

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549-1004

FORM 10-K

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

For the year ended December 31, 1998

OR

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

For the transition period from _____ to _____

Commission file number 1-3579

PITNEY BOWES INC.

State of Incorporation
Delaware

IRS Employer Identification No.
06-0495050

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

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)	New York Stock Exchange
\$2.12 Convertible Cumulative Preference Stock (no par value)	New York Stock Exchange
Preference Share Purchase Rights	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 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, and (2) has been subject to such filing requirements for the past 90 days.

Yes X No
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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this

The aggregate market value of voting stock (common stock and \$2.12 preference stock) held by non-affiliates of the Registrant as of March 12, 1999 is \$17,320,985,156.

Number of shares of common stock, \$1 par value, outstanding as of March 12, 1999 is 269,561,366.

DOCUMENTS INCORPORATED BY REFERENCE:

1. Only the following portions of the Pitney Bowes Inc. 1998 Annual Report to Stockholders are incorporated by reference into Parts I, II and IV of this Form 10-K Annual Report:
 - (a) Financial Statements, pages 36 to 58.
 - (b) Management's Discussion and Analysis of Financial Condition and Results of Operations and Summary of Selected Financial Data on pages 25 to 35, excluding the information on page 34 relating to Dividend Policy.
 - (c) Stock Exchanges and Stock Information, on page 59.
2. Pitney Bowes Inc. Notice of the 1999 Annual Meeting and Proxy Statement dated April 1, 1999, pages 4 to 7, 10 to 13 and 18 and portions of pages 3, 9, 14 and 17 are incorporated by reference into Part III of this Form 10-K Annual Report.

PART I

Item 1. Business

Pitney Bowes Inc. and its subsidiaries (the company) operate in four reportable segments: Mailing and Integrated Logistics, Office Solutions, Mortgage Servicing and Capital Services. The company operates in the United States and outside the U.S. Financial information concerning revenue, operating profit and identifiable assets by reportable segment and geographic area appears on pages 54 to 56 of the Pitney Bowes Inc. 1998 Annual Report to Stockholders and is incorporated herein by reference.

Mailing and Integrated Logistics. Mailing and Integrated Logistics includes

revenues from the sale and financing of mailing equipment, related supplies and services, and the rental of postage meters. Products are sold, rented or financed by the company, while supplies and services are sold. Some of the company's products are sold through dealers outside the U.S.

Products include postage meters, mailing machines, address hygiene software, manifest systems, letter and parcel scales, mail openers, mailroom furniture, folders, and paper handling and shipping equipment.

Office Solutions. Office Solutions includes revenues from the sale, financing,

rental and service of reprographic and facsimile equipment including related supplies, and facilities management services which provides reprographic business support, and other processing functions. Products are sold, rented or financed by the company, while supplies and services are sold.

Facilities management services are provided by the company's Pitney Bowes Management Services, Inc. subsidiary (P.B.M.S.). P.B.M.S. provides customers with a variety of business support services to manage copy, reprographic and mail centers, facsimile, electronic printing and imaging services, and records management. P.B.M.S. is a major provider of on-and off-site services which help customers manage the creation, processing, storage, retrieval, distribution and tracking of documents and messages in both paper and digital form.

The financial services operations provide lease financing for the company's

products (for both the Mailing and Integrated Logistics and Office Solutions segments) in the U.S., Canada, the United Kingdom, Germany, France, Norway, Ireland, Australia, Austria, Switzerland and Sweden. Consolidated financial services operations financed 38 percent of consolidated sales from continuing operations in 1998, 36 percent in 1997, and 39 percent in 1996. Consolidated financial services operations financed approximately 77 percent of leasable sales in 1998, 1997 and 1996.

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Mortgage Servicing. Mortgage Servicing provides billing, collecting and

processing services for major investors in residential first mortgages. Mortgage Servicing is provided by Atlantic Mortgage & Investment Corporation (A.M.I.C.), a wholly-owned subsidiary of Pitney Bowes Credit Corporation.

Capital Services. Capital Services provides large-ticket financing and fee-

based programs covering a broad range of products and other financial services to the commercial and industrial markets in the U.S.

Products financed include both commercial and non-commercial aircraft, over-the-road trucks and trailers, locomotives, railcars, rail and bus facilities and high-technology equipment such as data processing and communications equipment. The finance operations have also participated, on a select basis, in certain other types of financial transactions including: sales of lease transactions, senior secured loans in connection with acquisitions, leveraged buyout and recapitalization financings and certain project financings.

As part of the company's strategy to reduce the capital committed to asset-based financing, while increasing fee-based income, the company sold its broker-oriented small-ticket leasing business to General Electric Capital Corporation (GECC), a subsidiary of General Electric Company on October 30, 1998. As part of the sale, the operations, employees and substantially all the assets of Colonial Pacific Leasing Corporation (CPLC) were transferred to GECC. The company received \$790 million at closing, which approximates the book value of the net assets sold or otherwise disposed of and related transaction costs. The transaction is subject to post-closing adjustments. Operating results of CPLC have been reported separately as discontinued operations in the Consolidated Statements of Income.

Support Services. The company maintains extensive field service organizations

in the U.S. and certain other countries to provide support services to customers who have rented, leased or purchased equipment. Such support services, provided primarily on the basis of annual maintenance contracts, accounted for approximately 12 percent of revenue in 1998, 1997 and 1996.

Marketing. The company's products and services are marketed through an

extensive network of offices in the U.S. and through a number of subsidiaries and independent distributors and dealers in many countries throughout the world as well as through direct marketing and outbound telemarketing. The company sells to a variety of business, governmental, institutional and other organizations. It has a broad base of customers, and is not dependent upon any one customer or type of customer for a significant part of its business. The company does not have significant backlog or seasonality relating to its businesses.

Operations Outside the United States. The company's manufacturing operations

outside the U.S. are in the United Kingdom.

Competition. The company has historically been a leading supplier of certain

products and services in its business segments, particularly postage meters and mailing machines. However, all segments have strong competition from a number of

companies. In particular, it is facing competition in many countries for new placements from several postage meter and mailing machine suppliers, and its mailing systems products face competition from products and services offered as alternative means of message communications. P.B.M.S., a major provider of business support services to the corporate, financial

services, and professional services markets, competes against national, regional and local firms specializing in facilities management. The company believes that its long experience and reputation for product quality, and its sales and support service organizations are important factors in influencing customer choices with respect to its products and services.

The financing business is highly competitive with aggressive rate competition. Leasing companies, commercial finance companies, commercial banks and other financial institutions compete, in varying degrees, in the several markets in which the finance operations do business and range from very large, diversified financial institutions to many small, specialized firms. In view of the market fragmentation and absence of any dominant competitors which result from such competition, it is not possible to provide a meaningful description of the finance operations' competitive position in these markets.

Research and Development/Patents. The company has research and development

programs that are directed towards developing new products and service methods. Expenditures on research and development totaled \$100.8 million, \$89.5 million, and \$81.7 million in 1998, 1997 and 1996, respectively.

As a result of its research and development efforts, the company has been awarded a number of patents with respect to several of its existing and planned products. However, the company believes its businesses are not materially dependent on any one patent or any group of related patents. The company also believes its businesses are not materially dependent on any one license or any group of related licenses.

Material Supplies. The company believes it has adequate sources for most parts

and materials for the products it manufactures. However, products manufactured by the company rely to an increasing extent on microelectronic components, and temporary shortages of these components have occurred from time to time due to the demands by many users of such components.

The company purchases copiers, facsimile equipment and scales primarily from Japanese suppliers. The company believes that it has adequate sources available to it for the foreseeable future for such products.

Environmental Regulation. The company is subject to federal, state and local

laws and regulations relating to the environment and is currently named as a member of various groups of potentially responsible parties in administrative or court proceedings. As we previously announced, in 1996 the Environmental Protection Agency (EPA) issued an administrative order directing the company to be part of a soil cleanup program at the Sarney Farm site in Amenia, New York. The site was operated as a landfill between the years 1968 and 1970 by parties unrelated to the company, and wastes from a number of industrial sources were disposed of there. The company does not concede liability for the condition of the site, but is working with the EPA to identify, and then seek reimbursement from, other potentially responsible parties. The company estimates the total cost of our remediation effort to be in the range of \$3 million to \$5 million for the soil remediation program.

The administrative and court proceedings referred to above are in different states. It is impossible to estimate with any certainty the total cost of remediating, the timing or extent of remedial actions which may be required by governmental authorities, or the amount of liability, if any. If and when it is possible to make a reasonable estimate of the liability in any of these matters,

a financial provision will be made as appropriate. Based on the facts presently known, the company believes that the outcome of any current proceeding will not have a material adverse effect on its financial condition or results of operations.

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Regulatory Matters. In May 1996, the U.S.P.S. issued a proposed schedule for

the phaseout of mechanical meters in the U.S. Between May 1996 and March 1997, the company worked with the U.S.P.S. to negotiate a revised mechanical meter migration schedule. The final schedule agreed to with the U.S.P.S. is as follows:

- . As of June 1, 1996, new placements of mechanical meters would no longer be permitted; replacements of mechanical meters previously licensed to customers would be permitted prior to the applicable suspension date for that category of mechanical meter.
- . As of March 1, 1997, use of mechanical meters by persons or firms who process mail for a fee would be suspended and would have to be removed from service.
- . As of December 31, 1998, use of mechanical meters that interface with mail machines or processors ("systems meters") would be suspended and would have to be removed from service.
- . As of March 1, 1999, use of all other mechanical meters ("stand-alone meters") would be suspended and have to be removed from service.

As a result of the company's aggressive efforts to meet the U.S.P.S. mechanical meter migration schedule combined with the company's ongoing and continuing investment in advanced postage evidencing technologies, mechanical meters represent less than 10% of the company's installed U.S. meter base at December 31, 1998, compared with 25% at December 31, 1997. At December 31, 1998, over 90% of the company's installed U.S. meter base was electronic or digital, compared to 75% at December 31, 1997. The company continues to work in close cooperation with the U.S.P.S., to convert those mechanical meter customers who have not migrated to digital or electronic meters by the applicable U.S.P.S. deadline.

In May 1995, the U.S.P.S. publicly announced its concept of its Information Based Indicia Program (IBIP) for future postage evidencing devices. As initially stated by the U.S.P.S., the purpose of the program was to develop a new standard for future digital postage evidencing devices which significantly enhanced postal revenue security and supported expanded U.S.P.S. value-added services to mailers. The program would consist of the development of four separate specifications:

- . the Indicium specification - the technical specifications for the indicium to be printed
- . a Postal Security Device specification - the technical specification for the device that would contain the accounting and security features of the system
- . a Host specification
- . a Vendor Infrastructure specification

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In July 1996, the U.S.P.S. published for public comment draft specifications for the Indicium, Postal Security Device and Host specifications. The company submitted extensive comments to these four specifications. In March 1997, the U.S.P.S. published for public comment the Vendor Infrastructure specification.

In August 1998, the U.S.P.S. published for public comment a consolidated and

revised set of IBIP specifications entitled "Performance Criteria for Information Based Indicia and Security Architecture for IBI Postage Metering Systems" (the IBI Performance Criteria). The IBI Performance Criteria consolidated the four aforementioned IBIP specifications and incorporated many of the comments previously submitted by the company. The company submitted comments to the IBI Performance Criteria on November 30, 1998.

As of December 31, 1998, the company is in the process of finalizing the development of a PC product which satisfies the proposed IBI Performance Criteria. This product is currently undergoing beta testing and is expected to be ready for market upon final approval from the U.S.P.S.

Employee Relations. At December 31, 1998, 26,792 persons were employed by the

company in the U.S. and 4,507 outside the U.S. Employee relations are considered to be satisfactory. The majority of employees are not represented by any labor union. Management follows the policy of keeping employees informed of its decisions, and encourages and implements employee suggestions whenever practicable.

Item 2. Properties

The company's World Headquarters and certain other office and manufacturing facilities are located in Stamford, Connecticut. Additional office facilities are located in Shelton, Connecticut. The company maintains research and development operations at a corporate engineering and technology center in Shelton, Connecticut. A sales and service training center is located near Atlanta, Georgia. The company believes that its current manufacturing, administrative and sales office properties are adequate for the needs of all of its operations.

Mailing and Integrated Logistics. Mailing and Integrated Logistics products are

manufactured in a number of plants principally in Connecticut, as well as in Harlow, England. Most of these facilities are owned by the company. At December 31, 1998, there were 135 sales, support services, and finance offices, substantially all of which are leased, located throughout the U.S. and in a number of other countries.

Office Solutions. The company's copier and facsimile systems businesses are

both headquartered in Trumbull, Connecticut. The company's facilities management subsidiary is headquartered in Stamford, Connecticut and leases 29 facilities located throughout the U.S., as well as in Toronto, Ontario, Canada, and London, England.

Executive and administrative offices of the financing operations (for both the Mailing and Integrated Logistics and Office Solutions segments) within the U.S. are located in Shelton, Connecticut. Offices of the financing operations outside the U.S. are maintained in Mississauga, Ontario, Canada; London, England; Heppenheim, Germany; Paris, France; Oslo, Norway; Dublin, Ireland; French's Forest, Australia; Vienna, Austria; Effretikon, Switzerland; and Stockholm, Sweden.

Mortgage Servicing. The Atlantic Mortgage and Investment Corporation operates

in Jacksonville, Florida.

Capital Services. Pitney Bowes Credit Corporation leases an executive and

administrative office in Shelton, Connecticut, which is owned by Pitney Bowes Inc. There are ten leased regional and district sales offices located throughout the U.S.

Item 3. Legal Proceedings

In the course of normal business, the company is occasionally party to lawsuits. These may involve litigation by or against the company relating to, among other things:

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

The company is currently a plaintiff or a defendant in a number of lawsuits, none of which should have, in the opinion of management and legal counsel, a material adverse effect on the company's financial position or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Executive Officers of the Registrant

Name	Age	Title	Executive Officer Since
Michael J. Critelli	50	Chairman and Chief Executive Officer	1988
Marc C. Breslawsky	56	President and Chief Operating Officer	1985
Amy C. Corn	45	Corporate Secretary and Senior Associate General Counsel	1996
Meredith B. Fischer	46	Vice President, Corporate Marketing and Chief Communications Officer	1996
Arlen F. Henock	42	Vice President - Controller and Chief Tax Counsel	1996
Matthew S. Kissner	44	President, Pitney Bowes Financial Services	1997
Murray D. Martin	51	President, Pitney Bowes International	1998
John N. D. Moody	54	President, U.S. Mailing Systems	1997
Sara E. Moss	52	Vice President and General Counsel	1996
Raymond S. Perry	60	Vice President and Chief Information Officer	1998
Murray L. Reichenstein	61	Vice President and Chief Financial Officer	1996
Douglas A. Riggs	54	Vice President and Chief Corporate Affairs Officer	1988
Dennis M. Roney	56	President, Pitney Bowes Office Systems	1998
Johnna G. Torsone	48	Vice President and Chief	1993

Personnel Officer

Joseph E. Wall

47 Vice President and Chief Technology
Officer

1996

There is no family relationship among the above officers, all of which have served in various corporate, division or subsidiary positions with the company for at least the past five years except M.S. Kissner, S.E. Moss, R.S. Perry, M.L. Reichenstein and J.E. Wall.

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Mr. Kissner, who was President, Pitney Bowes Credit Corporation since 1995, joined the company from Bankers Trust Company where he had been Managing Director since 1993. Mr. Kissner assumed his duties as President, Pitney Bowes Financial Services effective June, 1997.

Ms. Moss joined the company from the New York law firm of Howard, Darby & Levin, where she had been a Senior Partner since 1985. Before joining Howard, Darby & Levin, Ms. Moss was an Assistant United States Attorney in the Southern District of New York. Ms. Moss served as a law clerk for the Honorable Constance Baker Motley, United States District Judge, Southern District of New York.

Mr. Perry joined the company from The University of Michigan Business School. He was previously with Avon Products where he held the position of Vice President and Chief Information Officer. Mr. Perry was with Avon since 1986, and prior to that worked for Burroughs Corporation as Vice President, Management Systems and Services. Mr. Perry has also held positions as Head of Information Systems Auditing and Head of Information Systems for U.S. operations of Xerox Corporation. Mr. Perry has been a visiting professor, Computer and Information Systems since 1995, as well as a founding member and Director of the Information Systems Executive Forum at the University of Michigan Business School.

Mr. Reichenstein joined the company with over 31 years of experience with Ford Motor Company. During his time with Ford, Mr. Reichenstein held a variety of positions of increasing responsibility in the U.S. and Europe, including Director of Manufacturing Services, Vice President, Car Product Planning, and Chief Financial Officer, Ford Europe; Vice President & Controller of Ford Automotive Operations Worldwide; and Vice President & Controller of Ford Motor Company.

Dr. Wall was most recently Vice President - Technology of Emerson Electric, which he joined in 1986 as Director of Research and Development for its since-divested Rosemount Aerospace Division. Prior to joining Emerson, Dr. Wall held positions of increasing responsibility at Honeywell, including Section Chief and Senior Principal Research Engineer.

PART II

Item 5. Market for the Registrant's Common Stock and Related Stockholders'

Matters

The sections entitled "Stock Exchanges" and "Stock Information" on page 59 of the Pitney Bowes Inc. 1998 Annual Report to Stockholders are incorporated herein by reference. At December 31, 1998, the company had 32,210 common stockholders of record.

Item 6. Selected Financial Data

The section entitled "Summary of Selected Financial Data" on page 35 of the

Pitney Bowes Inc. 1998 Annual Report to Stockholders is incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and

Results of Operations

The section entitled "Management's Discussion and Analysis" on pages 25 to 34 of the Pitney Bowes Inc. 1998 Annual Report to Stockholders is incorporated herein by reference, except for the section on page 34 relating to "Dividend Policy".

The section under "Legal, Environmental and Regulatory Matters" titled "Regulation" on page 33 of the "Management's Discussion and Analysis" incorporated herein by reference as mentioned above should be read in conjunction with the discussion under "Regulatory Matters" in Part I, Item 1 on page 5 of this Annual Report on Form 10-K.

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The company wants to caution readers that any forward-looking statements (those which talk about the company's or management's current expectations as to the future) in this Form 10-K or made by company management involve risks and uncertainties which may change based on various important factors. 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 behalf of the company include:

- . 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
- . mailer's utilization of alternative means of communication or competitors' products
- . the company's success at managing customer credit risk
- . changes in interest rates
- . the impact of the Year 2000 issue, including the effects of third parties' inabilities to address the Year 2000 problem as well as the company's own readiness

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

The section entitled "Market Risk" on pages 31 and 32 of the "Management's Discussion and Analysis" is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated January 21, 1999, appearing on pages 36 to 58 of the Pitney Bowes Inc. 1998 Annual Report to Stockholders are incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and

Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Except for information regarding the company's executive officers (see "Executive Officers of the Registrant" on page 8 of this Form 10-K), the information called for by this Item is incorporated herein by reference to the sections entitled "Election of Directors", "How much stock is owned by directors, nominees and executive officers?" and "Security Ownership" on pages 6 to 7 and 3 to 4 of the Pitney Bowes Inc. Notice of the 1999 Annual Meeting and Proxy Statement.

