc. provides marketing management strategy and services to help companies acquire, retain, manage, and grow their customer relationships. We assigned the goodwill to the Marketing Services segment.

On April 19, 2007, we acquired MapInfo Corporation for $446 million in cash, net of cash acquired. Included in the assets and liabilities acquired were short-term investments of $46 million and debt assumed of $14 million. MapInfo is a global company and a leading provider of location intelligence software and solutions. We assigned the goodwill to the Software segment. As part of the purchase accounting for MapInfo, we aligned MapInfo's accounting policies with ours. Accordingly, certain software revenue that was previously recognized by MapInfo on a periodic basis is now being recognized over the life of the contract.

On July 31, 2006, we acquired Print, Inc. for approximately $46 million in cash, net of cash acquired. Print, Inc. provides printer supplies, service and equipment under long-term managed services contracts. The goodwill was assigned to the U.S. Mailing segment.

On June 15, 2006, we acquired substantially all the assets of Advertising Audit Service and PMH Caramanning (collectively AAS) for approximately $42 million in cash. AAS offers a variety of web-based tools for the customization of promotional mail and marketing collateral and designs and manages customer and channel performance solutions. The goodwill was assigned to the Marketing Services segment.

On April 24, 2006, we acquired Ibis Consulting, Inc. (Ibis) for approximately $65 million in cash, net of cash acquired. Ibis is a leading provider of electronic discovery (eDiscovery) services to law firms and corporate clients. Ibis' technology and offerings complement those of Compulit, which we acquired in 2005, and expands our range of solutions and services for the complex litigation support needs of law firms and corporate legal departments. The goodwill was assigned to the Management Services segment.

On February 8, 2006, we acquired Emtex Ltd. (Emtex) for approximately $33 million in cash, net of cash acquired. Emtex is a software and services company that allows large-volume mailers to simplify document production and centrally manage complex multi-vendor and multi-site print operations. The goodwill was assigned to the Software segment.

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. As a result of the purchase accounting alignment, the acquisition of MapInfo reduced our diluted earnings per share by 5 cents in 2007. Acquisitions made in 2006 did not materially impact income from continuing operations for that year.

During 2007 and 2006, we also completed several smaller acquisitions for an aggregate cost of $87 million and $43 million, respectively. These acquisitions did not have a material impact on our financial results either individually or on an aggregate basis. See Note 3 to the Consolidated Financial Statements for further details.

Liquidity and Capital Resources

We believe that cash flow generated by operations, existing cash and liquid investments, as well as borrowing capacity under our commercial paper program, the existing credit facility and debt capital markets should be sufficient to finance our capital requirements and to cover our customer deposits for the foreseeable future. Our potential uses of cash include but are not limited to the following: growth and expansion opportunities; internal investments; customer financing; tax payments; interest and dividend payments; share repurchase program; and potential acquisitions and divestitures.

Cash Flow Summary

The change in cash and cash equivalents is as follows:

(Dollars in millions)

	2007	2006
Cash provided by (used in) operating activities	**$ 1,060**	$ (286)
Cash (used in) provided by investing activities	**(726)**	720
Cash used in financing activities	**(204)**	(440)
Effect of exchange rate changes on cash	**8**	2
Increase (decrease) in cash and cash equivalents	**$ 138**	$ (4)

2007 Cash Flows

Net cash provided by operations consisted primarily of net income adjusted for non-cash items and changes in operating assets and liabilities. The strong cash flow provided by operations for 2007 is primarily driven by tax refunds and lower tax payments, lower investment in finance receivables, and increased management attention on working capital which resulted in lower accounts receivable, inventory and accounts payable balances.

Net cash used in investing activities consisted of acquisitions of $594 million and capital expenditures of $265 million partially offset by proceeds from the sale of a training facility for $30 million, proceeds from short-term investments of $42 million, and increased reserve account balances for customer deposits of $63 million.

Net cash used in financing activities was $204 million and consisted primarily of stock repurchases of $400 million and dividends paid of $289 million, primarily offset by a net borrowing of debt of $377 million and proceeds from stock issuance of $108 million.

2006 Cash Flows

Net cash used in operating activities decreased due to payments made to the IRS in connection with the sale of Capital Services and the IRS tax settlement. These payments to the IRS reflect taxes due from the sale of our Imagistics lease portfolio and Capital Services external financing business as well as final payments for our settlement of all outstanding tax audit issues in dispute for tax years through December 31, 2000. See Note 9 to the Consolidated Financial Statements for further discussion. The increase in accounts receivable decreased cash from operations by approximately $47 million, primarily reflecting growth in sales of equipment and software licenses. The increase in our internal finance receivables balances reduced cash from operations by $237 million, reflecting growth in equipment placements and our payment solutions business during the year.

Net cash provided by investing activities consisted primarily of proceeds of $747 million received from the sale of our Capital Services external financing business, $282 million received from the sale of our Imagistics lease portfolio and an advance of $138 million against the cash surrender value of our COLI policies, offset by $328 million in capital expenditures and $231 million used for acquisitions.

Net cash used in financing activities was $440 million and consisted primarily of stock repurchases and dividends paid, offset by the issuance of debt, common stock and proceeds from preferred stock issued by a subsidiary.

Capital Expenditures

During 2007, capital expenditures included net additions of $142 million to property, plant and equipment and $123 million in net additions to rental equipment and related inventories compared with $137 million and $191 million, respectively, in 2006. The decrease in rental asset additions relates primarily to the wind-down of our customers' transition to digital meters.

Financings and Capitalization

We have a commercial paper program that is a significant source of liquidity. As of December 31, 2007, we had approximately $405 million of outstanding commercial paper issuances and an unused credit facility of $1.5 billion which supports commercial paper issuances.

In September 2007, we issued $500 million of unsecured fixed rate notes maturing in September 2017. These notes bear interest at an annual rate of 5.75% and pay interest semi-annually beginning in March 2008. The proceeds from these notes were used for general corporate purposes, including the repayment of commercial paper, the financing of acquisitions and repurchase of our stock.

In December 2007, we entered into a $150 million syndicated bank transaction priced at 3 month LIBOR plus 35 basis points. The proceeds from this credit facility, due 2012, were used to pay off the $150 million variable rate debt that was due in 2010.

In addition to our borrowing capability under the unused credit facilities described above, we have $0.6 billion 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, depository shares, warrants and units.

We believe our financing needs in the short and long term can be met from cash generated internally, borrowing capacity from existing credit agreements, available debt issuances under existing shelf registration statements and our existing commercial paper program. Information on debt maturities is presented in Note 8 to the Consolidated Financial Statements.

The following summarizes our known contractual obligations at December 31, 2007 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	**$ 405**	$ 405	$ -	$ -	$ -
Long-term debt and current portion of long-term debt	**4,339**	550	151	551	3,087
Non-cancelable operating lease obligations	**292**	89	113	52	38
Capital lease obligations	**22**	9	10	3	-
Purchase obligations (1)	**252**	193	45	14	-
Other non-current liabilities (2)	**406**	-	258	49	99
Total	**$ 5,716**	$ 1,246	$ 577	$ 669	$ 3,224

(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 postretirement benefits. See Note 13 to the Consolidated Financial Statements.

The amount and period of future payments related to our FIN 48 income tax uncertainties cannot be reliably estimated and, therefore, is not included in the above table. See Note 9 to the Consolidated Financial Statements for further details.

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. In 2007, we recorded an impairment charge of $46 million related to the transition of our product line. See Note 14 to the Consolidated Financial Statements for further details. We did not experience any material changes to our residual values during 2006 or 2005.

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. 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.

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*.

In June 2006, the Financial Accounting Standards Board issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), which supplements Statement of Financial Accounting Standard No. 109, *Accounting for Income Taxes,* by defining the confidence level that a tax position must meet in order to be recognized in the financial statements. FIN 48 requires a two-step approach under which the tax effect of a position is recognized only if it is "more-likely-than-not" to be sustained and the amount of the tax benefit recognized is equal to the largest tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement of the tax position. This is a different standard for recognition than the approach previously required. Both approaches require us to exercise considerable judgment and estimates are inherent in both processes.

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 2007 income from continuing operations before income taxes and minority interest, a 1% change in our effective tax rate would impact income from continuing operations by approximately $7 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 3 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 3 to 10 years. Intangible assets with finite lives are amortized over their estimated useful lives, which are principally 4 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.

See Note 14 to the Consolidated Financial Statements for further details on our transition initiatives and asset impairments recorded in 2007. We believe that we have no unrecorded asset impairments at December 31, 2007. 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.
- New technological developments that provide significantly enhanced benefits over current technology.
- Significant negative economic or industry trends.
- Changes in our business strategy that alters the expected usage of the related assets.
- Future economic results that are below our expectations used in the current assessments.

Pension benefits

Assumptions and estimates

The valuation and calculation of 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 13 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 6.15% at December 31, 2007 and 5.85% at December 31, 2006. 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% at December 31, 2007 and 2006. 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 8.50% in 2007 and 2006.

Sensitivity to changes in assumptions:

- Discount rate – a 0.25% increase in the discount rate would decrease annual pension expense by approximately $2.9 million.
- Rate of compensation increase – a 0.25% increase in the rate of compensation increase would increase annual pension expense by approximately $2.5 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 $3.9 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. See the new accounting pronouncements below for the effect of SFAS No. 158, *Employers' Accounting for Defined Pension and Other Post Retirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R).*

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, 2007 was approximately 66% equity securities, 28% fixed income securities and 6% 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 those changes in the values of such investment securities will occur and that such changes could materially affect our future results.

New Accounting Pronouncements

In May 2005, the Financial Accounting Standards Board (FASB) issued SFAS No. 154, *Accounting Changes and Error Corrections* ("FAS 154"), which replaces APB Opinion No. 20, *Accounting Changes* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements-An Amendment of APB Opinion No. 28.* FAS 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is not practicable. FAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Our adoption of SFAS 154 did not have a material impact on our financial position, results of operations or cash flows.

In June 2005, the FASB issued FASB Staff Position (FSP) No. FAS 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.

In June 2006, the FASB issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), which supplements Statement of Financial Accounting Standard No. 109, *Accounting for Income Taxes*, by defining the confidence level that a tax position must meet in order to be recognized in the financial statements. FIN 48 requires the tax effect of a position to be recognized only if it is "more-likely-than-not" to be sustained based solely on its technical merits as of the reporting date. If a tax position is not considered more-likely-than-not to be sustained based solely on its technical merits, no benefits of the position are recognized. This is a different standard for recognition than was previously required. The more-likely-than-not threshold must continue to be met in each reporting period to support continued recognition of a benefit. At adoption, companies adjusted their financial statements to reflect only those tax positions that were more-likely-than-not to be sustained as of the adoption date. Any necessary adjustment was recorded directly to opening retained earnings in the period of adoption and reported as a change in accounting principle. We adopted the provisions of FIN 48 on January 1, 2007 which resulted in a decrease to opening retained earnings of $84.4 million, with a corresponding increase in our tax liabilities.

In July 2006, the FASB issued FSP No. FAS 13-2, *Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction*, that provided guidance on how a change or a potential change in the timing of cash flows relating to income taxes generated by a leveraged lease transaction affected the accounting by a lessor for the lease. We adopted the provisions of FSP No. FAS 13-2 on January 1, 2007. Our adoption of this FSP did not have a material impact on our financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("FAS 157"), to define how the fair value of assets and liabilities should be measured in accounting standards where it is allowed or required. In addition to defining fair value, the statement establishes a framework within GAAP for measuring fair value and expands required disclosures surrounding fair-value measurements. While it will change the way companies currently measure fair value, it does not establish any new instances where fair value measurement is required. FAS 157 defines fair value as an amount that a company would receive if it sold an asset or paid to transfer a liability in a normal transaction between market participants in the same market where the company does business. It emphasizes that the value is based on assumptions that market participants would use, not necessarily only the company that might buy or sell the asset. The FASB issued FASB Staff Position (FSP) No. FAS 157-a, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Its Related Interpretive Accounting Pronouncements That Address Leasing Transactions*, which eliminated lease accounting from the scope of this standard. FAS 157, as issued, is effective for fiscal years beginning after November 15, 2007. The FASB issued FASB Staff Position (FSP) No. FAS 157-b, *Effective Date of FASB Statement No. 157*, which delays the effective date by one year for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, at least annually. We do not expect that the adoption of this statement for financial assets and liabilities, effective January 1, 2008, will have a material impact on our financial position, results of operations, or cash flow. We continue to evaluate the impact of adopting this statement for the nonfinancial items deferred until January 1, 2009.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R)* ("FAS 158"), which required recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. Under FAS 158, gains and losses, prior service costs and credits, and any remaining transition amounts under SFAS 87 and SFAS 106 that have not yet been recognized through net periodic benefit cost were recognized in accumulated other comprehensive income, net of tax effects, until they are amortized as a component of net periodic cost. Our adoption of the provisions of FAS 158 reduced stockholders' equity by $297 million at December 31, 2006. FAS 158 did not affect our results of operations or cash flows.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ("SAB 108"). SAB 108 provided guidance on how prior year misstatements should be considered when quantifying misstatements in current year financial statements for the purposes of determining whether the current year's financial statements are materially misstated. SAB 108 allowed registrants to adjust for the cumulative effect of certain errors relating to prior years in the carrying amount of assets and liabilities as of the beginning of the current year, with an offsetting adjustment to the opening balance of retained earnings in the year of adoption provided that management had properly concluded that the errors were not material to prior periods. SAB 108 was effective for fiscal years ending after November 15, 2006. In 2006, we determined that the accounting for certain leveraged lease transactions in Canada was misstated due to changes in assumptions having occurred prior to 2000 which impacted net income from the leases. Such changes in assumptions required the leveraged lease pricing models to be revised. These misstatements were immaterial to periods prior to 2006, however correction in that period would have had the effect of reducing our pre-tax income and our tax provision by $48 million and $43 million, respectively, which was considered material to the 2006 financial statements. Accordingly, we corrected these misstatements by adjusting opening retained earnings in 2006 by $5 million. As part of this adjustment, we also decreased our investment in leveraged leases by $33 million, increased other non-current liabilities by $15 million and decreased deferred taxes on income by $43 million.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, including an amendment of FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities* ("FAS 159"), which permits entities to choose to measure many financial assets and financial liabilities and certain other assets and liabilities at fair value on an instrument-by-instrument basis. The fair value election once made is irrevocable. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. FAS 159 is effective for fiscal years beginning after November 15, 2007. We do not expect to adopt the fair value option allowed by this standard.

In December 2007, the FASB issued SFAS No. 141 (R), *Business Combinations* ("FAS 141 (R)"). FAS 141(R) establishes principles and requirements for how a company (a) recognizes and measures in their financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest (previously referred to as minority interest); (b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of a business combination. FAS 141 (R) requires fair value measurements at the date of acquisition, with limited exceptions specified in the Statement. Some of the major impacts of this new standard include expense recognition for transaction costs and restructuring costs. FAS 141 (R) is effective for fiscal years beginning on or after December 15, 2008 and will be applied prospectively. We are currently evaluating the impact of adopting this Statement.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* ("FAS 160"). FAS 160 addresses the accounting and reporting for the outstanding noncontrolling interest (previously referred to as minority interest) in a subsidiary and for the deconsolidation of a subsidiary. It also establishes additional disclosures in the consolidated financial statements that identify and distinguish between the interests of the parent's owners and of the noncontrolling owners of a subsidiary. FAS 160 requires changes in ownership interest that do not result in deconsolidation to be accounted for as equity transactions. This Statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. This gain or loss is measured using the fair value of the noncontrolling equity investment. This Statement is effective for fiscal years beginning on or after December 15, 2008. FAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements of FAS 160 are applied prospectively. We are currently evaluating the impact of adopting this Statement.

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. 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 have sought and received re-approval for the placement of postage meters from the appropriate postal authorities in each country.

Income taxes

The current IRS exam of tax years 2001-2004 is estimated to be completed in the next year or two, and the federal statute of limitations for years prior to 2001 has expired. In connection with the 2001-2004 audit, we are currently disputing a recent formal request from the IRS in the form of a civil summons to provide certain company workpapers. The company believes that certain documents being sought should not be produced because they are privileged. In the third quarter, in a similar case, the U.S. District Court in Rhode Island ruled that certain company workpapers were privileged. The IRS has appealed that decision. A similar issue is also being litigated between the IRS and another taxpayer before the U.S. District Court for the Northern District of Alabama. In connection with the 2001-2004 audit, we have recently entered into an agreement in principle with the IRS regarding the tax treatment of certain Capital Services lease transactions. The additional tax and interest associated with this settlement was accrued and paid to the IRS prior to 2007.

In 2006, we accrued in discontinued operations an additional tax expense of $16.2 million to record the impact of the Tax Increase Prevention and Reconciliation Act ("TIPRA"). The TIPRA legislation repealed the exclusion from federal income taxation of a portion of the income generated from certain leveraged leases of aircraft by foreign sales corporations. See Note 2 to the Consolidated Financial Statements for further discussion of discontinued operations.

In August 2006, we reached a settlement with the IRS governing all outstanding tax audit issues in dispute for the tax years through 2000. These disputed items related primarily to the tax treatment of corporate owned life insurance (COLI) and related interest expense, the tax effect of the sale of certain preferred share holdings, and the tax treatment of certain Capital Services lease transactions. In the second quarter of 2006, we estimated the tax due as a result of the IRS settlement including our best estimate of the additional liability for these items in all open years, the sale of the Imagistics portfolio and the sale of the Capital Services business to be approximately $1.1 billion. Accordingly, we recorded $61 million of additional tax expense. The $1.1 billion tax liability was net of $330 million of IRS tax bonds previously posted. In the third quarter of 2006, we paid $239 million of the $1.1 billion obligation to the IRS, with the remainder paid by the end of 2006. These tax obligations were funded with proceeds previously received in 2006 from the sale of the Imagistics lease portfolio and Capital Services and the advance against the cash surrender value of our COLI assets. Of the $61 million of tax expense, $41 million related to the Capital Services business and was included in discontinued operations and $20 million was included in continuing operations.

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 additional tax reserves of $56 million in our 2005 financial results.

