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IMAGISTICS INTERNATIONAL INC

Form 10-Q

May 15, 2003

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

FORM 10-Q

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2003

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 1-16449

IMAGISTICS INTERNATIONAL INC.
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE
(State or Other Jurisdiction of Incorporation or Organization)

06-161
(I.R.S. Employer Id

100 OAKVIEW DRIVE
TRUMBULL, CONNECTICUT
(Address of Principal Executive Offices)

0661
(Zip C

(203) 365-7000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days. Yes X No ___

Indicate by check mark whether the registrant is an accelerated filer (as
defined in Rule 12b-2 of the Exchange Act). Yes X No ___

Number of shares of Imagistics Common Stock, par value \$.01 per share,
outstanding as of April 30, 2003: 17,158,228

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IMAGISTICS INTERNATIONAL INC.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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IMAGISTICS INTERNATIONAL INC.

CONSOLIDATED INCOME STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	FOR THE THREE MONTHS END MARCH 31,	
	2003	2002
Revenue:		
Sales	\$ 73,053	\$ 75,053
Rentals	57,068	58,068
Support services	20,801	21,068
Total revenue	150,922	155,068
Cost of sales	45,244	49,068
Cost of rentals	19,171	21,068
Selling, service and administrative expenses	76,865	75,068
Operating income	9,642	8,068
Interest expense	1,629	2,068
Income before income taxes	8,013	6,000
Provision for income taxes	3,247	2,068
Net income	\$ 4,766	\$ 3,932
Earnings per share:		
Basic	\$ 0.28	\$ 0.20
Diluted	\$ 0.27	\$ 0.19
Shares used in computing earnings per share:		
Basic	17,228,940	19,463,000
Diluted	17,780,016	19,859,000

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See Notes to Consolidated Financial Statements

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IMAGISTICS INTERNATIONAL INC.

CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	MARCH 31, 2003	DECEMBER 31, 2002
	----- (UNAUDITED)	-----
ASSETS		
Current assets:		
Cash	\$ 26,480	\$ 31,32
Accounts receivable, less allowances of \$8,554 and \$5,792 at March 31, 2003 and December 31, 2002, respectively	76,443	84,14
Accrued billings	26,518	26,12
Inventories	105,516	106,00
Current deferred taxes on income	21,605	20,51
Other current assets and prepaid expenses	7,231	5,17
	-----	-----
Total current assets	263,793	273,28
Property, plant and equipment, net	47,174	43,81
Rental equipment, net	82,103	88,43
Goodwill, net	52,600	52,60
Other assets	6,286	6,77
	-----	-----
Total assets	\$ 451,956	\$ 464,90
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 749	\$ 74
Accounts payable and accrued liabilities	71,672	77,59
Advance billings	26,825	27,24
	-----	-----
Total current liabilities	99,246	105,58
Long-term debt	73,212	73,39
Deferred taxes on income	16,705	15,32
Other liabilities	5,005	6,35
	-----	-----
Total liabilities	194,168	200,65
Commitments and contingencies (see Note 8)	-	
Stockholders' equity:		
Preferred stock (\$1.00 par value; 10,000,000 shares authorized, none issued at March 31, 2003 and December 31, 2002)	-	
Common stock (\$0.01 par value; 150,000,000 shares authorized, 19,823,812 and 19,813,517 issued at March 31, 2003 and December 31, 2002, respectively)	198	19
Additional paid-in-capital	294,542	294,37

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Retained earnings	19,288	14,52
Treasury stock, at cost (2,539,760 and 1,936,760 at March 31, 2003 and December 31, 2002, respectively)	(48,410)	(36,54)
Unearned compensation	(2,829)	(3,21)
Accumulated other comprehensive loss	(5,001)	(5,07)
	-----	-----
Total stockholders' equity	257,788	264,24
	-----	-----
Total liabilities and stockholders' equity	\$ 451,956	\$ 464,90
	=====	=====

See Notes to Consolidated Financial Statements

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IMAGISTICS INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)
(UNAUDITED)

	THREE MONTHS ENDED MARCH 3 2003	2002
	-----	-----
Cash flows from operating activities:		
Net income	\$ 4,766	\$ 3,85
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,981	20,12
Provision for bad debt	2,602	1,16
Provision for inventory obsolescence	1,533	3,79
Deferred taxes on income	297	2,70
Change in assets and liabilities:		
Accounts receivable	5,097	10,35
Accrued billings	(392)	4
Inventories	(1,047)	(4,07)
Other current assets and prepaid expenses	(2,058)	28
Accounts payable and accrued liabilities	(5,919)	8,05
Advance billings	(418)	(88
Other, net	(966)	(69
	-----	-----
Net cash provided by operating activities	22,476	44,73
Cash flows from investing activities:		
Expenditures for rental equipment assets	(10,622)	(10,57
Expenditures for property, plant and equipment	(4,824)	(4,25
	-----	-----
Net cash used in investing activities	(15,446)	(14,83
Cash flows from financing activities:		
Exercises of stock options, including purchases under employee stock purchase plan	909	

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Purchases of treasury stock	(12,597)	(13,325)
Repayments under term loan	(187)	(187)
Repayments under revolving credit facility	-	(17,250)
	(11,875)	(17,380)
Net cash used in financing activities	(11,875)	(17,380)
	(4,845)	12,520
(Decrease) increase in cash	(4,845)	12,520
Cash at beginning of period	31,325	18,840
	\$ 26,480	\$ 31,360
Cash at end of period	\$ 26,480	\$ 31,360

See Notes to Consolidated Financial Statements

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IMAGISTICS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS AND AS OTHERWISE INDICATED)
(UNAUDITED)

1. BACKGROUND AND BASIS OF PRESENTATION

Background

Imagistics International Inc. (the "Company" or "Imagistics") is a large independent direct sales, service and marketing organization offering document imaging solutions, including copiers, facsimile machines and multifunctional products, primarily to large corporate and government customers, as well as to mid-size and regional businesses. In addition, the Company offers specialized document imaging options including digital, analog, color and/or networked products and systems.

On December 11, 2000, the board of directors of Pitney Bowes Inc. ("Pitney Bowes") initiated a plan to spin-off substantially all of its office systems businesses to its stockholders as an independent publicly traded company. On December 3, 2001, Imagistics was spun off from Pitney Bowes pursuant to a contribution by Pitney Bowes of substantially all of its office systems businesses to the Company and a distribution (the "Distribution") of the stock of the Company to stockholders of Pitney Bowes based on a distribution ratio of 1 share of Imagistics stock for every 12.5 shares of Pitney Bowes stock held at the close of business on November 19, 2001.

The Company was incorporated in Delaware on February 28, 2001 as Pitney Bowes Office Systems, Inc., a wholly owned subsidiary of Pitney Bowes. On that

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date, 100 shares of the Company's common stock, par value \$.01 per share, were authorized, issued and outstanding. On October 12, 2001, the Company changed its name to Imagistics International Inc. At the Distribution, the Company's authorized capital stock consisted of 10,000,000 shares of preferred stock, par value \$1.00 per share and 150,000,000 shares of common stock, par value \$.01 per share. The Company issued 19,463,007 shares of common stock in connection with the Distribution.

Pitney Bowes has received a tax ruling from the Internal Revenue Service stating that, subject to certain representations, the Distribution qualifies as tax-free to Pitney Bowes and its stockholders for United States federal income tax purposes.

Basis of presentation

The unaudited interim consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules and regulations of the Securities and Exchange Commission (the "SEC") and, in the opinion of the Company, include all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of results of operations, financial position and cash flows as of and for the periods presented. Certain previously reported amounts have been reclassified to conform to the current year presentation.