Item 11. Executive Compensation

The sections entitled "Directors' Compensation", "Executive Officer Compensation", "Severance and Change of Control Arrangements" and "Pension Benefits" on pages 9 to 14, and 17 to 18 of the Pitney Bowes Inc. Notice of the 1999 Annual Meeting and Proxy Statement are incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The section entitled "How much stock is owned by directors, nominees and executive officers?" and "Security Ownership" on pages 3 to 4 of the Pitney Bowes Inc. Notice of the 1999 Annual Meeting and Proxy Statement is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

None.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

- (a) 1. Financial statements - see Item 8 on page 10 and "Index to Financial Schedules" on page 17.
- 2. Financial statement schedules - see "Index to Financial Schedules" on page 17.
- 3. Exhibits (numbered in accordance with Item 601 of Regulation S-K).

Reg. S-K Exhibits	Description	Status or Incorporation by Reference

(3) (a)	Restated Certificate of Incorporation, as amended	Incorporated by reference to Exhibit (3a) to Form 10-K as filed with the Commission on March 30, 1993. (Commission file number 1-3579)
(a.1)	Certificate of Amendment to the Restated Certificate of Incorporation (as amended May 29, 1996)	Incorporated by reference to Exhibit (a.1) to Form 10-K as filed with the Commission on March 27, 1998. (Commission file number 1-3579)
(b)	By-laws, as amended	Incorporated by reference to Exhibit (3b) to Form 10-K as filed with the Commission on April 1, 1996. (Commission file number 1-3579)
(c)	By-laws, as amended	Incorporated by reference to Exhibit (3) (ii) to Form 10-Q as filed with the Commission on November 16, 1998. (Commission file number 1-3579)
(4) (a)	Form of Indenture dated as of November 15, 1987 between the company and Chemical Bank, as Trustee	Incorporated by reference to Exhibit (4a) to Form 10-K as filed with the Commission on March 24, 1988. (Commission file number 1-3579)
(b)	Form of Debt Securities	Incorporated by reference to Exhibit (4b) to Form 10-K as filed with the Commission on March 24, 1988. (Commission file number 1-3579)
(c)	Form of First Supplemental Indenture dated as of June 1, 1989 between the company and Chemical Bank, as Trustee	Incorporated by reference to Exhibit (1) to Form 8-K as filed with the Commission on June 16, 1989. (Commission file number 1-3579)

(d)	Form of Indenture dated as of April 15, 1990 between the company and Chemical Bank, as successor to Manufacturers Hanover Trust Company, as Trustee	Incorporated by reference to Exhibit (4.1) to Registration Statement on Form S-3 (No. 33-33948) as filed with the Commission on March 28, 1990.
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Reg. S-K Exhibits	Description	Status or Incorporation by Reference

(e)	Forms of Debt Securities	Incorporated by reference to Exhibit (4) to Form 10-Q as filed with the Commission on May 14, 1990. (Commission file number 1-3579)
(f)	Form of Indenture dated as of May 1, 1985 between Pitney Bowes Credit Corporation and Bankers Trust Company, as Trustee	Incorporated by reference to Exhibit (4a) to Registration Statement on Form S-3 (No. 2-97411) as filed with the Commission on May 1, 1985.
(g)	Letter Agreement between Pitney Bowes Inc. and Bankers Trust Company, as Trustee	Incorporated by reference to Exhibit (4b) to Registration Statement on Form S-3 (No. 2-97411) as filed with the Commission on May 1, 1985.
(h)	Form of First Supplemental Indenture dated as of December 1, 1986 between Pitney Bowes Credit Corporation and Bankers Trust Company, as Trustee	Incorporated by reference to Exhibit (4b) to Registration Statement on Form S-3 (No. 33-10766) as filed with the Commission on December 12, 1986.
(i)	Form of Second Supplemental Indenture dated as of February 15, 1989 between Pitney Bowes Credit Corporation and Bankers Trust Company, as Trustee	Incorporated by reference to Exhibit (4c) to Registration Statement on Form S-3 (No. 33-27244) as filed with the Commission on February 24, 1989.
(j)	Form of Third Supplemental Indenture dated as of May 1, 1989 between Pitney Bowes Credit Corporation and Bankers Trust Company, as Trustee	Incorporated by reference to Exhibit (1) to Form 8-K as filed with the Commission on May 16, 1989. (Commission file number 1-3579)
(k)	Indenture dated as of November 1, 1995 between the company and Chemical Bank, as Trustee	Incorporated by reference to Exhibit (4a) to Amendment No. 1 to Registration Statement on Form S-3 (No. 33-62485) as filed with the Commission on November 2, 1995.
(l)	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)

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 Securities and Exchange Commission upon request.

Executive Compensation Plans:

(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 1997)	Incorporated by reference to Exhibit (i) to Form 10-K as filed with the Commission on March 31, 1997. (Commission file number 1-3579)
(c)	Pitney Bowes 1991 Stock Plan	Incorporated by reference to Exhibit (10b) to Form 10-K as filed with the Commission on March 25, 1992. (Commission file number 1-3579)
(c.1)	First Amendment to Pitney Bowes 1991 Stock Plan	Incorporated by reference to Exhibit (ii) to Form 10-K as filed with the Commission on March 31, 1997. (Commission file 1-3579)
(c.2)	Second Amendment to Pitney Bowes 1991 Stock Plan	Incorporated by reference to Exhibit (i) to Form 10-Q as filed with the Commission on November 13, 1997. (Commission file number 1-3579)
(c.3)	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)
(d)	Pitney Bowes Inc. Key Employees' Incentive Plan (as amended and restated)	Incorporated by reference to Exhibit (10c) to Form 10-K as filed with the Commission on March 25, 1992. (Commission file number 1-3579)
(d.1)	First Amendment to Pitney Bowes Inc. Key	Incorporated by reference to Exhibit (iii) to Form 10-K as filed

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| | Employees' Incentive Plan (as amended and restated June 10, 1991) | with the Commission on March 31, 1997. (Commission file number 1-3579) |
| (e) | 1979 Pitney Bowes Stock Option Plan (as amended and restated) | Incorporated by reference to Exhibit (10d) to Form 10-K as filed with the Commission on March 25, 1992. (Commission file number 1-3579) |

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| (f) | Pitney Bowes Severance Plan, as amended, dated December 12, 1988 | Incorporated by reference to Exhibit (10) to Form 10-K as filed with the Commission on March 23, 1989. (Commission file number 1-3579) |
| (g) | Pitney Bowes Executive Severance Policy, adopted December 11, 1995 | Incorporated by reference to Exhibit (10h) to Form 10-K as filed with the Commission on April 1, 1996. (Commission file number 1-3579) |
| (h) | 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) |
| (i) | Pitney Bowes Inc. Deferred Incentive Savings Plan | Incorporated by reference to Exhibit (v) to Form 10-K as filed with the Commission on March 31, 1997. (Commission file number 1-3579) |
| (12) | Computation of ratio of earnings to fixed charges | Exhibit (i) |
| (13) | Portions of annual report to security holders | Exhibit (ii) |
| (21) | Subsidiaries of the registrant | Exhibit (iii) |
| (23) | Consent of experts and counsel | Exhibit (iv) |
| (27) | Financial Data Schedule | Exhibit (v) |
| (b) | <p>On February 26, 1999, the company filed a current report on Form 8-K pursuant to Item 5 thereof, reporting the Press Release dated January 28, 1999 and selected segment data.</p> <p>On November 19, 1998, the company and PBCC filed a current report on Form 8-K pursuant to Item 7 thereof, reporting the content of the Stock Purchase Agreement for the operations of CPLC.</p> <p>On November 16, 1998, the company and PBCC filed a current report on Form 8-K pursuant to Items 2 and 7 thereof, reporting the sale of the operations of CPLC on October 30, 1998.</p> <p>On October 19, 1998, PBCC filed a current report on Form 8-K relating to the definitive agreement entered into with General Electric Capital Corporation (GECC), a subsidiary of General Electric Company, to sell its broker-oriented external financing business, Colonial Pacific Leasing Corporation (CPLC). In this transaction, the operations, employees and substantially all assets related to CPLC will be transferred to GECC.</p> | |

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Pitney Bowes Inc.

By /s/ Michael J. Critelli

(Michael J. Critelli)
Chairman and Chief
Executive Officer

Date March 30, 1999

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SIGNATURES

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

Signature	Title	Date

/s/ Michael J. Critelli ----- Michael J. Critelli	Chairman and Chief Executive Officer - Director	March 30, 1999 -----
/s/ Marc C. Breslawsky ----- Marc C. Breslawsky	President and Chief Operating Officer - Director	March 30, 1999 -----
/s/ Murray L. Reichenstein ----- Murray L. Reichenstein	Vice President and Chief Financial Officer (principal financial officer)	March 30, 1999 -----
/s/ Arlen F. Henock ----- Arlen F. Henock	Vice President - Controller and Chief Tax Counsel (principal accounting officer)	March 30, 1999 -----
/s/ Linda G. Alvarado ----- Linda G. Alvarado	Director	March 30, 1999 -----
/s/ William E. Butler ----- William E. Butler	Director	March 30, 1999 -----
/s/ Colin G. Campbell ----- Colin G. Campbell	Director	March 30, 1999 -----
/s/ Ernie Green ----- Ernie Green	Director	March 30, 1999 -----
/s/ Charles E. Hugel ----- Charles E. Hugel	Director	March 30, 1999 -----
/s/ James H. Keyes ----- James H. Keyes	Director	March 30, 1999 -----
/s/ Michael I. Roth ----- Michael I. Roth	Director	March 30, 1999 -----

Phyllis S. Sewell

INDEX TO FINANCIAL SCHEDULES

The financial schedules should be read in conjunction with the financial statements in the Pitney Bowes Inc. 1998 Annual Report to Stockholders. Schedules not included herein have been omitted because they are not applicable or the required information is shown in the financial statements or notes thereto. Also, separate financial statements of less than 100 percent owned companies, which are accounted for by the equity method, have been omitted because they do not constitute significant subsidiaries.

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REPORT OF INDEPENDENT ACCOUNTANTS ON
FINANCIAL STATEMENT SCHEDULE

To the Board of Directors
of Pitney Bowes Inc.

Our audits of the consolidated financial statements referred to in our report dated January 21, 1999 appearing on page 58 of the Pitney Bowes Inc. 1998 Annual Report to Stockholders (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 14(a)2 of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PricewaterhouseCoopers LLP

Stamford, Connecticut
January 21, 1999

PITNEY BOWES INC.

SCHEDULE II - VALUATION AND QUALIFYING
ACCOUNTS AND RESERVES

FOR THE YEARS ENDED DECEMBER 31, 1996 TO 1998

(Dollars in thousands)

Description	Balance at beginning of year	Additions charged to costs and expenses	Deductions	Balance at end of year

Allowance for doubtful accounts				

1998	\$21,129	\$9,872	\$6,336 (1)	\$24,665
1997	\$16,160	\$9,269	\$4,300 (1)	\$21,129
1996	\$13,050	\$9,894	\$6,784 (1)	\$16,160
Allowance for credit losses on finance receivables				

1998	\$132,308	\$73,142	\$74,675 (1)	\$130,775
1997	\$113,737	\$85,628	\$67,057 (1)	\$132,308
1996	\$113,506	\$74,785	\$74,554 (1)	\$113,737
Valuation allowance for mortgage servicing rights impairment				

1998	\$ --	\$12,102	\$ 1,875	\$ 10,227
1997	\$ --	\$ --	\$ --	\$ --
1996	\$ --	\$ --	\$ --	\$ --
Valuation allowance for deferred tax asset (2)				

1998	\$41,301	\$22,221	\$2,565	\$60,957
1997	\$46,601	\$ 1,233	\$6,533	\$41,301
1996	\$48,693	\$ 3,066	\$5,158	\$46,601

- (1) Principally uncollectible accounts written off.
(2) Included in balance sheet as a liability.

PITNEY BOWES INC.

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES (1)

(Dollars in thousands)

	Years Ended December 31,				
	1998	1997 (2)	1996 (2)	1995 (2)	1994 (2)
Income from continuing operations before income taxes.....	\$ 864,177	\$775,527	\$657,170	\$597,471	\$547,341
Add:					
Interest expense.....	168,558	162,993	163,176	196,436	171,057
Portion of rents representative of the interest factor.....	37,396	39,146	40,387	41,941	42,214
Amortization of capitalized interest.....	973	914	914	914	914
Minority interest in the income of subsidiary with fixed charges.....	12,425	11,322	8,121	5,013	-
Income as adjusted.....	\$1,083,529	\$989,902	\$869,768	\$841,775	\$761,526
Fixed charges:					
Interest expense.....	\$ 168,558	\$162,993	\$163,176	\$196,436	\$171,057
Capitalized interest.....	-	-	1,201	2,178	733
Portion of rents representative of the interest factor.....	37,396	39,146	40,387	41,941	42,214
Minority interest, excluding taxes, in the income of subsidiary with fixed charges.....	18,906	17,251	11,792	7,613	-
	\$ 224,860	\$219,390	\$216,556	\$248,168	\$214,004
Ratio of earning to fixed charges.....	4.82	4.51	4.02	3.39	3.56
Ratio of earnings to fixed charges excluding minority interest.....	5.20	4.84	4.21	3.48	3.56

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

(2) Amounts reclassified to reflect CPLC in discontinued operations.

Management's Discussion and Analysis
Year ended December 31, 1998

Overview

Pitney Bowes Inc. (the company) continues to build on the core activities that support its strong competitive position. We concentrate on products and services that enable us to be the provider of informed mail and messaging management.

The company operates in four reportable segments: Mailing and Integrated Logistics, Office Solutions, Mortgage Servicing and Capital Services.

Mailing and Integrated Logistics includes revenues from the sale and financing of mailing equipment, related supplies and services, and the rental of postage meters. Office Solutions includes revenues from the sale, financing, rental and service of reprographic and facsimile equipment including related supplies, and facilities management services which provides reprographic business support, and other processing functions. Mortgage Servicing provides billing, collecting and processing services for major investors in residential first mortgages. The interest rate environment, however, has caused the company to reexamine the impact of fluctuating rates and prepay patterns on the way the mortgage servicing business is managed. We will explore a range of strategic options to address the changing profile of this business in a way that maximizes value for our shareholders. Capital Services provides large-ticket financing and fee-based programs covering a broad range of products and other financial services to the commercial and industrial markets in the U.S.

As part of the company's strategy to reduce the capital committed to asset-based financing, while increasing fee-based income, the company sold its broker-oriented small-ticket leasing business to General Electric Capital Corporation (GECC), a subsidiary of General Electric Company. As part of the sale, the operations, employees and substantially all the assets of Colonial Pacific Leasing Corporation (CPLC) were transferred to GECC. The company received \$790 million at closing, which approximates the book value of the net assets sold or otherwise disposed of and related transaction costs. The transaction is subject to post-closing adjustments. Operating results of CPLC have been reported separately as discontinued operations in the Consolidated Statements of Income. See Note 13 to the consolidated financial statements.

Results of Continuing Operations
1998 Compared to 1997

In 1998, revenue increased 8%, operating profit grew 16%, income from continuing operations grew 12% and diluted earnings per share from continuing operations increased 17% to \$2.03 compared with \$1.74 for 1997.

[BAR GRAPH APPEARS HERE]

Diluted Earnings Per Share from Continuing Operations

Dollars

1996	1.50
1997	1.74
1998	2.03

Revenue

(Dollars in millions)	1998	1997	% change
Mailing and			
Integrated Logistics	\$2,707	\$2,552	6%

Office Solutions	1,216	1,089	12%
Mortgage Servicing	130	73	77%
Capital Services	168	206	(18%)

	\$4,221	\$3,920	8%
=====			

The revenue increase came from growth in the Mailing and Integrated Logistics, Office Solutions and Mortgage Servicing segments of 6%, 12% and 77%, respectively, over 1997. Volume increases in our U.S. Mailing Systems, Production Mail, U.S. Copier Systems, Facsimile Systems, facilities management and mortgage servicing businesses were the principal cause of the revenue growth. The impact of prices and exchange rates was minimal. The revenue increase was partially offset by an 18% decline in revenue in the Capital Services segment due to our strategy to reduce our external assets and shift to more fee-based revenue streams.

Approximately 75% of our total revenue in 1998 and 1997 is recurring revenue, which we believe is a continuing good indicator of potential repeat business.

Operating profit

(Dollars in millions)	1998	1997	% change

Mailing and			
Integrated Logistics	\$663	\$584	14%
Office Solutions	235	197	19%
Mortgage Servicing	37	25	52%
Capital Services	52	48	7%

	\$987	\$854	16%
=====			

Operating profit grew 16% over the prior year compared with growth of 18% in 1997, continuing to reflect our strong emphasis on reducing costs and controlling operating expenses in all our businesses. Another measure of our success in controlling costs and expenses in 1998 and 1997 was that growth in operating

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profit continued to significantly outpace revenue growth. Operating profit grew 14% in the Mailing and Integrated Logistics segment, 19% in the Office Solutions segment, 52% in the Mortgage Servicing segment and 7% in the Capital Services segment.

The operating profit growth in the Mailing and Integrated Logistics segment came from strong performances by U.S. Mailing Systems, International Mailing, Production Mail and related financing. Strong operating performances by our Facsimile Systems, U.S. Copier Systems and facilities management businesses drove the operating profit growth in the Office Solutions segment. Despite the impact of the declining interest rate environment which resulted in higher amortization and asset impairment charges, Mortgage Servicing had strong operating profit growth. However, as mentioned above, the company will explore a range of strategic options to address the changing profile of the mortgage servicing business in a way that maximizes shareholder value.

[BAR GRAPH APPEARS HERE]

Revenue

Dollars in millions	1996	1997	1998
	-----	-----	-----
Sales.....	1,675	1,834	1,994
Rentals & Financing.....	1,555	1,602	1,711
Support Services.....	466	484	516

Sales revenue increased 9% in 1998 due mainly to strong sales growth in our U.S. Mailing Systems, U.S. Copier Systems, Facsimile Systems and facilities management businesses. The increase in U.S. Mailing Systems was due to the continuing shift to advanced technologies and feature-rich products in the large, medium and entry level mailing machines and in weighing scales. Sales of consumable supplies used in our digital products also had strong growth. Sales growth in our Software Solutions business was driven by strong sales of logistics and print management software. Copier sales growth was driven by our new Smart Image(TM) Plus line of products in the high-end segment plus increased product offerings of digital and color models. Copier supply sales were also higher. For the second consecutive year, Buyers Laboratory has named our copiers as the "Most Outstanding Copier Line," with eight copiers being called "outstanding" in their respective class. The award recognizes reliability, copy quality and ease of use, all factors critical to customer satisfaction. Facsimile supply sales in the U.S. and equipment sales in the U.K. and Canada drove sales growth in the Facsimile Systems business. Increases in contract base and increases in value added services to the existing contract base accounted for the growth in our facilities management business. In total, Financial Services financed 38% and 36% of all sales in 1998 and 1997, respectively. This increase was achieved despite the impact of the increased sales revenue from our facilities management business, which does not use traditional financing services used by our other businesses.