We regularly assess the likelihood of tax adjustments in each of the tax jurisdictions in which we have operations and account for the related financial statement implications. Tax reserves have been established 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. 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 our results of operations.

We have accrued our estimate of the probable tax, interest and penalties that may result from these disputed matters as it relates to 2001 through 2007 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.

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.

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, where applicable, price increases.

Currency translation increased our 2007 revenue by approximately 2%. Also, currency translation gains increased our income before taxes by $11 million. 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 $17 million and a decline in income from continuing operations before income taxes and minority interest of approximately $2 million.

Although not affecting income, balance sheet related deferred translation gains of $165 million were recorded in 2007 resulting primarily from the stronger British pound, Euro and Canadian dollar, as compared to the U.S. dollar. During 2006, we recorded deferred translation gains of $83 million resulting primarily from the stronger British pound, Euro and Canadian dollar, as compared to the U.S. dollar. During 2005, we recorded deferred translation losses of $54 million resulting primarily from the weaker British pound and Euro, partially offset by the stronger 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, 2007, we had $316 million of foreign exchange contracts outstanding, all maturing in 2008, to buy or sell various currencies. As a result of the use of derivative instruments, we are exposed to counterparty risk. To mitigate such risks, we enter into contracts with only those financial institutions that meet stringent credit requirements as set forth in our derivative policy. We regularly review our credit exposure balances as well as the creditworthiness of our counterparties. 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.

Dividends

It is a general practice of our Board of Directors 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 our 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
- our success at managing customer credit risk
- our success at managing costs associated with our strategy of outsourcing functions and operations not central to our business
- changes in interest rates
- foreign currency fluctuations
- cost, timing and execution of our transition plans 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
- 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 denominated in different foreign currencies.

We manage our exposure to changes in interest rates by limiting its impact on earnings and cash flows and lowering our overall borrowing costs. We use a balanced mix of debt maturities and variable and fixed rate debt together with interest rate swaps to execute our strategy.

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 actively 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 2007 and 2006, 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

See Index to Consolidated Financial Statements and Supplemental Data on Page 36.

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

None.

ITEM 9A. – CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the direction of our Chief Executive Officer and Chief Financial Officer, we evaluated our disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) and internal control over financial reporting. The CEO and CFO concluded that such disclosure controls and procedures were effective as of December 31, 2007, based on the evaluation of these controls and procedures required by paragraph (b) of Rule 13a-15 or Rule 15d-15 under the Exchange Act. In addition, no change in internal control over financial reporting occurred during the year ended December 31, 2007, 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, 2007.

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 Exchange Act. 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, 2007. 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, 2007, the Company's internal control over financial reporting was effective based on the criteria issued by COSO in *Internal Control – Integrated Framework*.

PricewaterhouseCoopers LLP, the independent registered public accounting firm that audited the Company's financial statements included in this Form 10-K, has issued an attestation report on the Company's internal control over financial reporting, which report is included on page 37 of this Form 10-K.

ITEM 9B. – OTHER INFORMATION

None.

PART III

ITEM 10. – DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information pertaining to Directors of the Company and the Audit Committee of the Board of Directors is incorporated herein by reference to the sections entitled "Compensation Committee Interlocks and Insider Participation," "Election of Directors," "How much stock is owned by directors and executive officers?," "Which stockholders own at least 5% of Pitney Bowes?," "Security Ownership of Directors and Executive Officers," "Audit Committee" and "Corporate Governance" of the Pitney Bowes Inc. Notice of the 2008 Annual Meeting and Proxy Statement are incorporated herein by reference. Executive officers of the Company are as follows:

Executive Officers of the Registrant as of February 29, 2008

Name	Age	Title	Executive Officer Since
Murray D. Martin	60	President and Chief Executive Officer	1998
Michael J. Critelli	59	Executive Chairman	1988
Gregory E. Buoncontri	60	Senior Vice President and Chief Information Officer	2000
Bruce P. Nolop	57	Executive Vice President and Chief Financial Officer	2000
Johnna G. Torsone	57	Senior Vice President and Chief Human Resources Officer	1993
Leslie R. Abi-Karam	49	Executive Vice President and President, Document Messaging Technologies	2005
Elise R. DeBois	52	Executive Vice President and President, Global Financial Services	2005
Vincent R. De Palma	50	Executive Vice President and President, Pitney Bowes Management Services	2005
Patrick J. Keddy	53	Executive Vice President and President, Mailstream International	2005
Michael Monahan	47	Executive Vice President and President, Mailing Solutions and Services	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 Mr. De Palma.

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.

On February 13, 2008, we announced key appointments, effective March 1, to our senior management team. Michael Monahan has been named Executive Vice President and Chief Financial Officer and will succeed Bruce Nolop. Leslie Abi-Karam has been named to a newly-created position, Executive Vice President and President, Mailing Solutions Management, which includes responsibility for the worldwide production mail business, as well as Mailing Solutions and Services formerly led by Mr. Monahan.

ITEM 11. – EXECUTIVE COMPENSATION

The sections entitled "Directors' Compensation," "Compensation Discussion and Analysis", and "Executive Compensation Tables and Related Narrative" of the Pitney Bowes Inc. Notice of the 2008 Annual Meeting and Proxy Statement are incorporated herein by reference.

ITEM 12. – SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

EQUITY COMPENSATION PLAN INFORMATION TABLE

The following table provides information as of December 31, 2007 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	19,202,997	$43.30	15,416,166
Equity compensation plans not approved by security holders	-	-	-
Total	19,202,997	$43.30	15,416,166

The sections entitled "How much stock is owned by directors and executive officers?" and "Security Ownership" of the Pitney Bowes Inc. Notice of the 2008 Annual Meeting and Proxy Statement, to be filed with the SEC on or before March 31, 2008, are incorporated herein by reference.

ITEM 13. – CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The sections entitled "Corporate Governance" and "Certain Relationships and Related Person Transactions" of the Pitney Bowes Inc. Notice of the 2008 Annual Meeting and Proxy Statement, to be filed with the Commission on or before March 31, 2008, are incorporated herein by reference.

ITEM 14. – PRINCIPAL ACCOUNTANT FEES AND SERVICES

The section entitled "Principal Accountant Fees and Services" of the Pitney Bowes Inc. Notice of the 2008 Annual Meeting and Proxy Statement, to be filed with the Commission on or before March 31, 2008, is incorporated herein by reference.

PART IV

ITEM 15. – EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1.Financial statements - see Item 8 on page 29 and "Index to Consolidated Financial Statements and Supplemental Data" on page 36.

2.Financial statement schedules - see "Index to Consolidated Financial Statements and Supplemental Data" on page 36.

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 (3) to Form 10-Q as filed with the Commission on August 14, 1996. (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)	Pitney Bowes Inc. Amended and Restated By-laws	Incorporated by reference to Exhibit (3)(ii) to Form 10-Q as filed with the Commission on August 6, 2007. (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.
(e)	First Supplemental Indenture, by and among Pitney Bowes Inc., The Bank of New York, and Citibank, N.A., to the Indenture, dated as of February 14, 2005, by and between the Company and Citibank	Incorporated by reference to Exhibit 4.1 to Form 8-K as filed with the Commission on October 24, 2007 (Commission file number 1-3579)

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.

<u>Executive Compensation Plans</u>:

(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)
(b.2)	Pitney Bowes Inc. Directors' Stock Plan (Amendment Number 2 effective as of May 1, 2007)	Incorporated by reference to Exhibit (10.(b.2)) to Form 10-K as filed with the Commission on March 1, 2007 (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)
(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)
(c.3)	Pitney Bowes Inc. 2007 Stock Plan	Incorporated by reference to Exhibit 10.1 to Form 10-Q as filed with the Commission on August 6, 2007 (Commission file number 1-3579)
(d)	Pitney Bowes Inc. Key Employees' Incentive Plan (as amended and restated)	Incorporated by reference to Annex I to the proxy statement for the 2006 annual meeting of stockholders. (Commission file number 1-3579)
(e)	Pitney Bowes Severance Plan (as amended, and restated effective January 1, 2008)	Exhibit (i)
(f)	Pitney Bowes Senior Executive Severance Policy (amended and restated as of January 1, 2008)	Exhibit (ii)
(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)	Incorporated by reference to Exhibit (vi) to Form 10-K as filed with the Commission on March 13, 2006. (Commission file number 1-3579)
(i)	Pitney Bowes Inc. 1998 U.K. S.A.Y.E. Stock Option Plan	Incorporated by reference to Annex II to the proxy statement for the 2006 annual meeting of stockholders. (Commission file number 1-3579)
(j)	Restricted Stock Agreement for Murray D. Martin dated April 5, 2004	Incorporated by reference to Exhibit 10.1 to Form 8-K as filed with the Commission on February 16, 2006. (Commission file number 1-3579)
(k)	Form of Equity Compensation Grant Letter	Incorporated by reference to Exhibit (10)(n) to Form 10-Q as filed with the Commission on May 4, 2006. (Commission file number 1-3579)
(l)	Service Agreement between Pitney Bowes Limited and Patrick S. Keddy dated January 29, 2003	Incorporated by reference to Exhibit 10.2 to Form 8-K as filed with the Commission on February 17, 2006. (Commission file number 1-3579)

Other:

(m)	Stock Purchase Agreement, dated as of May 16, 2006, among Pitney Bowes Inc., JCC Management LLC and Pitney Bowes Credit Corporation (for the purposes of Section 10.07 thereof only)	Incorporated by reference to Exhibit 99.1 to Form 8-K as filed with the Commission on May 18, 2006. (Commission file number 1-3579)
(n)	Amended and Restated Credit Agreement dated May 19, 2006 between the Company and JPMorgan Chase Bank, N.A., as Administrative Agent	Incorporated by reference to Exhibit 10.1 to Form 8-K as filed with the Commission on May 24, 2006. (Commission file number 1-3579)

(o)	Pitney Bowes Inc. Global Medium-Term Notes Terms Agreement	Incorporated by reference to Exhibit 1. d. 1. to Form 8-K as filed with the Commission on September 11, 2007. (Commission file number 1-3579)
(12)	Computation of ratio of earnings to fixed charges	Exhibit (iii)
(21)	Subsidiaries of the registrant	Exhibit (iv)
(23)	Consent of experts and counsel	Exhibit (v)
(31.1)	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes – Oxley Act of 2002	See page 87
(31.2)	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes – Oxley Act of 2002	See page 88
(32.1)	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350	See page 89
(32.2)	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350	See page 90

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.

Date: February 29, 2008

PITNEY BOWES INC.
Registrant

By: /s/ Murray D. Martin
(Murray D. Martin)
President and Chief Executive Officer

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/ Murray D. Martin Murray D. Martin	President and Chief Executive Officer – Director	February 29, 2008
/s/ Michael J. Critelli Michael J. Critelli	Executive Chairman - Director	February 29, 2008
/s/ Bruce P. Nolop Bruce P. Nolop	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 29, 2008
/s/ Steven J. Green Steven J. Green	Vice President–Finance and Chief Accounting Officer (Principal Accounting Officer)	February 29, 2008
/s/ Rodney C. Adkins Rodney C. Adkins	Director	February 29, 2008
/s/ Linda G. Alvarado Linda G. Alvarado	Director	February 29, 2008
/s/ Anne M. Busquet Anne M. Busquet	Director	February 29, 2008
/s/ Anne Sutherland Fuchs Anne Sutherland Fuchs	Director	February 29, 2008
/s/ Ernie Green Ernie Green	Director	February 29, 2008
/s/ James H. Keyes James H. Keyes	Director	February 29, 2008
/s/ John S. McFarlane John S. McFarlane	Director	February 29, 2008
/s/ Eduardo R. Menascé Eduardo R. Menascé	Director	February 29, 2008
/s/ Michael I. Roth Michael I. Roth	Director	February 29, 2008
/s/ David L. Shedlarz David L. Shedlarz	Director	February 29, 2008
/s/ David B. Snow David B. Snow	Director	February 29, 2008
/s/ Robert E. Weissman Robert E. Weissman	Director	February 29, 2008

PITNEY BOWES INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of Pitney Bowes Inc.

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Pitney Bowes Inc. and its subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 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 accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for defined benefit pension and other postretirement plans effective December 31, 2006 and the manner in which it accounts for uncertainty in income taxes in 2007.

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.

PricewaterhouseCoopers LLP
Stamford, Connecticut
February 29, 2008

PITNEY BOWES INC.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

	Years ended December 31,		
	2007	2006	2005
Revenue:			
Equipment sales	**$ 1,335,538**	$ 1,372,566	$ 1,251,026
Supplies	**393,478**	339,594	297,151
Software	**346,020**	202,415	174,085
Rentals	**739,130**	785,068	801,285
Financing	**790,121**	725,131	663,484
Support services	**760,915**	716,556	697,796
Business services	**1,764,593**	1,588,688	1,482,109
Total revenue	**6,129,795**	5,730,018	5,366,936
Costs and expenses:			
Cost of equipment sales	**696,900**	693,535	625,235
Cost of supplies	**106,702**	90,035	73,330
Cost of software	**82,097**	42,951	36,945
Cost of rentals	**171,191**	171,491	165,963
Cost of support services	**433,324**	400,089	385,547
Cost of business services	**1,380,541**	1,242,226	1,195,761
Selling, general and administrative	**1,907,160**	1,764,260	1,655,210
Research and development	**185,665**	165,368	165,751
Restructuring charges and asset impairments	**264,013**	35,999	53,650
Interest expense	**250,540**	228,418	193,174
Interest income	**(8,669)**	(15,822)	(5,298)
Other (income) expense	**(380)**	(3,022)	10,000
Total costs and expenses	**5,469,084**	4,815,528	4,555,268
Income from continuing operations before income taxes and minority interest	**660,711**	914,490	811,668
Provision for income taxes	**280,222**	335,004	328,597
Minority interest	**19,242**	13,827	9,828
Income from continuing operations	**361,247**	565,659	473,243
Income (loss) from discontinued operations, net of income tax	**5,534**	(460,312)	35,368
Net income	**$ 366,781**	$ 105,347	$ 508,611
Basic earnings per share of common stock:			
Continuing operations	**$ 1.65**	$ 2.54	$ 2.07
Discontinued operations	**0.03**	(2.07)	0.15
Net income	**$ 1.68**	$ 0.47	$ 2.22
Diluted earnings per share of common stock:			
Continuing operations	**$ 1.63**	$ 2.51	$ 2.04
Discontinued operations	**0.03**	(2.04)	0.15
Net income	**$ 1.66**	$ 0.47	$ 2.19

See Notes to Consolidated Financial Statements

PITNEY BOWES INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	December 31, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 377,176**	$ 239,102
Short-term investments	**63,279**	62,512
Accounts receivable, less allowances of $49,324 and $50,052, respectively	**841,072**	744,073
Finance receivables, less allowances of $45,859 and $45,643, respectively	**1,498,486**	1,404,070
Inventories	**197,962**	237,817
Current income taxes	**83,227**	54,785
Other current assets and prepayments	**258,411**	231,096
Total current assets	**3,319,613**	2,973,455
Property, plant and equipment, net	**627,918**	612,640
Rental property and equipment, net	**435,927**	503,911
Long-term finance receivables, less allowances of $32,512 and $36,856, respectively	**1,533,773**	1,530,153
Investment in leveraged leases	**249,191**	215,371
Goodwill	**2,299,858**	1,791,157
Intangible assets, net	**457,188**	365,192
Non-current income taxes	**28,098**	73,739
Other assets	**598,377**	543,326
Total assets	**$ 9,549,943**	$ 8,608,944
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 1,965,567**	$ 1,677,501
Current income taxes	**96,851**	142,835
Notes payable and current portion of long-term obligations	**953,767**	490,540
Advance billings	**540,254**	465,862
Total current liabilities	**3,556,439**	2,776,738
Deferred taxes on income	**472,240**	454,929
FIN 48 uncertainties and other income tax liabilities	**285,505**	-
Long-term debt	**3,802,075**	3,847,617
Other non-current liabilities	**406,216**	446,306
Total liabilities	**8,522,475**	7,525,590
Preferred stockholders' equity in subsidiaries	**384,165**	384,165
Commitments and contingencies (see Note 15)		
Stockholders' equity:		
Cumulative preferred stock, $50 par value, 4% convertible	**7**	7
Cumulative preference stock, no par value, $2.12 convertible	**1,003**	1,068
Common stock, $1 par value (480,000,000 shares authorized; 323,337,912 shares issued)	**323,338**	323,338
Capital in excess of par value	**252,185**	235,558
Retained earnings	**4,133,756**	4,140,128
Accumulated other comprehensive income	**88,656**	(131,744)
Treasury stock, at cost (108,822,953 and 102,724,590 shares, respectively)	**(4,155,642)**	(3,869,166)
Total stockholders' equity	**643,303**	699,189
Total liabilities and stockholders' equity	**$ 9,549,943**	$ 8,608,944