The Company believes that the disclosures contained in the unaudited interim consolidated financial statements are adequate to keep the information presented from being misleading. The results for the three months ended March 31, 2003 are not necessarily indicative of the results for the full year. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's latest Annual Report on Form 10-K for the year ended December 31, 2002 filed with the SEC on March 28, 2003.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Revenue on equipment and supplies sales is recognized when contractual obligations have been satisfied, title and risk of loss have been transferred to the customer and collection of the resulting receivable is reasonably assured. For copier equipment, the satisfaction of contractual obligations and the passing of title and risk of loss to the customer occur upon the installation of the copier equipment at the customer location. For facsimile equipment and facsimile supplies, the satisfaction of contractual obligations and the passing of title and risk of loss to the customer occur upon the delivery of the facsimile equipment and the

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IMAGISTICS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

facsimile supplies to the customer location. We record a provision for estimated

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sales returns and other allowances based upon historical experience.

Rental contracts, which often include supplies, are generally for an initial term of three years with automatic renewals unless we receive prior notice of cancellation. Under the terms of rental contracts, we bill our customers either a flat periodic charge or a usage-based fee. Revenues related to these contracts are recognized each month as earned, either using the straight-line method or based upon usage, as applicable.

Support services contracts, which often include supplies, are generally for an initial term of one year with automatic renewals unless we receive prior notice of cancellation. Under the terms of support services contracts, we bill our customers either a flat periodic charge or a usage-based fee. Revenues related to these contracts are recognized each month as earned, either using the straight-line method or based upon usage, as applicable.

Certain rental and support services contracts provide for invoicing in advance, generally quarterly. Revenue on contracts billed in advance is deferred and recognized as earned revenue over the billed period. Certain rental and support services contracts provide for invoicing in arrears, generally quarterly. Revenue on contracts billed in arrears is accrued and recognized in the period in which it is earned.

We enter into arrangements that include multiple deliverables, which typically consist of the sale of equipment with a support services contract. We account for each element within an arrangement with multiple deliverables as separate units of accounting. Revenue is allocated to each unit of accounting based on the residual method, which requires the allocation of the revenue based on the fair value of the undelivered items. Fair value of support services is primarily determined by reference to renewal pricing.

Stock-based employee compensation

The Company accounts for its stock-based employee compensation plans under the recognition and measurement provisions of Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees", and related interpretations. The Company recognizes stock-based compensation expense on its restricted stock over the vesting period. The Company does not recognize stock-based compensation expense in its reported results as all options granted, other than adjustment options in connection with the Distribution, had an exercise price equal to the market value of the underlying common stock on the date of grant.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation", to stock-based employee compensation:

	THREE MONTHS ENDED MAR	2
	2003	2
	-----	-----
Net income, as reported	\$ 4,766	\$
Compensation expense based on the fair value method, net of related tax effects	449	
	-----	-----
Pro forma net income	\$ 4,317	\$
	=====	=====

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Basic earnings per share:			
As reported	\$	0.28	\$
Pro forma	\$	0.25	\$
Diluted earnings per share:			
As reported	\$	0.27	\$
Pro forma	\$	0.24	\$

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IMAGISTICS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

Recent Accounting Pronouncements

In April 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and hedging relationships designated after June 30, 2003 and all provisions should be applied prospectively. The provisions of SFAS No. 149 that relate to SFAS No. 133 implementation issues that have been effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their respective effective dates. Certain provisions relating to forward purchases or sales of when-issued securities or other securities that do not yet exist, should be applied to existing contracts as well as new contracts entered into after June 30, 2003. The Company is evaluating the provisions of SFAS No. 149 and whether the implementation of this statement will have a material impact on the Company's financial position, results of operations or cash flows.

In September 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 is effective for exit and disposal activities that are initiated after December 31, 2002 and provides guidance on the recognition and measurement of liabilities associated with disposal activities. The Company adopted SFAS No. 146 on January 1, 2003. The adoption of SFAS No. 146 did not have a material impact on the Company's financial position, results of operations or cash flows.

In November 2002, the FASB Emerging Issues Task Force reached a consensus on issue No. 00-21 "Accounting for Revenue Arrangements with Multiple Deliverables" ("EITF 00-21"). EITF 00-21 applies to certain contractually binding arrangements under which a company performs multiple revenue generating activities and requires that all companies account for each element within an arrangement with multiple deliverables as separate units of accounting if (a) the delivered item has value on a stand-alone basis, (b) there is objective and reliable evidence of fair value and (c) the amount of the total arrangement consideration is fixed. EITF 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of EITF 00-21 will not have a material impact on the Company's financial position, results of operations or cash flows.

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3. GOODWILL AND GOODWILL AMORTIZATION

Effective January 1, 2002, the Company adopted SFAS No. 142 "Goodwill and Other Intangible Assets", which requires that goodwill and certain other intangible assets having indefinite lives no longer be amortized to earnings, but instead be tested for impairment annually as well as on an interim basis if events or changes in circumstances indicate that goodwill might be impaired. The Company performed its annual test for impairment using the discounted cash flow valuation method as of October 1, 2002, and, based on that review, has determined that its recorded goodwill was not impaired. For the three months ended March 31, 2003, there were no events or changes in circumstances that would indicate that goodwill might be impaired. For the three months ended March 31, 2003 and 2002, there was no goodwill amortization. The carrying value of goodwill of \$52.6 million as of March 31, 2003 is attributable to the United States geographic segment.

4. SUPPLEMENTAL INFORMATION

Inventories

Inventories consisted of the following at March 31, 2003 and December 31, 2002:

	MARCH 31, 2003	DECEMBER 31, 2002
	-----	-----
Finished products	\$ 79,918	\$ 77,447
Supplies and service parts	25,598	28,555
	-----	-----
Total inventories	\$ 105,516	\$ 106,002
	=====	=====

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IMAGISTICS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

Fixed assets

Fixed assets consisted of the following at March 31, 2003 and December 31, 2002:

	MARCH 31, 2003	DECEMBER 31, 2002
	-----	-----
Land	\$ 1,356	\$
Buildings and leasehold improvements	10,184	
Machinery and equipment	22,646	
Computers and software	39,949	
	-----	-----
Property, plant and equipment, gross	74,135	
Accumulated depreciation	(26,961)	
	-----	-----
Property, plant and equipment, net	\$ 47,174	\$

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	=====	=====
Rental equipment, gross	\$ 361,628	\$
Accumulated depreciation	(279,525)	(
	-----	-----
Rental equipment, net	\$ 82,103	\$
	=====	=====

Depreciation and amortization expense was \$19.0 million and \$20.1 million for the three months ended March 31, 2003 and 2002, respectively. Unamortized software costs totaled \$22.8 million as of March 31, 2003 and \$18.8 million as of December 31, 2002. Amortization expense on account of capitalized software totaled \$0.1 million for the three months ended March 31, 2003. There was no amortization expense on account of capitalized software for the three months ended March 31, 2002.

Current liabilities

Accounts payable and accrued liabilities consisted of the following at March 31, 2003 and December 31, 2002:

	MARCH 31, 2003	DECEMBER 2002
	-----	-----
Accounts payable	\$ 19,195	\$
Accrued compensation and benefits	4,904	
Other non-income taxes payable	6,599	
Other accrued liabilities	40,974	
	-----	-----
Accounts payable and accrued liabilities	\$ 71,672	\$
	=====	=====

Comprehensive income

Comprehensive income consisted of the following for the three months ended March 31, 2003 and 2002:

	THREE MONTHS ENDED MARCH 31, 2003	THREE MONTHS ENDED MARCH 31, 2002
	-----	-----
Net income	\$ 4,766	\$ 3,85
Translation adjustment	47	(44
Unrealized gain on cash flow hedges	29	64
	-----	-----
Comprehensive income	\$ 4,842	\$ 4,05
	=====	=====

The Company had interest rate swap agreements in the aggregate notional amount of \$72 million at both March 31, 2003 and December 31, 2002 designated as

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cash flow hedges. The Company recorded a liability of \$3,680 and \$3,709 for the fair market value of the interest rate swap agreements at March 31, 2003 and December 31, 2002, respectively. The changes in the fair value of the outstanding swap agreements are included in accumulated other comprehensive loss in stockholders' equity.