Rentals and financing revenue increased 7% in 1998. Rentals revenue grew 6% driven by growth in the U.S. and the U.K. mailing markets due to the continuing shift to electronic and digital meters. In the U.S., the growth came primarily from continuing placement of the digital desktop Personal Post Office(TM) meter, which is available through various distribution channels such as telemarketing, the Internet and selected retail outlets specializing in business supplies. At the end of 1998, electronic and digital meters represent over 90% of our U.S. meter base, with digital meters representing 35% of all meters in service in the U.S. The company no longer places mechanical meters, which is in line with U.S. Postal Service (USPS) guidelines; such meters are now less than 10% of our U.S. meter population. The growth in U.K. rentals revenue was due to the introduction of the Personal Post Office(TM) meter in that market.

Contribution to rental revenue growth also came from our U.S. and U.K. facsimile markets, driven by an increased rental base of the 33.6 kbps systems such as the 9920 and 9930 models in the U.S.

Financing revenue grew 8%. Revenue increases came from increases in the mortgage servicing business, increased volume of leases of the company's products and from new product offerings such as Purchase Power(SM), Business Rewards(SM) and Postal Privilege(SM). The increase was offset by reduced revenues from the large-ticket external financing business due to asset dispositions in 1998 and prior years in accordance with our strategy.

Support services revenue increased 7% in 1998. U.S. Mailing had increased support service revenue from a larger population of extended maintenance contracts, despite competitive pricing pressures; chargeable service calls were also higher. Production Mail had double-digit growth in support services revenue as their service contract base and on-site contracts increased. U.S. Copier Systems and most of our international mailing units, excluding currency impacts, had increased support services revenue.

Cost of sales

(Dollars in millions)	1998	1997	% change
-----	-----	-----	-----
Percentage of sales revenue	\$1,146	\$1,082	6%
	57.5%	59.0%	

The cost of sales ratio, cost of sales expressed as a percentage of sales revenue, improved for the second consecutive year. The significant improvement in this ratio was achieved principally due to lower product costs, the increased

sale of higher margin supplies in our mailing, copier and facsimile businesses and the impact of strategic sourcing initiatives in the U.S. and Europe. The improvement was achieved despite the offsetting effect of increased revenue and costs of the lower-margin facilities management business, where most of its expenses are in cost of sales.

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Cost of rentals and financing

(Dollars in millions)	1998	1997	% change
-----	-----	-----	-----
	\$517	\$451	15%
Percentage of rentals and financing revenue	30.2%	28.2%	

Cost of rentals and financing, as a percentage of rentals and financing revenue, increased two percentage points. While the cost of rentals was essentially flat with 1997, the cost of financing increased due to higher costs at our mortgage servicing business. The declining interest rate environment and higher mortgage prepayment activity resulted in larger amortization expenses of mortgage servicing rights, as well as an impairment charge of \$10.3 million for the year. The ratio also increased due to lower revenues in the Capital Services segment, reflecting the company's continued focus to reposition this business.

Selling, service and administrative expenses were 34% of revenue in 1998 compared with 35% in 1997. Continued emphasis on controlling expense growth while growing revenues resulted in an improvement in this ratio. This was the sixth consecutive year of improvement in our selling, service and administrative cost to revenue ratio, excluding a charge in 1996 to exit the copier business in Australia. The company is in the process of an enterprise-wide resource planning initiative and has incurred expenses to comply with Year 2000 systems issues, which have partially offset the improvement in this ratio.

[BAR GRAPH APPEARS HERE]

Selling, Service and Administrative Rate
(excluding 1996 Australian Charge)

1996	35.4%
1997	34.9%
1998	34.2%

Research and development expenses

(Dollars in millions)	1998	1997	% change
-----	-----	-----	-----
	\$101	\$89	13%

Research and development expenses increased 13% in 1998 to \$101 million reflecting continued investment in developing new technologies and enhancing features for all our products. The 1998 increase represents expenditures for new digital meters and metering technology, inserting equipment, developing advanced features for production mail equipment, high volume mail sorting equipment and digital delivery technologies.

Net interest expense

(Dollars in millions)	1998	1997	% change
-----	-----	-----	-----
	\$149	\$155	(3%)

Net interest expense decreased due to lower interest rates and higher interest income, offset in part by higher average borrowings during 1998 compared to 1997. Lower interest expense resulting from utilizing the proceeds from prior year asset sales in our Capital Services segment and the sale of the

broker-oriented small-ticket external financing business in 1998, was offset by interest expense on borrowings to fund the continuing stock repurchase program. Our variable and fixed debt mix, after adjusting for the effect of interest rate swaps, was 32% and 68% at December 31, 1998.

Effective tax rate

	1998	1997
-----	-----	-----
	34.3%	34.4%

The effective tax rate of 34.3% in 1998 reflects continued tax benefits from leasing and financing activities and lower taxes attributable to international sourced income. This rate was essentially flat with prior year.

[BAR GRAPH APPEARS HERE]

Continuing Operations Margin
Percentage of revenue

1996	12.2%
1997	13.0%
1998	13.5%

Income from continuing operations and diluted earnings per share from continuing operations increased 12% and 17%, respectively, in 1998. The reason for the increase in diluted earnings per share outpacing the increase in income from continuing operations was the company's share repurchase program, under which 11 million shares, 4% of the average common and potential common shares outstanding at the end of 1997, were repurchased in 1998. Income from continuing operations as a percentage of revenue increased to 13.5% in 1998 from 13% in 1997.

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[BAR GRAPH APPEARS HERE]

Income from Continuing Operations
Dollars in millions

1996	453
1997	509
1998	568

Results of Continuing Operations
1997 Compared to 1996

In 1997, revenue increased 6%, operating profit grew 18%, income from continuing operations grew 12% and diluted earnings per share from continuing operations increased 16% to \$1.74 compared with \$1.50 for 1996. Revenue growth was 8%, after adjusting for the impacts of strategic actions in Australia, asset sale activity and the strategic shift of the external large-ticket business to more fee-based income sources.

Revenue

(Dollars in millions)	1997	1996	% change
-----	-----	-----	-----
Mailing and Integrated Logistics	\$2,552	\$2,402	6%
Office Solutions	1,089	983	11%
Mortgage Servicing	73	53	38%
Capital Services	206	258	(20%)
-----	-----	-----	-----
	\$3,920	\$3,696	6%

=====

The revenue increase came from growth in the Mailing and Integrated Logistics, Office Solutions and Mortgage Servicing segments of 6%, 11% and 38%, respectively, over 1996. Volume increases in our U.S. Mailing Systems, Production Mail, U.S. Copier Systems, Facsimile Systems, facilities management and mortgage servicing businesses were the principal cause of the revenue growth. The impact of prices and exchange rates was minimal. The revenue increase was partially offset by a 20% decline in revenue in the Capital Services segment due to our strategy to reduce our external assets and shift to more fee-based revenue streams. The reduction of Capital Services assets included the effect of the agreement with GATX Capital, more fully discussed under Other Matters. Excluding the impact of planned asset sales, revenue in the Capital Services segment would have declined by 12%.

Approximately 75% of our total revenue in 1997 and 1996 is recurring revenue, which we believe is a good indicator of potential repeat business.

Operating profit

(Dollars in millions)	1997	1996	% change
Mailing and			
Integrated Logistics	\$584	\$477	22%
Office Solutions	197	172	15%
Mortgage Servicing	25	14	79%
Capital Services	48	60	(21%)
	\$854	\$723	18%

=====

Operating profit grew 18% over the prior year, continuing to reflect our strong emphasis on reducing costs and controlling operating expenses in all our businesses. Another measure of our success in controlling costs and expenses in 1997 and 1996 was that growth in operating profit continued to significantly outpace revenue growth, excluding the 1996 charge for exiting the Australian copier business. Operating profit grew 22% in the Mailing and Integrated Logistics segment, 15% in the Office Solutions segment 79% in the Mortgage Servicing segment and declined 21% in the Capital Services segment. Excluding the 1996 charge for exiting the Australian copier business, operating profit growth would have been 13%, with the Mailing and Integrated Logistics segment operating profit growth at 15%.

The operating profit growth in the Mailing and Integrated Logistics and Office Solutions segments came from strong performances by U.S. Mailing Systems, Facsimile Systems and U.S. Copier Systems. In the Capital Services segment, operating profit declined due to a planned reduction in the company's large-ticket external portfolio. Operating profit in this segment included the impacts of a charge for costs and asset valuation related to the agreement announced in August 1997 with GATX Capital (see Other Matters) and external large-ticket asset sales in 1996. Excluding these items, operating profit in the Capital Services segment would have increased 10%.

Sales revenue increased 9% in 1997 due mainly to strong equipment sales in U.S. Mailing Systems and U.S. Copier Systems, higher supplies revenue at Facsimile Systems and increased sales of the facilities management business. The increase in U.S. Mailing Systems' revenue is due mainly to customers' conversion to more advanced technologies, with feature-rich products and services driven by meter migration (see Regulatory Matters). The increase in U.S. Copier Systems was due to solid equipment sales paced by the introduction of six new products, the phased rollout of the color and digital copier systems and the introduction of the Smart Image(TM) RIP controllers that allow a color copier to function as a high-quality color printer. Buyers Laboratory named the Pitney Bowes copier line as "Line of the Year," with a record seven Pitney Bowes copiers named "Picks of the Year," the most by any copier vendor in the history of the award. The award is based on factors that are critical to customer productivity, satisfaction and value such as reliability, copy quality and ease of use. Facsimile Systems' sales revenue increased due to higher supplies

revenue resulting from strong demand for plain paper cartridges. Increased sales of the facilities management business were due primarily to the continued expansion of our commercial contract base. In total, Financial Services financed 36% and 39% of all sales in 1997 and 1996, respectively. This decrease is due mainly to the impact of increased sales revenue from our facilities management business, which does not use traditional financing services used by our other businesses.

Rentals and financing revenue increased 3% from 1996. Rentals revenue increased 5% from 1996 due mainly to rapid growth in the base of electronic and digital meters. This resulted from the conversion of U.S. Mailing Systems' customers to more advanced technology and new distribution channels such as the availability of the digital desktop Personal Post Office(TM) meter via the Internet and selected retail outlets specializing in business supplies. By the end of 1997, 75% of the company's U.S. meter base was made up of electronic and digital meters, with approximately 25% made up of advanced technology digital meters. Rentals revenue in 1997 no longer included the administrative revenue associated with the trust fund, because the USPS took control of the fund in 1996.

Double-digit contributions to rentals revenue growth came from our U.S. and U.K. facsimile businesses, driven by an increased rental base of advanced products introduced in 1997, such as model 9830, selected as the "Best Plain Paper Fax Machine" by the American Facsimile Association, and model 9910.

Financing revenue, adjusted for planned asset sales, grew 5% in 1997 on increased volume of leases of Pitney Bowes products and new product offerings such as Purchase Power(SM). Including the impact of asset sales, which generated more revenues in 1996 than in 1997, financing revenue grew 1% in 1997.

Support services revenue in 1996 included service revenue from the Australian copier business. Adjusting for this discontinued revenue, support services would have increased 5%, led by healthy increases in on-site service contracts at Production Mail and chargeable service calls in the U.K. U.S. Mailing Systems, U.S. Copier Systems and Software Solutions also contributed to the growth. Without adjusting for the discontinued Australian revenue, support services revenue increased 4%.

Cost of sales

(Dollars in millions)	1997	1996	% change
-----	-----	-----	-----
	\$1,082	\$1,025	5%
Percentage of sales revenue	59.0%	61.2%	

Cost of sales decreased to 59% of sales revenue in 1997 compared to 61% in 1996. This improvement was driven by lower product costs, increased sales of high margin supplies and the effect of a stronger dollar on equipment purchases. The improvement was achieved despite the offsetting effect of increased revenue and costs of the lower-margin facilities management business, where most of its expenses are included in cost of sales.

Cost of rentals and financing

(Dollars in millions)	1997	1996	% change
-----	-----	-----	-----
	\$451	\$435	4%
Percentage of rentals and financing revenue	28.2%	28.0%	

Cost of rentals and financing remained flat at 28% of related revenues for 1997. This ratio remained unchanged despite the lower costs in 1996 as a result of not placing mechanical meters and the additional depreciation expense in 1997 from increased placements of electronic and digital meters. Cost of rentals and

financing in 1997 also includes the charge for costs and asset valuation related to the agreement with GATX Capital (see Other Matters).

Selling, service and administrative expenses were 35% of revenue in 1997 compared with 36% in 1996. The ratio in 1996 included the impact of a \$30 million charge resulting from the company's decision to exit the Australian copier business. Excluding this charge, the ratio in 1996 would have been 35%. Improvement in this ratio is due primarily to our continued emphasis on controlling operating expenses while growing revenue. This was our fifth consecutive year of an improving expense-to-revenue ratio, after adjusting for the charge described above.

Research and development expenses

(Dollars in millions)	1997	1996	% change
-----	\$89	\$82	9%

Research and development expenses increased 9% in 1997. This increase demonstrates the company's continued commitment to developing new technologies across all our product lines. Specifically, the increase relates to the development of new digital meters, advanced technology mailing and inserting machines and software products.

Net interest expense

(Dollars in millions)	1997	1996	% change
-----	\$155	\$157	(1%)

Net interest expense decreased 1% due mainly to lower average borrowings during 1997. Our variable and fixed rate debt mix, after adjusting for the effect of interest rate swaps, was 48% to 52%, respectively, at December 31, 1997. As more fully discussed in the Liquidity and Capital Resources section, the company and its finance subsidiary issued additional debt in January 1998. Including this debt, our variable and fixed rate debt mix at December 31, 1997 would have been 38% and 62%, respectively.

Effective tax rate

	1997	1996
-----	34.4%	31.1%

The effective tax rate was 34.4% for 1997 compared with 31.1% for 1996. The tax benefit associated with the company's actions in

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Australia and the related write-off of our Australian investment was primarily responsible for the low rate in 1996. Excluding this benefit, the 1996 effective tax rate would have been 34.1%.

Income from continuing operations and diluted earnings per share from continuing operations increased 12% and 16%, respectively, in 1997. The reason for the increase in diluted earnings per share outpacing the increase in income from continuing operations was the company's share repurchase program, under which 17.9 million shares, 6% of the average common and potential common shares outstanding at the end of 1996, were repurchased in 1997. Income from continuing operations as a percentage of revenue increased to 13.0% in 1997 from 12.2% in 1996.

Other Matters

On October 30, 1998, Colonial Pacific Leasing Corporation (CPLC), a wholly-owned subsidiary of the company, transferred the operations, employees and substantially all assets related to its broker-oriented external financing

business to General Electric Capital Corporation (GECC), a subsidiary of the General Electric Company. The company received approximately \$790 million at closing, which approximates the book value of the net assets sold or otherwise disposed of and related transaction costs. No gain or loss has been recognized on this transaction. The transaction is subject to post-closing adjustments pursuant to the terms of the purchase agreement with GECC.

On August 21, 1997, the company entered into an agreement with GATX Capital Corporation (GATX Capital), a subsidiary of GATX Corporation, which reduced the company's external large-ticket finance portfolio by approximately \$1.1 billion. This represented approximately 50% of the company's external large-ticket portfolio and reflects the company's ongoing strategy of focusing on fee-and service-based revenue rather than asset-based income.

Under the terms of the agreement, the company transferred external large-ticket finance assets through a sale to GATX Capital and an equity investment in a limited liability company owned by GATX Capital and the company. The company received approximately \$863 million in net cash relating to this transaction during 1997 and 1998. At December 31, 1998, the company retained approximately \$166 million of equity investment in a limited liability company along with GATX Capital.

Accounting Changes

In 1997, the company adopted Statement of Financial Accounting Standards (FAS) No. 128, "Earnings per Share." The company discloses basic and diluted earnings per share (EPS) on the face of the Consolidated Statements of Income and a reconciliation of the basic and diluted EPS computation is presented in Note 10 to the consolidated financial statements.

In 1998, the company adopted FAS No. 130, "Reporting Comprehensive Income." The company has disclosed all non-owner changes in equity in the Consolidated Statements of Stockholders' Equity. Prior periods have been restated for comparability purposes.

In 1998, the company adopted FAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." Under FAS 131, the company has four reportable segments: Mailing and Integrated Logistics, Office Solutions, Mortgage Servicing and Capital Services. See Note 17 to the consolidated financial statements.

In 1998, the company adopted FAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." FAS 132 revises the company's disclosures about pension and other postretirement benefit plans. See Note 12 to the consolidated financial statements.

In June 1998, FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," was issued. This statement is effective for all fiscal quarters of fiscal years beginning after June 15, 1999 (January 1, 2000 for the company) and requires that an entity recognize all derivative instruments as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Changes in the fair value of those instruments will be reflected as gains or losses. The accounting for the gains and losses depends on the intended use of the derivative and the resulting designation. The company is currently evaluating the impact of this statement.

Liquidity and Capital Resources

Our ratio of current assets to current liabilities improved to .92 to 1 at December 31, 1998, compared to .74 to 1 at December 31, 1997.

[BAR GRAPH APPEARS HERE]

Current Ratio

1996	.68
1997	.74
1998	.92

To control the impact of interest rate swings on our business, we use a balanced mix of debt maturities, variable and fixed rate debt and interest rate swap agreements. In 1998, we entered into interest rate swap agreements, primarily through our financial services business. Swap agreements are used to fix or obtain lower interest rates on commercial loans than we would otherwise have been able to get without the swap.

The ratio of total debt to total debt and stockholders' equity was 66.6% at December 31, 1998, versus 64.2% at December 31, 1997, including the preferred stockholders' equity in a subsidiary company as debt. Excluding the preferred stockholders' equity in a subsidiary company from debt, the ratio of total debt to total debt and stockholders' equity was 64.4% at December 31, 1998, versus 62.0% at December 31, 1997. The \$578 million repurchase of

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11.0 million shares of common stock in 1998 increased this ratio. The company's strong results and proceeds from the sale of its broker-oriented external small-ticket leasing business and other external leasing assets partially offset the increase in this ratio.

As part of the company's non-financial services shelf registrations, a medium-term note facility exists permitting issuance of up to \$500 million in debt securities with a minimum maturity of nine months, all of which remained available at December 31, 1998. On January 22, 1998, the company issued notes amounting to \$300 million available under a prior shelf registration. These unsecured notes bear annual interest at 5.95% and mature in February 2005. The notes are redeemable earlier at the company's option. The net proceeds from these notes were used for general corporate purposes, including the repayment of short-term debt.

On January 16, 1998, Pitney Bowes Credit Corporation (PBCC), a wholly-owned subsidiary of the company, issued notes amounting to \$250 million available under a prior shelf registration. These unsecured notes bear annual interest at 5.65% and mature in January 2003. The proceeds were used to meet PBCC's financing needs during 1998. On July 15, 1998, PBCC filed a shelf registration statement with the Securities and Exchange Commission (SEC) for the issuance of debt securities up to \$750 million.