See Notes to Consolidated Financial Statements

PITNEY BOWES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years ended December 31,		
	2007	2006	2005
Cash flows from operating activities:			
Net income	**$ 366,781**	$ 105,347	$ 508,611
Gain on sale of a facility, net of tax	**(1,623)**	-	-
Loss on sale of Capital Services, net of tax	-	445,150	-
Gain on sale of Imagistics, net of tax	-	(11,065)	-
Non-cash charge from FSC tax law change	-	16,209	-
Non-cash tax charge	-	61,000	-
Tax and bond payments related to IRS settlement and Capital Services sale	-	(1,040,700)	(200,000)
Restructuring and other charges, net of tax	**223,486**	23,040	42,248
Restructuring and other payments	**(31,568)**	(51,566)	(88,544)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	**383,141**	363,258	331,963
Stock-based compensation	**24,131**	27,375	27,223
Pension plan contributions	-	-	(76,508)
Changes in operating assets and liabilities, excluding effects of acquisitions:			
Accounts receivable	**35,853**	(46,623)	(87,646)
Net investment in internal finance receivables	**(86,238)**	(236,872)	(105,358)
Inventories	**7,710**	(142)	(7,835)
Other current assets and prepayments	**906**	(11,360)	(12,114)
Accounts payable and accrued liabilities	**32,789**	42,231	3,324
Current and non-current income taxes	**123,636**	52,784	185,628
Advance billings	**1,745**	(6,029)	19,508
Other, net	**(20,284)**	(18,611)	(10,059)
Net cash provided by (used in) operating activities	**1,060,465**	(286,574)	530,441
Cash flows from investing activities:			
Short-term investments	**42,367**	(1,295)	(44,099)
Proceeds from the sale of facilities	**29,608**	-	30,238
Capital expenditures	**(264,656)**	(327,877)	(291,550)
Net investment in external financing	**(2,214)**	109,050	117,595
Net proceeds from sale of Imagistics lease portfolio	-	281,653	-
Net proceeds from sale of Capital Services	-	746,897	-
Cash included in the sale of Capital Services	-	(25,488)	-
Advance against COLI cash surrender value	-	138,381	-
Acquisitions, net of cash acquired	**(594,110)**	(230,628)	(294,176)
Reserve account deposits	**62,666**	28,780	9,800
Net cash (used in) provided by investing activities	**(726,339)**	719,473	(472,192)
Cash flows from financing activities:			
(Decrease) increase in notes payable, net	**(89,673)**	(26,790)	(31,150)
Proceeds from long-term obligations	**640,765**	493,285	1,050,000
Principal payments on long-term obligations	**(174,191)**	(396,755)	(695,724)
Proceeds from issuance of stock	**107,517**	101,449	92,164
Proceeds from issuance of preferred stock in a subsidiary	-	74,165	-
Stock repurchases	**(399,996)**	(400,000)	(258,803)
Dividends paid	**(288,790)**	(285,051)	(284,348)
Net cash used in financing activities	**(204,368)**	(439,697)	(127,861)
Effect of exchange rate changes on cash	**8,316**	2,391	(3,096)
Increase (decrease) in cash and cash equivalents	**138,074**	(4,407)	(72,708)
Cash and cash equivalents at beginning of year	**239,102**	243,509	316,217
Cash and cash equivalents at end of year	**$ 377,176**	$ 239,102	$ 243,509
Cash interest paid	**$ 236,697**	$ 225,837	$ 196,964
Cash income taxes paid, net	**$ (178,469)**	$ 1,315,437	$ 164,068

See Notes to Consolidated Financial Statements

PITNEY BOWES INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(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 (loss)	Treasury stock at cost
Balance, December 31, 2004	$ 19	$ 1,252	$ 323,338	$ 201,704		$ 4,100,771	$ 135,526	$ (3,413,458)
Net income					$ 508,611	508,611		
Other comprehensive income, net of tax:								
Foreign currency translations					(54,499)		(54,499)	
Net unrealized gain on derivative instruments					1,605		1,605	
Minimum pension liability					(5,715)		(5,715)	
Comprehensive income					$ 450,002			
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				(8,468)		(583)		85,569
Conversions to common stock	(2)	(94)		(2,056)				2,152
Stock-based compensation				31,728				
Repurchase of common stock								(258,803)
Balance, December 31, 2005	17	1,158	323,338	222,908		4,324,451	76,917	(3,584,540)
Adjustment to initially apply SAB 108, net of tax						(4,618)		
Adjusted Retained Earnings						4,319,833		
Net income					$ 105,347	105,347		
Other comprehensive income, net of tax:								
Foreign currency translations					83,183		83,183	
Net unrealized loss on derivative instruments					(20)		(20)	
Minimum pension liability					5,405		5,405	
Comprehensive income					$ 193,915			
Adjustment to initially apply SFAS 158, net of tax							(297,229)	
Cash dividends:								
Preferred ($2.00 per share)						(1)		
Preference ($2.12 per share)						(86)		
Common ($1.28 per share)						(284,965)		
Issuances of common stock				(11,575)				113,142
Conversions to common stock	(10)	(90)		(2,132)				2,232
Stock-based compensation				26,357				
Repurchase of common stock								(400,000)
Balance, December 31, 2006	**7**	1,068	323,338	235,558		4,140,128	(131,744)	(3,869,166)
Net income					**$ 366,781**	**366,781**		
Other comprehensive income, net of tax:								
Foreign currency translations					**164,728**		**164,728**	
Net unrealized gain on derivative instruments					**2,801**		**2,801**	
Net unrealized gain on on investment securities					**352**		**352**	
Net gain on pension and postretirement plans							**30,347**	
Amortization of pension and postretirement costs					**22,172**		**22,172**	
Comprehensive income					**$ 556,834**			
Initial adjustment for FIN 48						**(84,363)**		
Cash dividends:								
Preferred ($2.00 per share)								
Preference ($2.12 per share)						**(81)**		
Common ($1.32 per share)						**(288,709)**		
Issuances of common stock				**(7,967)**				**111,925**
Conversions to common stock		**(65)**		**(1,530)**				**1,595**
Stock-based compensation				**26,124**				
Repurchase of common stock								**(399,996)**
Balance, December 31, 2007	**$ 7**	**$ 1,003**	**$ 323,338**	**$ 252,185**		**$ 4,133,756**	**$ 88,656**	**$ (4,155,642)**

Treasury shares of 3.0 million, 3.0 million and 2.3 million were issued under employee plans in 2007, 2006 and 2005, respectively. We repurchased 9.1 million, 9.2 million and 5.4 million shares in 2007, 2006 and 2005, respectively.

See Notes to Consolidated Financial Statements

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

We are a provider of leading-edge, global, integrated mail and document management solutions for organizations of all sizes. We operate in two business groups: Mailstream Solutions and Mailstream Services. We operate both inside and outside the United States. See Note 19 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.

Basis of Presentation and Consolidation

We have prepared the Consolidated Financial Statements of the Company 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 the Consolidated Financial Statements in conformity with GAAP requires us to make estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses that are reported in the Consolidated Financial Statements and accompanying disclosures, including the disclosure of contingent assets and liabilities. These estimates are based on our best knowledge of current events, historical experience, actions that we may undertake in the future, and on various other assumptions that are believed to be reasonable under the circumstances. As a result, 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. We place our 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 invest in highly rated short-term obligations.

Accounts Receivable and Allowance for Doubtful Accounts

We estimate our accounts receivable risks and provide allowances for doubtful accounts accordingly. We believe that our credit risk for accounts receivable is limited because of our large number of customers and the relatively small account balances for most of our customers. Also, our customers are dispersed across different business and geographic areas. We evaluate 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. We make adjustments to our 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

We estimate our finance receivables risks and provide allowances for credit losses accordingly. Our financial services businesses establish credit approval limits based on the credit quality of the customer and the type of equipment financed. We charge finance receivables through the allowance for credit losses after collection efforts are exhausted and we deem the account uncollectible. Our financial services businesses base credit decisions primarily on a customer’s financial strength and we may also consider collateral values. 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.

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.

We evaluate the adequacy of allowance for credit losses on a periodic basis. Our 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. 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 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 include primarily postage meter receivables billed in advance and costs paid in advance.

Fixed Assets and Depreciation
Property, plant and equipment and rental equipment are stated at cost and depreciated principally using the straight-line method over their estimated useful lives. The estimated useful lives of depreciable fixed assets are as follows: buildings, up to 50 years; plant and equipment, 3 to 15 years; and computer equipment, 3 to 5 years. 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. Leasehold improvements are amortized over the shorter of the estimated useful life or their related lease term.

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

Capitalized Software Development Costs
We capitalize certain costs of software developed for internal use in accordance with Statement of Position No. 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 3 to 10 years.

We capitalize 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 3 to 5 years, using the greater of the straight-line method or the ratio of current product revenues to total projected future revenues. Other assets on our Consolidated Balance Sheets include $21.6 million and $14.8 million of capitalized software development costs at December 31, 2007 and 2006, respectively. The Consolidated Statements of Income include the related amortization expense of $3.9 million, $1.6 million, and $1.4 million for the years ended December 31, 2007, 2006, and 2005, respectively. Total software development costs capitalized in 2007 and 2006 were $10.1 million and $8.5 million, respectively.

Research and Development Costs
Research and product development costs not subject to SFAS 86 are expensed as incurred. These costs primarily include personnel related costs.

Business Combinations, Goodwill and Intangible Assets
We account 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. We estimate the fair value of intangible assets primarily using a cost, market and income approach. Intangible assets with finite lives acquired under business combinations are amortized over their estimated useful lives, principally 3 to 15 years. Customer relationship intangibles are generally amortized using an accelerated attrition method. All other intangibles are amortized on a straight-line method. See Note 6 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, we record 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*. See Note 14 to the Consolidated Financial Statements for further details.

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 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 in future periods. Net pension expense is based primarily on current service costs, interest costs and the returns on plan assets. In accordance with this approach, differences between the actual and expected return on plan assets are recognized over a five-year period. In accordance with SFAS No. 158, *Employers' Accounting for Defined Pension and Other Post Retirement Plans an amendment to FASB Statements No. 87, 88, 106 and 132(R)*, we recognize the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. Under SFAS 158, gains and losses, prior service costs and credits, and any remaining transition amounts under SFAS 87 and SFAS 106 that have not yet been recognized in net periodic benefit costs are recognized in accumulated other comprehensive income, net of tax, until they are amortized as a component of net periodic benefit cost. We use a measurement date of December 31 for all of our retirement plans. See Note 13 to the Consolidated Financial Statements for further details.

Revenue Recognition
We derive our revenue from the following sources:

- equipment sales;
- supplies;
- software;
- rentals;
- financing;
- support services; and
- business services.

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

Sales Revenue

Sales of equipment

We sell equipment to our customers, as well as to distributors and dealers (re-sellers) throughout the world. We recognize revenue from these sales upon the transfer of title, which is generally at the point of shipment. We do not offer any rights of return or stock balancing rights.

Our sales revenue from customized equipment, mail creation equipment and shipping products is generally recognized when installed.

Embedded software sales

We sell equipment with embedded software to our customers. The embedded software is not sold separately, it is not a significant focus of the marketing effort and we do not provide post-contract customer support specific to the software or incur significant costs that are within the scope of SFAS 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 SOP No. 97-2, *Software Revenue Recognition*, is not applicable. Sales of these products are recognized in accordance with either SEC Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition,* or SFAS No. 13, *Accounting for Leases*, for sales-type leases.

Sales of Supplies

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

Standalone Software Sales and Integration Services

In accordance with SOP 97-2, we recognize 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, we recognize 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. We recognize revenue from software requiring integration services at the point of customer acceptance. We recognize revenue related to off-the-shelf perpetual software licenses upon transfer of title, which is upon shipment.

Rentals Revenue
We rent equipment to our customers, primarily postage meters and mailing equipment, under short-term rental agreements, generally for periods of 3 months to 5 years. Rental revenue includes revenue from the subscription for digital meter services. We invoice in advance for postage meter rentals. We defer the billed revenue and include it initially in advance billings. Rental revenue is recognized on a straight-line basis over the term of the rental agreement. We defer certain initial direct costs incurred in consummating a transaction and amortize these costs over the term of the agreement. The initial direct costs are primarily personnel related costs. Other assets on our Consolidated Balance Sheets include $39.0 million and $42.9 million of these deferred costs at December 31, 2007 and 2006, respectively. The Consolidated Statements of Income include the related amortization expense of $19.1 million, $21.6 million and $24.8 million for the years ended December 31, 2007, 2006 and 2005, respectively.

Financing Revenue
We provide lease financing of our products primarily through sales-type leases. When a sales-type lease is consummated, we record 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. We evaluate 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. We recognize the equipment sale at the inception of the lease. We recognize unearned income as financing revenue using the interest method over the lease term.

We provide financing to our customers for the purchase of postage and related supplies. Financing revenue includes interest which is earned over the term of the loan and related fees which are recognized as services are provided.

Support Services Revenue
We provide support services for our equipment through maintenance contracts. Revenue related to these agreements is recognized on a straight-line basis over the term of the agreement, which typically is 1 to 5 years in length.

Business Services Revenue
Business services revenue includes revenue from management services, mail services, and marketing services. Management services, which includes outsourcing of mailrooms, copy centers, or other document management functions, are typically 1 to 5 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. Marketing services include direct mail marketing services, and revenue is recognized over the term of the agreement as the services are provided.

Multiple Element Arrangements
Certain of our transactions are consummated at the same time. The most common form of these transactions involves the sale or lease of equipment, a meter rental and/or an equipment maintenance agreement. In these cases, revenue is recognized for each of the elements based on their relative fair values in accordance with SFAS 13, Emerging Issues Task Force (EITF) No. 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables,* 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
We have a centralized treasury system and do not allocate interest costs to our 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.

Deferred Marketing Costs
We capitalize certain direct mail, telemarketing, internet, and retail marketing costs, associated with the acquisition of new customers in accordance with SOP No. 93-7, *Reporting on Advertising Costs*. These costs are amortized over the expected revenue stream ranging from 5 to 9 years. We review individual marketing programs for impairment on a periodic basis or as circumstances warrant.

Other assets on our Consolidated Balance Sheets at December 31, 2007 and 2006 include $121 million and $117 million, respectively, of deferred marketing costs. The Consolidated Statements of Income include the related amortization expense of $39 million, $44 million and $46 million for the years ended December 31, 2007, 2006 and 2005, respectively.

Restructuring Charges
We apply the provisions of SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, to account for one-time benefit arrangements and exit or disposal activities. SFAS No. 146 requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. We account 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 14 to the Consolidated Financial Statements.

Income Taxes
We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the period in which related temporary differences become deductible. We consider the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in this assessment. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date of such change.

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.

Stock-based Compensation
Effective January 1, 2006, we adopted the provisions of SFAS No. 123(R), *Share-Based Payment* ("FAS 123R"). We previously applied Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations and provided the required pro forma disclosures of SFAS No. 123, *Accounting for Stock-Based Compensation*. We elected to adopt the modified retrospective application method provided by FAS 123(R) and accordingly, financial statement amounts for the periods presented herein reflect results as if the fair value method of expensing had been applied from the original effective date of FAS 123.

Stock-based compensation represents the cost related to stock-based awards granted to employees. We measure stock-based compensation cost at grant date, based on the estimated fair value of the award, and recognize the cost as expense on a straight-line basis (net of estimated forfeitures) over the employee requisite service period. We estimate the fair value of stock options using a Black-Scholes valuation model. The expense is recorded in costs; selling, general and administrative expense; and research and development expense in the Consolidated Statements of Income based on the employees' respective functions.

We record deferred tax assets for awards that result in deductions on our income tax returns, based on the amount of compensation cost recognized and our statutory tax rate in the jurisdiction in which we will receive a deduction. Differences between the deferred tax assets recognized for financial reporting purposes and the actual tax deduction reported in our income tax return are recorded in capital in excess of par value (if the tax deduction exceeds the deferred tax asset or to the extent that previously recognized credits to paid-in-capital are still available if the tax deduction is less than the deferred tax asset).

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 is exposed to the impact of interest rate changes and foreign currency fluctuations. The company limits these risks by following established risk management policies and procedures, including the use of derivatives. The derivatives are used to manage the related cost of debt and to limit the effects of foreign exchange rate fluctuations on financial results.

In our hedging program, we normally use forward contracts, interest-rate swaps, and currency swaps depending upon the underlying exposure. We do not use derivatives for trading or speculative purposes. Changes in the fair value of the derivatives 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.

To qualify as a hedge, a derivative must be highly effective in offsetting the risk designated for hedging purposes. The hedge relationship must be formally documented at inception, detailing the particular risk management objective and strategy for the hedge. The effectiveness of the hedge relationship is evaluated on a retrospective and prospective basis.

As a result of the use of derivative instruments, we are exposed to counterparty risk. To mitigate such risks, we enter into contracts with only those financial institutions that meet stringent credit requirements as set forth in our derivative policy. We regularly review our credit exposure balances as well as the creditworthiness of our counterparties.

Foreign Exchange Contracts

We enter into foreign exchange contracts to minimize the impact of exchange rate fluctuations on inter-company loans and related interest that are denominated in a foreign currency. The revaluation of the short-term inter-company loans and interest and the mark-to-market on the derivatives are both recorded to income. At December 31, 2007, we had 16 outstanding foreign exchange contracts to buy or sell various currencies with an asset value of $1.9 million. The contracts will expire by December 23, 2008.

We also enter into foreign currency exchange contracts arising from the anticipated purchase of inventory between affiliates. These contracts are designed as cash flow hedges. The effective portion of the gain or loss on the cash flow hedges is included in other comprehensive income in the period that the change in fair value occurs and is reclassified to income in the same period that the hedged item affects income. At December 31, 2007, we had no outstanding contracts associated with these anticipated transactions.

Certain foreign currency derivatives have been entered into to manage foreign currency transactional exposures associated with the transactions between affiliates. These derivatives have no specific hedging designation so gains or losses are recorded in income in the period that changes in fair value occur together with the offsetting foreign exchange gains or losses on the underlying assets and liabilities. At December 31, 2007, the fair value of these derivatives was a liability of $1.9 million.

Interest Rate Swaps

Derivatives designated as fair value hedges include interest rate swaps related to fixed rate debt. Changes in the fair value of both the derivative and hedged item attributable to the risk being hedged are recognized in income. In December 2003, we entered into an interest rate swap for an aggregate notional amount of $350 million. The interest rate swap effectively converted the fixed rate of 4.75% on $350 million of our notes, due 2018, into variable interest rates. The variable rates payable by us in connection with the swap agreement are based on six month LIBOR less a spread of 22.8 basis points. At December 31, 2007, the fair value of the derivative represented an asset of $6.8 million. Long-term debt was increased by $6.8 million at December 31, 2007.

Net Investment Hedges

A portion of our inter-company loans denominated in a foreign currency is designated as a hedge of net investment. The revaluation of these loans is reflected as a deferred translation gain or loss and thereby offsets a portion of the translation adjustment of the applicable foreign subsidiaries' net assets. At December 31, 2007, we had two inter-company loans with an outstanding value of $126.4 million associated with these net investment hedges. Net deferred translation gains of $37.4 million for 2007 were included in accumulated other comprehensive income in stockholders' equity on the Consolidated Balance Sheet.