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IMAGISTICS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

Treasury stock

The following table summarizes the Company's treasury stock transactions:

	TREASURY STOCK SHARES	COST
	-----	-----
Balance at December 31, 2002	1,936,760	\$ 36,54
Repurchases under stock buy back program	642,000	12,59
Purchases under employee stock purchase plan	(39,000)	(73
	-----	-----
Balance at March 31, 2003	2,539,760	\$ 48,41
	=====	=====

Cash flow information

Cash paid for income taxes was \$1,898 and \$1,078 for the three months ended March 31, 2003 and 2002, respectively. Cash paid for interest was \$1,424 and \$2,285 for the three months ended March 31, 2003 and 2002, respectively.

5. BUSINESS SEGMENT INFORMATION

Geographic information

The Company operates in two reportable segments based on geographic area: the United States and the United Kingdom. Revenues are attributed to geographic regions based on where the revenues are derived.

	THREE MONTHS ENDED MARC	
	2003	200
	-----	-----
Revenues:		
United States	\$ 145,503	\$ 14
United Kingdom	5,419	
	-----	-----
Total revenues	\$ 150,922	\$ 15
	=====	=====

Income before income taxes:

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United States	\$	6,901	\$
United Kingdom		1,112	
		-----	-----
Total income before income taxes	\$	8,013	\$
		=====	=====

Revenues from Pitney Bowes, substantially all of which are generated in the United States segment, consisted of the following for the three months ended March 31, 2003 and 2002:

		THREE MONTHS ENDED MARCH 31,	
		2003	2002
		-----	-----
Revenues from Pitney Bowes:			
Pitney Bowes Canada	\$	6,369	\$
Other subsidiaries of Pitney Bowes		6,421	
		-----	-----
Sub-total		12,790	1
Pitney Bowes Credit Corporation		21,436	2
		-----	-----
Total	\$	34,226	\$
		=====	=====

For the periods presented, Pitney Bowes Credit Corporation ("PBCC") was the Company's primary lease vendor and the Company expects PBCC to continue as the Company's primary lease vendor in the future. However, if PBCC were to cease being

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IMAGISTICS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

the Company's primary lease vendor, the Company is confident that it could obtain a replacement primary lease vendor with substantially the same lease terms as PBCC. No other single customer or controlled group represented 10% or more of the Company's revenues.

		MARCH 31, 2003	DECEMBER 2002
		-----	-----
Identifiable long-lived assets:			
United States	\$	184,050	\$
United Kingdom		4,113	
		-----	-----
Total identifiable long-lived assets	\$	188,163	\$
		=====	=====

Total assets:

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United States	\$	426,989	\$	4
United Kingdom		24,967		
		-----		-----
Total assets	\$	451,956	\$	4
		=====		=====

Identifiable long-lived assets in the United States at March 31, 2003 and December 31, 2002 include goodwill of \$52.6 million.

Concentrations

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. The Company periodically evaluates the financial strength of its customers and believes that its credit risk exposure is limited.

Most of the Company's product purchases are from overseas vendors, the majority of which are from a limited number of Japanese suppliers. Although the Company currently sources products from a number of manufacturers throughout the world, a significant portion of new copier equipment is currently obtained from two suppliers. If these suppliers were unable to deliver products for a significant period of time, the Company would be required to find replacement products from an alternative supplier or suppliers, which may not be available on a timely or cost effective basis. The Company's operating results could be adversely affected if a significant supplier is unable to deliver sufficient product.

6. EARNINGS PER SHARE CALCULATION

Basic earnings per share was calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. The calculation of diluted earnings per share did not include 312,250 common shares and 23,395 common shares for the three months ended March 31, 2003 and 2002, respectively since they were antidilutive for the periods presented.

IMAGISTICS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

A reconciliation of the basic and diluted earnings per share computation is as follows:

	THREE MONTHS ENDED MARCH 31,	
	2003	2002
	-----	-----
Net income available to common stockholders	\$ 4,766	\$ 3,85
	=====	=====

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Weighted average common shares outstanding	17,568,605	19,773,22
Less: non-vested restricted stock	339,665	310,00
	-----	-----
Weighted average common shares for basic earnings per share	17,228,940	19,463,22
Add: dilutive effect of restricted stock	339,665	309,72
Add: dilutive effect of stock options	211,411	86,23
	-----	-----
Weighted average common shares and equivalents for diluted earnings per share	17,780,016	19,859,17
	=====	=====
Basic earnings per share	\$ 0.28	\$ 0.2
Diluted earnings per share	\$ 0.27	\$ 0.1

7. LONG-TERM DEBT

Long-term debt consisted of the following at March 31, 2003 and December 31, 2002:

	MARCH 31, 2003	DECEMBER 2002
	-----	-----
Term loan	\$ 73,961	\$ 7
Less: current maturities	749	
	-----	-----
Total long-term debt	\$ 73,212	\$ 7
	=====	=====

On November 9, 2001 the Company entered into a Credit Agreement with a group of lenders (the "Credit Agreement") that provided for secured borrowings and the issuance of letters of credit in an aggregate amount not to exceed \$225 million, comprised of a \$125 million Revolving Credit Facility (the "Revolving Credit Facility") and a \$100 million Term Loan (the "Term Loan"). The Credit Agreement requires us to manage our interest rate risk with respect to at least 50% of the aggregate principal amount of the Term Loan for a period of at least 36 months. Accordingly, we entered into two interest rate swap agreements in notional amounts of \$50 million and \$30 million to convert the variable interest rate payable on the Term Loan to a fixed interest rate in order to hedge the exposure to variability in expected future cash flows. These interest rate swap agreements have been designated as cash flow hedges.

On March 19, 2002, the Credit Agreement was amended to increase the total amount of the Company's stock permitted to be repurchased from \$20 million to \$30 million. On July 19, 2002, the Credit Agreement was further amended to increase the total amount of the Company's stock permitted to be repurchased from \$30 million to \$58 million and to reduce the Term Loan interest rates to LIBOR plus a margin of from 2.75% to 3.75%, from LIBOR plus a margin of from 3.50% to 3.75%, depending on our leverage ratio, or to the Fleet Bank base lending rate plus a margin of from 1.75% to 2.75%, from the Fleet Bank base lending rate plus a margin of from 2.50% to 2.75%, depending on our leverage ratio.

During the third quarter of 2002, we revised our cash flow estimates and prepaid \$8 million of the amount outstanding under the Term Loan. This prepayment was covered by a portion of the \$30 million interest rate swap

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agreement that had been designated as a cash flow hedge. Since it is no longer probable that the hedged forecasted transactions related to the \$8 million Term Loan prepayment will occur, we recognized a loss related to that portion of the swap agreement underlying the amount of the prepayment by reclassifying \$0.4 million from accumulated other comprehensive loss into interest expense. We also unwound \$8 million of the \$30 million interest rate swap agreement.

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IMAGISTICS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

At March 31, 2003, two interest rate swap agreements in the notional amounts of \$50 million and \$22 million were outstanding, the aggregate fair value of which was an obligation of \$3.7 million. This obligation is reported in other liabilities in the consolidated balance sheet and the unrealized loss relating to the outstanding swap agreements was included in other comprehensive loss in stockholders' equity. The Company routinely reviews its cash flow estimates in the normal course of business. Currently, the Company does not expect to realize any gains or losses relating to the interest rate swap agreements in the near term. Accordingly, the Company does not expect to reclassify any gains or losses from Accumulated Other Comprehensive Income into earnings in the near term.

On March 5, 2003, the Credit Agreement was amended to increase the total amount of the Company's stock permitted to be repurchased from \$58 million to \$78 million, to reduce the minimum earnings before interest, taxes, depreciation and amortization (EBITDA) covenant to \$100 million for the remainder of the term of the Credit Agreement and to revise the limitation on capital expenditures.

8. COMMITMENTS AND CONTINGENCIES

Guarantees and indemnifications

The Company has applied the disclosure provisions of FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Direct Guarantees of Indebtedness of Others", to its agreements that contain guarantee or indemnification clauses. FIN No. 45 expands the disclosure provisions required by SFAS No. 5, "Accounting for Contingencies", by requiring the guarantor to disclose certain types of guarantees, even if the likelihood of requiring the guarantor's performance is remote. The following is a description of the arrangements in which the Company is a guarantor.