On September 30, 1998, certain partnerships controlled by affiliates of PBCC issued a total of \$282 million of Series A and Series B Secured Floating Rate Senior Notes (the notes). The notes are due in 2001 and bear interest at a floating rate of LIBOR plus .65 percent, set as of the quarterly interest payment dates. The proceeds from the notes were used to purchase subordinated debt obligations from the company (PBI Obligations). The PBI Obligations have a principal amount of \$282 million and bear interest at a floating rate of LIBOR plus one percent, set as of the notes' quarterly interest payment dates. The proceeds from the PBI Obligations were used for general corporate purposes, including the repayment of short-term debt.

In July 1996, PBCC issued \$300 million of medium-term notes: \$200 million at 6.54% due in July 1999 and \$100 million at 6.78% due in July 2001. In September 1996, PBCC issued \$200 million of medium-term notes: \$100 million at 6.305% due in October 1998 and \$100 million at 6.8% due in October 2001.

To help us better manage our international cash and investments, in June 1995 and April 1997, Pitney Bowes International Holdings, Inc. (PBIH), a subsidiary of the company, issued \$200 million and \$100 million, respectively, of variable term, voting preferred stock (par value \$.01) representing 25% of the combined voting power of all classes of its outstanding capital stock, to outside institutional investors in a private placement. The remaining 75% of the voting power is held directly or indirectly by Pitney Bowes Inc. The preferred stock is recorded on the Consolidated Balance Sheets as "Preferred Stockholders' Equity in a Subsidiary Company." We used the proceeds of these transactions to pay down short-term debt. We have an obligation to pay cumulative dividends on

this preferred stock at rates that are set at auction. The auction periods are generally 49 days, although they may increase in the future. The weighted average dividend rate in 1998 and 1997 was 4.1%. Dividends are recorded in the Consolidated Statements of Income as minority interest, and are included in selling, service and administrative expenses. On December 31, 1998, the company sold 9.11% Cumulative Preferred Stock, mandatorily redeemable in 20 years, in a subsidiary company to an institutional investor for approximately \$10 million.

At December 31, 1998, the company had unused lines of credit and revolving credit facilities of \$1.5 billion (including \$1.2 billion at its financial services businesses) in the U.S. and \$58.8 million outside the U.S., largely supporting commercial paper debt. We believe our financing needs for the next 12 months can be met with cash generated internally, money from existing credit agreements, debt issued under new shelf registration statements and existing commercial and medium-term note programs. Information on debt maturities is presented in Note 6 to the consolidated financial statements.

Total financial services assets decreased to \$5.2 billion at December 31, 1998, down 5.7% from \$5.5 billion in 1997. To fund finance assets, borrowings were \$2.8 billion in 1998 and \$3.3 billion in 1997. Approximately \$.4 billion and \$1.1 billion in cash was generated from the sale of finance assets in 1998 and 1997, respectively. We used the money to pay down debt, repurchase shares and fund new business development.

In October 1997, the Board of Directors declared a two-for-one split of the company's common stock. The split was effected through a dividend of one share of common stock for each common share outstanding. The company distributed the stock dividend on or about January 16, 1998, for each share held of record at the close of business December 29, 1997.

Market Risk

The company is exposed to the impact of interest rate changes and foreign currency fluctuations due to its investing, funding and mortgage servicing activities and its operations in different foreign currencies.

The company's objective in managing its exposure to interest rate changes is to limit the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs. To achieve its objectives, the company uses a balanced mix of debt maturities and variable and fixed rate debt together with interest rate swaps to fix or lower interest expense. The company's mortgage servicing business, in particular the assets associated with the purchase of the right to service mortgage loans for others, known as mortgage servicing rights (MSRs), is sensitive to interest rate changes. Since MSRs represent the right to service mortgage loans, a decline in interest rates and the resulting actual or probable increases in mortgage prepayments shortens the expected life of the MSR asset and reduces its economic value. To mitigate the risk of declining long-term interest rates, higher-than-expected mortgage prepayments and the potential impairment of the MSRs, the company uses interest rate swaps and floors tied to yields on ten-year constant maturity interest rate swaps.

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The company's objective in managing the exposure to foreign currency fluctuations is to reduce the volatility in earnings and cash flows associated with foreign exchange rate changes. Accordingly, the company enters into various contracts, which change in value as foreign exchange rates change, to protect the value of external and intercompany transactions in foreign currencies. The principal currencies hedged are the British pound, Canadian dollar, Japanese yen and Australian dollar.

The company employs established policies and procedures governing the use of financial instruments to manage its exposure to such risks. The company does 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.

The company utilizes 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 the company's debt and all interest rate and foreign exchange derivative contracts. Anticipated transactions, firm commitments, and receivables and accounts payable denominated in foreign currency, which certain of these instruments are intended to hedge, were excluded from the model.

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

At December 31, 1998, the company's maximum potential one-day loss in fair value of the company's exposure to foreign exchange rates and interest rates, using the variance/co-variance technique described above, was not material.

Year 2000

In 1997, the company established a formal worldwide program to identify and resolve the impact of the Year 2000 date processing issue on the company's business systems, products and supporting infrastructure. This included a comprehensive review of the company's information technology (IT) and non-IT systems, software and embedded processors. The program structure has strong executive sponsorship and consists of a Year 2000 steering committee of senior business and technology management, a Year 2000 program office of full-time project management, and subject matter experts and dedicated business unit project teams. The company has also engaged independent consultants to perform periodic program reviews and assist in systems assessment and test plan development.

The program encompasses the following phases: an inventory of affected technology and critical third party suppliers, an assessment of Year 2000 readiness, resolution, unit and integrated testing and contingency planning. The company completed its worldwide inventory and assessment of all business systems, products and supporting infrastructure. Required modifications were substantially completed by year-end 1998. Tests are performed as software is remediated, upgraded or replaced. Integrated testing is expected to be complete by mid-1999.

As part of ongoing product development efforts, the company's recently introduced products are Year 2000 compliant. Over 95% of our installed product base, including all postage meters and copier and facsimile systems, are already Year 2000 compliant. For products not yet compliant, upgrades or replacements will be available by mid-1999. Detailed product compliance information is available on the company's Web site (www.pitneybowes.com/year2000).

The company relies on third parties for many systems, products and services. The company could be adversely impacted if third parties do not make necessary changes to their own systems and products successfully and in a timely manner. We have established a formal process to identify, assess and monitor the Year 2000 readiness of critical third parties. This process includes regular meetings with critical suppliers, including telecommunication carriers and utilities, as well as business partners, including postal authorities. Although there are no known problems at this time, the company is unable to predict with certainty whether such third parties will be able to address their Year 2000 problems on a timely basis.

The company estimates the total cost of the worldwide program from inception in 1997 through the Year 2000 to be approximately \$38 million to \$42 million, of which approximately \$20 million was incurred through December 31, 1998. These costs, which are funded through the company's cash flows, include both internal labor costs as well as consulting and other external costs. These costs are incorporated in the company's budgets and are being expensed as incurred.

The failure to correct a material Year 2000 problem could result in an interruption in, or a failure of, certain normal business activities or operations. Such failures could materially and adversely affect the company's

results of operations, liquidity and financial condition. Due to the general uncertainty inherent in the Year 2000 problem, resulting in part from uncertainty about the Year 2000 readiness of third parties, the company is unable to determine at this time whether the consequences of Year 2000 failures will have a material impact on the company's results of operations, liquidity or financial condition. However, the company continues to evaluate its Year 2000 risks and is developing contingency plans to mitigate the impact of any potential Year 2000 disruptions. We expect to complete our contingency plans by the second quarter of 1999.

Capital Investment

During 1998, net investments in fixed assets included net additions of \$91 million to property, plant and equipment and \$207 million to rental equipment and related inventories, compared with \$98 million and \$146 million, respectively, in 1997. These additions included expenditures for normal plant and manufacturing equipment. In the case of rental equipment, the additions included the production of postage meters and the purchase of facsimile and copier equipment for new placements and upgrade programs.

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At December 31, 1998, commitments for the acquisition of property, plant and equipment reflected plant and manufacturing equipment improvements as well as rental equipment for new and replacement programs.

Legal, Environmental and Regulatory Matters

Legal In the course of normal business, the company is occasionally party to lawsuits. These may involve litigation by or against the company relating to, among other things:

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

We are currently a plaintiff or a defendant in a number of lawsuits, none of which should have, in the opinion of management and legal counsel, a material adverse effect on the company's financial position or results of operations.

Environmental The company is subject to federal, state and local laws and regulations relating to the environment and is currently named as a member of various groups of potentially responsible parties in administrative or court proceedings. As we previously announced, in 1996 the Environmental Protection Agency (EPA) issued an administrative order directing us to be part of a soil cleanup program at the Sarney Farm site in Amenia, New York. The site was operated as a landfill between the years 1968 and 1970 by parties unrelated to the company, and wastes from a number of industrial sources were disposed there. We do not concede liability for the condition of the site, but are working with the EPA to identify, and then seek reimbursement from, other potentially responsible parties. We estimate the total cost of our remediation effort to be in the range of \$3 million to \$5 million for the soil remediation program.

The administrative and court proceedings referred to above are in different states. It is impossible for us to estimate with any certainty the total cost of remediating, the timing or extent of remedial actions which may be required by governmental authorities, or the amount of liability, if any, we might have. If and when it is possible to make a reasonable estimate of our liability in any of these matters, we will make a financial provision as appropriate. Based on the facts we presently know, we believe that the outcome of any current proceeding will not have a material adverse effect on our financial condition or results of

operations.

Regulation In May 1996, the USPS issued a proposed schedule for the phaseout of mechanical meters in the U.S. Between May 1996 and March 1997, the company worked with the USPS to negotiate a revised mechanical meter migration schedule.

The final schedule agreed to with the USPS is as follows:

- . As of June 1, 1996, new placements of mechanical meters would no longer be permitted; replacements of mechanical meters previously licensed to customers would be permitted prior to the applicable suspension date for that category of mechanical meter.
- . As of March 1, 1997, use of mechanical meters by persons or firms who process mail for a fee would be suspended and would have to be removed from service.
- . As of December 31, 1998, use of mechanical meters that interface with mail machines or processors ("systems meters") would be suspended and would have to be removed from service.
- . As of March 1, 1999, use of all other mechanical meters ("stand-alone meters") would be suspended and have to be removed from service.

As a result of the company's aggressive efforts to meet the USPS mechanical meter migration schedule combined with the company's ongoing and continuing investment in advanced postage evidencing technologies, mechanical meters represent less than 10% of the company's installed U.S. meter base at December 31, 1998, compared with 25% at December 31, 1997. At December 31, 1998, over 90% of the company's installed U.S. meter base is electronic or digital, compared to 75% at December 31, 1997. The company continues to work in close cooperation with the USPS, to convert those mechanical meter customers who have not migrated to digital or electronic meters by the applicable USPS deadline.

In May 1995, the USPS publicly announced its concept of its Information Based Indicia Program (IBIP) for future postage evidencing devices. As initially stated by the USPS, the purpose of the program was to develop a new standard for future digital postage evidencing devices which significantly enhanced postal revenue security and supported expanded USPS value-added services to mailers. The program would consist of the development of four separate specifications:

- . the Indicium specification--the technical specifications for the indicium to be printed
- . a Postal Security Device specification--the technical specification for the device that would contain the accounting and security features of the system
- . a Host specification
- . a Vendor Infrastructure specification

In July 1996, the USPS published for public comment draft specifications for the Indicium, Postal Security Device and Host specifications. The company submitted extensive comments to these four specifications. In March 1997, the USPS published for public comment the Vendor Infrastructure specification.

In August 1998, the USPS published for public comment a consolidated and revised set of IBIP specifications entitled "Performance Criteria for Information Based Indicia and Security Architecture for IBI Postage Metering Systems" (the IBI Performance Criteria). The IBI

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Performance Criteria consolidated the four aforementioned IBIP specifications and incorporated many of the comments previously submitted by the company. The company submitted comments to the IBI Performance Criteria on November 30, 1998.

As of December 31, 1998, the company is in the process of finalizing the

development of a PC product which satisfies the proposed IBI Performance Criteria. This product is currently undergoing beta testing and is expected to be ready for market upon final approval from the USPS.

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, the company has generally been able to maintain profit margins through productivity and efficiency improvements, continual review of both manufacturing capacity and operating expense level and, to an extent, price increases.

Although not affecting income, deferred translation gains and (losses) amounted to \$(25) million, \$(32) million and \$16 million in 1998, 1997 and 1996, respectively. In 1998, the translation loss resulted principally from the weakening Canadian dollar throughout 1998. In 1997, the translation loss resulted from the strengthening of the U.S. dollar against most other currencies except for the British pound. In 1996, the translation gains resulted primarily from the strengthening of the British pound and the Canadian dollar.

The results of the company's international operations are subject to currency fluctuations, and we enter into foreign exchange contracts for purposes other than trading primarily to minimize our risk of loss from such fluctuations. Exchange rates can 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, 1998, the company had approximately \$291 million of foreign exchange contracts outstanding, most of which mature in 1999, to buy or sell various currencies. Risks arise from the possible non-performance by counterparties in meeting the terms of their contracts and from movements in securities values, interest and/or exchange rates. However, the company does not anticipate non-performance by the counterparties as they are composed of a number of major international financial institutions. Maximum risk of loss on these contracts is limited to the amount of the difference between the spot rate at the date of the contract delivery and the contracted rate.

Dividend Policy

The company's Board of Directors has a policy to pay a cash dividend on common stock each quarter when feasible. In setting dividend payments, the board considers the dividend rate in relation to the company's recent and projected earnings and its capital investment opportunities and requirements. The company has paid a dividend each year since 1934.

Forward-Looking Statements

The company wants to caution readers that any forward-looking statements (those which talk about the company's or management's current expectations as to the future) in this Annual Report or made by the company management involve risks and uncertainties which may change based on various important factors. 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 behalf of the company include:

- . 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
- . changes in interest rates
- . the impact of the Year 2000 issue, including the effects of third parties' inabilities to address the Year 2000 problem as well as the company's own readiness

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

	Years ended December 31				
	1998	1997	1996	1995	1994
Total revenue	\$4,220,517	\$3,920,013	\$3,695,550	\$3,426,275	\$3,176,896
Costs and expenses	3,356,340	3,144,486	3,038,380	2,828,804	2,654,921
Nonrecurring items, net	--	--	--	--	(25,366)
Income from continuing operations before income taxes	864,177	775,527	657,170	597,471	547,341
Provision for income taxes	296,236	266,525	204,561	204,013	210,410
Income from continuing operations	567,941	509,002	452,609	393,458	336,931
Discontinued operations	8,453	17,025	16,804	189,682	56,660
Effect of accounting changes	--	--	--	--	(119,532)
Net income	\$ 576,394	\$ 526,027	\$ 469,413	\$ 583,140	\$ 274,059
Basic earnings per share:					
Continuing operations	\$2.07	\$1.76	\$1.51	\$1.30	\$1.08
Discontinued operations	.03	.06	.06	.63	.18
Effect of accounting changes	--	--	--	--	(.38)
Net income	\$2.10	\$1.82	\$1.57	\$1.93	\$.88
Diluted earnings per share:					
Continuing operations	\$2.03	\$1.74	\$1.50	\$1.29	\$1.07
Discontinued operations	.03	.06	.06	.62	.18
Effect of accounting changes	--	--	--	--	(.38)
Net income	\$2.06	\$1.80	\$1.56	\$1.91	\$.87
Total dividends on common, preference and preferred stock	\$247,484	\$231,392	\$206,115	\$181,657	\$162,714
Dividends per share of common stock	\$.90	\$.80	\$.69	\$.60	\$.52
Average common and potential common shares outstanding	279,656,603	292,517,116	301,303,356	304,739,952	315,485,784
Balance sheet at December 31					
Total assets	\$7,661,039	\$7,893,389	\$8,155,722	\$7,844,648	\$7,399,720
Long-term debt	\$1,712,937	\$1,068,395	\$1,300,434	\$1,048,515	\$779,217
Capital lease obligations	\$8,384	\$10,142	\$12,631	\$14,241	\$23,147
Stockholders' equity	\$1,648,002	\$1,872,577	\$2,239,046	\$2,071,100	\$1,745,069
Book value per common share	\$6.09	\$6.69	\$7.56	\$6.90	\$5.76
Ratios					
Profit margin -- continuing operations:					
Pretax earnings	20.5%	19.8%	17.8%	17.4%	17.2%
After-tax earnings	13.5%	13.0%	12.2%	11.5%	10.6%
Return on stockholders' equity -- before accounting changes	35.0%	28.1%	21.0%	28.2%	22.6%
Debt to total capital	66.6%	64.2%	60.5%	62.2%	66.3%
Other					
Common stockholders of record	32,210	31,092	32,258	32,859	31,226
Total employees	31,299	29,645	28,412	27,536	32,635
Postage meters in service in the U.S., U.K. and Canada	1,586,783	1,561,668	1,494,157	1,517,806	1,480,692

See notes, pages 40 through 57

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

	Years ended December 31		
	1998	1997	1996
Revenue from:			
Sales	\$1,993,546	\$1,834,057	\$1,675,090
Rentals and financing	1,711,468	1,602,400	1,554,709
Support services	515,503	483,556	465,751
Total revenue	4,220,517	3,920,013	3,695,550

Costs and expenses:			
Cost of sales	1,146,404	1,081,537	1,025,250
Cost of rentals and financing	517,167	451,090	434,625
Selling, service and administrative	1,442,730	1,367,862	1,340,276
Research and development	100,806	89,463	81,726
Interest expense	168,558	162,993	163,176
Interest income	(19,325)	(8,459)	(6,673)

Total costs and expenses	3,356,340	3,144,486	3,038,380

Income from continuing operations before income taxes	864,177	775,527	657,170
Provision for income taxes	296,236	266,525	204,561

Income from continuing operations	567,941	509,002	452,609
Income, net of income tax, from discontinued operations	8,453	17,025	16,804

Net income	\$ 576,394	\$ 526,027	\$ 469,413
=====			
Basic earnings per share:			
Income from continuing operations	\$2.07	\$1.76	\$1.51
Discontinued operations	.03	.06	.06

Net income	\$2.10	\$1.82	\$1.57
=====			
Diluted earnings per share:			
Income from continuing operations	\$2.03	\$1.74	\$1.50
Discontinued operations	.03	.06	.06

Net income	\$2.06	\$1.80	\$1.56
=====			

See notes, pages 40 through 57

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

	December 31	
	1998	1997

Assets		
Current assets:		
Cash and cash equivalents	\$ 125,684	\$ 137,073
Short-term investments, at cost which approximates market	3,302	1,722
Accounts receivable, less allowances: 1998, \$24,665; 1997, \$21,129	382,406	348,792
Finance receivables, less allowances: 1998, \$51,232; 1997, \$54,170	1,400,786	1,546,542
Inventories	266,734	249,207
Other current assets and prepayments	330,051	222,106