Reclassification

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

New Accounting Pronouncements

In May 2005, the Financial Accounting Standards Board (FASB) issued SFAS No. 154, *Accounting Changes and Error Corrections* ("FAS 154"), which replaces APB Opinion No. 20, *Accounting Changes* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements-An Amendment of APB Opinion No. 28.* FAS 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is not practicable. FAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Our adoption of FAS 154 did not have a material impact on our financial position, results of operations or cash flows.

In June 2005, the FASB issued FASB Staff Position (FSP) No. FAS 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.

In June 2006, the FASB issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), which supplements Statement of Financial Accounting Standard No. 109, *Accounting for Income Taxes*, by defining the confidence level that a tax position must meet in order to be recognized in the financial statements. FIN 48 requires the tax effect of a position to be recognized only if it is "more-likely-than-not" to be sustained based solely on its technical merits as of the reporting date. If a tax position is not considered more-likely-than-not to be sustained based solely on its technical merits, no benefits of the position are recognized. This is a different standard for recognition than was previously required. The more-likely-than-not threshold must continue to be met in each reporting period to support continued recognition of a benefit. At adoption, companies adjusted their financial statements to reflect only those tax positions that were more-likely-than-not to be sustained as of the adoption date. Any necessary adjustment was recorded directly to opening retained earnings in the period of adoption and reported as a change in accounting principle. We adopted the provisions of FIN 48 on January 1, 2007 which resulted in a decrease to opening retained earnings of $84.4 million, with a corresponding increase in our tax liabilities.

In July 2006, the FASB issued FSP No. FAS 13-2, *Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction,* that provided guidance on how a change or a potential change in the timing of cash flows relating to income taxes generated by a leveraged lease transaction affected the accounting by a lessor for the lease. We adopted the provisions of FSP No. FAS 13-2 on January 1, 2007. Our adoption of this FSP did not have a material impact on our financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("FAS 157"), to define how the fair value of assets and liabilities should be measured in accounting standards where it is allowed or required. In addition to defining fair value, the statement establishes a framework within GAAP for measuring fair value and expands required disclosures surrounding fair-value measurements. While it will change the way companies currently measure fair value, it does not establish any new instances where fair value measurement is required. FAS 157 defines fair value as an amount that a company would receive if it sold an asset or paid to transfer a liability in a normal transaction between market participants in the same market where the company does business. It emphasizes that the value is based on assumptions that market participants would use, not necessarily only the company that might buy or sell the asset. The FASB issued FASB Staff Position (FSP) No. FAS 157-a, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Its Related Interpretive Accounting Pronouncements That Address Leasing Transactions*, which eliminated lease accounting from the scope of this standard. FAS 157, as issued, is effective for fiscal years beginning after November 15, 2007. The FASB issued FASB Staff Position (FSP) No. FAS 157-b, *Effective Date of FASB Statement No. 157*, which delays the effective date by one year for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, at least annually. We do not expect the adoption of this statement for financial assets and liabilities, effective January 1, 2008, will have a material impact on our financial position, results of operations, or cash flow. We continue to evaluate the impact of adopting this statement for the nonfinancial items deferred until January 1, 2009.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R)* ("FAS 158"), which required recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. Under FAS 158, gains and losses, prior service costs and credits, and any remaining transition amounts under SFAS 87 and SFAS 106 that have not yet been recognized through net periodic benefit cost were recognized in accumulated other comprehensive income, net of tax effects, until they are amortized as a component of net periodic cost. Our adoption of the provisions of FAS 158 reduced stockholders' equity by $297 million at December 31, 2006. FAS 158 did not affect our results of operations or cash flows.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108). SAB 108 provided guidance on how prior year misstatements should be considered when quantifying misstatements in current year financial statements for the purposes of determining whether the current year's financial statements are materially misstated. SAB 108 allowed registrants to adjust for the cumulative effect of certain errors relating to prior years in the carrying amount of assets and liabilities as of the beginning of the current year, with an offsetting adjustment to the opening balance of retained earnings in the year of adoption provided that management had properly concluded that the errors were not material to prior periods. SAB 108 was effective for fiscal years ending after November 15, 2006. In 2006, we determined that the accounting for certain leveraged lease transactions in Canada was misstated due to changes in assumptions having occurred prior to 2000 which impacted net income from the leases. Such changes in assumptions required the leveraged lease pricing models to be revised. These misstatements were immaterial to periods prior to 2006, however correction in that period would have had the effect of reducing our pre-tax income and our tax provision by $48 million and $43 million, respectively, which was considered material to the 2006 financial statements. Accordingly, we corrected these misstatements by adjusting opening retained earnings in 2006 by $4.6 million. As part of this adjustment, we also decreased our investment in leveraged leases by $33 million, increased other non-current liabilities by $15 million and decreased deferred taxes on income by $43 million.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, including an amendment of FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities* ("FAS 159"), which permits entities to choose to measure many financial assets and financial liabilities and certain other assets and liabilities at fair value on an instrument-by-instrument basis. The fair value election once made is irrevocable. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. FAS 159 is effective for fiscal years beginning after November 15, 2007. We do not expect to adopt the fair value option allowed by this standard.

In December 2007, the FASB issued SFAS No. 141 (R), *Business Combinations* ("FAS 141 (R)"). FAS 141(R) establishes principles and requirements for how a company (a) recognizes and measures in their financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest (previously referred to as minority interest); (b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of a business combination. FAS 141 (R) requires fair value measurements at the date of acquisition, with limited exceptions specified in the Statement. Some of the major impacts of this new standard include expense recognition for transaction costs and restructuring costs. FAS 141 (R) is effective for fiscal years beginning on or after December 15, 2008 and will be applied prospectively. We are currently evaluating the impact of adopting this Statement.

(Tabular dollars in thousands, except per share data)

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* ("FAS 160"). FAS 160 addresses the accounting and reporting for the outstanding noncontrolling interest (previously referred to as minority interest) in a subsidiary and for the deconsolidation of a subsidiary. It also establishes additional disclosures in the consolidated financial statements that identify and distinguish between the interests of the parent's owners and of the noncontrolling owners of a subsidiary. FAS 160 requires changes in ownership interest that do not result in deconsolidation to be accounted for as equity transactions. This Statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. This gain or loss is measured using the fair value of the noncontrolling equity investment. This Statement is effective for fiscal years beginning on or after December 15, 2008. FAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements of FAS 160 are applied prospectively. We are currently evaluating the impact of adopting this Statement.

2. Discontinued Operations

On May 1, 2006, we completed the sale of our Imagistics lease portfolio to De Lage Landen Operational Services, LLC, a subsidiary of Rabobank Group, for approximately $288 million. Net proceeds on the sale were approximately $282 million after transaction expenses. We reported the results of the Imagistics lease portfolio in discontinued operations including an after-tax gain of approximately $11 million from the sale of this portfolio.

On July 14, 2006, we completed the sale of our Capital Services external financing business to Cerberus Capital Management, L.P. (Cerberus) for approximately $747 million and the assumption of approximately $470 million of non-recourse debt and other liabilities. This sale resulted in the disposition of most of the external financing activity in the Capital Services segment. The proceeds received at closing were used to pay our tax obligations. We reported the results of the Capital Services business in discontinued operations including an after-tax loss of $445 million from the sale of this business. We retained certain leveraged leases in Canada which are included in our International Mailing segment.

In August 2006, we reached a settlement with the Internal Revenue Service (IRS) on all outstanding tax audit issues in dispute for tax years through 2000. Years after 2000 are still under review by the IRS. In connection with the settlement, we recorded $61 million of additional tax expense of which $41 million was included in discontinued operations. See Note 9 for further discussion of the IRS settlement.

In 2006, we accrued in discontinued operations an additional tax expense of $16 million to record the impact of the Tax Increase Prevention and Reconciliation Act (TIPRA). The TIPRA legislation repealed the exclusion from federal income taxation of a portion of the income generated from certain leveraged leases of aircraft by foreign sales corporations (FSC).

In December 2006, we sold our bankruptcy claim related to certain aircraft leases with Delta Airlines. We received proceeds of $14.5 million, which represent a contingent gain pending the bankruptcy court decision. Given the continued uncertainty and inability to anticipate the outcome of the bankruptcy court decision, we have not recognized any portion of this contingent gain in our consolidated income statement.

The following table shows selected financial information included in discontinued operations for the years ended December 31:

Discontinued Operations	**2007**	2006	2005
Revenue	**$ -**	$ 81,199	$ 125,247
Pretax income	**$ -**	$ 29,465	$ 38,061
Net income	**$ 5,534**	$ 30,982	$ 35,368
Gain on sale of Imagistics, net of $7,075 tax expense	**-**	11,065	-
FSC tax law change	**-**	(16,209)	-
Additional tax on IRS settlement	**-**	(41,000)	-
Loss on sale of Capital Services, net of $284,605 tax benefit	**-**	(445,150)	-
Total discontinued operations, net of tax	**$ 5,534**	$ (460,312)	$ 35,368

Net income in 2007 includes a gain of $11.3 million from the conclusion of certain tax issues net of the accrual of interest expense of $5.8 million on uncertain tax positions.

Interest expense included in discontinued operations was $19.2 million and $11.5 million for the years ended December 31, 2006 and 2005, respectively. Interest expense recorded in discontinued operations consisted of interest on third-party debt that was assumed by Cerberus. We have not allocated other consolidated interest expense to discontinued operations.

3. Acquisitions

On September 12, 2007, we acquired Asterion SAS for $28 million in cash, net of cash acquired. Asterion is a leading provider of outsourced transactional print and document process services in France. We assigned the goodwill to the Management Services segment.

On May 31, 2007, we acquired the remaining shares of Digital Cement, Inc. for a total purchase price of $49 million in cash, net of cash acquired. Digital Cement, Inc. provides marketing management strategy and services to help companies acquire, retain, manage, and grow their customer relationships. We assigned the goodwill to the Marketing Services segment.

On April 19, 2007, we acquired MapInfo Corporation for $446 million in cash, net of cash acquired. Included in the assets and liabilities acquired were short-term investments of $46 million and debt assumed of $14 million. MapInfo is a global company and a leading provider of location intelligence software and solutions. We assigned the goodwill to the Software segment. As part of the purchase accounting for MapInfo, we aligned MapInfo's accounting policies with ours. Accordingly, certain software revenue that was previously recognized by MapInfo on a periodic basis is now being recognized over the life of the contract.

On July 31, 2006, we acquired Print, Inc. for approximately $46 million in cash, net of cash acquired. Print, Inc. provides printer supplies, service and equipment under long-term managed services contracts. The goodwill was assigned to the U.S. Mailing segment.

On June 15, 2006, we acquired substantially all the assets of Advertising Audit Service and PMH Caramanning (collectively AAS) for approximately $42 million in cash. AAS offers a variety of web-based tools for the customization of promotional mail and marketing collateral and designs and manages customer and channel performance solutions. The goodwill was assigned to the Marketing Services segment.

On April 24, 2006, we acquired Ibis Consulting, Inc. (Ibis) for approximately $65 million in cash, net of cash acquired. Ibis is a leading provider of electronic discovery (eDiscovery) services to law firms and corporate clients. Ibis' technology and offerings complement those of Compulit, which we acquired in 2005, and expands our range of solutions and services for the complex litigation support needs of law firms and corporate legal departments. The goodwill was assigned to the Management Services segment.

On February 8, 2006, we acquired Emtex Ltd. (Emtex) for approximately $33 million in cash, net of cash acquired. Emtex is a software and services company that allows large-volume mailers to simplify document production and centrally manage complex multi-vendor and multi-site print operations. The goodwill was assigned to the Software segment.

(Tabular dollars in thousands, except per share data)

The following table summarizes selected financial data for the opening balance sheet allocations of the acquisitions in 2007:

	Asterion SAS	Digital Cement, Inc.	MapInfo Corporation
Purchase price allocation			
Short-term investments	$ -	$ -	$ 46,308
Current assets	52,900	2,146	41,213
Other non-current assets	30,685	932	35,826
Intangible assets	5,802	9,400	113,000
Goodwill	26,763	39,878	326,296
Current liabilities	(57,794)	(1,325)	(52,963)
Debt	-	-	(13,866)
Non-current liabilities	(29,929)	(1,900)	(50,060)
Purchase price, net of cash acquired	$ 28,427	$ 49,131	$ 445,754
Intangible assets			
Customer relationships	$ 5,802	$ 8,500	$ 75,900
Mailing software and technology	-	-	29,500
Trademarks and trade names	-	900	7,600
Total intangible assets	$ 5,802	$ 9,400	$ 113,000
Intangible assets amortization period			
Customer relationships	10 years	10 years	10 years
Mailing software and technology	-	-	5 years
Trademarks and trade names	-	2 years	5 years
Total weighted average	10 years	9 years	8 years

The following table summarizes selected financial data for the opening balance sheet allocations of the acquisitions in 2006:

	Print, Inc.	AAS	Ibis	Emtex
Purchase price allocation				
Current assets	$ 9,385	$ 1,989	$ 6,468	$ 4,240
Other non-current assets	1,610	789	3,349	1,034
Intangible assets	8,144	8,200	17,700	14,540
Goodwill	36,588	31,670	40,751	25,076
Current liabilities	(8,547)	(1,033)	(3,258)	(11,946)
Non-current liabilities	(1,163)	-	-	(112)
Purchase price	$ 46,017	$ 41,615	$ 65,010	$ 32,832
Intangible assets				
Customer relationships	$ 8,144	$ 4,000	$ 8,800	$ 3,300
Mailing software and technology	-	4,200	7,800	9,200
Trademarks and trade names	-	-	1,100	2,040
Total intangible assets	$ 8,144	$ 8,200	$ 17,700	$ 14,540
Intangible assets amortization period				
Customer relationships	6 years	10 years	10 years	10 years
Mailing software and technology	-	5 years	5 years	5 years
Trademarks and trade names	-	-	3 years	5 years
Total weighted average	6 years	7 years	7 years	6 years

(Tabular dollars in thousands, except per share data)

Allocation of the purchase price to the assets acquired and liabilities assumed has not been finalized for MapInfo, Asterion SAS and Digital Cement, Inc. The purchase price allocation for these acquisitions will be finalized upon the completion of working capital closing adjustments and fair value analyses. 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. The amount of tax deductible goodwill added from acquisitions in 2007 and 2006 was $27.5 million and $98.0 million, respectively.

During 2007 and 2006, we also completed several smaller acquisitions, the cost of which was $86.6 million and $43.1 million, respectively. These acquisitions did not have a material impact on our financial results.

Consolidated impact of acquisitions

The condensed consolidated financial statements include the results of operations of the acquired businesses from their respective dates of acquisition.

The following table provides unaudited pro forma consolidated revenue for the years ended December 31, 2007 and 2006 as if our acquisitions had been acquired on January 1 of each year presented:

	2007	2006
Total revenue	**$ 6,252,694**	$ 6,078,392

The pro forma earnings of these acquisitions for 2007 and 2006 reduced our diluted earnings per share by approximately 6 cents, primarily due to the purchase accounting alignment for MapInfo. The pro forma consolidated results do not purport to be indicative of the actual results if the acquisitions had occurred on the dates indicated or that may result in the future.

4. *Inventories*

	December 31,	
	2007	2006
Raw materials and work in process	**$ 87,053**	$ 97,870
Supplies and service parts	**52,895**	82,669
Finished products	**58,014**	57,278
Total	**$ 197,962**	$ 237,817

If all inventories valued at LIFO had been stated at current costs, inventories would have been $23.7 million and $20.5 million higher than reported at December 31, 2007 and 2006, respectively. In 2007, we recorded an impairment charge to inventories for $48.1 million, included in the restructuring charges and asset impairments line on the Consolidated Statement of Income. See Note 14 to the Consolidated Financial Statements for further details.

5. *Fixed Assets*

	December 31,	
	2007	2006
Land	**$ 33,961**	$ 34,397
Buildings	**400,548**	402,200
Machinery and equipment	**1,443,384**	1,394,543
	1,877,893	1,831,140
Accumulated depreciation	**(1,249,975)**	(1,218,500)
Property, plant and equipment, net	**$ 627,918**	$ 612,640
Rental equipment	**$ 1,189,675**	$ 1,163,705
Accumulated depreciation	**(753,748)**	(659,794)
Rental property and equipment, net	**$ 435,927**	$ 503,911

(Tabular dollars in thousands, except per share data)

Depreciation expense was $318.1 million, $311.2 million and $292.2 million for the years ended December 31, 2007, 2006 and 2005, respectively. Depreciation expense included amounts from discontinued operations of $9.2 million and $3.2 million for the years ended December 31, 2006 and 2005, respectively. Rental equipment is primarily comprised of postage meters. A pre-tax non-cash impairment charge of $61.5 million for net rental property and equipment was recorded in 2007 associated with our transitional initiatives, included in the restructuring charges and asset impairments line of the Consolidated Statement of Income. See Note 14 to the Consolidated Financial Statements for further details.

6. *Intangible Assets and Goodwill*

The components of our purchased intangible assets are as follows:

	December 31, 2007			December 31, 2006		
	Gross Carrying Amount	**Accumulated Amortization**	**Net Carrying Amount**	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	**$ 427,487**	**$ (119,652)**	**$ 307,835**	$ 314,768	$ (84,439)	$ 230,329
Supplier relationships	**29,000**	**(7,492)**	**21,508**	33,300	(5,954)	27,346
Mailing software & technology	**176,558**	**(65,032)**	**111,526**	134,476	(42,357)	92,119
Trademarks and trade names	**32,661**	**(17,202)**	**15,459**	28,961	(14,716)	14,245
Non-compete agreements	**5,491**	**(4,631)**	**860**	5,247	(4,094)	1,153
	$ 671,197	**$ (214,009)**	**$ 457,188**	$ 516,752	$ (151,560)	$ 365,192

Amortization expense for intangible assets was $65.0 million, $53.9 million and $39.8 million for the years ended December 31, 2007, 2006 and 2005, respectively. In 2007, we recorded impairment charges of $8.5 million, included in the restructuring charges and asset impairments line of the Consolidated Statement of Income. See Note 14 to the Consolidated Financial Statements for further details.

