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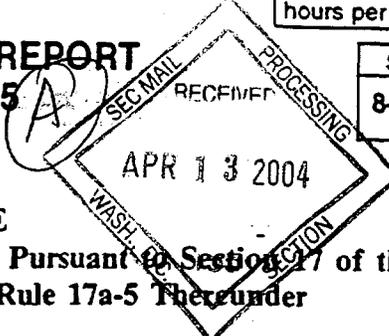


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| OMB APPROVAL | |
| OMB Number: | 3235-0123 |
| Expires: | September 06, 1998 |
| Estimated average burden | hours per response . . . 12.00 |

**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**



| |
|-----------------|
| SEC FILE NUMBER |
| 8 43351 |

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 1/1/03 AND ENDING 12/31/03
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

PB Funding Corporation

| |
|-------------------|
| OFFICIAL USE ONLY |
| FIRM ID. NO. |

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

27 Waterview Drive

(No. and Street)

Shelton

Connecticut

06484

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Richard Martorana

(203) 922-4532

(Area Code — Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

PricewaterhouseCoopers LLP

(Name — if individual, state last, first, middle name)

300 Atlantic Street

Stamford,

Connecticut

06901

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

PROCESSED

JUN 09 2004

THOMSON
FINANCIAL

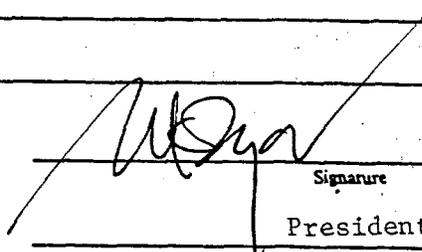
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*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

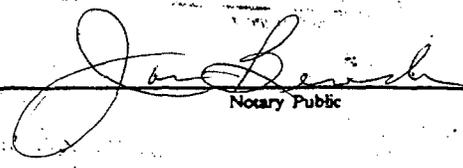
OATH OR AFFIRMATION

I, Michael S. Ryan, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of PB Funding Corporation, as of December, 19 2003, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:



Signature
President

Title



Notary Public

JOAN BERNARDO
NOTARY PUBLIC
MY COMMISSION EXPIRES APR. 30, 2009

- This report** contains (check all applicable boxes):
- (a) Facing page.
 - (b) Statement of Financial Condition.
 - (c) Statement of Income (Loss).
 - (d) Statement of Changes in Financial Condition.
 - (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
 - (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
 - (g) Computation of Net Capital
 - (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
 - (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
 - (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
 - (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
 - (l) An Oath or Affirmation.
 - (m) A copy of the SIPC Supplemental Report.
 - (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).



PBCC

Pitney Bowes Credit Corporation

March 31, 2004

Mr. W. Kenneth Henderson
NASD
Boston District Office
260 Franklin St., Suite 1600
Boston, MA 02110-3169

Dear Mr. Henderson:

In response to your letter dated March 24, 2004 (copy attached) a revised set of audited financial statements is attached for your information and file.

Your query requested "a reconciliation, including appropriate explanations of the audited computation of net capital, if material differences existed, or if no material differences existed, a statement so stating". Please refer to Schedule I, Computation of Net Capital and Aggregated Indebtedness, a footnote at the bottom of the schedule reads:

"There are no material differences between the computation of net capital as presented herein from that reported by the Company in its unaudited FOCUS report as of December 31, 2003."

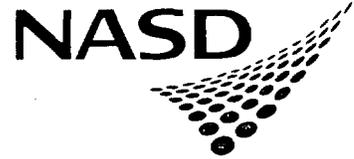
Please contact me if you require any additional information.

Sincerely,

Richard Martorana
Director, Accounting and Reporting

BY CERTIFIED MAIL 7002 2030 0001 4243 1665

March 24, 2004



Mr. Richard Martorana
PB Funding Corp.
27 Waterview Drive
Shelton, CT 06484

Dear Mr. Martorana:

This acknowledges receipt of your December 31, 2004 annual filing of audited financial statements made pursuant to U.S. Securities and Exchange Commission (SEC) Rule 17a-5(d) (the Rule). The report as submitted appears deficient in that it did not contain the following:

1. A reconciliation, including appropriate explanations of the Audited Computation of Net Capital and the broker/dealer's corresponding Unaudited Part II or IIA, if material differences existed, or if no material differences existed, a statement so stating.

Based on the above, your filing does not comply with the requirements of the Rule. The text of the Rule is reproduced in the *NASD Manual* under the section titled *SEC Rules & Regulation T*. We urge you to review the Rule with your independent accountant.

Pursuant to the provisions of NASD Rule 8210, we request that you send one copy of each item(s) listed above to this office and to the appropriate SEC regional or district office, and two copies to the SEC Washington, D.C. office. Your submissions must include a new completed Form X-17A-5 Part III Facing Page, a copy of which is enclosed for your convenience.