In connection with the Distribution, the Company entered into certain agreements pursuant to which it may be obligated to indemnify Pitney Bowes with respect to certain matters. The Company agreed to assume all liabilities associated with the Company's business, and to indemnify Pitney Bowes for all claims relating to the Company's business. These may be claims by or against Pitney Bowes or the Company relating to, among other things, contractual rights under vendor, insurance or other contracts, trademark, patent and other intellectual property rights, equipment, service or payment disputes with customers and disputes with employees.

The Company and Pitney Bowes entered into a tax separation agreement, which governs the Company's and Pitney Bowes' respective rights, responsibilities and obligations after the Distribution with respect to taxes for the periods ending on or before the Distribution. In addition, the tax separation agreement

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generally obligates the Company not to enter into any transaction that would adversely affect the tax-free nature of the Distribution for the two-year period following the Distribution, and obligates the Company to indemnify Pitney Bowes and affiliates to the extent that any action the Company takes or fails to take gives rise to a tax liability with respect to the Distribution.

In each of these circumstances, payment by the Company is contingent on Pitney Bowes making a claim. As such, it is not possible to predict the maximum potential future payments under these agreements. As of March 31, 2003, the Company has not paid any amounts pursuant to the above indemnifications other than expenses incurred in connection with the defense and settlement of assumed claims asserted in connection with the operation of the Company in the ordinary course of business. The Company believes that if it were to incur a loss in any of these matters, such loss would not have a material effect on the Company's financial position, results of operations or cash flows.

Legal matters

In connection with the Distribution, the Company agreed to assume all liabilities associated with its business, and to indemnify Pitney Bowes for all claims relating to its business. In the course of normal business, the Company has been party to occasional lawsuits relating to the Company's business. These may involve litigation or other claims by or against Pitney Bowes or the Company relating to, among other things, contractual rights under vendor, insurance or other contracts, trademark, patent and other intellectual property rights, equipment, service or payment disputes with customers and disputes with employees.

In connection with the Distribution, liabilities were transferred to the Company for matters where Pitney Bowes was a plaintiff or a defendant in lawsuits, relating to the business or products of the Company. The Company has not recorded liabilities for loss contingencies since the ultimate resolutions of the legal matters cannot be determined and a minimum cost or amount of loss cannot be reasonably estimated. In the opinion of the Company's management, none of these proceedings, individually or in

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

the aggregate, should have a material adverse effect on the Company's financial position, results of operations or cash flows. There have been no significant changes in pending litigation since the filing of our Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

Risks and uncertainties

The Company has a limited history operating as an independent entity and may be unable to make the changes necessary to operate successfully as a stand-alone entity, or may incur greater costs as a stand-alone entity that may cause the Company's profitability to decline.

Prior to the Distribution, the Company's business was operated by Pitney Bowes as a division of its broader corporate organization rather than as a separate stand-alone entity. Pitney Bowes assisted the Company by providing corporate functions such as legal, tax and information technology functions. Following the Distribution, Pitney Bowes has no obligation to provide assistance

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to the Company other than certain interim and transitional services to be provided by Pitney Bowes. Because the Company has a limited history operating as a stand-alone entity, there can be no assurance that the Company will be able to successfully implement the changes necessary to operate independently or will not incur additional costs as a result of operating independently. Each of these events would cause the Company's profitability to decline.

The Company is implementing an enterprise resource planning ("ERP") system intended to replace the information technology ("IT") services provided by Pitney Bowes under the transition services agreement. Due to unanticipated delays in implementation of Phase II of the ERP system, the Company and Pitney Bowes have agreed to an extension until June 30, 2003 or, upon our request, December 31, 2003 of the transition services agreement as it relates to IT services. In January 2003, the Company received a favorable ruling from the Internal Revenue Service indicating that the extension of the transition services agreement as it relates to IT services, through December 2003, will not affect the tax-free nature of the spin-off. Any failure to implement the critical ERP applications appropriately by the given extension date would have a material adverse affect on our financial position, results of operations and cash flows.

9. SEPARATION AGREEMENTS

The Company and Pitney Bowes entered into a transition services agreement that provides for Pitney Bowes to supply certain services to the Company at cost for a limited time following the Distribution. These services include information technology, computing, telecommunications, accounting, field service of equipment and dispatch call center services. The Company and Pitney Bowes have agreed to an extension until June 30, 2003 or, upon our request, December 31, 2003, of the transition services agreement as it relates to information technology and related services. Services provided under this extension are at negotiated market rates. For the three months ended March 31, 2003 and 2002, the Company paid Pitney Bowes \$6.4 million and \$7.2 million, respectively, in connection with the transition services agreement.

The Company also entered into certain other agreements covering intellectual property, commercial relationships and leases and licensing arrangements. The pricing terms of the products and services covered by the other commercial agreements reflect negotiated prices.

The Company and Pitney Bowes entered into a tax separation agreement, which governs the Company's and Pitney Bowes' respective rights, responsibilities and obligations after the Distribution with respect to taxes for the periods ending on or before the Distribution. In addition, the tax separation agreement generally obligates the Company not to enter into any transaction that would adversely affect the tax-free nature of the Distribution for the two-year period following the Distribution, and obligates the Company to indemnify Pitney Bowes and affiliates to the extent that any action the Company takes or fails to take gives rise to a tax liability with respect to the Distribution.

IMAGISTICS INTERNATIONAL INC.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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The following discussion should be read in conjunction with the audited consolidated financial statements and the notes thereto, included in the Company's latest Annual Report on Form 10-K for the year ended December 31, 2002 filed with the Securities and Exchange Commission on March 28, 2003, as well as the unaudited consolidated financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q. This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Please see "Risk Factors That Could Cause Results To Vary" and "Special Note About Forward-Looking Statements" for a discussion of the uncertainties, risks and assumptions associated with these forward-looking statements. Our actual results could differ materially from those forward-looking statements discussed in this section. For the purposes of the following discussion, unless the context otherwise requires, "Imagistics International Inc.", "Imagistics", and the "Company" refer to Imagistics International Inc. and subsidiary.

The unaudited consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and, in the opinion of the Company, include all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of results of operations, financial position and cash flows as of and for the periods presented. The Company believes that the disclosures contained in the unaudited consolidated financial statements are adequate to keep the information presented from being misleading. The results for the three months ended March 31, 2003 are not necessarily indicative of the results for the full year.

OVERVIEW

Imagistics is a large direct sales, service and marketing organization offering document imaging solutions, including copiers, facsimile machines and multifunctional products, sometimes referred to as MFPs, primarily to large corporate customers known as national accounts, government entities and mid-size and regional businesses known as commercial accounts. In addition, we offer a range of document imaging options, including digital, analog, color and/or networked products and systems.

Our strategic vision is to become the leading independent direct provider of enterprise office imaging and document solutions by providing world-class products and services with unparalleled customer support and satisfaction with a focus on multiple location customers, thus building value for our shareholders. Our strategic initiatives include:

- o Executing our unique business model,
- o Leveraging product and marketplace strengths to drive market share,
- o Leveraging strengths in customer support to drive customer loyalty,
- o Achieving operational excellence and benchmark productivity and
- o Pursuing opportunistic expansion and investments.

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

Revenue Recognition

Revenue on equipment and supplies sales is recognized when contractual obligations have been satisfied, title and risk of loss have been transferred to the customer and collection of the resulting receivable is reasonably assured. For copier equipment, the satisfaction of contractual obligations and the passing of title and risk of loss to the customer occur upon the installation of the copier equipment at the customer location. For facsimile equipment and facsimile supplies, the satisfaction of contractual obligations and the passing of title and risk of loss to the customer occur upon the delivery of the facsimile equipment and the facsimile supplies to the customer location. We

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record a provision for estimated sales returns and other allowances based upon historical experience.