The estimated future amortization expense related to intangible assets as of December 31, 2007 is as follows:

Year ended December 31,	**Amount**
2008	$ 70,000
2009	67,000
2010	60,000
2011	54,000
2012	44,000
Thereafter	162,000
	$ 457,000

During 2007 and 2006, we recorded additions to intangible assets of $158.2 million and $64.3 million, respectively. The components of these purchased intangible assets are as follows:

	December 31, 2007		December 31, 2006	
	Amount	**Weighted Average life**	Amount	Weighted Average life
Customer relationships	**$ 111,315**	**10 years**	$ 35,778	11 years
Mailing software and technology	**38,323**	**7 years**	21,900	5 years
Trademarks and trade names	**8,500**	**2 years**	6,390	4 years
Non-compete agreements	**12**	**4 years**	228	5 years
	$ 158,150	**9 years**	$ 64,296	8 years

(Tabular dollars in thousands, except per share data)

The changes in the carrying amount of goodwill, by reporting segment, for the years ended December 31, 2007 and 2006 are as follows:

	Balance at December 31, 2006	Acquired during the period	Other	Balance at December 31, 2007
U.S. Mailing	**$ 84,380**	**$ 13,703**	**$ 31,100**	**$ 129,183**
International Mailing	**392,434**	**2,486**	**8,908**	**403,828**
Production Mail	**102,848**	**4,165**	**3,587**	**110,600**
Software	**340,062**	**355,189**	**1,440**	**696,691**
Mailstream Solutions	**919,724**	**375,543**	**45,035**	**1,340,302**
Management Services	**429,990**	**28,668**	**2,931**	**461,589**
Mail Services	**216,709**	**8,524**	**4,554**	**229,787**
Marketing Services	**224,734**	**41,831**	**1,615**	**268,180**
Mailstream Services	**871,433**	**79,023**	**9,100**	**959,556**
Total	**$ 1,791,157**	**$ 454,566**	**$ 54,135**	**$ 2,299,858**

	Balance at December 31, 2005	Acquired during the period	Other	Balance at December 31, 2006
U.S. Mailing	$ 56,095	$ 29,686	$ (1,401)	$ 84,380
International Mailing	355,947	5,072	31,415	392,434
Production Mail	94,879	4,773	3,196	102,848
Software	314,306	26,620	(864)	340,062
Mailstream Solutions	821,227	66,151	32,346	919,724
Management Services	383,640	41,304	5,046	429,990
Mail Services	211,686	5,767	(744)	216,709
Marketing Services	195,233	29,937	(436)	224,734
Mailstream Services	790,559	77,008	3,866	871,433
Total	$ 1,611,786	$ 143,159	$ 36,212	$ 1,791,157

“Other” includes the impact of foreign currency translations.

7. Current Liabilities

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

	December 31, 2007	December 31, 2006
Accounts payable-trade	**$ 329,928**	$ 307,134
Reserve account deposits	**522,193**	459,527
Accrued salaries, wages and commissions	**276,154**	254,454
Accrued restructuring charges	**91,713**	33,549
Accrued nonpension postretirement benefits	**27,728**	30,849
Miscellaneous accounts payable and accrued liabilities	**717,851**	591,988
Accounts payable and accrued liabilities	**$ 1,965,567**	$ 1,677,501
Notes payable	**$ 405,213**	$ 489,706
Current portion of long-term debt and capital leases	**548,554**	834
Notes payable and current portion of long-term obligations	**$ 953,767**	$ 490,540

(Tabular dollars in thousands, except per share data)

In countries outside the U.S., banks generally lend to our non-finance subsidiaries 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.

Reserve account deposits represent customers' prepayment of postage. Deposits are held by our subsidiary, Pitney Bowes Bank. See Note 18 to the Consolidated Financial Statements for further details.

Notes payable are issued as commercial paper, loans against bank lines of credit, or to trust departments of banks and others at below prevailing prime rates. The weighted average interest rates were 4.3% and 5.3% on notes payable and overdrafts outstanding at December 31, 2007 and 2006, respectively.

At December 31, 2007, notes payable totaled $405.2 million. We had unused credit facilities of $1.5 billion at December 31, 2007, primarily to support commercial paper issuances. Fees paid to maintain lines of credit were $0.8 million, $0.9 million and $0.7 million in 2007, 2006 and 2005, respectively.

8. Long-term Debt

	December 31,	
	2007	2006
Recourse debt		
5.75% notes due 2008 (1)	**$ -**	$ 350,000
8.63% notes due 2008 (1)	**-**	100,000
9.25% notes due 2008 (1)	**-**	100,000
8.55% notes due 2009 (1)	**150,000**	150,000
4.65% to 5.57% notes due 2010	**-**	150,000
5.32% credit facility due 2012	**150,000**	-
4.63% notes due 2012	**400,000**	400,000
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**	400,000
4.75% notes due 2016	**500,000**	500,000
5.75% notes due 2017	**500,000**	-
3.75% to 5.43% notes due 2018	**350,000**	350,000
5.25% notes due 2037	**500,000**	500,000
Fair value hedges basis adjustment	**25,753**	27,757
Mortgage	**13,186**	-
Other (2)	**(11,864)**	(5,140)
Total long-term debt	**$ 3,802,075**	$ 3,847,617

(1) In 2002, we received $95 million in cash from the termination of four swap agreements associated with these notes. This amount is being 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%. The notes due in 2008 for a face value of $550 million are reported as current liabilities at December 31, 2007.

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

On December 31, 2007, $0.6 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 December 2007, we entered into a $150 million syndicated bank transaction priced at 3 month LIBOR plus 35 basis points. The proceeds from this credit facility, due 2012, were used to pay off the $150 million variable rate debt that was due in 2010.

(Tabular dollars in thousands, except per share data)

In September 2007, we issued $500 million of unsecured fixed rate notes maturing in September 2017. These notes bear interest at an annual rate of 5.75% and pay interest semi-annually beginning in March 2008. The proceeds from these notes were used for general corporate purposes, including the repayment of commercial paper, the financing of acquisitions, and repurchase of our stock.

In November 2006, we issued $500 million of unsecured fixed rate notes maturing in January 2037. These notes bear interest at an annual rate of 5.25% and pay interest semi-annually beginning in July 2007. The proceeds from these notes were used for general corporate purposes, including the repayment of commercial paper, the financing of acquisitions and repurchase of the Company's stock.

The annual maturities of the outstanding debt during each of the next five years are as follows: 2008, $550 million; 2009, $150 million; 2010 – no maturities; 2011 – no maturities; 2012, $550 million; and $3,075 million thereafter.

The mortgage relates to debt assumed with the acquisition of MapInfo Corporation. The annual maturities of the outstanding mortgage for 2008 - 2012 are $0.3 million each year and $12.0 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.

9. *Income Taxes*

	Years ended December 31,		
	2007	2006	2005
Continuing operations:			
Total current	**$ 160,839**	$ 298,364	$ 217,042
Total deferred	**119,383**	36,640	111,555
Provision for income taxes	**$ 280,222**	$ 335,004	$ 328,597

U.S. and international components of income from operations before income taxes and minority interest are as follows:

	Years ended December 31,		
	2007	2006	2005
Continuing operations:			
U.S.	**$ 624,030**	$ 719,931	$ 623,529
International	**36,681**	194,559	188,139
Total continuing operations	**660,711**	914,490	811,668
Discontinued operations	**-**	(682,149)	38,061
Total	**$ 660,711**	$ 232,341	$ 849,729

The effective tax rates for continuing operations for 2007, 2006 and 2005 were 42.4%, 36.6% and 40.5%, respectively. The effective tax rate for 2007 included $54 million of tax charges related principally to a valuation allowance for certain deferred tax assets and tax rate changes outside of the U.S. The effective tax rate for 2006 and 2005 included a $20 million and $56 million charge, respectively, related to the IRS settlement discussed below.

(Tabular dollars in thousands, except per share data)

The items accounting for the difference between income taxes computed at the federal statutory rate and our provision for income taxes consist of the following:

	2007	2006	2005
Continuing operations:			
Federal statutory provision	**$ 231,249**	$ 320,072	$ 284,084
Life insurance tax reserve, federal and state	**-**	20,000	56,000
State and local income taxes	**12,281**	22,194	19,452
Foreign tax differential	**2,379**	(12,713)	(11,517)
Valuation allowance	**51,724**	-	-
Rate change	**2,485**	-	-
Tax exempt income/reimbursement	**(6,743)**	(15,110)	(4,162)
Federal income tax credits/incentives	**(12,732)**	(2,508)	(5,966)
Other, net	**(421)**	3,069	(9,294)
Provision for income taxes	**280,222**	335,004	328,597
Discontinued operations:			
Federal statutory provision	**-**	(238,753)	13,321
State and local income taxes	**-**	(29,225)	(642)
External financing transactions	**(5,534)**	46,140	(9,986)
Total provision for income taxes	**$ 274,688**	$ 113,166	$ 331,290

The components of our total provision for income taxes are as follows:

	Years ended December 31,		
	2007	2006	2005
U.S. Federal:			
Current	**$ 136,528**	$ 1,090,252	$ 166,590
Deferred	**53,235**	(1,021,669)	81,351
	189,763	68,583	247,941
U.S. State and Local:			
Current	**12,813**	179,602	18,867
Deferred	**6,083**	(190,420)	10,071
	18,896	(10,818)	28,938
International:			
Current	**5,964**	7,567	36,552
Deferred	**60,065**	47,834	17,859
	66,029	55,401	54,411
Total Current	**155,305**	1,277,421	222,009
Total Deferred	**119,383**	(1,164,255)	109,281
Total provision for income taxes	**$ 274,688**	$ 113,166	$ 331,290

(Tabular dollars in thousands, except per share data)

The components of our deferred tax liabilities and assets are as follows:

	December 31, 2007	December 31, 2006
Deferred tax liabilities:		
Depreciation	**$ 44,125**	$ 82,578
Deferred profit (for tax purposes) on sales to finance subsidiaries	**486,107**	440,525
Lease revenue and related depreciation	**313,393**	189,976
Pension	**76,830**	33,951
Other	**122,550**	129,614
Deferred tax liabilities	**1,043,005**	876,644
Deferred tax (assets):		
Nonpension postretirement benefits	**(141,205)**	(89,416)
Inventory and equipment capitalization	**(22,651)**	(23,132)
Restructuring charges	**(93,113)**	(15,504)
Long-term incentives	**(60,571)**	(61,422)
Net operating loss carry forwards	**(91,513)**	(66,197)
Other	**(168,785)**	(147,894)
Valuation allowance	**69,792**	33,563
Deferred tax (assets)	**(508,046)**	(370,002)
Net deferred taxes	**534,959**	506,642
Less amounts included in current and non-current income taxes	**62,719**	51,713
Deferred taxes on income	**$ 472,240**	$ 454,929

During 2007, the deferred tax asset and related valuation allowances for net operating losses changed primarily due to establishing a valuation allowance against net deferred tax assets in Germany and France established in connection with strategic initiatives taken in the fourth quarter (see Note 14 to the Consolidated Financial Statements) and acquisition activity. As of December 31, 2007 and 2006, approximately $243.7 million and $185 million, respectively, of net operating loss carry forwards were available to us. Most of these losses can be carried forward indefinitely.

It has not been necessary to provide for income taxes on $660 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 $15 million.

Other Tax Matters

We regularly assess the likelihood of tax adjustments in each of the tax jurisdictions in which we have operations and account for the related financial statement implications. Tax reserves have been established 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. 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 our results of operations.

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.

(Tabular dollars in thousands, except per share data)

In June 2006, the FASB issued FIN. 48, *Accounting for Uncertainty in Income Taxes*, which supplements FAS 109, *Accounting for Income Taxes*, by defining the confidence level that a tax position must meet in order to be recognized in the financial statements. FIN 48 requires a two-step approach under which the tax effect of a position is recognized only if it is "more-likely-than-not" to be sustained and the amount of tax benefit recognized is equal to the largest tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement of the tax position. This is a different standard for recognition than the approach previously required. Both approaches require us to exercise considerable judgment and estimates are inherent in both processes. We adopted the provisions of FIN 48 on January 1, 2007. As a result, on initial adoption we recognized an $84.4 million increase in our liability for uncertain tax positions and a corresponding reduction to our opening retained earnings. The total amount of unrecognized tax benefits at January 1 and December 31, 2007 was $356.1 million and $398.9 million, respectively, of which $299.6 million and $335.7 million, respectively, would affect the effective tax rate if recognized. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance at January 1, 2007	$356,063
Increases from prior period positions	28,762
Decreases from prior period positions	(20,063)
Increases from current period positions	61,778
Decreases from current period positions	-
Decreases relating to settlements with tax authorities	(2,165)
Reductions as a result of a lapse of the applicable statute of limitations	(25,497)
Balance at December 31, 2007	$398,878

Our tax filings are under continual examination by tax authorities. On a regular basis we conclude tax return examinations, statutes of limitations expire, court decisions are made that interpret tax law and we regularly assess tax uncertainties in light of these developments. As a result of these developments, it is reasonably possible that the amount of our unrecognized tax benefits will increase or decrease in the next 12 months by less than 5%. We recognize interest and penalties related to uncertain tax positions in our provision for income taxes. We recognized $9.5 million in interest and penalties during the year ended December 31, 2007 and this amount was included in discontinued operations. We had $104.1 million and $113.6 million accrued for the payment of interest and penalties at January 1 and December 31, 2007, respectively.

In August 2006, we reached a settlement with the IRS governing all outstanding tax audit issues in dispute for the tax years through 2000. These disputed items related primarily to the tax treatment of corporate owned life insurance (COLI) and related interest expense, the tax effect of the sale of certain preferred share holdings, and the tax treatment of certain Capital Services lease transactions. In the second quarter of 2006, we estimated the tax due as a result of the IRS settlement including our best estimate of the additional liability for these items in all open years, the sale of the Imagistics portfolio and the sale of the Capital Services business to be approximately $1.1 billion. Accordingly, we recorded $61 million of additional tax expense. The $1.1 billion tax liability was net of $330 million of IRS tax bonds previously posted. In the third quarter of 2006, we paid $239 million of the $1.1 billion obligation to the IRS, with the remainder paid by the end of 2006. These tax obligations were funded with proceeds previously received in 2006 from the sale of the Imagistics lease portfolio and Capital Services and the advance against the cash surrender value of our COLI assets. Of the $61 million of tax expense, $41 million related to the Capital Services business and was included in discontinued operations and $20 million was included in continuing operations.

The current IRS exam of tax years 2001-2004 is estimated to be completed in the next year or two, and the federal statute of limitations for years prior to 2001 has expired. In connection with the 2001-2004 audit, we are currently disputing a recent formal request from the IRS in the form of a civil summons to provide certain company workpapers. The company believes that certain documents being sought should not be produced because they are privileged. In the third quarter, in a similar case, the U.S. District Court in Rhode Island ruled that certain company workpapers were privileged. The IRS has appealed that decision. A similar issue is also being litigated between the IRS and another taxpayer before the U.S. District Court for the Northern District of Alabama. In connection with the 2001-2004 audit, we have recently entered into an agreement in principle with the IRS regarding the tax treatment of certain Capital Services lease transactions. The additional tax and interest associated with this settlement was accrued and paid to the IRS prior to 2007. A variety of post-1999 tax years remain subject to examination by other tax authorities, including the U.K., Canada, Germany and various U.S. states. We have accrued our best estimate of the probable tax, interest and penalties that may result from these tax uncertainties in these and other jurisdictions. However, the resolution of such matters could have a material impact on our results of operations, financial position and cash flow.

In 2006, we accrued in discontinued operations an additional tax expense of $16.2 million to record the impact of the Tax Increase Prevention and Reconciliation Act ("TIPRA"). The TIPRA legislation repealed the exclusion from federal income taxation of a portion of the income generated from certain leveraged leases of aircraft by foreign sales corporations. See Note 2 to the Consolidated Financial Statements for further discussion of the discontinued operations.

10. Preferred Stockholders' Equity in Subsidiary Companies

Pitney Bowes International Holdings, Inc., a subsidiary of the Company, has 3,750,000 shares outstanding or $375 million of variable term voting preferred stock owned by certain outside institutional investors. Of these shares outstanding, 750,000 were issued in December 2006. 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 2007 and 2006 was 4.9% and 4.4%, respectively. Preferred dividends are included in minority interest 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, 2007 or 2006.

Additionally a subsidiary of the Company has 100 shares or $10 million of 9.11% Cumulative Preferred Stock, mandatorily redeemable in 20 years, outstanding and owned by an institutional investor.

11. Stockholders' Equity

At December 31, 2007, 480,000,000 shares of common stock, 600,000 shares of cumulative preferred stock, and 5,000,000 shares of preference stock were authorized. At December 31, 2007, 214,514,959 shares of common stock (net of 108,822,953 shares of treasury stock), 135 shares of 4% convertible cumulative preferred stock (4% preferred stock) and 37,069 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 (599,865 shares) and preference stock (4,962,931 shares). The Board will determine the dividend rate, terms of redemption, terms of conversion (if any) and other pertinent features. At December 31, 2007, unreserved and unissued common stock (exclusive of treasury stock) amounted to 113,975,174 shares.

The 4% preferred stock outstanding, entitled to cumulative dividends at the rate of $2 per year, can be redeemed at our 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 our 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, 2007, a total of 616,022 shares of common stock were reserved for issuance upon conversion of the 4% preferred stock (3,272 shares) and $2.12 preference stock (612,750 shares). In addition, 21,769,139 shares of common stock were reserved for issuance under our dividend reinvestment and other corporate plans.

