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PBI - Q3 2012 Pitney Bowes Inc. Earnings Conference Call

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OVERVIEW:

PBI reported 3Q12 revenue of $1.2b and GAAP diluted EPS of $0.38. Expects 2012 revenue to be flat to negative 4% and GAAP diluted EPS to be $1.78-2.08.

CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Good afternoon and welcome to the Pitney Bowes third-quarter 2012 earnings results conference call. Your lines have been place in a listen-only mode during the conference call until the question and answer segment. Today's call is also being recorded. If you have any objections, please disconnect your lines at this time. I would now like to introduce your speakers for today's conference call. Mr. Murray Martin, Chairman, President, and Chief Executive Officer; Mr. Michael Monahan, Executive Vice President and Chief Financial Officer, and Mr. Charles McBride, Vice President, Investor Relations. Mr. McBride will now begin the call with a Safe Harbor overview.

Charles McBride - *Pitney Bowes Inc - VP, IR*

Included in this presentation are forward-looking statements about our expected future business and financial performance. Forward-looking statements involve risks and uncertainties that could cause actual results to be materially different from our projections. More information about these risks and uncertainties can be found in our 2011 Form 10-K annual report and other reports filed with the SEC that are located on our website at www.PB.com and by clicking on Investor Relations. Please keep in mind we do not undertake any obligation to update any forward-looking statements as a result of new information or developments.

Also, for non-GAAP measures used in the press release or discussed in this presentation, you can find reconciliations to the appropriate GAAP measures in the tables attached to our press release and also on our Investor Relations website. Additionally, this quarter we have provided slides to summarize most of the points we will discuss during this call. These slides can also be found on our Investor Relations website. Now our Chairman, President and Chief Executive Officer Murray Martin will start with an overview of the quarter.

Murray Martin - *Pitney Bowes Inc - Chairman, President and CEO*

Thanks Charlie and good afternoon. Thank you for joining us today. Before we start, I'd like this express our concerns and best wishes for all of those who were impacted by Hurricane Sandy. I want to make a special note of appreciation to our employees who supported other employees, customers, and our operations during this period of disruption. I'm happy to report that our employees in the impacted areas escaped injury, and all of our facilities are now operational.

In the third quarter, we continued to move forward on meeting our customers' needs by delivering innovative solutions and focusing on higher growth markets.

Before we discuss the results for the quarter, let me share with you some thoughts on where Pitney Bowes stands today, where it has been, where it is headed. We believe we're going through a critical period in the history of our Company and our industry. Many you have who know our story understand that a shift has been underway for some time. So let me review what we've done and intend to continue doing to meet that shift head on. We recognize that we needed to take a long-term view. Specifically, with investments towards higher-growth opportunities to be more optimally positioned for the future.

Over the last several years, we took actions to mitigate the impact of the global economy and evolving customer needs, and we focused on improving operations, increasing productivity, and reducing costs and providing more opportunity for innovation. These actions allowed us to remain solidly profitable, generate strong cash flows, and make strategic investments despite some revenue weakness. As many of you know, last year we completed our three-year strategic transformation program aimed at streamlining our business to further support growth. The initiative was broad based and touched just about every part of the organization across the globe. We streamlined the organization, enhanced efficiencies in market responsiveness and improved overall operations. In short, we did what needed to be done for Pitney Bowes and our stakeholders. As a result, the company is better positioned while at the same time delivering the products and services our customers want and need.

We saw the benefits of the restructuring in SG&A improvement in our EBIT margins, in several of our business segments and our overall ability to operate more efficiently and be more responsive to our customers. This program generated more than $300 million in net annualized savings, exceeding our targets. While the bulk of the work is complete, we continue to take costs out of the system and implement operational improvements across the business. In addition, by rethinking our cost structure and enhancing our market responsiveness, we've been able to make the investments necessary to support our long-term growth strategy, to be the leading provider of solutions to help customers of all sizes manage their physical, digital, and hybrid communications with their customers. Mail remains an important part of the business communications mix, and we are continuing to invest in enhancing its value to our customers.