Total current assets	2,508,963	2,505,442
Property, plant and equipment, net	477,476	497,261
Rental equipment and related inventories, net	806,585	788,035
Property leased under capital leases, net	3,743	4,396
Long-term finance receivables, less allowances: 1998, \$79,543; 1997, \$78,138	1,999,339	2,581,349
Investment in leveraged leases	827,579	727,783
Goodwill, net of amortization: 1998, \$47,514; 1997, \$40,912	222,980	203,419
Other assets	814,374	585,704

Total assets	\$7,661,039	\$7,893,389
=====		
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 898,548	\$ 878,759
Income taxes payable	194,443	147,921
Notes payable and current portion of long-term obligations	1,259,193	1,982,988

Advance billings	369,628	363,565

Total current liabilities	2,721,812	3,373,233
Deferred taxes on income	920,521	905,768
Long-term debt	1,712,937	1,068,395
Other noncurrent liabilities	347,670	373,416

Total liabilities	5,702,940	5,720,812

Preferred stockholders' equity in a subsidiary company	310,097	300,000
Stockholders' equity:		
Cumulative preferred stock, \$50 par value, 4% convertible	34	39
Cumulative preference stock, no par value, \$2.12 convertible	2,031	2,220
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	16,173	28,028
Retained earnings	3,073,839	2,744,929
Accumulated other comprehensive income	(88,217)	(63,348)
Treasury stock, at cost (52,959,537 shares)	(1,679,196)	(1,162,629)

Total stockholders' equity	1,648,002	1,872,577

Total liabilities and stockholders' equity	\$7,661,039	\$7,893,389
=====		

See notes, pages 40 through 57

Consolidated Statements of Cash Flows
(Dollars in thousands)

	Years ended December 31		
	1998	1997	1996
Cash flows from operating activities:			
Net income	\$576,394	\$526,027	\$469,413
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	361,333	300,086	278,168
Net change in the strategic focus initiative	--	--	(16,826)
Increase in deferred taxes on income	64,805	185,524	106,298
Change in assets and liabilities:			
Accounts receivable	(32,658)	(11,295)	49,187
Net investment in internal finance receivables	(219,141)	(184,709)	(225,565)
Inventories	(11,522)	30,526	35,256
Other current assets and prepayments	(18,431)	(58,135)	(14,467)
Accounts payable and accrued liabilities	47,454	33,622	43,125
Income taxes payable	46,909	(62,910)	(21,281)
Advance billings	8,489	33,607	16,715
Other, net	(56,514)	(77,238)	(28,543)
Net cash provided by operating activities	767,118	715,105	691,480
Cash flows from investing activities:			
Short-term investments	(1,655)	(388)	548
Net investment in fixed assets	(298,415)	(244,065)	(271,972)
Net investment in external finance receivables	(83,987)	664,492	50,494
Investment in leveraged leases	(109,217)	(95,600)	(63,320)
Investment in mortgage servicing rights	(206,464)	(110,014)	(50,407)
Proceeds from sales of subsidiary	789,936	--	--
Other investing activities	(8,004)	455	(9,493)
Net cash provided by (used in) investing activities	82,194	214,880	(344,150)
Cash flows from financing activities:			
(Decrease) increase in notes payable, net	(696,157)	89,536	(467,838)
Proceeds from long-term obligations	837,847	--	500,000
Principal payments on long-term obligations	(234,182)	(256,326)	(12,181)
Proceeds from issuance of stock	49,521	33,396	31,201
Stock repurchases	(578,464)	(662,758)	(144,475)
Proceeds from preferred stock issued by a subsidiary	10,097	100,000	--
Dividends paid	(247,484)	(231,392)	(206,115)
Net cash used in financing activities	(858,822)	(927,544)	(299,408)
Effect of exchange rate changes on cash	(1,879)	(639)	1,997
(Decrease) increase in cash and cash equivalents	(11,389)	1,802	49,919
Cash and cash equivalents at beginning of year	137,073	135,271	85,352
Cash and cash equivalents at end of year	\$125,684	\$137,073	\$135,271
Interest paid	\$187,339	\$203,870	\$204,596
Income taxes paid, net	\$172,638	\$159,854	\$111,176

See notes, pages 40 through 57

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

	Preferred stock	Preference stock	Common stock	Capital in excess of par value	Comprehensive income	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost
Balance, January 1, 1996	\$47	\$2,547	\$323,338	\$30,299		\$2,186,996	\$(46,991)	\$(425,136)
Net income					\$469,413	469,413		
Other comprehensive income:								
Translation adjustments					15,694		15,694	
Comprehensive income					\$485,107			
Cash dividends:								
Preferred (\$2.00 per share)						(1)		
Preference (\$2.12 per share)						(194)		
Common (\$.69 per share)						(205,920)		
Issuances of common stock				(2,441)				31,649
Conversions to common stock				(1,819)				1,998
Repurchase of common stock	(1)	(178)						(144,475)
Tax credits relating to stock options				4,221				
Balance, December 31, 1996	46	2,369	323,338	30,260	\$526,027	2,450,294	(31,297)	(535,964)
Net income						526,027		
Other comprehensive income:								
Translation adjustments					(32,051)		(32,051)	
Comprehensive income					\$493,976			
Cash dividends:								
Preferred (\$2.00 per share)						(1)		

Preference (\$2.12 per share)					(179)			
Common (\$.80 per share)					(231,212)			
Issuances of common stock				(2,741)				33,997
Conversions to common stock	(7)	(149)		(1,940)				2,096
Repurchase of common stock								(662,758)
Tax credits relating to stock options				2,449				
-----				-----				-----
Balance, December 31, 1997	39	2,220	323,338	28,028		2,744,929	(63,348)	(1,162,629)
Net income					\$576,394	576,394		
Other comprehensive income:								
Translation adjustments					(24,869)		(24,869)	
Comprehensive income					-----			-----
					\$551,525			-----
					=====			
Cash dividends:								
Preferred (\$2.00 per share)							(1)	
Preference (\$2.12 per share)							(164)	
Common (\$.90 per share)						(247,319)		
Issuances of common stock				(21,051)				58,597
Conversions to common stock	(5)	(189)		(3,106)				3,300
Repurchase of common stock								(578,464)
Tax credits relating to stock options				12,302				
-----				-----				-----
Balance, December 31, 1998	\$34	\$2,031	\$323,338	\$16,173		\$3,073,839	\$(88,217)	\$(1,679,196)
=====				=====				=====

See notes, pages 40 through 57

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Notes to Consolidated Financial Statements

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

1. Summary of significant accounting policies

Consolidation

The consolidated financial statements include the accounts of Pitney Bowes Inc. and all of its subsidiaries (the company). All significant intercompany transactions have been eliminated.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash equivalents, short-term investments and accounts receivable

Cash equivalents include short-term, highly liquid investments with a maturity of three months or less from the date of acquisition. The company places its temporary cash and short-term investments with financial institutions and limits the amount of credit exposure with any one financial institution. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers and relatively small account balances within the majority of the company's customer base, and their dispersion across different businesses and geographic areas.

Inventory valuation

Inventories are valued 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.

Fixed assets and depreciation

Property, plant and equipment are stated at cost and depreciated principally using the straight-line method over appropriate periods: machinery and equipment principally three to 15 years and buildings up to 50 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. Rental equipment is depreciated on the straight-line method over appropriate periods, principally three to ten years. Other depreciable assets are depreciated using

either the straight-line method or accelerated methods. Properties leased under capital leases are amortized on a straight-line basis over the primary lease terms.

Rental arrangements and advance billings

The company rents equipment to its customers, primarily postage meters and mailing, shipping, copier and facsimile systems under short-term rental agreements, generally for periods of three months to three years. Charges for equipment rental and maintenance contracts are billed in advance; the related revenue is included in advance billings and taken into income as earned.

Financing transactions

At the time a finance transaction is consummated, the company's finance operations record the gross finance receivable, unearned income and the estimated residual value of leased equipment. Unearned income represents the excess of the gross finance receivable plus the estimated residual value over the cost of equipment or contract acquired. Unearned income is recognized as financing income using the interest method over the term of the transaction and is included in rentals and financing revenue in the Consolidated Statements of Income. Initial direct costs incurred in consummating a transaction are accounted for as part of the investment in a lease and amortized to income using the interest method over the term of the lease.

In establishing the provision for credit losses, the company has successfully utilized an asset-based percentage. This percentage varies depending on the nature of the asset, recent historical experience, vendor recourse, management judgment and the credit rating of the respective customer. The company evaluates the collectibility of its net investment in finance receivables based upon its loss experience and assessment of prospective risk, and does so through ongoing reviews of its exposures to net asset impairment. The carrying value of its net investment in finance receivables is adjusted to the estimated collectible amount through adjustments to the allowance for credit losses. Finance receivables are charged to the allowance for credit losses after collection efforts are exhausted and the account is deemed uncollectible.

The company's general policy is to discontinue income recognition for finance receivables contractually past due for over 90 to 120 days depending on the nature of the transaction. Resumption of income recognition occurs when payments reduce the account to 60 days or less past due. However, large-ticket external transactions are reviewed on an individual basis. Income recognition is normally discontinued as soon as it is apparent that the obligor will not be making payments in accordance with lease terms and resumed after the company has sufficient experience on resumption of payments to be satisfied that such payments will continue in accordance with the original or restructured contract terms.

The company has, from time to time, sold selected finance assets. The company follows Statement of Financial Accounting Standards (FAS) No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", when accounting for its sale of finance assets. All assets obtained or liabilities incurred in consideration are recognized as proceeds of the sale and any gain or loss on the sale is recognized in earnings.

The company's investment in leveraged leases consists of rentals receivable net of principal and interest on the related nonrecourse debt, estimated residual value of the leased property and unearned income. The unearned income is recognized as leveraged lease revenue in income from investments over the lease term.

Goodwill and other long-lived assets

Goodwill represents the excess of cost over the value of net tangible assets acquired in business combinations and is amortized using the straight-line method over appropriate periods, principally 40 years.

Goodwill and other long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. If such a change in circumstances occurs, the related estimated future undiscounted cash flows expected to result from the use of the asset and its eventual disposition, are compared to the carrying amount. If the sum of the expected cash flows is less than the carrying amount, the company records an impairment loss. The impairment loss is measured as the amount by which the carrying amount exceeds the fair value of the asset.

Revenue

Sales revenue is primarily recognized when a product is shipped.

Costs and expenses

Operating expenses of field sales and service offices are included in selling, service and administrative expenses because no meaningful allocation of such expenses to cost of sales, rentals and financing or support services is practicable.

Income taxes

The deferred tax provision is determined under the liability method. Deferred tax assets and liabilities are recognized based on differences between the book and tax bases of assets and liabilities using currently enacted tax rates. The provision for income taxes is the sum of the amount of income tax paid or payable for the year as determined by applying the provisions of enacted tax laws to the taxable income for that year and the net change during the year in the company's deferred tax assets and liabilities.

Deferred taxes on income result principally from expenses not currently recognized for tax purposes, the excess of tax over book depreciation, recognition of lease income and gross profits on sales to finance subsidiaries.

For tax purposes, income from leases is recognized under the operating method and represents the difference between gross rentals billed and depreciation expense.

It has not been necessary to provide for income taxes on \$368 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 \$13 million.

Nonpension postretirement benefits and postemployment benefits

It is the company's practice to fund amounts for nonpension postretirement and postemployment benefits as incurred. See Note 12 to the consolidated financial statements.

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 and stock option and purchase plan shares.

Mortgage servicing rights

Rights to service mortgage loans for others, whether those servicing rights are originated or purchased, are recognized as separate assets. The company capitalizes the cost of originated mortgage servicing rights (MSRs) based upon

the relative fair market value of the underlying mortgage loans and MSR's at the time of the sale of the underlying mortgage loan. Servicing rights purchased are recorded at cost. The company assesses the impairment of MSR's based on the fair value of these rights. Fair value is estimated based on estimated future net servicing income, using a valuation model which considers such factors as market discount rates, prepayment estimates, interest rates and other economic factors. MSR's are evaluated based on predominant risk characteristics of the underlying loans, which include adjustable rate versus fixed rate, segregated into strata by loan type and interest rate bands. The amount of impairment recognized is the amount by which the capitalized value of MSR's for a stratum exceeds the estimated fair value. Impairment is recognized through a valuation allowance.

MSR's are amortized in proportion to and over the period of the estimated future net servicing income stream of the underlying mortgages. The company adjusts amortization prospectively in response to changes in actual and anticipated prepayments, foreclosures, delinquencies and cost experience.

The value of the company's MSR's is sensitive to changes in interest rates. To maintain the relative value of its MSR's, the company has developed and implemented a hedge program. In order to qualify for hedge accounting, the following requirements must be met: the hedge instruments reduce the risks associated with the asset, changes in the fair value of the hedge instruments and underlying MSR's correlate, and the correlation is measurable. The company has acquired certain derivative financial instruments, primarily interest rate floors and interest rate swaps, to administer its hedge program. Unrealized and realized gains and losses from hedge instruments are deferred and recorded as adjustments to the basis of the underlying MSR's and amortized in proportion to the estimated net servicing income. In the event the performance of the hedge instruments do not meet the above requirements, changes in fair value of the hedge instruments will be reflected in the Consolidated Statements of Income in the current period.

Foreign exchange

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

The company enters into foreign exchange contracts for purposes other than trading primarily to minimize its risk of loss from exchange rate fluctuations on the settlement of intercompany receivables and payables arising in connection with transfers of finished goods inventories between affiliates and certain intercompany loans. Gains and losses on foreign exchange contracts entered into as hedges are deferred and recognized as part of the cost of the underlying transaction. At December 31, 1998, the

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company had approximately \$291 million of foreign exchange contracts outstanding, most of which mature in 1999, to buy or sell various currencies. Risks arise from the possible non-performance by counterparties in meeting the terms of their contracts and from movements in securities values, interest and/or exchange rates. However, the company does not anticipate non-performance by the counterparties as they are composed of a number of major international financial institutions. Maximum risk of loss on these contracts is limited to the amount of the difference between the spot rate at the date of the contract delivery and the contracted rate.

Foreign currency transaction gains and (losses) net of tax were \$(1.2) million, \$.5 million and \$(.5) million in 1998, 1997 and 1996, respectively.

Reclassification

Certain prior year amounts in the consolidated financial statements have been

reclassified to conform with the current year presentation.

2. Inventories

Inventories consist of the following:

December 31	1998	1997
Raw materials and work in process	\$ 54,001	\$ 51,429
Supplies and service parts	106,864	93,064
Finished products	105,869	104,714
Total	\$266,734	\$249,207

If all inventories that were valued at LIFO had been stated at current costs, inventories would have been \$24.9 million and \$33.8 million higher than reported at December 31, 1998 and 1997, respectively.

3. Fixed assets

December 31	1998	1997
Land	\$ 34,775	\$ 34,844
Buildings	305,596	307,341
Machinery and equipment	813,202	778,140
Accumulated depreciation	1,153,573 (676,097)	1,120,325 (623,064)
Property, plant and equipment, net	\$ 477,476	\$ 497,261

Rental equipment and related inventories	\$ 1,706,995	\$ 1,577,370
Accumulated depreciation	(900,410)	(789,335)
Rental equipment and related inventories, net	\$ 806,585	\$ 788,035

Property leased under capital leases	\$ 19,430	\$ 20,507
Accumulated amortization	(15,687)	(16,111)
Property leased under capital leases, net	\$ 3,743	\$ 4,396

4. Mortgage servicing rights

The company purchased rights to service loans with aggregate unpaid principal balances of approximately \$22.2 billion in 1998, \$6.9 billion in 1997 and \$5.3 billion in 1996. The costs associated with acquiring these rights were capitalized and included in other assets in the Consolidated Balance Sheets.

The following summarizes the company's capitalized MSR activity:

	1998	1997	1996
Beginning balance	\$ 220,912	\$ 138,146	\$ 108,851
MSR acquisitions	206,464	110,014	50,407
Deferred hedge loss	1,709	--	--
MSR amortization	(54,787)	(27,248)	(21,112)
Impairment reserve	(10,227)	--	--
Ending balance	\$ 364,071	\$ 220,912	\$ 138,146

=====
The fair value of MSRs was approximately \$367.3 million at December 31, 1998 and \$247.5 million at December 31, 1997.

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5. Current liabilities

Accounts payable and accrued liabilities and notes payable and current portion of long-term obligations are comprised as follows:

December 31	1998	1997

Accounts payable-trade	\$ 265,144	\$ 263,416
Accrued salaries, wages and commissions	134,262	106,670
Accrued pension benefits	95,341	84,005
Accrued nonpension postretirement benefits	15,500	15,500
Accrued postemployment benefits	6,900	6,900
Miscellaneous accounts payable and accrued liabilities	381,401	402,268

Accounts payable and accrued liabilities	\$ 898,548	\$ 878,759
=====		
Notes payable and overdrafts	\$1,051,182	\$1,747,377
Current portion of long-term debt	206,253	234,080
Current portion of capital lease obligations	1,758	1,531

Notes payable and current portion of long-term obligations	\$1,259,193	\$1,982,988
=====		

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

Notes payable were issued as commercial paper, loans against bank lines of credit, or to trust departments of banks and others at below prevailing prime rates. Fees paid to maintain lines of credit were \$.9 million in 1998 and 1997 and \$1.5 million in 1996.

At December 31, 1998, overdrafts outside the U.S. totaled \$3.5 million and U.S. notes payable totaled \$1.0 billion. Unused credit facilities outside the U.S. totaled \$58.8 million at December 31, 1998, of which \$37.4 million were for finance operations. In the U.S., the company had unused credit facilities of \$1.5 billion at December 31, 1998, largely in support of commercial paper borrowings, of which \$1.2 billion were for its finance operations. The weighted average interest rates were 4.6% and 4.8% on notes payable and overdrafts outstanding at December 31, 1998 and 1997, respectively.

The company periodically enters into interest rate swap agreements as a means of managing interest rate exposure on both its U.S. and non-U.S. debt. The interest differential to be paid or received is recognized over the life of the agreements as an adjustment to interest expense. The company is exposed to credit losses in the event of non-performance by swap counterparties to the extent of the differential between the fixed and variable rates; such exposure is considered minimal.

The company enters into interest rate swap agreements primarily through Pitney Bowes Credit Corporation (PBCC), a wholly-owned subsidiary of the company. It

has been the policy and objective of the company to use a balanced mix of debt maturities, variable and fixed rate debt and interest rate swap agreements to control its sensitivity to interest rate volatility. The company's variable and fixed rate debt mix, after adjusting for the effect of interest rate swap agreements, was 32% and 68%, respectively, at December 31, 1998. The company utilizes interest rate swap agreements when it considers the economic benefits to be favorable. Swap agreements, as noted above, have been principally utilized to fix interest rates on commercial paper and/or obtain a lower cost on debt than would otherwise be available absent the swap. At December 31, 1998, the company had outstanding interest rate swap agreements with notional principal amounts of \$391.5 million and terms expiring at various dates from 2000 to 2006. The company exchanged variable commercial paper rates on an equal notional amount of notes payable and overdrafts for fixed rates ranging from 5.5% to 10.75%.