(Tabular dollars in thousands, except per share data)

The following table summarizes the preferred, preference and common stock outstanding:

	Preferred Stock	Preference Stock	Common Stock Issued	Common Stock Treasury	Common Stock Outstanding
Balance, December 31, 2004	385	46,405	323,337,912	(93,019,539)	230,318,373
Repurchase of common stock				(5,945,778)	
Issuances of common stock				2,276,222	
Conversions of common stock	(50)	(3,459)		58,389	
Balance, December 31, 2005	335	42,946	323,337,912	(96,630,706)	226,707,206
Repurchase of common stock				(9,180,216)	
Issuances of common stock				3,026,290	
Conversions of common stock	(200)	(3,339)		60,042	
Balance, December 31, 2006	135	39,607	323,337,912	(102,724,590)	220,613,322
Repurchase of common stock				**(9,075,104)**	
Issuances of common stock				**2,934,801**	
Conversions of common stock	**-**	**(2,538)**		**41,940**	
Balance, December 31, 2007	**135**	**37,069**	**323,337,912**	**(108,822,953)**	**214,514,959**

Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income are as follow:

	2007	2006	2005
Foreign currency translation adjustments	**$ 341,252**	$ 176,524	$ 93,341
Net unrealized loss on derivative investments	**(282)**	(3,083)	(3,063)
Net unrealized gain on investment securities	**352**	-	-
Amortization of pension and postretirement costs	**22,172**	-	-
Loss on pension and postretirement plans (1)	**(274,838)**	(305,185)	(13,361)
Accumulated other comprehensive income (loss)	**$ 88,656**	$ (131,744)	$ 76,917

(1) Includes a charge of $297,229 for the initial adoption of FAS 158 in 2006.

12. Stock Plans

Effective January 1, 2006, we adopted the provisions of FAS 123(R). FAS 123(R) established accounting for stock-based awards exchanged for employee services. Accordingly, stock-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense over the employee requisite service period. We elected to adopt the modified retrospective application method as provided by FAS 123(R), and, accordingly, financial statement amounts for 2005 have been adjusted to reflect the fair value method of expensing prescribed by FAS 123(R).

The following table shows total stock-based compensation expense for stock options, restricted stock units, and employee stock purchase plans.

	Years Ended December 31, 2007	2006	2005
Stock options	**$ 14,001**	$ 20,412	$ 23,401
Restricted stock units	**7,115**	3,363	-
Employee stock purchase plans	**3,015**	3,600	3,822
Pre-tax stock-based compensation	**$ 24,131**	$ 27,375	$ 27,223

(Tabular dollars in thousands, except per share data)

The following table shows stock-based compensation expense as included in the Condensed Consolidated Statements of Income:

	Years Ended December 31,		
	2007	2006	2005
Cost of equipment sales	**$ 1,649**	$ 1,869	$ 1,845
Cost of support services	**710**	806	796
Cost of business services	**980**	1,112	1,111
Selling, general and administrative expense	**19,984**	22,669	22,526
Research and development expense	**808**	919	945
Pre-tax stock-based compensation	**24,131**	27,375	27,223
Income tax	**(8,277)**	(9,308)	(9,256)
Stock-based compensation expense, net	**$ 15,854**	$ 18,067	$ 17,967
Basic earnings per share impact	**$ 0.07**	$ 0.08	$ 0.08
Diluted earnings per share impact	**$ 0.07**	$ 0.08	$ 0.08

Capitalized stock-based compensation costs at December 31, 2007 and 2006 were not material.

At December 31, 2007, $15.3 million of unrecognized compensation cost related to non-vested stock options is expected to be recognized over a weighted average period of 2.0 years. At December 31, 2007, $15.2 million of unrecognized compensation cost related to non-vested restricted stock units is expected to be recognized over a weighted average period of 2.8 years.

The total intrinsic value of options exercised during the years ended December 31, 2007, 2006 and 2005, was $28.1 million, $23.2 million and $21.9 million, respectively. The total intrinsic value of restricted stock units converted during 2007 was $3.3 million. Proceeds from issuance of stock in our Consolidated Statements of Cash Flows for the years ended December 31, 2007, 2006 and 2005 include $5.0 million, $3.4 million and $3.9 million of windfall tax benefits from stock options exercised and restricted stock units converted, respectively.

We settle employee stock compensation awards with treasury shares.

Starting in 2006, we modified our stock-based compensation awards, requiring a minimum requisite service period of one year for retirement eligible employees.

At December 31, 2007, there were 15,416,166 shares available for future grants of stock options and restricted stock units under our stock plans.

Incentive Awards

Long-term incentive awards are provided to employees under the terms of our plans. The Executive Compensation Committee of the Board of Directors administers these plans. Awards granted under these plans may include stock options, restricted stock units, other stock based awards, cash or any combination thereof.

Effective in 2006, we changed the components of our long-term incentive compensation structure. This change increased the amount of restricted stock units and cash incentive awards issued to employees and reduced the number of stock options granted.

We have 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 Options

Under our stock plan, certain officers and employees are granted options at prices equal to the market value of our common shares at the date of grant. Options granted in 2004 and prior thereto generally became exercisable in three equal installments during the first three years following their grant and expire after ten years. Options granted in 2005 and thereafter generally become exercisable in four equal installments during the first four years following their grant and expire ten years from the date of grant.

(Tabular dollars in thousands, except per share data)

The following tables summarize information about stock option transactions during 2007:

	Shares	Per share weighted average exercise price
Options outstanding at December 31, 2006	20,255,738	$42.13
Granted	**1,488,387**	**$47.17**
Exercised	**(2,438,009)**	**$35.84**
Canceled	**(321,048)**	**$45.55**
Forfeited	**(242,550)**	**$46.19**
Options outstanding at December 31, 2007	**18,742,518**	**$43.23**

	Shares	Per share weighted average exercise price
Options exercisable at December 31, 2007	**14,798,177**	**$42.60**

The weighted-average remaining contractual life of the total options outstanding and options exercisable at December 31, 2007 was 4.3 years and 3.3 years, respectively. The intrinsic value of the total options outstanding and options exercisable at December 31, 2007 was $97.4 million and $67.6 million, respectively.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2007:

Options Outstanding			
Range of per share exercise prices	Number	Weighted average remaining contractual life	Per share weighted average exercise price
$26.99 - $35.99	4,213,080	3.4 years	$30.11
$36.00 - $45.99	6,690,738	5.0 years	$41.86
$46.00 - $56.99	5,775,781	5.4 years	$47.01
$57.00 - $65.72	2,062,919	1.0 years	$63.92
	18,742,518	4.3 years	

Options Exercisable		
Range of per share exercise prices	Number	Per share weighted average exercise price
$26.99 - $35.99	4,213,080	$30.11
$36.00 - $45.99	4,925,924	$41.31
$46.00 - $56.99	3,596,254	$46.78
$57.00 - $65.72	2,062,919	$63.92
	14,798,177	

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 163,480, 236,101 and 372,525 options outstanding under this plan at December 31, 2007, 2006 and 2005, respectively, which are included in outstanding options under our U.S. stock option plan. Beginning with the 2004 plan year, options were no longer offered as an investment choice.

We estimate the fair value of stock options using a Black-Scholes valuation model. Key input assumptions used to estimate the fair value of stock options include the volatility of our stock, the risk-free interest rate and our dividend yield. We believe that the valuation technique and the approach utilized to develop the underlying assumptions are appropriate in estimating the fair value of our stock option grants. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by employees who receive equity awards, and subsequent events are not indicative of the reasonableness of the original estimates of fair value we made under FAS 123(R).

(Tabular dollars in thousands, except per share data)

The fair value of stock options granted and related assumptions are as follows:

	Years ended December 31,		
	2007	2006	2005
Expected dividend yield	**2.9%**	2.9%	2.8%
Expected stock price volatility (1)	**13.7%**	17.6%	18.5%
Risk-free interest rate (2)	**4.7%**	4.6%	3.5%
Expected life – years (3)	**5**	5	5
Weighted-average fair value per option granted	**$6.69**	$7.13	$7.29

(1) Our estimates of expected stock price volatility are based on historical price changes of our stock.
(2) The risk-free interest rate is based on U.S. Treasuries with a term equal to the expected option term.
(3) The expected life is based on historical experience.

Restricted Stock and Restricted Stock Units

Our stock plan permits the issuance of restricted stock and restricted stock units. Restricted stock units are stock awards that are granted to employees and entitle the holder to shares of common stock as the award vests, typically over a four year service period. The fair value of the awards is determined on the grant date based on our stock price at that date. We issued 334,442 shares and 256,519 shares of restricted stock units in 2007 and 2006, respectively. The weighted average grant price was $47.91 and $42.63 for 2007 and 2006, respectively. The intrinsic value of the outstanding restricted stock units at December 31, 2007 was $3.7 million, with a weighted average remaining term of 2.8 years.

The following table summarizes information about restricted stock unit transactions during 2007:

	Shares / Units	Weighted average grant date fair value
Restricted stock units outstanding at December 31, 2006	237,020	$42.63
Granted	**334,442**	**$47.91**
Vested	**(64,609)**	**$42.89**
Forfeited	**(46,374)**	**$45.98**
Restricted stock units outstanding at December 31, 2007	**460,479**	**$46.09**

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 us 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. We issued 8,150 shares of restricted stock in 2005. We did not issue any shares of restricted stock during 2006 and 2007. We recorded compensation expense, net of tax, of $0.7 million, $1.3 million and $1.4 million in 2007, 2006 and 2005, respectively.

Employee Stock Purchase Plans

The U.S. Employee Stock Purchase Plan enables substantially all U.S. and Canadian employees to purchase shares of our common stock at a discounted offering price and is considered a compensatory plan in accordance with FAS 123(R). In 2007, the offering price was 85% of the average price of our 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. S.A.Y.E. Plan also enables eligible employees of our participating U.K. subsidiaries to purchase shares of our stock at a discounted offering price which, in 2007, was 90% of the average closing price of our common stock on the New York Stock Exchange for the three business days preceding the offering date. We may grant rights to purchase up to 6,664,027 common shares to our regular employees under the U.S. and U.K. Plans. Compensation expense relating to the U.S. Plan is recognized over a twelve month participation period. Compensation expense for the U.K. Plan is recognized over participation periods of 3 or 5 years.

(Tabular dollars in thousands, except per share data)

We granted rights to purchase 446,755 shares in 2007, 435,592 shares in 2006 and 434,428 shares in 2005. The per share fair value of rights granted was $8 in 2007, $7 in 2006 and $7 in 2005 for the U.S. ESPP and $7 in 2007, $8 in 2006 and $8 in 2005 for the U.K. ESPP.

Directors' Stock Plan

Under this plan, each non-employee director is granted 2,200 shares of restricted common stock annually. Shares granted at no cost to the directors were 24,665 in 2007 and 14,000 in 2006. Compensation expense, net of taxes, was $0.8 million for 2007 and $0.4 million a year for 2006 and 2005. 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 will be forfeited. The Directors' Stock Plan permits certain limited dispositions of restricted common stock to family members, family trusts or partnerships, as well as donations to charity after the expiration of the six-month holding period, provided the director retains a minimum of 7,500 shares of restricted common stock.

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 22,091, 41,716 and 48,019 options outstanding under this plan at December 31, 2007, 2006 and 2005, respectively. Beginning with the 2004 plan year, options were no longer offered as an investment choice.

13. Retirement Plans and Nonpension Postretirement Benefits

We have several defined benefit and defined contribution retirement plans covering substantially all employees worldwide. Benefits are primarily based on employees' compensation and years of service. Our contributions are determined based on the funding requirements of U.S. federal and other governmental laws and regulations. We use a measurement date of December 31 for all of our retirement plans.

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 our defined benefit retirement plans.

We contributed $30.5 million, $28.1 million and $22.6 million to our U.S. defined contribution plans in 2007, 2006 and 2005, respectively.

Defined Benefit Pension Plans

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

	United States		Foreign	
	2007	2006	**2007**	2006
Change in benefit obligation:				
Benefit obligation at beginning of year	**$ 1,621,463**	$ 1,638,252	**$ 522, 451**	$ 471,420
Service cost	**28,204**	26,495	**12,797**	11,207
Interest cost	**93,977**	91,652	**27,627**	22,666
Plan participants' contributions	**-**	-	**2,924**	2,781
Actuarial gain	**(41,067)**	(21,909)	**(25,544)**	(2,655)
Foreign currency changes	**-**	-	**32,299**	33,360
Curtailment	**-**	-	**906**	883
Special termination benefits	**1,187**	-	**-**	-
Benefits paid	**(111,035)**	(113,027)	**(18,443)**	(17,211)
Benefit obligation at end of year	**$ 1,592,729**	$ 1,621,463	**$ 555,017**	$ 522,451

(Tabular dollars in thousands, except per share data)

	United States		Foreign	
	2007	2006	**2007**	2006
Change in plan assets:				
Fair value of plan assets at beginning of year	**$ 1,655,283**	$ 1,528,917	**$ 476,939**	$ 411,518
Actual return on plan assets	**121,973**	232,254	**31,490**	40,721
Company contributions	**8,781**	7,139	**8,926**	9,513
Plan participants' contributions	**-**	-	**2,924**	2,781
Foreign currency changes	**-**	-	**28,479**	29,617
Benefits paid	**(111,035)**	(113,027)	**(18,443)**	(17,211)
Fair value of plan assets at end of year	**$ 1,675,002**	$ 1,655,283	**$ 530,315**	$ 476,939
Funded status, end of year:				
Fair value of plan assets at end of year	**$ 1,675,002**	$ 1,655,283	**$ 530,315**	$ 476,939
Benefit obligations at end of year	**1,592,729**	1,621,463	**555,017**	522,451
Funded status	**$ 82,273**	$ 33,820	**$ (24,702)**	$ (45,512)

Information for pension plans, that are included above, with an accumulated benefit obligation in excess of plan assets at December 31, 2007 and 2006 were as follows:

	United States		Foreign	
	2007	2006	**2007**	2006
Projected benefit obligation	**$ 97,671**	$ 95,370	**$ 36,086**	$ 35,700
Accumulated benefit obligation	**$ 78,564**	$ 78,392	**$ 34,428**	$ 33,955
Fair value of plan assets	**$ 1,656**	$ 1,521	**$ 10,885**	$ 9,548

The accumulated benefit obligation for all U.S. defined benefit plans at December 31, 2007 and 2006 was $1.5 billion for both years. The accumulated benefit obligation for all foreign defined benefit plans at December 31, 2007 and 2006 was $484 million and $467 million, respectively.

Amounts recognized in the Consolidated Balance Sheets:	United States		Foreign	
	2007	2006	**2007**	2006
Non-current asset	**$ 178,288**	$ 127,670	**$ 6,630**	$ 7,084
Current liability	**(5,354)**	(7,638)	**(884)**	(872)
Non-current liability	**(90,661)**	(86,212)	**(30,448)**	(51,724)
Net amount recognized	**$ 82,273**	$ 33,820	**$ (24,702)**	$ (45,512)
Pre-tax amounts recognized in accumulated other comprehensive income ("AOCI") consist of:				
Net actuarial loss	**$ 328,726**	$ 394,556	**$ 93,346**	$ 114,400
Prior service cost/(credit)	**(3,177)**	(5,342)	**2,266**	2,672
Transition obligation (asset)	**-**	-	**131**	(532)
Total	**$ 325,549**	$ 389,214	**$ 95,743**	$ 116,540
The estimated amounts that will be amortized from AOCI into net periodic benefits cost in 2008 are as follows:				
Net actuarial loss	**$ 19,161**		**$ 4,211**	
Prior service cost/(credit)	**(2,609)**		**703**	
Transition obligation	**-**		**130**	
Total	**$ 16,552**		**$ 5,044**	
Weighted average assumptions used to determine end of year benefit obligations:				
Discount rate	**6.15%**	5.85%	**2.25% - 5.80%**	2.25% - 5.30%
Rate of compensation increase	**4.50%**	4.50%	**2.50% - 4.70%**	2.50% - 4.30%

(Tabular dollars in thousands, except per share data)

At December 31, 2007 there are 8,800 shares of our common stock included in the plan assets of our pension plans.

We anticipate making contributions of up to $10 million to both our U.S. and foreign pension plans during 2008.

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

	United States			Foreign		
	2007	2006	2005	**2007**	2006	2005
Service cost	**$ 28,204**	$ 26,495	$ 29,241	**$ 12,797**	$ 11,207	$ 8,881
Interest cost	**93,977**	91,652	90,993	**27,627**	22,666	20,899
Expected return on plan assets	**(127,070)**	(125,204)	(123,498)	**(36,961)**	(31,338)	(26,180)
Amortization of transition cost	**-**	-	-	**(694)**	(654)	(624)
Amortization of prior service cost	**(2,165)**	(2,139)	(2,123)	**663**	618	899
Recognized net actuarial loss	**29,860**	34,881	27,021	**7,347**	9,516	6,038
Curtailment	**-**	-	-	**906**	883	430
Net periodic benefit cost	**$ 22,806**	$ 25,685	$ 21,634	**$ 11,685**	$ 12,898	$ 10,343

Weighted average assumptions used to determine net periodic	United States			Foreign		
benefit costs:	**2007**	2006	2005	**2007**	2006	2005
Discount rate	**5.85%**	5.60%	5.75%	**2.25% - 5.30%**	2.25% - 5.00%	2.25% - 5.75%
Expected return on plan assets	**8.50%**	8.50%	8.50%	**3.50% - 7.75%**	3.50% - 8.00%	3.50% - 8.25%
Rate of compensation increase	**4.50%**	4.50%	4.75%	**2.50% - 4.30%**	1.75% - 4.10%	1.75% - 4.00%

U.S. Pension Plans' Investment Strategy and Asset Allocation

Our 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 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 2008 and the asset allocation for the U.S. pension plan at December 31, 2007 and 2006, by asset category, are as follows:

	Target Allocation	Percentage of Plan Assets at December 31,	
Asset category	**2008**	**2007**	2006
U.S. equities	**40%**	**42%**	49%
Non-U.S. equities	**20%**	**23%**	23%
Fixed income	**30%**	**28%**	23%
Real estate	**5%**	**6%**	5%
Private equity	**5%**	**1%**	-%
Total	**100%**	**100%**	100%

The fair value of plan assets was $1.7 billion at December 31, 2007 and 2006 and the expected long-term rate of return on these plan assets was 8.50% in 2007 and 2006.

(Tabular dollars in thousands, except per share data)

Foreign Pension Plans' Investment Strategy

Our foreign pension plan assets are managed by outside investment managers and monitored regularly by local trustees, in conjunction with our corporate personnel. The investment strategies adopted by our 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. Our largest foreign pension plan is the U.K. plan, which represents 76% of the non-U.S. pension assets. The 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 7.75%. 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.