Rental contracts, which often include supplies, are generally for an initial term of three years with automatic renewals unless we receive prior notice of cancellation. Under the terms of rental contracts, we bill our customers either a flat periodic charge or a usage-based fee. Revenues related to these contracts are recognized each month as earned, either using the straight-line method or based upon usage, as applicable.

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Support services contracts, which often include supplies, are generally for an initial term of one year with automatic renewals unless we receive prior notice of cancellation. Under the terms of support services contracts, we bill our customers either a flat periodic charge or a usage-based fee. Revenues related to these contracts are recognized each month as earned, either using the straight-line method or based upon usage, as applicable.

Certain rental and support services contracts provide for invoicing in advance, generally quarterly. Revenue on contracts billed in advance is deferred and recognized as earned revenue over the billed period. Certain rental and support services contracts provide for invoicing in arrears, generally quarterly. Revenue on contracts billed in arrears is accrued and recognized in the period in which it is earned.

We enter into arrangements that include multiple deliverables, which typically consist of the sale of equipment with a support services contract. We account for each element within an arrangement with multiple deliverables as separate units of accounting. Revenue is allocated to each unit of accounting based on the residual method, which requires the allocation of the revenue based on the fair value of the undelivered items. Fair value of support services is primarily determined by reference to renewal pricing.

Accounts Receivable

Accounts receivable are stated at net realizable value by recording allowances for those accounts receivable amounts that we believe are uncollectible. Our estimate of losses is based on prior collection experience including evaluating the credit worthiness of each of our customers, analyzing historical bad debt write-offs and reviewing the aging of the receivables. Our allowance for doubtful accounts includes amounts for specific accounts that we believe are uncollectible, as well as amounts that have been computed by applying certain percentages based on historic loss trends, to certain accounts receivable aging categories.

Inventories

Inventories are valued at the lower of cost or market. Provisions, when required, are made to reduce excess and obsolete inventories to their estimated net realizable values. Inventory provisions are calculated using management's best estimates of inventory value based on the age of the inventory, quantities on hand compared with historical and projected usage and current and anticipated demands.

Rental Equipment

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Rental equipment is comprised of equipment on rent to customers and is depreciated on the straight-line method over the estimated useful life of the equipment. Copier equipment is depreciated over three years and facsimile equipment is depreciated over five years.

REVENUES

(Dollars in thousands)

The following table shows our revenue sources by product line for the periods indicated.

	THREE MONTHS ENDING MARCH 31,
	2003
Copier product line	\$ 92,223
Facsimile product line	58,699
Total revenue	\$ 150,922

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The following table shows our revenue sources by segment for the periods indicated.

	THREE MONTHS ENDING MARCH 31,
	2003
United States	\$ 145,503
United Kingdom	5,419
Total revenue	\$ 150,922

The following table shows the growth rates by revenue type and product line for the three months ended March 31, 2003 compared with the same period in the prior year.

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FOR THE THREE
 MONTHS ENDED
 MARCH 31,
 2003

Sales	
Copier products	(0.8%)
Facsimile products	(6.5%)
Total sales	(2.8%)
Rentals	
Copier products	8.2%
Facsimile products	(9.4%)
Total rentals	(2.5%)
Support services	(3.2%)
Total revenue	(2.7%)

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RESULTS OF OPERATIONS

The following table shows our statement of income data, expressed as a percentage of total revenue, for the periods indicated. The table also shows cost of sales as a percentage of sales revenue and cost of rentals as a percentage of rental revenue:

	AS A % OF TOTAL REVENUE, EXCEPT AS NOTED	
	FOR THE THREE MONTHS ENDED MARCH 31,	
	2003	2002
Equipment sales	24%	24%
Supplies sales	24%	24%
Total sales	48%	48%
Equipment rentals	38%	38%
Support services	14%	14%

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Total revenue	100%	100%
Cost of sales	30%	32%
Cost of rentals	13%	14%
Selling, service and administrative	51%	48%
Operating income	6%	6%
Interest expense	1%	1%
Income before income taxes	5%	5%
Provision for income taxes	2%	2%
Net income	3%	3%
Cost of sales as a percentage of sales revenue	61.9%	65.5%
Cost of rentals as a percentage of rental revenue	33.6%	37.4%
Effective tax rate	40.5%	39.7%

THREE MONTHS ENDED MARCH 31, 2003 AND MARCH 31, 2002

Revenue. For the three months ended March 31, 2003, total revenue of \$150,922 declined 3% versus revenue of \$155,161 for the three months ended March 31, 2002 reflecting lower sales, rental revenue and support service revenue.

Equipment and supply sales revenue of \$73,053 declined 3% for the three months ended March 31, 2003 from \$75,129 for the three months ended March 31, 2002. Copier sales declined slightly resulting from the continued implementation of our strategy to shift the marketing focus of our copier product line from sales to rentals coupled with soft economic conditions. Facsimile sales declined 7% due to lower supply sales resulting from the lower facsimile usage in the U.S. marketplace.

Equipment rental revenue of \$57,068 for the three months ended March 31, 2003 declined 3% versus equipment rental revenue of \$58,552 for the three months ended March 31, 2002, reflecting lower facsimile rental revenues, partially offset by an increase in copier rental revenues resulting from a continuing copier marketing focus on national accounts, which prefer a rental placement strategy similar to that of our historic facsimile product placement strategy. Rental revenue derived from our copier product line increased 8% reflecting growth in the overall installed rental population as well as the impact of increased placements of our high-end copiers and MFPs. Rental revenue from our facsimile product line declined 9% versus the prior year reflecting lower pricing and a lower installed base.

Support services revenue for the three months ended March 31, 2003 of \$20,801, primarily derived from stand-alone service contracts, declined 3% versus support services revenue of \$21,480 for the three months ended March 31, 2002, reflecting lower facsimile service revenue due to lower pricing and a lower installed base of copier placements as we continue to focus on renting copiers, which include service.

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Cost of sales. Cost of sales was \$45,244 for the three months ended March 31, 2003 compared with \$49,216 for the same period in 2002 and as a percentage of sales revenue declined to 61.9% for the three months ended March 31, 2003 from 65.5% for the three months ended March 31, 2002. This decline resulted from the impact of our disciplined focus on improving profit margins as well as lower provision of obsolete inventory and lower product cost, partially offset by the increase in the mix of copier and multifunctional products, which have a higher cost of sales percentage than facsimile sales and to a lesser extent, the weakening of the U.S. dollar against the yen.

Cost of rentals. Cost of rentals was \$19,171 for the three months ended March 31, 2003 compared with \$21,898 for the three months ended March 31, 2002 and as a percentage of rental revenue declined 3.8 percentage points to 33.6% for the three months ended March 31, 2003 from 37.4% for the three months ended March 31, 2002. This decline was due to the impact of our disciplined focus on improving profit margins coupled with product cost improvements, partially offset by an increase in the mix of copier and multifunctional product rentals which have a higher cost as a percentage of rental revenue than facsimile machines.

Selling, service and administrative expenses. Selling, service and administrative expenses of \$76,865 were 50.9% of total revenue for the three months ended March 31, 2003 compared with \$75,453, or 48.6% of total revenue for the three months ended March 31, 2002. Selling, service and administrative expenses increased 2% over the prior year primarily resulting from expenses associated with our advertising campaign, which was initiated in the second quarter of 2002, higher information technology expenses related to maintaining legacy systems as we implement our enterprise resource planning ("ERP") system and higher provisions for bad debts, partially offset by the impact of fewer employees.

Interest expense. Interest expense decreased to \$1,629 for the three months ended March 31, 2003 from \$2,200 for the three months ended March 31, 2002, primarily as a result of lower debt levels. The weighted average interest rate for the three months ended March 31, 2003 was 6.9% versus 6.8% for the three months ended March 31, 2002.

Effective tax rate. Our effective tax rate was 40.5% for the three months ended March 31, 2003 compared with 39.7% for the three months ended March 31, 2002 due to a slight increase in the amount of certain expenses that are not deductible for tax purposes.