6. Long-term debt

December 31	1998	1997

Non-financial services debt:		
5.95% notes due 2005	\$ 300,000	\$ --
Other	11,757	3,175
Financial services debt:		
Senior notes:		
6.54% notes due 1999	--	200,000
6.06% to 6.11% notes due 2000	50,000	50,000
5.89% notes due 2001	282,000	--
6.78% to 6.80% notes due 2001	200,000	200,000
6.63% notes due 2002	100,000	100,000
5.65% notes due 2003	250,000	--
8.80% notes due 2003	150,000	150,000
8.63% notes due 2008	100,000	100,000
9.25% notes due 2008	100,000	100,000
8.55% notes due 2009	150,000	150,000
Canadian dollar notes due		
2000 (11.05% to 11.20%)	10,857	15,220
Other	8,323	--

Total long-term debt	\$1,712,937	\$1,068,395
=====		

The company has a medium-term note facility which was established as a part of the company's shelf registrations, permitting issuance of up to \$500 million in debt securities with a minimum maturity of nine months, all of which remained available at December 31, 1998.

PBCC has \$750 million of unissued debt securities available from a shelf registration statement filed with the SEC in July 1998.

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The annual maturities of the outstanding debt during each of the next five years are as follows: 1999, \$206.3 million; 2000, \$65 million; 2001, \$485.2 million; 2002, \$102.1 million; 2003, \$401.7 million; and \$658.9 million thereafter.

Under terms of their senior and subordinated loan agreements, certain of the finance operations are required to maintain earnings before taxes and interest charges at prescribed levels. With respect to such loan agreements, the company will endeavor to have these finance operations maintain compliance with such terms and, under certain loan agreements, is obligated, if necessary, to pay to these finance operations amounts sufficient to maintain a prescribed ratio of earnings available for fixed charges. The company has not been required to make any such payments to maintain earnings available for fixed charges coverage.

7. Preferred stockholders' equity in a subsidiary company

Preferred stockholders equity in a subsidiary company represents 3,000,000 shares of variable term voting preferred stock issued by Pitney Bowes International Holdings, Inc., a subsidiary of the company, which are owned by certain outside institutional investors. These preferred shares are entitled to 25% of the combined voting power of all classes of capital stock. All outstanding common stock of Pitney Bowes International Holdings, Inc., representing the remaining 75% of the combined voting power of all classes of capital stock, is owned directly or indirectly by Pitney Bowes Inc. The preferred stock, \$.01 par value, is entitled to cumulative dividends at rates set at auction. The weighted average dividend rate in 1998 and 1997 was 4.1%. Preferred dividends are reflected as a minority interest in the Consolidated Statements of Income in selling, service and administrative expenses. 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, 1998 or 1997.

On December 31, 1998, the company sold 100 shares of 9.11% Cumulative Preferred Stock, mandatorily redeemable in 20 years, in a subsidiary company to an institutional investor for approximately \$10 million.

8. Capital stock and capital in excess of par value

At December 31, 1998, 480,000,000 shares of common stock, 600,000 shares of cumulative preferred stock, and 5,000,000 shares of preference stock were authorized, and 270,378,375 shares of common stock (net of 52,959,537 shares of treasury stock), 688 shares of 4% Convertible Cumulative Preferred Stock (4% preferred stock) and 74,997 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 (599,312 shares) and preference stock (4,925,003 shares). This will determine the dividend rate, terms of redemption, terms of conversion (if any) and other pertinent features. At December 31, 1998, unreserved and unissued common stock (exclusive of treasury stock) amounted to 113,286,009 shares.

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

The \$2.12 preference stock is entitled to cumulative dividends at the rate of \$2.12 per year and can be redeemed at the company's option at the rate of \$28 per share. Each share of the \$2.12 preference stock can be converted into 16 shares of common stock, subject to adjustment in certain events.

At December 31, 1998, a total of 1,216,630 shares of common stock were reserved for issuance upon conversion of the 4% preferred stock (16,678 shares) and \$2.12 preference stock (1,199,952 shares). In addition, 2,245,797 shares of common stock were reserved for issuance under the company's dividend reinvestment and other corporate plans.

Each share of common stock outstanding has attached one preference share purchase right. Each right entitles each holder to purchase 1/200th of a share of Series A Junior Participating Preference Stock for \$97.50 and will expire in February 2006. Following a merger or certain other transactions, the rights will entitle the holder to purchase common stock of the company or the acquirers at a 50% discount.

9. Stock plans

The company has the following stock plans which 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.

The company adopted FAS No. 123, "Accounting for Stock-Based Compensation", on January 1, 1996. Under FAS No. 123, companies can, but are not required to,

elect to recognize compensation expense for all stock-based awards using a fair value methodology. The company has adopted the disclosure-only provisions, as permitted by FAS No. 123. The company applies Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its stock-based plans. Accordingly, no compensation expense has been recognized for the ESP or the ESPP, except for the compensation expense recorded for its performance-based awards under the ESP and the Directors' Stock Plan as discussed herein. If the company had elected to recognize compensation expense based on the fair value method as prescribed by FAS No. 123, net income and earnings per share for

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the years ended 1998, 1997 and 1996 would have been reduced to the following pro forma amounts:

	1998	1997	1996
Net income			
As reported	\$576,394	\$526,027	\$469,413
Pro forma	\$567,907	\$523,400	\$467,742
Basic earnings per share			
As reported	\$2.10	\$1.82	\$1.57
Pro forma	\$2.07	\$1.81	\$1.57
Diluted earnings per share			
As reported	\$2.06	\$1.80	\$1.56
Pro forma	\$2.03	\$1.79	\$1.55

In accordance with FAS No. 123, the fair value method of accounting has not been applied to awards granted prior to January 1, 1995. Therefore, the resulting pro forma impact may not be representative of that to be expected in future years.

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

	1998	1997	1996
Expected dividend yield	1.5%	2.0%	2.5%
Expected stock price volatility	18%	17%	17%
Risk-free interest rate	5%	6%	6%
Expected life (years)	5	5	5

Stock Option Plans

Under the company's stock option plans, certain officers and employees of the U.S. and the company's participating subsidiaries are granted options at prices equal to the market value of the company's common shares at the date of grant. Options become exercisable in three equal installments during the first three years following their grant and expire after ten years. At December 31, 1998, there were 21,417,867 options available for future grants under these plans. The per share weighted average fair value of options granted was \$11 in 1998, \$7 in 1997 and \$5 in 1996.

The following table summarizes information about stock option transactions:

	Shares	Per share weighted average exercise price
Options outstanding at January 1, 1996	4,361,002	\$16
Granted	805,790	\$26
Exercised	(702,560)	\$15

Canceled	(86,258)	\$22

Options outstanding at December 31, 1996	4,377,974	\$18
Granted	1,837,730	\$30
Exercised	(774,728)	\$17
Canceled	(67,852)	\$28

Options outstanding at December 31, 1997	5,373,124	\$23
Granted	3,039,344	\$47
Exercised	(884,512)	\$17
Canceled	(142,953)	\$40

Options outstanding at December 31, 1998	7,385,003	\$33
=====		
Options exercisable at December 31, 1996	2,017,702	\$15
=====		
Options exercisable at December 31, 1997	2,703,734	\$18
=====		
Options exercisable at December 31, 1998	2,966,399	\$21
=====		
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The following table summarizes information about stock options outstanding at December 31, 1998:

Options Outstanding

Range of per share exercise prices	Number	Weighted average remaining contractual life	Per share weighted average exercise price
\$9-\$13	269,550	1.8 years	\$13
\$14-\$21	1,625,025	5.5 years	\$18
\$22-\$33	2,390,500	8.6 years	\$28
\$34-\$51	2,709,395	9.9 years	\$45
\$52-\$62	390,533	10.0 years	\$55
	7,385,003	8.2 years	
=====			

Options Exercisable

Range of per share exercise prices	Number	Per share weighted average exercise price
\$9-\$13	269,550	\$13
\$14-\$21	1,625,025	\$18
\$22-\$33	1,026,506	\$27
\$34-\$51	45,318	\$39
	2,966,399	
=====		

Beginning in 1997, certain employees eligible for performance-based compensation may defer up to 100% of their annual awards, subject to the terms and conditions of the Pitney Bowes Deferred Incentive Savings Plan. Participants may allocate deferred compensation among specified investment choices, including stock options under the U.S. stock option plan. Stock options acquired under this plan are exercisable three years following their grant and expire after a period not to exceed ten years. There were 156,158 and 90,904 options outstanding under this plan at December 31, 1998 and 1997, respectively, which are included in outstanding options under the company's U.S. stock option plan. The per share weighted average fair value of options granted was \$10 in 1998 and \$7 in 1997.

Certain executives are awarded restricted stock under the company's U.S. stock option plan. Restricted stock awards are subject to both tenure and financial performance over three years. The restrictions on the shares are released, in total or in part, only if the executive is still employed by the company at the end of the performance period and if the performance objectives are achieved. There were no shares awarded in 1998 and 1997 and 100,500 shares awarded in 1996 at no cost to the executives. The compensation expense for each award is recognized over the performance period. Compensation expense recorded by the company related to these awards was \$1.7 million, \$4.1 million and \$2.0 million in 1998, 1997 and 1996, respectively. The per share weighted average fair value of shares awarded was \$23 in 1996.

Employee Stock Purchase Plans

The U.S. ESPP enables substantially all employees to purchase shares of the company's common stock at a discounted offering price. In 1998, the offering price was 90% of the average closing price of the company's common stock on the New York Stock Exchange for the 30 day period preceding the offering date. At no time will the exercise price be less than the lowest price permitted under Section 423 of the Internal Revenue Code. The U.K. ESPP enables eligible employees of the company's participating U.K. subsidiaries to purchase shares of the company's stock at a discounted offering price. In 1998, the offering price was 90% of the average closing price of the company's common stock on the New York Stock Exchange for the three business days preceding the offering date. The company may grant rights to purchase up to 10,109,282 common shares to its regular employees under these plans. The company granted rights to purchase 593,256 shares in 1998, 855,916 shares in 1997, and 764,088 shares in 1996. The per share fair value of rights granted was \$7 in 1998, \$4 in 1997 and \$3 in 1996 for the U.S. ESPP and \$14 in 1998, \$9 in 1997 and \$7 in 1996 for the U.K. ESPP.

Directors' Stock Plan

Under this plan, each non-employee director is granted 1,400 shares of restricted common stock annually as part of their compensation. Shares granted at no cost to the directors were 11,600 in 1998, 10,900 in 1997 and 7,200 in 1996. Compensation expense recorded by the company was \$560,000, \$370,000 and \$175,000 for 1998, 1997 and 1996, respectively. The shares carry full voting and dividend rights but 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. The per share weighted average fair value of shares granted was \$42 in 1998, \$28 in 1997 and \$19 in 1996.

Beginning in 1997, non-employee directors may defer up to 100% of their eligible compensation, subject to the terms and conditions of the Pitney Bowes Deferred Incentive Savings Plan for directors. Participants may allocate deferred compensation among specified investment choices, including the Directors' Stock Plan. Stock options acquired under this plan are exercisable three years following their grant and expire after a period not to exceed ten years. There were 4,822 and 1,994 options outstanding under this plan at December 31, 1998 and 1997, respectively. The per share weighted average fair value of options granted was \$12 in 1998 and \$9 in 1997.

A reconciliation of the basic and diluted earnings per share computations for income from continuing operations for the years ended December 31, 1998, 1997 and 1996 is as follows:

1998			
	Income	Shares	Per Share
Income from continuing operations	\$ 567,941		
Less:			
Preferred stock dividends	(1)		
Preference stock dividends	(164)		
Basic earnings per share	\$ 567,776	274,977,135	\$ 2.07
Effect of dilutive securities:			
Preferred stock	1	16,863	
Preference stock	164	1,250,592	
Stock options		2,892,149	
Other		519,864	
Diluted earnings per share	\$ 567,941	279,656,603	\$ 2.03

1997			
	Income	Shares	Per Share
Income from continuing operations	\$ 509,002		
Less:			
Preferred stock dividends	(1)		
Preference stock dividends	(179)		
Basic earnings per share	\$ 508,822	288,782,996	\$ 1.76
Effect of dilutive securities:			
Preferred stock	1	21,420	
Preference stock	179	1,355,116	
Stock options		2,068,442	
Other		289,142	
Diluted earnings per share	\$ 509,002	292,517,116	\$ 1.74

1996			
	Income	Shares	Per Share
Income from continuing operations	\$ 452,609		
Less:			
Preferred stock dividends	(1)		
Preference stock dividends	(194)		
Basic earnings per share	\$ 452,414	298,233,766	\$ 1.51
Effect of dilutive securities:			
Preferred stock	1	22,882	
Preference stock	194	1,453,512	

Stock options		1,344,634	
Other		248,562	

Diluted earnings per share	\$ 452,609	301,303,356	\$ 1.50
=====			

11. Taxes on income

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

	Years ended December 31		
	1998	1997	1996

Income from continuing operations before income taxes:			
U.S.	\$ 771,787	\$ 690,296	\$ 629,649
Outside the U.S.	92,390	85,231	27,521

Total	\$ 864,177	\$ 775,527	\$ 657,170

Provision for income taxes:			
U.S. federal:			
Current	\$ 101,000	\$ 101,479	\$ 61,550
Deferred	130,479	108,645	83,601

	231,479	210,124	145,151

U.S. state and local:			
Current	21,516	40,803	13,420
Deferred	23,566	(6,969)	26,635

	45,082	33,834	40,055

Outside the U.S.:			
Current	29,919	33,596	28,694
Deferred	(10,244)	(11,029)	(9,339)

	19,675	22,567	19,355

Total current	152,435	175,878	103,664
Total deferred	143,801	90,647	100,897

Total	\$ 296,236	\$ 266,525	\$ 204,561
=====			

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

	Years ended December 31		
	1998	1997	1996

U.S. federal	\$236,031	\$219,291	\$154,200
U.S. state and local	45,767	35,213	41,415
Outside the U.S.	19,675	22,567	19,355

Total	\$301,473	\$277,071	\$214,970
=====			

In 1996 through 1998, the company recognized a reduction in tax expense on account of its investment in a life insurance program. In 1996, the company

recognized U.S. tax benefits from the write-off of its Australian investment and from restructuring its Australian operations.

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

	1998	1997	1996
U.S. federal statutory rate	35.0%	35.0%	35.0%
State and local income taxes	3.4	2.8	4.0
Foreign tax differential	(1.5)	(1.0)	(0.2)
Australian write-off	--	--	(2.5)
Life insurance investment	(0.3)	(0.7)	(1.7)
Other, net	(2.3)	(1.7)	(3.5)
Effective income tax rate	34.3%	34.4%	31.1%

The effective tax rate for discontinued operations in 1998, 1997 and 1996 differs from the statutory rate due primarily to state and local income taxes.

Deferred tax liabilities and (assets)

December 31	1998	1997
Deferred tax liabilities:		
Depreciation	\$ 113,455	\$ 97,988
Deferred profit (for tax purposes) on sales to finance subsidiaries	416,941	393,645
Lease revenue and related depreciation	823,914	843,422
Other	134,147	109,621
Deferred tax liabilities	1,488,457	1,444,676
Deferred tax assets:		
Nonpension postretirement benefits	(122,481)	(125,377)
Inventory and equipment capitalization	(40,745)	(38,191)
Net operating loss carryforwards	(64,035)	(43,602)
Other	(219,947)	(244,171)
Valuation allowance	60,957	41,301
Deferred tax assets	(386,251)	(410,040)
Net deferred taxes	1,102,206	1,034,636
Less: Current net deferred taxes (a)	181,685	128,868
Deferred taxes on income	\$ 920,521	\$ 905,768

(a) The table of deferred tax liabilities and (assets) above includes \$181.7 million and \$128.9 million for 1998 and 1997, respectively, of current net deferred taxes, which are included in income taxes payable in the Consolidated Balance Sheets.

The increase in the deferred tax asset for net operating loss carryforwards and related valuation allowance was due mainly to finalized German audits for the years 1991 to 1994, as well as losses incurred by certain foreign subsidiaries. At December 31, 1998 and 1997, approximately \$131.1 million and \$94.5 million, respectively, of net operating loss carryforwards were available to the company. Most of these losses can be carried forward indefinitely.

12. Retirement plans

The company has several defined benefit and defined contribution pension plans

covering substantially all employees worldwide. Benefits are primarily based on employees' compensation and years of service. Company contributions are determined based on the funding requirements of U.S. federal and other governmental laws and regulations.

During 1997, the company announced that it amended its U.S. defined benefit pension plan to a pay equity plan for most of its active U.S. employees. A pay equity plan is a defined benefit pension plan in which pension benefits are defined as a lump sum amount based on final average pay. The prior plan was a defined benefit plan in which pension benefits were defined as annual annuity amounts based on final average pay. In addition, the com-

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pany enhanced the employer contributions to the U.S. defined contribution plan. The net impact of these changes was a reduction in 1997 U.S. pension plan costs of approximately \$15.4 million and a reduction in the projected benefit obligation for the U.S. defined benefit plan of \$74.3 million. The reduction in pension costs and the projected benefit obligation result from the fact that the value of pension benefits are lower under the pay equity plan than under the prior plan using the actuarial assumptions disclosed.

The company contributed \$32 million, \$16.9 million and \$10.1 million to its defined contribution plans in 1998, 1997 and 1996, respectively.

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

December 31	Pension Benefits			
	United States		Foreign	
	1998	1997	1998	1997
Change in benefit obligations:				
Benefit obligations at beginning of year	\$ 968,950	\$ 995,009	\$ 179,713	\$ 162,613
Service cost	22,754	22,780	5,641	6,771
Interest cost	70,341	67,111	12,293	12,515
Amendments	--	(74,266)	1,393	--
Actuarial loss	40,708	5,581	19,722	9,029
Foreign currency changes	--	--	(4,543)	(2,106)
Benefits paid	(72,374)	(47,265)	(9,709)	(9,109)
Benefit obligations at end of year	\$ 1,030,379	\$ 968,950	\$ 204,510	\$ 179,713
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 959,632	\$ 868,752	\$ 209,629	\$ 179,040
Actual return on plan assets	134,853	136,629	2,819	34,525
Company contribution	1,306	1,516	6,396	6,489
Foreign currency changes	--	--	(6,556)	(1,316)
Benefits paid	(72,374)	(47,265)	(9,709)	(9,109)
Fair value of plan assets at end of year	\$ 1,023,417	\$ 959,632	\$ 202,579	\$ 209,629
Funded status	\$ (6,962)	\$ (9,318)	\$ (1,931)	\$ 29,916
Unrecognized actuarial (gain) loss	(23,902)	(7,854)	8,353	(20,317)
Unrecognized prior service cost	(46,318)	(49,845)	5,448	5,789
Unrecognized transition cost	(6,278)	(9,457)	(6,221)	(9,283)
(Accrued) prepaid benefit cost	\$ (83,460)	\$ (76,474)	\$ 5,649	\$ 6,105
Amounts recognized in the Consolidated Balance Sheets consist of:				
Prepaid benefit cost	\$ --	\$ --	\$ 16,181	\$ 13,373
Accrued benefit liability	(83,460)	(76,474)	(10,532)	(7,268)
Additional minimum liability	--	(353)	(136)	(875)
Intangible asset	--	353	136	875
(Accrued) prepaid benefit cost	\$ (83,460)	\$ (76,474)	\$ 5,649	\$ 6,105
Weighted average assumptions:				
Discount rate	7.00%	7.25%	3.5%--7.0%	4.0%--7.8%
Expected return on plan assets	9.30%	9.50%	4.0%--8.3%	4.0%--9.0%
Rate of compensation increase	4.25%	4.25%	2.0%--5.0%	2.0%--5.0%

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At December 31, 1998, 34,900 shares of the company's common stock with a fair value of \$2.3 million were included in the plan assets of the company's pension plan.