Please respond to this matter by April 6, 2004. Questions may be addressed to Rassany Khakeo, Compliance Examiner at (617) 261-0851.

Sincerely,

A handwritten signature in black ink, appearing to read "W. Henderson". The signature is fluid and cursive, written over a white background.

W. Kenneth Henderson
Supervisor

WKH:amm

Enclosure: Form X-17A-5 Part III Facing Page

cc: Ms. Lucy A. Corkery, Branch Chief, Broker/Dealer Section,
Securities and Exchange Commission

PB FUNDING CORPORATION

(a wholly owned subsidiary of Pitney Bowes Credit Corporation)

**FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION
AND REPORT ON
INTERNAL ACCOUNTING CONTROL**

DECEMBER 31, 2003 AND 2002

Report of Independent Auditors

To the Stockholder and Board of Directors of
PB Funding Corporation

In our opinion, the accompanying statement of financial condition and the related statements of income, changes in stockholder's equity and cash flows present fairly, in all material respects, the financial position of PB Funding Corporation (the "Company") (a wholly owned subsidiary of Pitney Bowes Credit Corporation) at December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. 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 auditing standards generally accepted in the United States of America, which require that we plan and perform the audits 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 our opinion.

As disclosed in the notes to the financial statements, the Company has extensive transactions with its parent company. Because of this relationship, it is possible that the terms of these transactions are not the same as those that would result from transactions between wholly unrelated parties.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedule I is presented by management for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

February 25, 2004

PB FUNDING CORPORATION

(a wholly owned subsidiary of Pitney Bowes Credit Corporation)

STATEMENT OF FINANCIAL CONDITION

2

| | December 31, | |
|--|-------------------|---------------------|
| | 2003 | 2002 |
| Assets | | |
| Cash and cash equivalents | \$ 445,182 | \$ 2,917,220 |
| Receivable from Pitney Bowes Credit Corp. | <u>-</u> | <u>644,902</u> |
| | | |
| Total assets | <u>\$ 445,182</u> | <u>\$ 3,562,122</u> |
| Liabilities | | |
| Income taxes payable to Pitney Bowes Credit Corp. | <u>\$ 229,436</u> | <u>\$ 1,163,282</u> |
| | | |
| Total liabilities | <u>229,436</u> | <u>1,163,282</u> |
| Stockholder's Equity | | |
| Common stock (no par value; one share authorized, issued and outstanding) | 6,000 | 6,000 |
| Additional paid-in capital | 4,000 | 4,000 |
| Retained earnings | <u>205,746</u> | <u>2,388,840</u> |
| | | |
| Total stockholder's equity | <u>215,746</u> | <u>2,398,840</u> |
| | | |
| Total liabilities and stockholder's equity | <u>\$ 445,182</u> | <u>\$ 3,562,122</u> |

The accompanying notes are an integral part of these statements.

PB FUNDING CORPORATION

(a wholly owned subsidiary of Pitney Bowes Credit Corporation)

STATEMENT OF INCOME

3

| | Year ended December 31, | |
|--------------------------------|-------------------------|---------------------|
| | 2003 | 2002 |
| Revenues | | |
| Fee income | \$ 569,920 | \$ 3,798,641 |
| Interest income | <u>8,066</u> | <u>18,797</u> |
| Total revenues | <u>577,986</u> | <u>3,817,438</u> |
| Expenses | | |
| Management fees | <u>872,943</u> | <u>1,921,084</u> |
| Total expenses | <u>872,943</u> | <u>1,921,084</u> |
| Income before income taxes | (294,957) | 1,896,354 |
| Income tax provision/(benefit) | <u>(111,863)</u> | <u>719,192</u> |
| Net income/(loss) | <u>\$ (183,094)</u> | <u>\$ 1,177,162</u> |

The accompanying notes are an integral part of these statements.

PB FUNDING CORPORATION

(a wholly owned subsidiary of Pitney Bowes Credit Corporation)

STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY

4

| | Common Stock Share | Amount | Additional Paid-in Capital | Retained Earnings |
|------------------------------|-----------------------|-----------------|-------------------------------|----------------------|
| Balance at December 31, 2001 | 1 | \$ 6,000 | \$ 4,000 | \$ 1,211,678 |
| Net Income | <u>—</u> | <u>—</u> | <u>—</u> | <u>1,177,162</u> |
| Balance at December 31, 2002 | 1 | 6,000 | 4,000 | 2,388,840 |
| Dividends | | | | (2,000,000) |
| Net Loss | <u>—</u> | <u>—</u> | <u>—</u> | <u>(183,094)</u> |
| Balance at December 31, 2003 | <u>1</u> | <u>\$ 6,000</u> | <u>\$ 4,000</u> | <u>\$ 205,746</u> |

The accompanying notes are an integral part of these statements.