The target allocation for 2008 and the asset allocation for the U.K. pension plan at December 31, 2007 and 2006, by asset category, are as follows:

	Target Allocation	Percentage of Plan Assets at December 31,	
Asset category	**2008**	**2007**	2006
U.K. equities	**30%**	**29%**	36%
Non-U.K. equities	**40%**	**43%**	36%
Fixed income	**30%**	**25%**	26%
Cash	**-%**	**3%**	2%
Total	**100%**	**100%**	100%

The fair value of plan assets was $403 million and $364 million at December 31, 2007 and 2006, respectively, and the expected long-term rate of return on these plan assets was 7.75% and 8.00% in 2007 and 2006, respectively.

Nonpension Postretirement Benefits

We provide 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 our 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.

(Tabular dollars in thousands, except per share data)

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

	December 31, 2007	December 31, 2006
Change in benefit obligation:		
Benefit obligations at beginning of year	**$ 261,720**	$ 272,682
Service cost	**3,529**	3,347
Interest cost	**13,904**	13,352
Plan participants' contributions	**7,951**	6,640
Plan amendments	**(4,839)**	-
Actuarial loss (gain)	**(95)**	2,569
Foreign currency changes	**2,522**	594
Gross benefits paid	**(41,415)**	(40,819)
Less federal subsidy on benefits paid	**3,281**	3,355
Special termination benefits	**14**	-
Benefit obligations at end of year	**$ 246,572**	$ 261,720
Change in plan assets:		
Fair value of plan assets at beginning of year	**$ -**	$ -
Company contribution	**30,183**	30,824
Plan participants' contributions	**7,951**	6,640
Gross benefits paid	**(41,415)**	(40,819)
Less federal subsidy on benefits paid	**3,281**	3,355
Fair value of plan assets at end of year	**$ -**	$ -
Funded status, end of year:		
Fair value of plan assets at end of year	**$ -**	$ -
Benefit obligations at end of year	**246,572**	261,720
Funded status	**$ (246,572)**	$ (261,720)

The discount rates used in determining the accumulated postretirement benefit obligations for the U.S. plan were 5.90% in 2007 and 5.85% in 2006. The discount rates used in determining the accumulated postretirement benefit obligations for the Canadian plan were 5.25% in 2007 and 5.00% in 2006.

Amounts recognized in the Consolidated Balance Sheets consist of:	**2007**	2006
Current liability	**$ (27,728)**	$ (30,849)
Non-current liability	**(218,844)**	(230,871)
Net amount recognized	**$ (246,572)**	$ (261,720)

Amounts recognized in AOCI consist of:	
Net actuarial loss	**$ 43,913**
Prior service credit	**(13,326)**
Total	**$ 30,587**

The components of the net periodic benefit cost for nonpension postretirement benefit plans are as follows:

	2007	2006	2005
Service cost	**$ 3,529**	$ 3,347	$ 3,154
Interest cost	**13,904**	13,352	14,716
Amortization of prior service benefit	**(2,472)**	(1,856)	(2,122)
Recognized net actuarial loss	**2,214**	1,908	1,871
Net periodic benefit cost	**$ 17,175**	$ 16,751	$ 17,619

(Tabular dollars in thousands, except per share data)

Weighted average assumptions used to determine net periodic costs during the years:	**2007**	**2006**	**2005**
Discount rate – U.S.	**5.85%**	5.60%	5.75%
Discount rate – Canada	**5.00%**	5.00%	5.75%

The estimated amounts that will be amortized from AOCI into net periodic benefit cost in 2008 are as follows:	
Net actuarial loss	**$ 2,982**
Prior service credit	**(2,465)**
Total	**$ 517**

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligations for the U.S. plan was 8.00% for 2007 and 7.00% for 2006. The assumed health care trend rate is 8.00% for 2008 and we assume it will gradually decline to 5.00% by the year 2014 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 1% change in the assumed health care cost trend rates would have the following effects:

	1% Increase	1% Decrease
Effect on total of service and interest cost components	**508**	**(445)**
Effect on postretirement benefit obligations	**7,412**	**(6,688)**

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 12/31/08	$ 117,214	$ 27,751
For the year ending 12/31/09	122,219	27,278
For the year ending 12/31/10	129,055	26,702
For the year ending 12/31/11	133,439	25,419
For the year ending 12/31/12	143,849	23,805
For the years ending 12/31/13-12/31/17	776,294	99,208
	$ 1,422,070	$ 230,163

Postretirement benefit payments represent expected contributions, net of the annual Medicare Part D subsidy of approximately $3.8 million in 2008. Subsidy payments for 2009 – 2017 range from $4.1 million to $6 million for each year.

14. Restructuring Charges and Asset Impairments

We recorded pre-tax restructuring charges and asset impairments of $264 million in 2007. These charges relate primarily to a program we announced in November 2007 to lower our cost structure, accelerate efforts to improve operational efficiencies, and transition our product line. The program includes charges primarily associated with older equipment that we have stopped selling upon transition to the new generation of fully digital, networked, and remotely-downloadable equipment. The asset impairment charges related to these initiatives include the write-off of inventory ($48.1 million), rental assets ($61.5 million), lease residual values ($46.1 million), and other assets ($8.8 million). The cash portion of the restructuring charges includes employee termination costs ($85.1 million) and other exit costs ($5.8 million) and relates primarily to our efforts to lower our cost structure and accelerate improvements in operational efficiencies. As a result of this program, we expect a net reduction of about 1,500 positions. About half of these reductions will be outside of the U.S. As of December 31, 2007, 401 employees had been terminated under this program. Other exit costs relate primarily to lease termination costs and other costs associated with exiting product lines and business activities. We expect to incur approximately $20 million of additional restructuring charges in 2008 associated with these actions, however, we continue to evaluate additional actions in conjunction with this program. We expect to complete the majority of this program by the end of 2008.

(Tabular dollars in thousands, except per share data)

In addition, asset impairments also include the write-down of certain intangible assets for $8.5 million.

The pre-tax restructuring charges and asset impairments are composed of:

	Restructuring charges	Non-cash charges	Cash payments	Balance December 31, 2007
Severance and benefit costs	**$ 85,137**	**$ -**	**$ (3,886)**	**$ 81,251**
Asset impairments	**173,081**	**(173,081)**	**-**	**-**
Other exit costs	**5,795**	**-**	**-**	**5,795**
Total	**$ 264,013**	**$(173,081)**	**$ (3,886)**	**$ 87,046**

In January 2003, we undertook restructuring initiatives related to realigned infrastructure requirements and reduced manufacturing needs for digital equipment. In connection with this plan, we recorded pre-tax restructuring charges of $36 million and $54 million for the years ended December 31, 2006 and 2005, respectively. The 2005 charge is net of a $30 million gain on the sale of our main plant manufacturing facility. The activities associated with this program were substantially completed in 2006. During 2007, 2006, and 2005 we made restructuring payments of $29 million, $51 million and $48 million (net of the $30 million gain), respectively. At December 31, 2007, we have a remaining liability associated with this program of $5 million.

See Note 1 to the Consolidated Financial Statements for our accounting policy related to restructuring charges and asset impairments.

15. Commitments, Contingencies and Regulatory Matters

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; or disputes with employees. Some of these actions may be brought as a purported class action on behalf of a purported class of employees, customers or others.

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™. Ricoh Corporation et al. v. Pitney Bowes Inc. (United States District Court, District of New Jersey, filed November 26, 2002). The plaintiff in this action is seeking both large damage and injunctive relief. We prevailed at the trial held in this matter in the fall of 2006. The jury found the Ricoh patents at issue to be invalid. Even though a finding of invalidity means that the plaintiff's claim must fail, the jury was also required to rule on infringement and found that we infringed the Ricoh patents and did so willfully. As a result of the invalidity finding, we prevailed and no damages were awarded. The matter is currently on appeal to the United States Court of Appeals for the Federal Circuit.

Our wholly-owned subsidiary, Imagitas, Inc., is a defendant in ten purported class actions filed in six different states. These litigations have been consolidated into a single federal multi-district litigation in the United States District for the Middle District of Florida, In re: Imagitas, Driver's Privacy Protection Act (Consolidated, May 28, 2007). Each of these lawsuits alleges that the Imagitas DriverSource program violates the federal Drivers Privacy Protection Act (DPPA). Under the DriverSource program, Imagitas enters into contracts with state governments to mail out automobile registration renewal materials along with third party advertisements, without revealing the personal information of any state resident to any advertiser. The DriverSource program assists the state in performing its function of delivering these mailings and funding the costs of them. The plaintiffs in these actions are seeking both statutory damages under the DPPA and an injunction against the continuation of the program. The plaintiffs have also sued state officials in four of the affected states, Florida, Minnesota, Missouri, and Ohio. Those suits have also been consolidated into the multi-district litigation. The state officials from Florida who were sued in their individual capacity have reached a settlement with the plaintiffs. As a result of that settlement, Imagitas has agreed to voluntarily suspend a portion of the program, pending a ruling in the litigation against it. During this period, Imagitas will still be placing advertisements in the registration renewal forms in Florida.

(Tabular dollars in thousands, except per share data)

We expect to prevail in both the Ricoh litigation and the lawsuits against Imagitas; however, as litigation is inherently unpredictable, there can be no assurance in this regard. If the plaintiffs do prevail, the results 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.

16. Guarantees

We apply FIN No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, to our agreements that contain guarantees or indemnifications. The provisions of FIN 45 require that at the time a company issues a guarantee, it 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.

As part of the sale of the Capital Services business in the second quarter of 2006, we indemnified the buyer for certain guarantees by posting letters of credit at the date of sale. At December 31, 2007, the outstanding balance of these guarantees was $8.5 million.

Our maximum risk of loss related to these letters of credit 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 the customer.

We provide product warranties in conjunction with certain product sales, generally for a period of 90 days from the date of installation. Our product warranty liability reflects our best estimate of probable liability or product warranties based on historical claims experience, which has not been significant, and other currently available evidence. Accordingly, our product warranty liability at December 31, 2007 and 2006, respectively, was not material.

17. Leases

In addition to factory and office facilities owned, we lease similar properties, as well as sales and service offices, equipment and other properties, generally under long-term operating lease agreements extending from 3 to 25 years.

Future minimum lease payments under non-cancelable operating leases at December 31, 2007 are as follows:

Years ending December 31,	Operating leases
2008	$ 88,740
2009	65,504
2010	47,457
2011	31,347
2012	20,664
Thereafter	38,345
Total minimum lease payments	$ 292,057

Rental expense was $146.9 million, $138.8 million and $158.4 million in 2007, 2006 and 2005, respectively.

(Tabular dollars in thousands, except per share data)

18. Finance Assets

Finance Receivables

Finance receivables are generally due in monthly, quarterly or semi-annual installments over periods ranging from 3 to 5 years and are comprised of sales-type leases and customer loan receivables.

The components of finance receivables were as follows:

	December 31,	
	2007	2006
Gross finance receivables	**$ 3,587,947**	$ 3,480,695
Unguaranteed residual values	**260,815**	281,581
Unearned income	**(740,046)**	(749,728)
Initial direct cost deferred	**1,914**	4,174
Allowance for credit losses	**(78,371)**	(82,499)
Net investment in finance receivables	**$ 3,032,259**	$ 2,934,223

Net investment in finance receivables include net customer loan receivables at December 31, 2007 and 2006 of $552.9 million and $524.7 million, respectively. Customer loan receivables arise primarily from financing services offered to our customers for postage, supplies, and shipping payments. Customer loan receivables are generally due each month, however, customers may rollover outstanding balances. See discussion on Pitney Bowes bank below. As part of our 2007 transition initiatives, we recorded a charge of $46.1 million for the impairment of unguaranteed residual values which was included in the restructuring charges and asset impairments line of the Consolidated Statement of Income. Also see Note 14 to the Consolidated Financial Statements for further details.

Maturities of gross finance receivables are as follows:

Years ending December 31,	
2008	$ 1,650,947
2009	798,667
2010	584,410
2011	364,901
2012	170,292
Thereafter	18,730
Total	$ 3,587,947

Pitney Bowes Bank

The Pitney Bowes Bank (PBB), our wholly owned subsidiary, is a Utah-chartered Industrial Loan Company (ILC). At December 31, 2007, the Bank had assets of $672 million and of liabilities of $617 million. The bank's assets consist of finance receivables, short-term investments and cash. PBB's key product offering, Purchase Power, is a revolving credit solution, which enables customers to defer payment for postage when they refill their meter. PBB earns revenue through transaction fees, finance charges on outstanding balances, and other fee items. The bank's liabilities consist primarily of PBB's deposit solution, Reserve Account, which provides value to large-volume mailers who prefer to prepay postage. The FDIC and the Utah Department of Financial Institutions provide oversight of PBB.

(Tabular dollars in thousands, except per share data)

Leveraged Leases

Our investment in leveraged lease assets consists of the following:

	December 31, 2007	December 31, 2006
Rental receivables	**$ 1,889,083**	$ 1,687,730
Unguaranteed residual values	**32,487**	28,536
Principal and interest on non-recourse loans	**(1,478,555)**	(1,326,361)
Unearned income	**(193,824)**	(174,534)
Investment in leveraged leases	**249,191**	215,371
Less: Deferred taxes related to leveraged leases	**(117,500)**	(90,716)
Net investment in leveraged leases	**$ 131,691**	$ 124,655

In the fourth quarter of 2006, we determined the need to adjust the accounting for our remaining leveraged lease transactions. As a result, we recorded a $4.6 million reduction to our opening retained earnings. This reflects the cumulative effect of these adjustments. We also adjusted the related lease assets and liabilities on our Consolidated Balance Sheet. See Note 1 to the Consolidated Financial Statements for further discussion.

The following is a summary of the components of income from leveraged leases. The income amounts in prior years from Capital Services have been reclassified as discontinued operations:

	December 31, 2007	December 31, 2006	December 31, 2005
Pre-tax leveraged lease income	**$ 4,270**	$ 8,019	$ 10,897
Income tax effect	**1,186**	(923)	(3,814)
Income from leveraged leases	**$ 5,456**	$ 7,096	$ 7,083

19. Business Segment Information

We conduct our business activities in seven business segments within the Mailstream Solutions and Mailstream Services business groups. For a description of our 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 our 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.

(Tabular dollars in thousands, except per share data)

Revenue and earnings before interest and taxes (EBIT) by business segment and geographic area follows:

	Revenue		
	2007	2006	2005
U.S. Mailing	**$ 2,346,431**	$ 2,350,284	$ 2,259,533
International Mailing	**1,069,713**	1,013,278	917,237
Production Mail	**603,038**	575,353	533,972
Software	**346,020**	202,415	174,085
Mailstream Solutions	**4,365,202**	4,141,330	3,884,827
Management Services	**1,134,767**	1,073,911	1,072,395
Mail Services	**458,983**	369,765	334,746
Marketing Services	**170,843**	145,012	74,968
Mailstream Services	**1,764,593**	1,588,688	1,482,109
Total	**$ 6,129,795**	$ 5,730,018	$ 5,366,936
Geographic areas:			
United States	**$ 4,394,156**	$ 4,213,247	$ 3,962,819
Outside the United States	**1,735,639**	1,516,771	1,404,117
Total	**$ 6,129,795**	$ 5,730,018	$ 5,366,936

	EBIT		
	2007	2006	2005
U.S. Mailing	**$ 956,375**	$ 943,657	$ 905,797
International Mailing	**162,257**	179,377	182,198
Production Mail	**73,003**	65,574	48,729
Software	**55,318**	33,343	26,981
Mailstream Solutions	**1,246,953**	1,221,951	1,163,705
Management Services	**76,051**	83,169	68,936
Mail Services	**64,707**	42,986	19,776
Marketing Services	**8,930**	20,056	10,187
Mailstream Services	**149,688**	146,211	98,899
Total	**$ 1,396,641**	$ 1,368,162	$ 1,262,604
Geographic areas:			
United States	**$ 1,194,846**	$ 1,160,382	$ 1,053,186
Outside the United States	**201,795**	207,780	209,418
Total	**$ 1,396,641**	$ 1,368,162	$ 1,262,604

(Tabular dollars in thousands, except per share data)

Additional segment information is as follows:

	Years ended December 31,		
	2007	2006	2005
Depreciation and amortization:			
U.S. Mailing	**$ 158,568**	$ 150,784	$ 141,523
International Mailing	**67,192**	60,125	58,178
Production Mail	**7,809**	8,445	5,401
Software	**29,147**	12,403	11,624
Mailstream Solutions	**262,716**	231,757	216,726
Management Services	**65,480**	64,507	58,998
Mail Services	**27,573**	29,620	27,370
Marketing Services	**12,662**	10,180	5,938
Mailstream Services	**105,715**	104,307	92,306
Total	**$ 368,431**	$ 336,064	$ 309,032

	Years ended December 31,		
	2007	2006	2005
Capital expenditures:			
U.S. Mailing	**$ 92,112**	$ 142,538	$ 138,558
International Mailing	**64,241**	87,192	70,652
Production Mail	**2,223**	8,014	8,921
Software	**8,967**	1,613	979
Mailstream Solutions	**167,543**	239,357	219,110
Management Services	**52,540**	54,417	47,592
Mail Services	**21,431**	12,332	16,243
Marketing Services	**619**	726	898
Mailstream Services	**74,590**	67,475	64,733
Total	**$ 242,133**	$ 306,832	$ 283,843

	Years ended December 31,	
	2007	2006
Identifiable assets:		
U.S. Mailing	**$ 3,370,420**	$ 3,391,605
International Mailing	**1,993,980**	1,847,795
Production Mail	**595,599**	586,539
Software	**1,096,365**	526,635
Mailstream Solutions	**7,056,364**	6,352,574
Management Services	**962,997**	874,448
Mail Services	**432,856**	419,722
Marketing Services	**326,257**	281,693
Mailstream Services	**1,722,110**	1,575,863
Total	**$ 8,778,474**	$ 7,928,437
Identifiable long-lived assets by geographic areas:		
United States	**$ 2,862,738**	$ 2,645,125
Outside the United States	**1,557,125**	958,054
Total	**$ 4,419,863**	$ 3,603,179

(Tabular dollars in thousands, except per share data)

Reconciliation of Segment Amounts to Consolidated Totals:

	Years ended December 31,		
	2007	2006	2005
EBIT:			
Total EBIT for reportable segments	**$ 1,396,641**	$ 1,368,162	$ 1,262,604
Unallocated amounts:			
Interest, net	**(241,871)**	(212,596)	(187,876)
Corporate expense	**(210,544)**	(208,099)	(199,410)
Restructuring charges and asset impairments	**(264,013)**	(35,999)	(53,650)
Other items	**(2,576)**	3,022	(10,000)
MapInfo Purchase Accounting	**(16,926)**	-	-
Income from continuing operations before income taxes and minority interest	**$ 660,711**	$ 914,490	$ 811,668
Depreciation and amortization:			
Total depreciation and amortization for reportable segments	**$ 368,431**	$ 336,064	$ 309,032
Corporate depreciation	**14,710**	15,216	14,821
Discontinued operations	**-**	11,978	8,110
Consolidated depreciation and amortization	**$ 383,141**	$ 363,258	$ 331,963
Capital expenditures:			
Total additions for reportable segments	**$ 242,133**	$ 306,832	$ 283,843
Unallocated amounts	**22,523**	21,045	7,707
Consolidated capital expenditures	**$ 264,656**	$ 327,877	$ 291,550

	December 31,	
	2007	2006
Total assets:		
Total identifiable assets by reportable segments	**$ 8,778,474**	$ 7,928,437
Cash and cash equivalents and short-term investments	**440,455**	301,614
General corporate assets	**331,014**	378,893
Consolidated assets	**$ 9,549,943**	$ 8,608,944

20. 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.