LIQUIDITY AND CAPITAL RESOURCES

On November 9, 2001 we entered into a Credit Agreement with a group of lenders (the "Credit Agreement") that provided for secured borrowings or the issuance of letters of credit in an aggregate amount not to exceed \$225 million, comprised of a \$125 million Revolving Credit Facility (the "Revolving Credit Facility") and a \$100 million Term Loan (the "Term Loan"). The term of the Revolving Credit Facility is five years and the term of the Term Loan is six years. Our Credit Agreement has a rating of Ba3 from Moody's Investor Services and a BB+ rating from Standard & Poor's.

We have pledged substantially all of our assets plus 65% of the stock of our subsidiary as security for our obligations under the Credit Agreement. Available borrowings and letter of credit issuance under the Revolving Credit Facility are determined by a borrowing base consisting of a percentage of our

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eligible accounts receivable, inventory, rental assets and accrued and advance billings, less outstanding borrowings under the Term Loan.

The Credit Agreement contains financial covenants that require the maintenance of minimum earnings before interest, taxes, depreciation and amortization ("EBITDA") and a maximum leverage ratio (total debt to EBITDA), as well as other covenants, which, among other things, place limits on dividend payments and capital expenditures.

Originally, amounts borrowed under the Revolving Credit Facility bore interest at variable rates based, at our option, on either the LIBOR rate plus a margin of from 2.25% to 3.00%, depending on our leverage ratio, or the Fleet Bank base lending rate plus a margin of from 1.25% to 2.00%, depending on our leverage ratio. Amounts borrowed under the Term Loan bore interest at variable rates based, at our option, on either the LIBOR rate plus a margin of 3.50% or 3.75%, depending on our leverage ratio, or the Fleet Bank base lending rate plus a margin of 2.50% to 2.75%, depending on our leverage ratio. A commitment fee of from 0.375% to 0.500% on the average daily unused portion of the Revolving Credit Facility is payable quarterly, in arrears, depending on our leverage ratio.

On March 19, 2002, the Credit Agreement was amended to increase the total amount of our stock permitted to be repurchased from \$20 million to \$30 million. On July 19, 2002, the Credit Agreement was further amended to increase the total amount of our stock permitted to be repurchased from \$30 million to \$58 million and to reduce the Term Loan interest rates to LIBOR plus a margin of from 2.75% to 3.75%, depending on our leverage ratio, or to the Fleet Bank base lending rate plus a

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margin of from 1.75% to 2.75%, depending on our leverage ratio. On March 5, 2003, the Credit Agreement was further amended to increase the total amount of stock permitted to be repurchased from \$58 million to \$78 million, to reduce the minimum EBITDA covenant to \$100 million for the remainder of the term of the Credit Agreement and to revise the limitation on capital expenditures. At March 31, 2003, we were in compliance with all of the financial covenants.

The Credit Agreement requires us to manage our interest rate risk with respect to at least 50% of the aggregate principal amount of the Term Loan for a period of at least 36 months. Accordingly, we entered into two interest rate swap agreements in the notional amounts of \$50 million and \$30 million expiring in February 2005 to convert the variable interest rate payable on the Term Loan to a fixed interest rate in order to hedge the exposure to variability in expected future cash flows. These interest rate swap agreements have been designated as cash flow hedges. The counterparties to the interest rate swap agreements are major international financial institutions. We monitor the credit quality of these financial institutions and do not anticipate any losses as a result of counterparty nonperformance. Under the terms of the swap agreements, we will receive payments based upon the 90-day LIBOR rate and remit payments based upon a fixed rate. The fixed interest rates are 4.17% and 4.32% for the \$50 million and the \$30 million swap agreements, respectively.

Our initial borrowings of \$150 million under the Credit Agreement, consisting of \$100 million under the Term Loan and \$50 million under the Revolving Credit Facility, were used to repay amounts due to Pitney Bowes and to pay a dividend to Pitney Bowes. At December 31, 2001, Pitney Bowes Credit

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Corporation ("PBCC") provided substantially all of our Term Loan. During 2002, PBCC disposed of its commitments under the Credit Agreement and is no longer a participant in the Credit Agreement.

During the third quarter of 2002, we revised our cash flow estimates and prepaid \$8 million of the amount outstanding under the Term Loan. This prepayment was covered by a portion of the \$30 million interest rate swap agreement that had been designated as a cash flow hedge. Since it was no longer probable that the hedged forecasted transactions related to the \$8 million Term Loan prepayment would occur, we recognized a loss related to that portion of the swap agreement underlying the amount of the prepayment by reclassifying \$0.4 million from accumulated other comprehensive loss into interest expense. We also unwound \$8 million of the \$30 million interest rate swap agreement.

At March 31, 2003, two interest rate swap agreements in the notional amounts of \$50 million and \$22 million were outstanding, the aggregate fair value of which was an obligation of \$3.7 million. This obligation is reported in other liabilities in the consolidated balance sheet and the unrealized loss relating to the outstanding swap agreements was included in other comprehensive loss in stockholders' equity. The interest rate swap agreements were 100% effective for the three months ended March 31, 2003.

At March 31, 2003, \$74 million of borrowings were outstanding under the Credit Agreement, consisting solely of \$74 million of borrowings under the Term Loan and the borrowing base amounted to approximately \$110 million. The Term Loan is payable in 16 consecutive equal quarterly installments of \$0.2 million due March 31, 2003 through December 31, 2006, three consecutive equal quarterly installments of \$17.8 million due March 31, 2007 through September 30, 2007 and a final payment of \$17.8 million due at maturity.

The ratio of current assets to current liabilities increased to 2.7 to 1 at March 31, 2003 compared to 2.6 to 1 at December 31, 2002 due to reductions in accounts payable and accrued liabilities, partially offset by reductions in accounts receivable and inventories. At March 31, 2003, our total debt as a percentage of total capitalization increased to 22.3% from 21.9% at December 31, 2002 due to stock repurchases under our stock buy back program.

Net cash provided by operating activities was \$22,476 and \$44,736 for the three months ended March 31, 2003 and 2002, respectively. Net income was \$4,766 and \$3,856, respectively. Non-cash charges for depreciation and amortization and provisions for bad debt and inventory obsolescence in the aggregate provided cash of \$23,116 and \$25,087 for the three months ended March 31, 2003 and 2002, respectively. The provision for bad debt of \$2,602 for the three months ended March 31, 2003 was higher than historical levels reflecting an increase in the rate of delinquencies. For the three months ended March 31, 2003, the provision to write down excess and obsolete inventory amounted to \$1,533 and was lower than historical levels as substantially all of the value of the analog equipment has been written down to its nominal net realizable value. For the three months ended March 31, 2002, the provision to write down excess and obsolete inventory amounted to \$3,796. Changes in the principal components of working capital used cash of \$4,737 in the three months ended March 31, 2003 and provided cash of \$13,781 in the three months ended March 31, 2002. Of the \$4,737 of cash used by working capital changes in the three months ended March 31, 2003, approximately \$3.5 million was due to 2002 incentive compensation payments and \$1.2 million related to the timing of inventory and other payments.

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We used \$15,446 and \$14,832 in investing activities for the three months ended March 31, 2003 and 2002, respectively. Investment in rental equipment assets totaled \$10,622 and \$10,575 for the three months ended March 31, 2003 and 2002, respectively. Capital expenditures for property, plant and equipment were \$4,824 and \$4,257 for the three months ended March 31, 2003 and 2002, respectively, of which the investment in ERP accounted for \$3,236 and \$2,640, respectively.

Cash used in financing activities was \$11,875 and \$17,384 for the three months ended March 31, 2003 and 2002, respectively. Cash used in financing activities for the three months ended March 31, 2003 reflects the repurchase of 642,000 shares of our stock at a cost of \$12,597. In March 2002, the Board of Directors approved a \$30 million stock buy back program. In October 2002, the Board of Directors authorized the repurchase of an additional \$28 million of our stock, raising the total authorization to \$58 million and, as of March 31, 2003, we have accumulated approximately 2.6 million shares of treasury stock at a cost of \$49 million.