PB FUNDING CORPORATION

(a wholly owned subsidiary of Pitney Bowes Credit Corporation)

STATEMENT OF CASH FLOWS**5**

| | Year ended December 31, | |
|---|-------------------------|---------------------|
| | 2003 | 2002 |
| Cash flows from operating activities: | | |
| Net Income/(Loss) | \$ (183,094) | \$ 1,177,162 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Decrease/(Increase) in receivable from Pitney Bowes Credit Corp. | 644,902 | (644,902) |
| (Decrease)/Increase in payable to Pitney Bowes Credit Corp. | <u>(933,846)</u> | <u>719,192</u> |
| Net cash (used)/provided by operating activities | <u>(472,038)</u> | <u>1,251,452</u> |
| Cash flows from investing activities | <u>-</u> | <u>-</u> |
| Cash flows from financing activities: | | |
| Dividends paid | <u>(2,000,000)</u> | <u>-</u> |
| Net cash (used)/provided by financing activities | <u>(2,000,000)</u> | <u>-</u> |
| Net decrease in cash and cash equivalents | (2,472,038) | 1,251,452 |
| Cash and cash equivalents at beginning of year | <u>2,917,220</u> | <u>1,665,768</u> |
| Cash and cash equivalents at end of year | <u>\$ 445,182</u> | <u>\$ 2,917,220</u> |

Supplemental disclosures of cash flow information:

There were no cash payments for interest in 2003 and 2002. Income taxes paid totaled \$821,983 in 2003 and \$0 in 2002.

PB FUNDING CORPORATION

(a wholly owned subsidiary of Pitney Bowes Credit Corporation)

NOTES TO FINANCIAL STATEMENTS

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Note 1. – Business and Organization

PB Funding Corporation (“PB Funding” or the “Company”), a wholly owned subsidiary of Pitney Bowes Credit Corporation (“PBCC”), in turn a wholly owned subsidiary of Pitney Bowes Inc., is a Delaware corporation. The Company was incorporated in 1991 and was registered as a broker dealer with the Securities and Exchange Commission (“SEC”), the National Association of Securities Dealers, Inc. (“NASD”) and the states of Connecticut and New York in July 1992, Vermont in June 1999 and Ohio in August 1999.

PB Funding is engaged as an intermediary primarily in the business of selling to third-party financial institutions and other investors, by transfer, assignment or participation, interests in leases, loans, notes, bonds and other financial products.

Note 2. – Summary of Significant Accounting Policies

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

Cash equivalents include short-term, highly liquid investments with a maturity of three months or less from the date of acquisition.

Fee income

Fee income generated is recognized as the related transactions are completed.

Note 3. – Related Party Transactions

Operating Agreement

Pursuant to an operating agreement between PB Funding and PBCC, PB Funding provides broker dealer services to PBCC and PBCC provides administrative services to PB Funding. Effective January 1, 2000, the operating agreement was amended and restated to revise the determination of management fees to be paid by PB Funding to PBCC.

PB FUNDING CORPORATION

(a wholly owned subsidiary of Pitney Bowes Credit Corporation)

NOTES TO FINANCIAL STATEMENTS

7

Management fees

All selling, general and administrative expenses relating to the operations of PB Funding are incurred by PBCC. Such costs include the salaries and related benefits of PBCC employees for work performed on behalf of PB Funding, professional fees, NASD registration and membership fees and other incidental costs and related profit from the completion of these transactions. PBCC in turn charges a management fee to PB Funding. Management fees charged by PBCC during 2003 and 2002 totaled \$872,943 and \$1,921,084, respectively.

Note 4. – Income Taxes

The results of operations of PB Funding are included in the consolidated Pitney Bowes Inc. Federal and state income tax returns. As such, income taxes are payable or refundable by Pitney Bowes Inc. or PBCC on behalf of PB Funding. Such amounts are paid by or refunded to PB Funding on a periodic basis. Income taxes, presented on a stand alone company basis, are accounted for in accordance with Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes". There are no deferred tax assets or liabilities. The difference between the Company's effective income tax rate of 38 percent and the U.S. Federal statutory rate of 35 percent for the years ending 2003 and 2002 is due to state income taxes.

Note 5. – Net Capital Requirement

The Company is subject to the SEC's uniform net capital rule (Rule 15c3-1), which requires the maintenance of minimum net capital and the ratio of aggregate indebtedness to net capital, both as defined, not to exceed 15 to 1. At December 31, 2003, the Company had net capital of \$215,746, which was \$200,451 in excess of the minimum required net capital of \$15,295. The Company had aggregate indebtedness totaling \$229,436 at December 31, 2003.