(Tabular dollars in thousands, except per share data)

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 we would receive or pay to terminate agreements, taking into consideration current interest rates, the creditworthiness of the counterparties and current foreign currency exchange rates.

The estimated fair value of our financial instruments follows:

	December 31, 2007		December 31, 2006	
	Carrying value (1)	**Fair value**	Carrying value (1)	Fair value
Investment securities	**$ 200,006**	**$ 200,005**	$ 142,217	$ 142,217
Loans receivable	**$ 554,370**	**$ 554,370**	$ 524,717	$ 524,717
Long-term debt	**$ (3,848,359)**	**$ (3,722,209)**	$ (3,905,634)	$ (3,796,270)
Interest rate swaps	**$ 7,635**	**$ 7,635**	$ (7,543)	$ (7,543)
Foreign currency exchange contracts	**$ (12)**	**$ (12)**	$ (8,468)	$ (8,468)

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

21. 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, 2007, 2006 and 2005 is as follows:

	2007		
	Income	**Shares**	**Per Share**
Income from continuing operations	**$ 361,247**		
Less:			
Preferred stock dividends	**-**		
Preference stock dividends	**(81)**		
Basic earnings per share	**$ 361,166**	**218,444,268**	**$ 1.65**
Basic earnings per share	**$ 361,166**	**218,444,268**	
Effect of dilutive securities:			
Preferred stock	**-**	**3,272**	
Preference stock	**81**	**637,877**	
Stock options	**-**	**1,971,010**	
Other	**-**	**163,319**	
Diluted earnings per share	**$ 361,247**	**221,219,746**	**$ 1.63**

Basic earnings per share of common stock:	**Per Share**
Continuing operations	**$ 1.65**
Discontinued operations	**0.03**
Net income	**$ 1.68**

Diluted earnings per share of common stock:	**Per Share**
Continuing operations	**$ 1.63**
Discontinued operations	**0.03**
Net income	**$ 1.66**

(Tabular dollars in thousands, except per share data)

	2006		
	Income	Shares	Per Share
Income from continuing operations	$ 565,659		
Less:			
Preferred stock dividends	(1)		
Preference stock dividends	(86)		
Basic earnings per share	$ 565,572	222,473,514	$ 2.54
Basic earnings per share	$ 565,572	222,473,514	
Effect of dilutive securities:			
Preferred stock	1	6,815	
Preference stock	86	682,934	
Stock options	-	2,093,517	
Other	-	186,280	
Diluted earnings per share	$ 565,659	225,443,060	$ 2.51

Basic earnings per share of common stock:	Per Share
Continuing operations	$ 2.54
Discontinued operations	(2.07)
Net income	$ 0.47

Diluted earnings per share of common stock:	Per Share
Continuing operations	$ 2.51
Discontinued operations	(2.04)
Net income	$ 0.47

	2005		
	Income	Shares	Per Share
Income from continuing operations	$ 473,243		
Less:			
Preferred stock dividends	(1)		
Preference stock dividends	(93)		
Basic earnings per share	$ 473,149	228,833,070	$ 2.07
Basic earnings per share	$ 473,149	228,833,070	
Effect of dilutive securities:			
Preferred stock	1	8,307	
Preference stock	93	732,276	
Stock options	-	2,381,656	
Other	-	133,869	
Diluted earnings per share	$ 473,243	232,089,178	$ 2.04

Basic earnings per share of common stock:	Per Share
Continuing operations	$ 2.07
Discontinued operations	0.15
Net income	$ 2.22

Diluted earnings per share of common stock:	Per Share
Continuing operations	$ 2.04
Discontinued operations	0.15
Net income	$ 2.19

In accordance with SFAS No. 128, *Earnings per Share*, 0.5 million, 0.8 million and 1.5 million common stock equivalent shares in 2007, 2006 and 2005, 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.

(Tabular dollars in thousands, except per share data)

22. Quarterly Financial Data (unaudited)

Summarized quarterly financial data for 2007 and 2006 follows:

2007	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**Full Year**
Total revenue	**$ 1,414,237**	**$ 1,543,034**	**$ 1,508,277**	**$ 1,664,247**	**$ 6,129,795**
Gross profit (1)	**756,734**	**837,725**	**799,143**	**865,438**	**3,259,040**
Restructuring charges and asset impairments	**-**	**-**	**4,300**	**259,713**	**264,013**
Income (loss) from continuing operations	**146,584**	**153,581**	**129,240**	**(68,158)**	**361,247**
Income (loss) from discontinued operations	**(1,788)**	**(1,342)**	**(1,565)**	**10,229**	**5,534**
Net income (loss)	**144,796**	**152,239**	**127,675**	**(57,929)**	**366,781**
Basic earnings (loss) per share:					
Continuing operations	**$ 0.67**	**$ 0.70**	**$ 0.59**	**$ (0.32)**	**$ 1.65**
Discontinued operations	**(0.01)**	**(0.01)**	**(0.01)**	**0.05**	**0.03**
Net income (loss) per share	**$ 0.66**	**$ 0.69**	**$ 0.58**	**$ (0.27)**	**$ 1.68**
Diluted earnings (loss) per share:					
Continuing operations	**$ 0.66**	**$ 0.69**	**$ 0.58**	**$ (0.31)**	**$ 1.63**
Discontinued operations	**(0.01)**	**(0.01)**	**(0.01)**	**0.05**	**0.03**
Net income (loss) per share	**$ 0.65**	**$ 0.68**	**$ 0.58**	**$ (0.26)**	**$ 1.66**

2006	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Total revenue	$ 1,361,646	$ 1,389,210	$ 1,433,331	$ 1,545,831	$ 5,730,018
Gross profit (1)	731,720	754,195	769,497	834,279	3,089,691
Restructuring charges	5,597	5,041	6,771	18,590	35,999
Income from continuing operations	136,859	121,252	144,227	163,321	565,659
(Loss) income from discontinued operations	16,669	(477,326)	4,393	(4,048)	(460,312)
Net income (loss)	153,528	(356,074)	148,620	159,273	105,347
Basic earnings (loss) per share:					
Continuing operations	$ 0.61	$ 0.55	$ 0.65	$ 0.74	$ 2.54
Discontinued operations	0.07	(2.15)	0.02	(0.02)	(2.07)
Net income (loss) per share	$ 0.68	$ (1.61)	$ 0.67	$ 0.72	$ 0.47
Diluted earnings (loss) per share:					
Continuing operations	$ 0.60	$ 0.54	$ 0.64	$ 0.73	$ 2.51
Discontinued operations	0.07	(2.13)	0.02	(0.02)	(2.04)
Net income (loss) per share	$ 0.67	$ (1.59)	$ 0.66	$ 0.71	$ 0.47

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

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

PITNEY BOWES INC.
SCHEDULE II - VALUATION AND QUALIFYING
ACCOUNTS AND RESERVES

FOR THE YEARS ENDED DECEMBER 31, 2005 TO 2007

(Dollars in thousands)

Description	Balance at Beginning of year	Additions		Deductions		Balance at end of year	
Allowance for doubtful accounts							
2007	**$ 50,052**	**$ 19,880**	(1)	**$ (20,608)**	(2)	**$ 49,324**	
2006	$ 46,261	$ 27,718	(1)	$ (23,927)	(2)	$ 50,052	
2005	$ 50,254	$ 8,707	(1)	$ (12,700)	(2)	$ 46,261	
Allowance for credit losses on finance receivables							
2007	**$ 82,499**	**$ 44,440**		**$ (48,568)**	(2)	**$ 78,371**	
2006	$ 128,862	$ 39,432		$ (85,795)	(2)	$ 82,499	
2005	$ 173,032	$ 51,566		$ (95,736)	(2)	$ 128,862	(3)
Valuation allowance for deferred tax asset (4)							
2007	**$ 33,563**	**$ 64,487**		**$ (28,258)**		**$ 69,792**	
2006	$ 21,777	$ 13,583		$ (1,797)		$ 33,563	
2005	$ 18,427	$ 7,641		$ (4,291)		$ 21,777	

(1) Includes additions charged to expenses, additions from acquisitions and impact of foreign exchange translation.
(2) Includes uncollectible accounts written off and amounts included in divestitures.
(3) Includes $41,104 related to the Imagistics lease portfolio and Capital Services, which were sold in 2006.
(4) Included in Consolidated Balance Sheet as a liability.

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

(Dollars in thousands)

	Years ended December 31,				
	2007	2006	2005	2004	2003
Income from continuing operations before income taxes and minority interest	**$ 660,711**	$ 914,490	$ 811,668	$ 608,390	$ 593,657
Add:					
Interest expense	**250,540**	228,418	193,174	161,650	166,856
Portion of rents representative of the interest factor	**48,969**	46,255	52,823	51,445	45,978
Amortization of capitalized interest	**1,717**	1,345	986	1,473	1,473
Income as adjusted	**$ 961,937**	$ 1,190,508	$ 1,058,651	$ 822,958	$ 807,964
Fixed charges:					
Interest expense	**$ 250,540**	$ 228,418	$ 193,174	$ 161,650	$ 166,856
Portions of rents representative of the interest factor	**48,969**	46,255	52,823	51,445	45,978
Minority interest, excluding taxes, in the income of subsidiary with fixed charges	**33,412**	21,819	16,512	8,338	5,701
Total fixed charges	**$ 332,921**	$ 296,492	$ 262,509	$ 221,433	$ 218,535
Ratio of earnings to fixed charges	**2.89**	4.02	4.03	3.72	3.70

(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.

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, 2007)

Company name	Country or state of incorporation
Addressing Systems International Holdings Limited	England
Adrema Leasing Corporation	Delaware
Adrema Maschinen – und – Auto Leasing GmbH	Germany
Andeen Enterprises, Inc.	Panama
Archiver Limited f/k/a Micromedia Limited	England
Artec International Corporation	California
Asterion Direct SAS	France
Asterion Sud SAS	France
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
Digital Cement Inc.	Delaware
Digital Cement Co.	Canada
Dimasi Strategic Research Pty Ltd	Australia
Document Process S.A.	France
Elmcroft Road Realty Corporation	Connecticut
Emtex Limited	England
Emtex Software, Inc.	Florida
Emtex Software, Inc.	Canada
Encom Europe Limited	England
Encom Holdings Pty Limited	Australia
Encom Petroleum Information Pty Limited	Australia
Encom Technology Pty Limited	Australia
ERSIS Australia Pty Ltd	Australia
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 Limited	England
Group 1 Software France SA	France
Group 1 Software Germany GmbH	Germany
Group 1 Software Japan KK	Japan
Group 1 Software Inc.	Delaware
Historic Boardwalk Hall, L.L.C.	Delaware
Horizon Management AB	Sweden
Horizon Scandinavia AB	Sweden
Ibis Consulting, Inc.	Rhode Island
Imagitas, Inc.	Delaware
Imagitas Security Corporation	Massachusetts
Informatech Inc.	California
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
Mann & Mann Pty Limited	Australia
MapInfo GmbH	Germany
MapInfo Realty LLC	New York
Median GIS Pty Limited	Australia
Meridian Spatial Pty Limited	Australia
O. Antonsen Kontormaskiner	Norway
PB Australia Funding Pty. Limited	Australia
PB Canada Funding Ltd.	Canada
PB Equipment Management Inc.	Delaware
PB Forms, Inc.	Nebraska
PB Historic Renovation LLC	Delaware
PB Leasing Corporation	Delaware
PB Miles Inc.	Delaware
PB Nova Scotia II ULC	Canada
PB Nova Scotia Holdings ULC	Canada
PB Nova Scotia Holdings II ULC	Canada
PB Nova Scotia LP	Delaware
PB Partnership Financing Inc.	Delaware
PB Production International Corp.	Delaware
PB Professional Services Inc.	Delaware
PB Texas LP	Delaware
PB World Trade Corp.	Delaware
PBCC LP	Delaware
PBCC Texas LLC	Delaware
PBDorm Ireland Limited	Ireland
PCAN Mailing Solutions, Inc./Solutions D'Affranchissement PCAN Inc.	Canada
Pitney Bowes (Asia Pacific) Pte. Ltd	Singapore
Pitney Bowes Asterion SAS	France
Pitney Bowes Australia FAS Pty. Limited	Australia
Pitney Bowes Australia Pty Limited	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 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 (Dormant) Pte Ltd.	Singapore
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 Financial Services LLC	Delaware
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 Ireland Limited	Ireland
Pitney Bowes Italia S.r.l.	Italy
Pitney Bowes Japan KK	Japan

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, 2007)

Company name	Country or state of incorporation
Pitney Bowes Korea Ltd.	Korea
Pitney Bowes Limited	England
Pitney Bowes Luxembourg SARL	Luxembourg
Pitney Bowes Mail and Messaging Systems (Shanghai) Co., Ltd.	Shanghai
Pitney Bowes (Malaysia) Sdn Bhd	Malaysia
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 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 MapInfo Australia Pty Ltd	Australia
Pitney Bowes MapInfo Business Applications Limited (formerly Southbank Systems Limited)	England
Pitney Bowes MapInfo Canada Inc.	Canada
Pitney Bowes MapInfo Corporation	Delaware
Pitney Bowes MapInfo GDC Limited (formerly Graphical Data Capture Limited)	England
Pitney Bowes MapInfo India Private Limited	India
Pitney Bowes MapInfo Japan KK	Japan
Pitney Bowes MapInfo Limited	England
Pitney Bowes MapInfo Scotland Limited (formerly Moleseye Limited)	England
Pitney Bowes MapInfo UK Limited	England
Pitney Bowes Netherlands B.V.	Netherlands
Pitney Bowes New Zealand Limited	New Zealand
Pitney Bowes Norge AS	Norway
Pitney Bowes Nova Scotia ULC	Canada
Pitney Bowes Oy	Finland
Pitney Bowes Portugal Sociedade Unipessoal, Lda.	Portugal
Pitney Bowes Properties Inc.	Connecticut
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 Software SAS	France
Pitney Bowes Svenska Aktiebolag	Sweden
Pitney Bowes (Switzerland) AG	Switzerland
Pitney Bowes (Thailand) Limited	Thailand
Pitney B2B Capital.com Inc.	Delaware
Pitney B2B Capital.com LLC	Delaware
PitneyWorks.com Inc.	Delaware
PitneyWorks.com L.L.C.	Delaware
Print, Inc.	Washington
Printing and Post Processing Company NV	Belgium
PRINTLINX CORPORATION	Canada
PrintValue Solutions, Inc.	Arizona
PSI Group, Inc.	Delaware
P. Technical Services Limited	England
Sagent UK, Ltd.	England
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
Southbank Systems Australia Pty Ltd	Australia
Technopli SARL	France
The Pitney Bowes Bank, Inc.	Utah
Time-Sensitive Delivery Guide Inc.	Delaware
Universal Postal Frankers Ltd.	England
Wheeler Insurance, Ltd.	Vermont
1136 Corporation	Delaware

EXHIBIT (v)

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-8	No. 333-132589
Form S-8	No. 333-132590
Form S-8	No. 333-132591
Form S-8	No. 333-132592
Form S-8	No. 333-145527
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 February 29, 2008 relating to the financial statements, financial statement schedule, and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Stamford, Connecticut
February 29, 2008

EXHIBIT (31.1)

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

I, Murray D. Martin, 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: February 29, 2008

/s/ Murray D. Martin
Murray D. Martin
President and 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: February 29, 2008

/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, 2007 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, Murray D. Martin, President and 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/ Murray D. Martin
Murray D. Martin
President and Chief Executive Officer
February 29, 2008

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, 2007 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
February 29, 2008

Gain greater insights from my customer data | Reach customers when they're ready to buy | Speed production of sensitive communications | Expedite delivery of domestic and international mail | Cut postage costs | Create targeted marketing campaigns | Pick the best location for my next retail store | Track incoming mail and packages | Give my international mail a local look and feel | Protect my corporate brand | Manage multi-carrier shipping | Cleanse my address database | Merge multiple databases | Get purchasing power for all my mailstream needs | Gain greater insights from my customer data | Reach customers when they're ready to buy | Speed production of sensitive communications | Expedite delivery of domestic and international mail | Cut postage costs | Create targeted marketing campaigns | Pick the best location for my next retail store | Track incoming mail and packages | Give my international mail a local look and feel | Protect my corporate brand | Manage multi-carrier shipping | Cleanse my address database | Merge multiple databases | Get purchasing power for all my mailstream needs | Gain greater insights from my customer data | Reach customers

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Mixed Sources
Product group from well-managed forests, controlled sources and recycled wood or fiber
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Pitney Bowes

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