During the three month period ended March 31, 2003, we had no material changes in our contractual obligations and commitments. We had no material commitments other than supply agreements with vendors that extend only to equipment supplies and parts ordered under purchase orders; there are no long-term purchase requirements. We will continue to make additional investments in facilities, rental equipment, computer equipment and systems and our distribution network as required to support our revenue growth. We anticipate investments in rental equipment assets for new and replacement programs in amounts consistent with prior years. We estimate that we will spend approximately \$20 million to \$25 million over the next 9 - 12 months to continue to enhance our information systems infrastructure and implement our ERP system.

Historically, our cash flow has been positive. We expect our cash flow to remain positive although we do expect our cash generation to moderate compared with the same period in the prior year as our ability to continue to provide cash through changes in working capital is reduced. Our cash flow from operations, together with borrowings under the Credit Agreement, are expected to adequately finance our ordinary operating cash requirements and capital expenditures for the foreseeable future. We expect to fund further expansion and long-term growth primarily with cash flows from operations, borrowings under the Credit Agreement and possible future sales of additional equity or debt securities.

RISK FACTORS THAT COULD CAUSE RESULTS TO VARY

Risk Factors Relating to Our Business

The document imaging and management industry is undergoing an evolution in product offerings, moving toward the use of digital and color technology in a multifunctional office environment. Our continued success will depend to a great extent on our ability to respond to this rapidly changing environment by developing new options and document imaging solutions for our customers.

The proliferation of e-mail, multifunctional products and other technologies in the workplace may lead to a reduction in the use of traditional copiers and fax machines. We cannot anticipate whether other technological advancements will substantially minimize the need for our products in the future.

Many of our rental customers have contract provisions allowing for technology and product upgrades during the term of their contract. If we have priced these upgrades improperly, this may have an adverse effect on our profitability and future business. If many of our customers exercise their

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contractual rights to upgrade to digital equipment, we may experience returns of a large number of analog machines and a subsequent loss of book value on these machines.

The document imaging solutions industry is very competitive; we may be unable to compete favorably, causing us to lose sales to our competitors. Our future success depends, in part, on our ability to deliver enhanced products, service packages and business processes such as e-commerce capabilities, while also offering competitive price levels.

We rely on outside suppliers to manufacture the products that we distribute, many of whom are located in the Far East. In addition, two manufacturers supply a significant portion of our new copier and multifunctional equipment. If these manufacturers discontinue their products or are unable to deliver us products in the future or if political changes, economic disruptions or natural disasters occur where their production facilities are located, we will be forced to identify an alternative supplier or suppliers for the affected product. In addition, although we have worked with our suppliers and freight forwarders to mitigate the potential impacts of an outbreak of infectious disease affecting our supply chain, should our manufacturers become affected by epidemics of infectious diseases, including the recent outbreak of severe acute respiratory syndrome, we could be forced to identify an alternative supplier or suppliers for the affected product. Although we are confident that we can identify alternate sources of supply, we may not be successful in doing so. Even if we are successful, the replacement product may be more expensive or may lack certain features of the discontinued

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product and we may experience some delay in obtaining the product. Other events that disrupt the shipment to or receipt of ocean freight at U.S. ports, such as labor unrest, war or terrorist activity could delay, prevent or add substantial cost to the Company's receipt of such products. Any of these events would cause disruption to our customers and could have an adverse effect on our business.

Much of our international business is transacted in local currency. Currently, less than 30% of our total product purchases, based on costs, are denominated in yen. We do not currently utilize any form of derivative financial instruments to manage our exchange rate risk. We manage our foreign exchange risk by attempting to pass through to our customers any cost increases related to foreign currency exchange. However, no assurance can be given that we will be successful in passing cost increases through to our customers in the future.

Risk Factors Relating to Separating Our Company From Pitney Bowes

We have a limited history operating as an independent entity and may be unable to make the changes necessary to operate successfully as a stand-alone entity, or may incur greater costs as a stand-alone entity that may cause our profitability to decline.

Prior to the Distribution, our business was operated by Pitney Bowes as a division of its broader corporate organization, rather than as a separate stand-alone entity. Pitney Bowes assisted us by providing corporate functions such as legal, tax and information technology functions. Following the Distribution, Pitney Bowes has no obligation to provide assistance to us other than certain interim and transitional services. Because our business had not previously been operated as a stand-alone entity, there can be no assurance that

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we will be able to successfully implement the changes necessary to operate independently or will not incur additional costs as a result of operating independently. We are implementing an ERP system intended to replace the information technology ("IT") services provided by Pitney Bowes under the transition services agreement. Due to unanticipated delays in implementation of Phase II of the ERP system, we and Pitney Bowes have agreed to an extension until June 30, 2003 or, upon our request, December 31, 2003, of the transition services agreement as it relates to IT related services. In January 2003, we received a favorable ruling from the Internal Revenue Service indicating that the extension of the transition services agreement as it relates to IT services, through December 2003, will not affect the tax-free nature of the spin-off. Any failure to implement the critical ERP applications appropriately by the given extension date would have a material adverse affect on our financial position, results of operations and cash flows.

Pitney Bowes has been and is expected to continue to be a significant customer. For both the three months ended March 31, 2003 and 2002, revenues from Pitney Bowes, exclusive of equipment sales to PBCC for lease to the end user, accounted for approximately 8% of our total revenue. However, no assurance can be given that Pitney Bowes will continue to purchase our products and services.

In connection with the Distribution, Imagistics and Pitney Bowes entered into a non-exclusive intellectual property agreement that allows us to operate under the "Pitney Bowes" brand name for a term of up to two years after the Distribution. However, this agreement may be terminated if we or Pitney Bowes elect to terminate the non-competition obligations contained in the distribution agreement. In 2002, we began introducing new products under the "Imagistics" brand name and we initiated a major brand awareness advertising campaign to establish our new brand name. Brand name recognition is an important part of our overall business strategy and we cannot assure you that customers will maintain the same level of interest in our products when we can no longer use the Pitney Bowes brand name.

SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

Statements contained in this discussion and elsewhere in this report that are not purely historical are forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, and are based on management's beliefs, certain assumptions and current expectations. These statements may be identified by their use of forward-looking terminology such as the words "expects", "projects", "anticipates", "intends" and other similar words. Such forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected. The forward-looking statements contained herein are made as of the date hereof and, except as required by law, we do not undertake any obligation to update any forward-looking statements, whether as a result of future events, new information or otherwise.

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RECENT ACCOUNTING PRONOUNCEMENTS

In April 2003, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities

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under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and hedging relationships designated after June 30, 2003 and all provisions should be applied prospectively. The provisions of SFAS No. 149 that relate to SFAS No. 133 implementation issues that have been effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their respective effective dates. Certain provisions relating to forward purchases or sales of when-issued securities or other securities that do not yet exist, should be applied to existing contracts as well as new contracts entered into after June 30, 2003. We are evaluating the provisions of SFAS No. 149 and whether the implementation of this statement will have a material impact on our financial position, results of operations or cash flows.

In September 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 is effective for exit and disposal activities initiated after December 31, 2002 and provides guidance on the recognition and measurement of liabilities associated with disposal activities. We adopted SFAS No. 146 on January 1, 2003. The adoption of SFAS No. 146 did not have a material impact on our financial position, results of operations or cash flows.

In November 2002, the FASB Emerging Issues Task Force reached a consensus on issue No. 00-21 "Accounting for Revenue Arrangements with Multiple Deliverables" ("EITF 00-21"). EITF 00-21 applies to certain contractually binding arrangements under which a company performs multiple revenue generating activities and requires that all companies account for each element within an arrangement with multiple deliverables as separate units of accounting if (a) the delivered item has value on a stand-alone basis, (b) there is objective and reliable evidence of fair value and (c) the amount of the total arrangement consideration is fixed. EITF 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of EITF 00-21 will not have a material impact on our financial position, results of operations or cash flows.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have certain exposures to market risk related to changes in interest rates, foreign currency exchange rates and commodities. There have been no material changes in market risk since the filing of our Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

ITEM 4. CONTROLS AND PROCEDURES

Within the 90 days prior to the date of this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as described in Exchange Act Rule 13a-14. In conducting the evaluation, such officers noted that we continued to be reliant on certain Pitney Bowes information systems for the generation of financial information. Based upon our existing internal controls, such officers' knowledge of Pitney Bowes' systems and internal controls and a review of Pitney Bowes' Exchange Act filings and related certifications, the Chief Executive Officer and the Chief Financial Officer have concluded that the information generated by the Pitney Bowes information systems is subject to adequate controls. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic SEC filings relating to the Company (including its consolidated subsidiary).