The company provides certain health care and life insurance benefits to eligible retirees and their dependents. The cost of these benefits are recognized over the period the employee provides credited service to the company. Substantially all of the company's U.S. and Canadian employees become eligible for retiree health care benefits after reaching age 55 and with the completion of the required service period. Postemployment benefits include primarily company-provided medical benefits to disabled employees and company-provided life insurance as well as other disability and death-related benefits to former or inactive employees, their beneficiaries and covered dependents.

During 1997, the company amended its retiree medical program for current and future retirees of Pitney Bowes Management Services who will now have increased participant contributions.

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

December 31	Nonpension Postretirement Benefits	
	1998	1997

Change in benefit obligations:		
Benefit obligations at beginning of year	\$ 306,722	\$ 304,756
Service cost	9,423	9,688
Interest cost	18,952	18,770
Plan participants' contributions	1,305	1,419
Actuarial gain	(720)	(6,366)
Foreign currency changes	(464)	(323)
Benefits paid	(19,938)	(19,488)
Plan amendments	(581)	(1,734)

Benefit obligations at end of year	\$ 314,699	\$ 306,722
=====		
December 31	1998	1997

Change in plan assets:		
Fair value of plan assets at beginning of year	\$ --	\$ --
Company contribution	18,633	18,069
Plan participants' contributions	1,305	1,419
Benefits paid	(19,938)	(19,488)

Fair value of plan assets at end of year	\$ --	\$ --
=====		
Funded status	\$ (314,699)	\$ (306,722)
Unrecognized actuarial gain	(2,094)	(1,057)
Unrecognized prior service cost	(7,826)	(23,141)

Accrued benefit cost	\$ (324,619)	\$ (330,920)
=====		

The assumed weighted-average discount rate used in determining the accumulated postretirement benefit obligations was 7.0% in 1998 and 7.25% in 1997.

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

	Pension Benefits					
	United States			Foreign		
	1998	1997	1996	1998	1997	1996
Service cost	\$ 22,754	\$ 22,780	\$ 31,952	\$ 5,641	\$ 6,771	\$ 6,046
Interest cost	70,341	67,111	69,292	12,293	12,515	10,882

Expected return on plan assets	(78,100)	(75,518)	(70,500)	(14,779)	(14,676)	(12,288)
Amortization of transition cost	(3,179)	(3,179)	(3,179)	(1,604)	(1,614)	(1,693)
Amortization of prior service costs	(3,784)	(3,766)	2,380	1,595	1,477	1,555
Recognized net actuarial loss (gain)	559	977	1,232	--	7	(201)
-----	-----	-----	-----	-----	-----	-----
Net periodic benefit cost	\$ 8,591	\$ 8,405	\$ 31,177	\$ 3,146	\$ 4,480	\$ 4,301
=====	=====	=====	=====	=====	=====	=====

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Nonpension Postretirement benefits

	1998	1997	1996
-----	-----	-----	-----
Service cost	\$ 9,423	\$ 9,688	\$ 10,445
Interest cost	18,952	18,770	17,654
Amortization of prior service costs	(15,873)	(16,045)	(16,000)
Recognized net actuarial loss	58	--	54
-----	-----	-----	-----
Net periodic benefit cost	\$ 12,560	\$ 12,413	\$ 12,153
=====	=====	=====	=====

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligations was 7.0% in 1998 and 7.25% in 1997. This was assumed to gradually decline to 3.75% by the year 2000 and remain at that level thereafter for 1998 and 1997.

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

	1-Percentage- Point Increase	1-Percentage- Point Decrease
-----	-----	-----
Effect on total of service and interest cost components	\$ 977	\$ 936
Effect on postretirement benefit obligations	\$12,769	\$12,050
-----	-----	-----

13. Discontinued Operations

On October 30, 1998, Colonial Pacific Leasing Corporation (CPLC), a wholly-owned subsidiary of the company, transferred the operations, employees and substantially all assets related to its broker-oriented external financing business to General Electric Capital Corporation (GECC), a subsidiary of the General Electric Company. The company received approximately \$790 million at closing, which approximates the book value of the net assets sold or otherwise disposed of and related transaction costs. The transaction is subject to post-closing adjustments pursuant to the terms of the purchase agreement with GECC entered into on October 12, 1998.

Operating results of CPLC have been reported separately as discontinued operations in the Consolidated Statements of Income. Revenue of CPLC was \$113.8 million, \$180.5 million and \$163 million for the years ended December 31, 1998, 1997 and 1996, respectively. Income from discontinued operations includes allocated interest expense of \$33.9 million, \$46.2 million and \$40.7 million for the years ended 1998, 1997 and 1996, respectively. Interest expense has been allocated based on CPLCs intercompany borrowing levels with PBCC charged at PBCC's weighted average borrowing rate.

14. Commitments, contingencies and regulatory matters

The company's finance subsidiaries had no unfunded commitments to extend credit to customers at December 31, 1998. The company evaluates each customer's creditworthiness on a case-by-case basis. Upon extension of credit, the amount

and type of collateral obtained, if deemed necessary by the company, is based on management's credit assessment of the customer. Fees received under the agreements are recognized over the commitment period. The maximum risk of loss arises from the possible non-performance of the customer to meet the terms of the credit agreement. As part of the company's review of its exposure to risk, adequate provisions are made for finance assets, which may be uncollectible.

From time to time, the company is party to lawsuits that arise in the ordinary course of its business. These lawsuits may involve litigation by or against the company to enforce contractual rights under vendor, insurance, or other contracts; lawsuits relating to intellectual property or patent rights; equipment, service or payment disputes with customers; disputes with employees; or other matters. The company is currently a plaintiff or a defendant in a number of lawsuits, none of which should have, in the opinion of management and legal counsel, a material adverse effect on the company's financial position or results of operations.

The company is subject to federal, state and local laws and regulations concerning the environment, and is currently participating in administrative or court proceedings as a participant in various groups of potentially responsible parties. As previously announced by the company, in 1996 the Environmental Protection Agency (EPA) issued an administrative order directing the company to be part of a soil cleanup program at the Sarney Farm site in Amenia, New York. The site was operated as a landfill between the years 1968 and 1970 by parties unrelated to the company, and wastes from a number of industrial sources were disposed there. The company does not concede liability for the condition of the site, but is working with the EPA to identify and then seek reimbursement from other potentially responsible parties. The company estimates that the cost of this remediation effort will range between \$3 million and \$5 million for the soil remediation program. All of these proceedings are at various stages of activity, and it is impossible to estimate with any certainty the total cost of remediating, the timing and extent of remedial actions which may be required by governmental authorities, or the amount of liability, if any, of the company. If and when it is possible to make a reasonable estimate of the company's liability in any of these matters, we will make a financial provision as appropriate. Based on facts presently known, the company does not believe that the outcome of these proceedings will have a material adverse effect on its financial condition.

In May 1996, the USPS issued a proposed schedule for the phaseout of mechanical meters in the U.S. Between May 1996 and March 1997, the company worked with the USPS to negotiate a revised mechanical meter migration schedule. The final

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schedule agreed to with the USPS is as follows: (i) as of June 1, 1996, new placements of mechanical meters would no longer be permitted. Replacements of mechanical meters previously licensed to customers would be permitted prior to the applicable suspension date for that category of mechanical meter; (ii) as of March 1, 1997, use of mechanical meters by persons or firms who process mail for a fee would be suspended and would have to be removed from service; (iii) as of December 31, 1998, use of mechanical meters that interface with mail machines or processors ("systems meters") would be suspended and would have to be removed from service; (iv) as of March 1, 1999, use of all other mechanical meters ("stand-alone meters") would be suspended and have to be removed from service.

As a result of the company's aggressive efforts to meet the USPS mechanical meter migration schedule combined with the company's ongoing and continuing investment in advanced postage evidencing technologies, mechanical meters represent less than 10% of the company's installed U.S. meter base at December 31, 1998, compared with 25% at December 31, 1997. At December 31, 1998, over 90% of the company's installed U.S. meter base is electronic or digital, compared to 75% at December 31, 1997. The company continues to work in close cooperation with the USPS to convert those mechanical meter customers who have not migrated to digital or electronic meters by the applicable USPS deadline.

In May 1995, the USPS publicly announced its concept of its Information Based Indicia Program (IBIP) for future postage evidencing devices. As initially stated by the USPS, the purpose of the program was to develop a new standard for future digital postage evidencing devices which significantly enhanced postal revenue security and supported expanded USPS value-added services to mailers. The program would consist of the development of four separate specifications: (i) the Indicium specification--the technical specifications for the indicium to be printed; (ii) a Postal Security Device specification--the technical specification for the device that would contain the accounting and security features of the system; (iii) a Host specification; and (iv) a Vendor Infrastructure specification.

In July 1996, the USPS published for public comment draft specifications for the Indicium, Postal Security Device and Host specifications. The company submitted extensive comments to these four specifications. In March 1997, the USPS published for public comment the Vendor Infrastructure specification.

In August 1998, the USPS published for public comment a consolidated and revised set of IBIP specifications entitled "Performance Criteria for Information Based Indicia and Security Architecture for IBI Postage Metering Systems" (the IBI Performance Criteria). The IBI Performance Criteria consolidated the four aforementioned IBIP specifications and incorporated many of the comments previously submitted by the company. The company submitted comments to the IBI Performance Criteria on November 30, 1998.

As of December 31, 1998, the company is in the process of finalizing the development of a PC product which satisfies the proposed IBI Performance Criteria. This product is currently undergoing beta testing and is expected to be ready for market upon final approval from the USPS.

15. Leases

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

Future minimum lease payments under both capital and operating leases at December 31, 1998 are as follows:

Years ending December 31	Capital leases	Operating leases
1999	\$ 3,238	\$ 57,228
2000	2,880	44,283
2001	2,739	33,196
2002	2,334	24,707
2003	1,977	17,428
Thereafter	2,069	43,446
Total minimum lease payments	\$ 15,237	\$220,288
Less: Amount representing interest	5,095	
Present value of net minimum lease payments	\$ 10,142	

Rental expense was \$112.2 million, \$117.4 million and \$121.2 million in 1998, 1997 and 1996, respectively.

16. Financial services

The company has several consolidated finance operations which are engaged in lease financing of the company's products in the U.S., Canada, the U.K., Germany, France, Norway, Ireland, Australia, Austria, Switzerland and Sweden, as

well as other financial services to the commercial and industrial markets in the U.S.

As discussed in Note 13, CPLC transferred the operations, employees and substantially all assets related to its broker-oriented external financing business to General Electric Capital Corporation (GECC), a subsidiary of the General Electric Company. The company received approximately \$790 million at closing, which approximates the book value of the net assets sold or otherwise disposed of and related transaction costs. The transaction is subject to post-closing adjustments pursuant to the terms of the purchase agreement with GECC entered into on October 12, 1998. As a result, the operating results of CPLC have been excluded from continuing operations.

On August 21, 1997, the company announced that it had entered into an agreement with GATX Capital Corporation (GATX Capital), a subsidiary of GATX Corporation, which reduced the company's

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external large-ticket finance portfolio by approximately \$1.1 billion. This represented approximately 50% of the company's external large-ticket portfolio and reflects the company's ongoing strategy of focusing on fee- and service-based revenue rather than asset-based income.

Under the terms of the agreement, the company transferred external large-ticket finance assets through a sale to GATX Capital and an equity investment in a limited liability company owned by GATX Capital and the company. The company received approximately \$863 million in net cash relating to this transaction during 1997 and 1998. At December 31, 1998, the company retained approximately \$166 million of equity investment in a limited liability company along with GATX Capital.

Condensed financial data for the consolidated finance operations follows:

Condensed summary of operations

Years ended December 31	1998	1997	1996
Revenue	\$600,693	\$608,641	\$631,790
Costs and expenses	184,213	180,100	199,032
Interest, net	139,845	167,490	175,519
Total expenses	324,058	347,590	374,551
Income before income taxes	276,635	261,051	257,239
Provision for income taxes	71,952	72,279	81,229
Income from continuing operations	204,683	188,772	176,010
Discontinued operations	8,453	17,025	16,804
Net income	\$213,136	\$205,797	\$192,814

Condensed balance sheet

December 31	1998	1997
Cash and cash equivalents	\$ 27,057	\$ 41,637
Finance receivables, net	1,400,786	1,546,542
Accounts receivable	560,177	263,738
Other current assets		

and prepayments	54,846	54,753

Total current assets	2,042,866	1,906,670
Long-term finance receivables, net	1,999,339	2,581,349
Investment in leveraged leases	827,579	727,783
Other assets	315,821	281,244

Total assets	\$5,185,605	\$5,497,046
=====		
Accounts payable and accrued liabilities	\$ 499,204	\$ 423,462
Income taxes payable	146,913	102,110
Notes payable and current portion of long-term obligations	699,453	1,897,915

Total current liabilities	1,345,570	2,423,487
Deferred taxes on income	349,082	423,832
Long-term debt	2,097,737	1,378,827
Other noncurrent liabilities	878	4,042

Total liabilities	3,793,267	4,230,188
Equity	1,392,338	1,266,858

Total liabilities and equity	\$5,185,605	\$5,497,046
=====		

Finance receivables are generally due in monthly, quarterly or semiannual installments over periods ranging from three to 15 years. In addition, 18.6% of the company's net finance assets represent secured commercial and private jet aircraft transactions with lease terms ranging from three to 25 years. The company considers its credit risk for these leases to be minimal since all aircraft lessees are making payments in accordance with lease agreements. The company believes any potential exposure in aircraft investment is mitigated by the value of the collateral as the company retains a security interest in the leased aircraft.

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

Years ending December 31	Gross finance receivables	Notes payable, current and long-term debt
1999	\$1,727,361	\$ 699,453
2000	868,840	60,857
2001	606,453	482,000
2002	316,165	100,000
2003	111,863	400,000
Thereafter	271,903	1,054,880

Total	\$3,902,585	\$2,797,190
=====		

Finance operations' net purchases of Pitney Bowes equipment amounted to \$750.8 million, \$667.3 million and \$645.4 million in 1998, 1997 and 1996, respectively.

The components of net finance receivables were as follows:

December 31	1998	1997
Gross finance receivables	\$ 3,902,585	\$ 4,756,947
Residual valuation	479,777	527,503
Initial direct cost deferred	55,176	93,438
Allowance for credit losses	(130,775)	(132,308)

Unearned income	(906,638)	(1,117,689)

Net finance receivables	\$ 3,400,125	\$ 4,127,891
=====		

The company's net investment in leveraged leases is composed of the following elements:

December 31	1998	1997

Net rents receivable	\$ 955,563	\$ 810,750
Unguaranteed residual valuation	608,858	609,737
Unearned income	(736,842)	(692,704)

Investment in leveraged leases	827,579	727,783
Deferred taxes arising from leveraged leases	(477,814)	(300,164)

Net investment in leveraged leases	\$ 349,765	\$ 427,619
=====		

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

Years ended December 31	1998	1997	1996

Pretax leveraged lease income	\$20,671	\$ 6,797	\$ 8,497
Income tax effect	9,990	16,110	6,501

Income from leveraged leases	\$30,661	\$22,907	\$14,998
=====			

Leveraged lease assets acquired by the company are financed primarily through nonrecourse loans from third-party debt participants. These loans are secured by the lessees rental obligations and the leased property. Net rents receivable represent gross rents less the principal and interest on the nonrecourse debt obligations. Unguaranteed residual values are principally based on independent appraisals of the values of leased assets remaining at the expiration of the lease.

Leveraged lease investments include \$301.6 million related to commercial real estate facilities, with original lease terms ranging from five to 25 years. Also included are seven aircraft transactions with major commercial airlines, with a total investment of \$297.5 million with original lease terms ranging from 22 to 25 years and transactions involving locomotives, railcars and rail and bus facilities, with a total investment of \$228.4 million and original lease terms ranging from 15 to 44 years.

The company has sold net finance receivables with varying amounts of recourse in privately placed transactions with third-party investors. The uncollected principal balance of receivables sold and residual guarantee contracts totaled \$545 million and \$502 million at December 31, 1998 and 1997, respectively. The maximum risk of loss 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. Conversely, these contracts are supported by the underlying equipment value and creditworthiness of customers. As part of the review of its exposure to risk, the company believes adequate provisions have been made for sold receivables, which may be uncollectible.

The company has invested in various types of equipment under operating leases; the net investment at December 31, 1998 and 1997 was not significant.

17. Business segment information

For a description of the company's reportable segments and the types of products and services from which each reportable segment derives its revenue, see "Overview" on page 25. 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.

Operating profit of each segment is determined by deducting from revenue the related costs and operating expenses directly attributable to the segment. Segment operating profit excludes general corporate expenses, income taxes and net interest attributable to corporate debt. Interest from financial services businesses includes intercompany interest. Identifiable assets are those used in the company's operations in each segment and exclude cash and cash equivalents, short-term investments and general corporate assets. Long-lived assets exclude finance receivables, investment in leveraged leases and mortgage servicing rights.

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Revenue and operating profit by business segment and geographic area for the years ended 1996 to 1998 were as follows:

(Dollars in millions)	Revenue		
	1998	1997	1996
Business segments:			
Mailing and Integrated Logistics	\$2,707	\$2,552	\$2,402
Office Solutions	1,216	1,089	983
Mortgage Servicing	130	73	53
Capital Services	168	206	258
Total	\$4,221	\$3,920	\$3,696
Geographic areas:			
United States	\$3,635	\$3,358	\$3,135
Outside the United States	586	562	561
Total	\$4,221	\$3,920	\$3,696
Operating profit			
(Dollars in millions)	1998	1997	1996
Business segments:			
Mailing and Integrated Logistics (a)	\$ 663	\$ 584	\$ 477
Office Solutions	235	197	172
Mortgage Servicing	37	25	14
Capital Services	52	48	60
Total	\$ 987	\$ 854	\$ 723
Geographic areas:			
United States	\$ 900	\$ 775	\$ 691
Outside the United States (a)	87	79	32
Total	\$ 987	\$ 854	\$ 723

(a) In 1996, excluding the Australian charge of \$30 million, operating profit for the Mailing and Integrated Logistics segment would have been

\$507 million and the operating profit for the geographic area outside the United States would have been \$62 million. See discussion of selling, service and administrative expense on page 29.