SUPPLEMENTARY INFORMATION

**PURSUANT TO RULE 17a-5 OF THE
SECURITIES EXCHANGE ACT OF 1934
AS OF DECEMBER 31, 2003**

The accompanying schedule is prepared in accordance with the requirements and general format of FOCUS Form X-17A-5.

The Company claims exemption from Rule 15c3-3 under section (k)(1). Because of this exemption, the Company has not included the schedule of "Computation for Determination of Reserve Requirements Under Rule 15c3-3" or the schedule of "Information for Possession or Control Requirements Under Rule 15c3-3."

PB FUNDING CORPORATION

(a wholly owned subsidiary of Pitney Bowes Credit Corporation)

COMPUTATION OF NET CAPITAL AND AGGREGATE INDEBTEDNESS PURSUANT TO RULE 15c3-1 UNDER THE SECURITIES EXCHANGE ACT OF 1934 DECEMBER 31, 2003

Schedule I

COMPUTATION OF NET CAPITAL

| | | |
|-----|--|-------------------|
| 1. | Total ownership equity from Statement of Financial Condition | \$ 215,746 |
| 2. | Deduct ownership equity not allowable for Net Capital | <u>-</u> |
| 3. | Total ownership equity qualified for Net Capital | 215,746 |
| 4. | Add: | |
| | A. Liabilities subordinated to claims of general creditors allowable in computation of net capital | - |
| | B. Other (deductions) or allowable credits | <u>-</u> |
| 5. | Total capital and allowable subordinated liabilities | 215,746 |
| 6. | Deductions and/or charges: | |
| | A. Total nonallowable assets from Schedule of Nonallowable Assets | - |
| 7. | Other additions and/or credits | <u>-</u> |
| 8. | Net capital before haircuts on securities positions | 215,746 |
| 9. | Haircuts on securities | <u>-</u> |
| 10. | Net capital | <u>\$ 215,746</u> |

COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

| | | |
|-----|--|------------|
| 11. | Minimum net capital required (6-2/3% of line 19) | \$ 15,295 |
| 12. | Minimum net capital requirement of reporting broker | 5,000 |
| 13. | Net capital requirement (greater of line 11 or 12) | 15,295 |
| 14. | Excess net capital (line 10 less line 13) | 200,451 |
| 15. | Excess net capital at 1,000% (line 10 less 10% of line 19) | \$ 192,802 |

COMPUTATION OF AGGREGATE INDEBTEDNESS

| | | |
|-----|--|-------------------|
| 16. | Total aggregate indebtedness liabilities from Statement of Financial Condition | \$ 229,436 |
| 17. | Additions | <u>-</u> |
| 19. | Total aggregate indebtedness | <u>\$ 229,436</u> |
| 20. | Percentage of aggregate indebtedness to net capital (line 19 ÷ line 10) | <u>106%</u> |
| 21. | Percentage of debt to debt-equity total computed in accordance with Rule 15c3-1(d) | <u>0%</u> |

PB FUNDING CORPORATION

(a wholly owned subsidiary of Pitney Bowes Credit Corporation)

**COMPUTATION OF NET CAPITAL AND AGGREGATE INDEBTEDNESS
PURSUANT TO RULE 15c3-1 UNDER
THE SECURITIES EXCHANGE ACT OF 1934
DECEMBER 31, 2003**

Schedule I (continued)

SCHEDULE OF NONALLOWABLE ASSETS (LINE 6A)

| | | |
|--|----|----------|
| Investment advisory fees receivable, net of related compensation payable | \$ | - |
| Fixed assets, net | | - |
| Other assets, net | | - |
| Total line 6A | \$ | <u>-</u> |

There are no material differences between the computation of net capital as presented herein from that reported by the Company in its unaudited FOCUS report as of December 31, 2003.

**Report of Independent Accountants on
Internal Accounting Control
Required by SEC Rule 17a-5**

To the Stockholder and Board of Directors of
PB Funding Corporation

In planning and performing our audit of the financial statements and supplemental schedule of PB Funding Corporation (the "Company") for the year ended December 31, 2003, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (the "SEC"), we have made a study of the practices and procedures followed by the Company, including tests of compliance with such practices and procedures, that we considered relevant to the objectives stated in Rule 17a-5(g) in the following:

1. Making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11); and,
2. Determining compliance with the exemptive provisions of Rule 15c3-3.

Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13;
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System; and
3. Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3;

To the Stockholder and Board of Directors of
PB Funding Corporation
Page 2

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, errors or fraud may occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including procedures for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2003 to meet the SEC's objectives.



To the Stockholder and Board of Directors of
PB Funding Corporation
Page 3

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the National Association of Securities Dealers, Inc. and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

Price Waterhouse Coopers LLP

February 25, 2004