There were no significant changes in our internal controls or in other factors that could significantly affect these internal controls subsequent to

the date of our most recent evaluation.

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IMAGISTICS INTERNATIONAL INC.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

LEGAL MATTERS

In connection with the Distribution, we agreed to assume all liabilities associated with our business, and to indemnify Pitney Bowes for all claims relating to our business. In the normal course of business, we have been party to occasional lawsuits relating to our business. These may involve litigation or other claims by or against Pitney Bowes or Imagistics relating to, among other things, contractual rights under vendor, insurance or other contracts, trademark, patent and other intellectual property matters, equipment, service or payment disputes with customers, bankruptcy preference claims and disputes with employees.

We have not recorded liabilities for loss contingencies since the ultimate resolutions of the legal matters cannot be determined and a minimum cost or amount of loss cannot be reasonably estimated. In our opinion, none of these proceedings, individually or in the aggregate, should have a material adverse effect on our consolidated financial position, results of operations or cash flows. There have been no significant changes in pending litigation since the filing of our Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits. The following documents are filed as exhibits hereto:

EXHIBIT

NUMBER	DESCRIPTION
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- | | |
|------|--|
| 3.1 | Amended and Restated Certificate of Incorporation (3) |
| 3.2 | Amended and Restated Bylaws (1) |
| 3.3 | Certificate of Designation of Series A Junior Participating Preferred Stock, dated August 1, 2002 (3) |
| 4.1 | Form of Imagistics International Inc. Common Stock Certificate (1) |
| 10.1 | Tax Separation Agreement between Pitney Bowes Inc. and Imagistics International Inc. (3) |
| 10.2 | Transition Services Agreement between Pitney Bowes Inc. and Imagistics International Inc. (3) |
| 10.3 | Distribution Agreement between Pitney Bowes Inc. and Imagistics International Inc. (3) |
| 10.4 | Intellectual Property Agreement between Pitney Bowes Inc. and Imagistics International Inc. (3) |
| 10.5 | Reseller Agreement between Pitney Bowes Management Services and Imagistics International Inc. (3) |
| 10.6 | Reseller Agreement between Pitney Bowes of Canada and Imagistics International Inc. (3) |
| 10.7 | Vendor Financing Agreement between Pitney Bowes Credit Corporation and Imagistics International Inc. (3) |
| 10.8 | Form of Sublease Agreement between Pitney Bowes Inc. and Imagistics International Inc. (3) |
| 10.9 | Form of Sublease and License Agreement between Pitney Bowes Inc. and Imagistics International Inc. (3) |

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- 10.10 Form of Assignment and Novation Agreement between Pitney Bowes Inc. and Imagistics Inter
- 10.11 Imagistics International Inc. 2001 Stock Plan (1)
- 10.12 Imagistics International Inc. Key Employees' Incentive Plan (3)
- 10.13 Imagistics International Inc. Non-Employee Directors' Stock Plan (1)
- 10.14 Letter Agreement between Pitney Bowes Inc. and Marc C. Breslawsky (1)
- 10.15 Letter Agreement between Pitney Bowes Inc. and Joseph D. Skrzypczak (1)
- 10.16 Letter Agreement between Pitney Bowes Inc. and Mark S. Flynn (1)
- 10.17 Credit Agreement between Imagistics International Inc. and Merrill Lynch & Co., Merrill
Incorporated, as Syndication Agent, Fleet Capital Corporation, as Administrative Agent (
- 10.18 Rights Agreement between Imagistics International Inc. and EquiServe Trust Company, N.A.
- 10.19 Employment Agreement between Imagistics International Inc. and Marc C. Breslawsky (3)
- 10.20 Employment Agreement between Imagistics International Inc. and Joseph D. Skrzypczak (3)
- 10.21 Employment Agreement between Imagistics International Inc. and Christine B. Allen (3)
- 10.22 Employment Agreement between Imagistics International Inc. and John C. Chillock (3)
- 10.23 Employment Agreement between Imagistics International Inc. and Chris C. Dewart (3)
- 10.24 Employment Agreement between Imagistics International Inc. and Mark S. Flynn (3)
- 10.25 Employment Agreement between Imagistics International Inc. and Nathaniel M. Gifford (3)

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IMAGISTICS INTERNATIONAL INC.

- 10.26 Employment Agreement between Imagistics International Inc. and Joseph W. Higgins (3)
- 10.27 Amendment No. 1 to Credit Agreement between Imagistics International Inc. and Merrill Ly
Pierce, Fenner & Smith Incorporated, as Syndication Agent, Fleet Capital Corporation, as
and the Lenders identified therein (4)
- 10.28 Amendment No. 2 to Credit Agreement between Imagistics International Inc. and Merrill Ly
Pierce, Fenner & Smith Incorporated, as Syndication Agent, Fleet Capital Corporation, as
and the Lenders identified therein (5)
- 10.29 First Amendment to Imagistics International Inc. 2001 Stock Plan (6)
- 10.30 First Amendment to Rights Agreement between Imagistics International Inc. and EquiServe
- 10.31 Amendment No. 3 to Credit Agreement between Imagistics International Inc. and Merrill Ly
Pierce, Fenner & Smith Incorporated, as Syndication Agent, Fleet Capital Corporation, as
and the Lenders identified therein (7)
- 10.32 Amendment No. 1 to Transition Services Agreement between Pitney Bowes Inc. and Imagistic
- 99.1 Section 906 certification

-
- (1) Incorporated by reference to Amendment No. 1 to the Registrant's Form 10 filed July 13,
 - (2) Incorporated by reference to Amendment No. 2 to the Registrant's Form 10 filed August 13
 - (3) Incorporated by reference to Registrant's Form 10-K filed March 28, 2002.
 - (4) Incorporated by reference to Registrant's Form 10-Q filed May 14, 2002.
 - (5) Incorporated by reference to the Registrant's Form 8-K dated July 23, 2002.
 - (6) Incorporated by reference to the Registrant's Form 10-Q filed August 14, 2002.
 - (7) Incorporated by reference to the Registrant's Form 8-K dated March 7, 2003.
 - (8) Incorporated by reference to the Registrant's Form 10-K dated March 28, 2003.

(b) Reports on Form 8-K.

On February 14, 2003, the Company filed a Current Report on Form 8-K, dated February 14, 2003, to furnish under Item 9 of such Form materials used in its presentations to the financial analyst and investment community.

On March 7, 2003, the Company filed a Current Report on Form 8-K, reporting under Item 5 thereof, the Third Amendment to the Credit Agreement, dated as of

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March 5, 2003.

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IMAGISTICS INTERNATIONAL INC.

SIGNATURES

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

Date: May 15, 2003

Imagistics International Inc.

(Registrant)

By: /s/ Joseph D. Skrzypczak

Name: Joseph D. Skrzypczak
Title: Chief Financial Officer
and Authorized Signatory

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IMAGISTICS INTERNATIONAL INC.

CERTIFICATION

I, Marc C. Breslawsky, certify that,

1. I have reviewed this quarterly report on Form 10-Q of Imagistics International Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all

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material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

/s/ Marc C. Breslawsky

Marc C. Breslawsky
Chief Executive Officer

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I, Joseph D. Skrzypczak, certify that,

1. I have reviewed this quarterly report on Form 10-Q of Imagistics International Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

/s/ Joseph D. Skrzypczak
Joseph D. Skrzypczak
Chief Financial Officer