Additional segment information is as follows:

(Dollars in millions)	Years ended December 31		
	1998	1997	1996
Depreciation and amortization:			
Mailing and			
Integrated Logistics	\$ 177	\$ 167	\$ 166
Office Solutions	88	74	62
Mortgage Servicing	64	29	22
Capital Services	18	17	15
Total	\$ 347	\$ 287	\$ 265

Net interest expense:			
Mailing and			
Integrated Logistics	\$ 61	\$ 57	\$ 51
Office Solutions	5	5	4
Mortgage Servicing	(6)	(2)	(2)
Capital Services	72	104	120
Total	\$ 132	\$ 164	\$ 173

(Dollars in millions)	December 31	
	1998	1997
Net additions to long-lived assets:		
Mailing and		
Integrated Logistics	\$ 177	\$ 176
Office Solutions	123	98
Mortgage Servicing	2	1
Capital Services	17	(35)
Total	\$ 319	\$ 240

Identifiable assets:		
Mailing and		
Integrated Logistics	\$ 3,893	\$ 3,596
Office Solutions	879	769
Mortgage Servicing	610	346
Capital Services	2,012	2,896
Total	\$ 7,394	\$ 7,607

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(Dollars in millions)	December 31	
	1998	1997
Identifiable long-lived assets by geographic areas:		

United States	\$1,636	\$1,531
Outside the United States	195	182

Total	\$1,831	\$1,713
=====		

Reconciliation of segment amounts to consolidated totals:

(Dollars in millions)	Years ended December 31		
	1998	1997	1996

Operating profit:			
Total operating profit for reportable segments	\$ 987	\$ 854	\$ 723
Unallocated amounts:			
Net interest (corporate interest expense, net of intercompany transactions)	(17)	9	16
Corporate expense	(106)	(87)	(82)

Income from continuing operations before income taxes	\$ 864	\$ 776	\$ 657
=====			
Net interest expense:			
Total interest expense for reportable segments	\$ 132	\$ 164	\$ 173
Net interest (corporate interest expense, net of intercompany transactions)	17	(9)	(16)

Consolidated net interest expense	\$ 149	\$ 155	\$ 157
=====			
Depreciation and amortization:			
Total depreciation and amortization for reportable segments	\$ 347	\$ 287	\$ 265
Corporate depreciation	14	13	13

Consolidated depreciation and amortization	\$ 361	\$ 300	\$ 278
=====			

(Dollars in millions)	December 31	
	1998	1997

Net additions to long-lived assets:		
Total additions for reportable segments	\$ 319	\$ 240
Unallocated amounts	6	10

Consolidated additions to long-lived assets	\$ 325	\$ 250
=====		
Total assets:		
Total identifiable assets by reportable segments	\$7,394	\$7,607
Cash and cash equivalents and short-term investments	129	139
General corporate assets	138	147

Consolidated assets	\$7,661	\$7,893

=====

18. Fair value of financial instruments

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

Cash, cash equivalents, short-term investments, accounts receivable, accounts payable and notes payable. The carrying amounts approximate fair value because of the short maturity of these instruments.

Investment securities

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

Loans receivable

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

Long-term debt

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

Interest rate swap agreements and foreign currency exchange contracts

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

MSR hedge

The fair values of the MSR hedge are obtained from dealer quotes. The interest rate swap portion represents the estimated amount the company would receive or pay to terminate the agreements,

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taking into consideration current interest rates and creditworthiness of the counterparties. The interest rate floor portion represents the difference between the market value and amounts paid to enter into the contracts.

Residual, conditional commitment and financial guarantee contracts

The fair values of residual and conditional commitment guarantee contracts are based on the projected fair market value of the collateral as compared to the guaranteed amount plus a commitment fee generally required by the counterparty assuming the guarantee. The fair value of financial guarantee contracts represents the estimate of expected future losses.

Transfer of receivables with recourse

The fair value of the recourse liability represents the estimate of expected future losses. The company periodically evaluates the adequacy of reserves and estimates of expected losses; if the resulting evaluation of expected losses differs from the actual reserve, adjustments are made to the reserve.

The estimated fair value of the company's financial instruments at December 31, 1998 is as follows:

	Carrying value (a)	Fair value
Investment securities	\$ 9,022	\$ 9,898
Loans receivable	\$ 453,558	\$ 469,159
Long-term debt	\$ (1,954,434)	\$ (2,058,237)
Interest rate swaps	\$ (2,142)	\$ (31,912)
Foreign currency exchange contracts	\$ 1,867	\$ 652
MSR hedge	\$ 3,950	\$ 2,864
Residual, conditional commitment and financial guarantee contracts	\$ (2,077)	\$ (3,460)
Transfer of receivables with recourse	\$ (42,805)	\$ (42,805)

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

The estimated fair value of the company's financial instruments at December 31, 1997 is as follows:

	Carrying value (a)	Fair value
Investment securities	\$ 20,124	\$ 20,015
Loans receivable	\$ 357,227	\$ 358,941
Long-term debt	\$ (1,321,497)	\$ (1,396,369)
Interest rate swaps	\$ (1,242)	\$ (28,551)
Foreign currency exchange contracts	\$ 735	\$ 4,542
Residual, conditional commitment and financial guarantee contracts	\$ (6,406)	\$ (7,518)
Transfer of receivables with recourse	\$ (8,005)	\$ (8,005)

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

19. Quarterly financial data (unaudited)

Summarized quarterly financial data (dollars in millions, except for per share data) for 1998 and 1997 follows:

1998	Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31
Total revenue	\$ 977	\$1,044	\$1,052	\$1,147
Cost of sales and rentals and financing	\$ 394	\$ 415	\$ 416	\$ 439
Income from:				
Continuing operations	\$ 127	\$ 139	\$ 139	\$ 162
Discontinued operations	3	3	2	1
Net income	\$ 130	\$ 142	\$ 141	\$ 163
Basic earnings per share:				
Continuing operations	\$.45	\$.51	\$.51	\$.60
Discontinued operations	.01	.01	.01	--
Net income	\$.46	\$.52	\$.52	\$.60
Diluted earnings per share:				
Continuing operations	\$.45	\$.50	\$.50	\$.59

Discontinued operations		.01	.01	.01	--

Net income	\$	.46	\$.51	\$.51	\$.59
=====					

1997	Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31

Total revenue	\$ 926	\$ 969	\$ 975	\$ 1,050
Cost of sales and rentals and financing	\$ 361	\$ 377	\$ 385	\$ 409
Income from:				
Continuing operations	\$ 117	\$ 128	\$ 124	\$ 140
Discontinued operations	3	3	4	7

Net income	\$ 120	\$ 131	\$ 128	\$ 147
=====				

Basic earnings per share:					
Continuing operations	\$	.40	\$.44	\$.43	\$.50
Discontinued operations		.01	.01	.01	.02

Net income	\$	.41	\$.45	\$.44	\$.52
=====					

Diluted earnings per share:					
Continuing operations	\$	.39	\$.44	\$.43	\$.49
Discontinued operations		.01	.01	.01	.02

Net income	\$	.40	\$.45	\$.44	\$.51
=====					

The sum of the quarters of 1998 and 1997 may not equal the annual amount due to rounding.

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Report of Independent Accountants

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Pitney Bowes Inc. and its subsidiaries at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Stamford, Connecticut
January 21, 1999

Stockholder Information

World Headquarters
Pitney Bowes Inc.
1 Elmcroft Rd.
Stamford, CT 06926-0700
(203) 356-5000
www.pitneybowes.com

Annual Meeting

Stockholders are cordially invited to attend the 1999 Annual Meeting at 9:00 a.m., Monday, May 10, 1999, at Pitney Bowes World Headquarters in Stamford, Connecticut. A notice of the meeting, proxy statement and proxy will be mailed to each stockholder under separate cover.

10-K Report

The Form 10-K report, to be filed by Pitney Bowes with the Securities and Exchange Commission, will provide certain additional information. Stockholders may obtain copies of this report without charge by writing to:

MSC 6140
Investor Relations
Pitney Bowes Inc.
1 Elmcroft Rd.
Stamford, CT 06926-0700

Stock Exchanges

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

Comments concerning the Annual Report should be sent to:

MSC 6309
Director Corporate Marketing and Advertising
Pitney Bowes Inc.
1 Elmcroft Rd.
Stamford, CT 06926-0700

Investors should contact First Chicago Trust Company at the address below for:

- . Lost securities and certificate replacement
- . Change of address, account consolidations, legal transfer requirements, replacement checks, tax information
- . Certificate transfers
- . Dividend reinvestment plan information

First Chicago Trust Company,
a division of EquiServe
PO Box 2500
Jersey City, NJ 07303-2500

Transfer Agent and Registrar:

First Chicago Trust Company,
a division of EquiServe
PO Box 2500
Jersey City, NJ 07303-2500
Stockholders may call First Chicago Trust Company at

(800) 648-8170.

Investor Inquiries

All investor inquiries about Pitney Bowes should be addressed to:

MSC 6140

Investor Relations

Pitney Bowes Inc.

1 Elmcroft Rd.

Stamford, CT 06926-0700

Stock Information

Dividends per common share

Quarter	1998	1997
First	\$.225	\$.20
Second	.225	.20
Third	.225	.20
Fourth	.225	.20
Total	\$.900	\$.80

Quarterly price ranges of common stock

Quarter	High	1998	Low
First	51 15/16		42 7/32
Second	52 3/16		44 13/16
Third	58 3/16		46 5/8
Fourth	66 3/8		47 1/8

Quarter	High	1997	Low
First	31 3/4		26 13/16
Second	37 7/16		27 15/16
Third	42 1/2		35
Fourth	45 3/4		37 7/16

Trademarks

3 Series, 14 Series, AccuTrac, AddressRight, Arrival, Ascent, ClickStamp, Conquest, D3, DirectNet, DocuMatch, Finalist, ForwardTrak, Fulfillment, Galaxy, iSend, Mail Essentials, Mail List Manager, Mailers Choice, Marketing Materials, Paragon, pb.commander, pb.control, pb.digital, pb.printmgr, Personal Post, PitneyWorks, Postage by Phone, ReUnion, Smart Image, SmartMailer, StreamWeaver, Target Prospects, Universal Access, ValueShip, Weigh-on-the-Way are trademarks or service marks of Pitney Bowes Inc.

Business Rewards, Postal Privilege, Purchase Power, ValueMax, are trademarks or service marks of Pitney Bowes Financial Services.

All other trademarks are service marks owned by their respective companies.

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, 1998)

Company name - -----	Country or state of incorporation -----
Adrema Leasing Corporation	Delaware
Adrema Maschinen - und - Auto Leasing GmbH	Germany
Adrema Maschinenbau Inc.	Delaware
Adrema Mobilien Leasing GmbH	Germany
Andeen Enterprises, Inc.	Panama
Artec International Corporation	California
Atlantic Mortgage & Investment Corporation	Florida
B. Williams Holdings Corp.	Delaware
B. Williams Funding Corp.	Delaware
Canadian Office Services (Toronto) Limited	Canada
Carolina-Relco LP	
Cascade Microfilm Systems, Inc.	California
Chas. P. Young Health Fitness & Management, Inc.	New York
Datarite Systems Ltd.	England
DSP Inc.	
ECL Finance Company, N.V.	Netherlands
Elmcroft Road Realty Corporation	Connecticut
FSL Holdings Inc.	Connecticut
FSL Risk Managers Inc.	New York
FSL Valuation Services Inc.	Connecticut
Harlow Aircraft Inc.	Delaware
Informatech	California
La Agricultora Ecuatoriana S.A.	Ecuador
Lease Continental GmbH	Germany
Lease Continental Partnership	
MXT Corporation (68% owned)	Canada
Norlin Australia Investments Pty. Ltd.	Australia
Norlin Industries Ltd.	Canada
Norlin Music (U.K.) Ltd.	England
Oy Adrema Helsinki	Finland
PB Canada Funding Ltd.	Canada
PB Forms, Inc.	Nebraska
PB Funding Corporation	Delaware
PB Global Holdings Inc.	Connecticut
PB Global Holdings II Inc.	Connecticut
PB Global Holdings III Inc.	Connecticut
PB Global Holdings IV Inc.	Connecticut
PB Leasing Corporation	Delaware
PB Leasing Ltd.	England
PB Leasing International Corporation	Delaware
PB Leasing Services Inc.	Nevada
PB/PREFCO Real Estate Holdings Inc.	Delaware
PB Professional Services Inc.	Delaware
PB Public Finance Inc.	Delaware
PBA Foreign Sales Corporation	Barbados

SUBSIDIARIES OF THE REGISTRANT (continued)

Company name -----	Country or state of incorporation -----
PB CFSC I Inc.	Virgin Islands
PBL Holdings Inc.	Nevada
PB Nikko FSC Ltd.	Bermuda
PB Nihon FSC Ltd.	Bermuda
Pitney Bowes A.G.	Switzerland
Pitney Bowes Australia Pty.	Australia
Pitney Bowes Australia FAS Pty. Limited	Australia
Pitney Bowes Australia Funding Pty. Ltd.	Australia
Pitney Bowes Austria Ges.m.b.H	Austria
Pitney Bowes Business Connections Inc.	Delaware
Pitney Bowes of Canada Ltd.	Canada
Pitney Bowes Canada Holdings Limited	Canada
Pitney Bowes China Inc.	Delaware
Pitney Bowes Credit Australia Limited	Australia
Pitney Bowes Credit Corporation	Delaware
Pitney Bowes Data Systems, Ltd.	Delaware
Pitney Bowes de Mexico, S.A. de C.V.	Mexico
Pitney Bowes Deutschland GmbH	Germany
Pitney Bowes Espana, S.A.	Spain
Pitney Bowes Finance S.A.	France
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 Holdings Ltd.	England
Pitney Bowes Holding SNC	France
Pitney Bowes Hong Kong Inc.	Delaware
Pitney Bowes Hong Kong Ltd.	Hong Kong
Pitney Bowes India Inc.	Delaware
Pitney Bowes Insurance Agency, Inc.	Connecticut
Pitney Bowes International	Ireland
Pitney Bowes International Holdings, Inc.	Delaware
Pitney Bowes Italia S.r.l.	Italy
Pitney Bowes Japan KK	Japan
Pitney Bowes (Ireland) Limited	Ireland
Pitney Bowes Macau Limited	Macau
Pitney Bowes Management Services, Inc.	Delaware
Pitney Bowes Management Services Canada, Inc.	Canada
Pitney Bowes Management Services Limited	England
Pitney Bowes New Zealand Limited	New Zealand
Pitney Bowes Oy	Finland
Pitney Bowes Limited	England
Pitney Bowes Properties Inc.	Connecticut
Pitney Bowes Real Estate Financing Corporation	Delaware
Pitney Bowes Servicios, S.A. de C.V.	Mexico
Pitney Bowes Shelton Realty Inc.	Connecticut
Pitney Bowes Svenska Aktiebolag	Sweden
Pitney Bowes (Switzerland) AG	Switzerland
Pitney Bowes World Trade Corporation (FSC)	Virgin Islands
Pitney Structured Funding I Inc.	Delaware

SUBSIDIARIES OF THE REGISTRANT (continued)

Company name -----	Country or state of incorporation -----
PREFCO I Inc.	Delaware
PREFCO I LP Inc.	Delaware
PREFCO II Inc.	Delaware
PREFCO III Inc.	Delaware
PREFCO III LP Inc.	Delaware
PREFCO IV Inc.	Delaware
PREFCO IV LP Inc.	Delaware
PREFCO V Inc.	Delaware
PREFCO V LP Inc.	Delaware
PREFCO VI Inc.	Delaware
PREFCO VI LP Inc.	Delaware
PREFCO VII Inc.	Delaware
PREFCO VII LP Inc.	Delaware
PREFCO VIII Inc.	Delaware
PREFCO VIII LP Inc.	Delaware
PREFCO IX Inc.	Delaware
PREFCO IX LP Inc.	Delaware
PREFCO X Inc.	Delaware
PREFCO XI Inc.	Delaware
PREFCO XI LP Inc.	Delaware
PREFCO XII Inc.	Delaware
PREFCO XII LP Inc.	Delaware
PREFCO XIII Inc.	Delaware
PREFCO XIII LP Inc.	Delaware
PREFCO XIV Inc.	Delaware
PREFCO XIV LP Inc.	Delaware
PREFCO XV Inc.	Delaware
PREFCO XV LP Inc.	Delaware
PREFCO XVI Inc.	Delaware
PREFCO XVI LP Inc.	Delaware
PREFCO XVII Inc.	Delaware
PREFCO XVII LP Inc.	Delaware
PREFCO XVIII Inc.	Delaware
PREFCO XVIII LP Inc.	Delaware
PREFCO XIX Inc.	Delaware
PREFCO XIX LP Inc.	Delaware
PREFCO XX Inc.	Delaware
PREFCO XXI Inc.	Delaware
PREFCO XXI LP Inc.	Delaware
PREFCO XXII Inc.	Delaware
PREFCO XXII LP Inc.	Delaware
PREFCO - Dayton Community Urban Redevelopment Corporation	Ohio
RE Properties Management Corporation	Delaware
Remington Customer Finance Pty. Limited	Australia
ROM Holding Pty. Limited	Australia
ROM Securities Pty. Limited	Australia
Sales & Service Training Center Inc.	Georgia
Techno Mail Service K.K.	Japan

EXHIBIT (iii)

SUBSIDIARIES OF THE REGISTRANT (continued)

Country or
state of

Company name
- -----

incorporation

TECO Pitney Bowes Co., Ltd. (50% owned)
Teco Tension Supply Co., Ltd. (50% owned by
TECO Pitney Bowes Co.)
The Pitney Bowes Bank, Inc.
Time-Sensitive Delivery Guide Inc.
Towers FSC, Ltd.
Universal Postal Frankers Ltd.
Waterview Resolution Trust Corporation
Wheeler Insurance, Ltd.
1136 Corporation
75 V Corp.

Taiwan
Taiwan
Utah
Delaware
Bermuda
England
Massachusetts
Vermont
Delaware
Delaware

CONSENT OF INDEPENDENT ACCOUNTANTS

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

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

of Pitney Bowes Inc. of our report dated January 21, 1999 appearing on page 58 of the Pitney Bowes Inc. 1998 Annual Report to Stockholders which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference in the aforementioned Registration Statements of our report on the financial statement schedule, which appears on page 18 of this Form 10-K.

PricewaterhouseCoopers LLP

Stamford, Connecticut
March 30, 1999

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS FINANCIAL INFORMATION EXTRACTED FROM PITNEY BOWES INC. CONSOLIDATED BALANCE SHEET, CONSOLIDATED STATEMENT OF INCOME AND CORRESPONDING FOOTNOTE #3 FIXED ASSETS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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<F1> Receivables are comprised of trade receivables of \$407,071 and short-term finance receivables of \$1,452,018. Allowances are comprised of allowance for trade receivables of \$24,665 and for short-term finance receivables of \$51,232.

<F2> Property, plant and equipment are comprised of fixed assets of \$1,153,573 and rental equipment and related inventories of \$1,706,995. Depreciation is comprised of depreciation on fixed assets of \$676,097 and on rental equipment and related inventories of \$900,410.

</FN>