The economic downturn is lasting longer than many expected. The various factors and measures I have mentioned have led to an ongoing and unique equilibrium at Pitney Bowes. We must simultaneously balance managing our business in an uneven global business environment with a need to invest and take action to drive longer term growth. To that end, and building on the success of the strategic transformation program, we are initiating new actions to further improve long-term growth. We believe that there are opportunities to streamline and further reduce costs as well as address margin mix trends and strategically invest in higher growth businesses. We are committed to taking these measures to improve operational flexibility. Mike will provide more detail in his remarks.

Consistent with the shift to higher growth opportunities, today in our earnings release, we also stated our decision to exit the portion of the international mail services business related to the shipment of traditional mail and catalogues. We expect the exit will be completed in the fourth quarter. We have taken a charge in the quarter to reflect an impairment of goodwill, intangible and long-lived assets. Mike will also discuss this in greater detail shortly.

As for additional investments, we have deep rooted customer relationships and a unique understanding of the needs of the SMB and enterprise customers. It is this understanding that is driving our strategy for continued expansion of our eCommerce initiatives, cloud based solutions, software and Volly. Customers are looking for solutions that will help them not only manage their physical, digital, and hybrid communications, but to do so in a more cost effective way. We're excited to announce that we're expanding our cross border eCommerce capabilities and will continue to strategically invest in technologies that make it easier for our customers to interact with their customers.

Consistent with our strategy to leverage opportunities in this higher growth market, we formed a new global eCommerce business group. This group will focus on growing our cross-border eCommerce solutions and parcel services to help retailers create a seamless, online purchasing and shipping experience for consumers.

Our expanding relationship with eBay is a good example. We are partnering on their recently announced global shipping program, or GSP, to help facilitate cross-border eCommerce and simplify the challenges associated with a historically complex cross-border sale of goods.

As many of you know, eBay and Pitney Bowes have been collaborating on technology solutions and services since 2004, when we enabled our Internet postage platform to power the eBay shipping label printing service. Some 40% of sellers on eBay employ its label printing services. We are now providing technology and shipping services for the GSP, which eBay started testing during the quarter. Through the GSP program, Pitney Bowes now supports eBay customers' shipping needs from the US to 18 countries. This is particularly exciting as we look ahead to Q4 and support the holiday shipping season with our cross-border eCommerce solution.

We continue to make progress with our Volly secure digital mail service and have now signed 60 large third-party mail service providers who will offer our service to 6,500 companies and consumer brands. As we continue to work with billers and develop our software, we have decided to add and enhance our technology to provide additional capabilities that will improve the on-boarding process for billers. This will result in improving the scalability of the service and facilitating biller density. Partnering with several technology solutions that leverage the Volly platform will give us a faster path to the density necessary to move the market. Last week, for example, we along with Broadridge Financial Services, announced that Morgan Stanley Wealth Management and UBS Financial Services had each indicated their support for our Volly solution. However, we have determined that Volly's long-term value will be enhanced by deferring its availability to consumers until 2013.

Turning now to our earnings in the quarter, as I mentioned at the outset, there is a shift underway at Pitney Bowes to fundamentally transform our business with a diversified set of high-growth offerings and a reduced cost structure, allowing us to respond to continued economic pressures while still investing for our future. Third quarter revenue benefited from growth in Production Mail. Also in mail services, pre-sort revenue grew as a result of increased standard mail volumes and continued penetration in all of the workshare discount categories. We also saw gradually improving trends in our North American mailing business as we experienced the best year-over-year comparison in six quarters for equipment sales.

While encouraged by these signs and investments for the future, revenue and earnings results did not meet our expectations. The decline in revenue and earnings during the quarter reflects the increasing impact of the global economic weakness, especially in our software and international mailing and management services businesses. Adjusted EBIT margin was down year-over-year, impacted by lower revenues and the changing business mix.

Finally, our free cash flow during the quarter was also lower than usual, totaling $40 million. However, on a year-to-date basis it was $551 million. On a GAAP basis, third quarter cash from operations was $69 million and $440 million year-to-date. Based on our year-to-date free cash flow, we are reaffirming our guidance range for the year of $750 million to $850 million. Cash flow this quarter was impacted by the timing of tax refunds and payments and the timing of working capital requirements. For instance, in both taxes and accounts receivable were significant sources of cash in the second quarter of 2012 and the third quarter of 2011, while this quarter, both items were uses of cash. Now I'll turn it over to Mike to review the results in greater detail with a breakdown by the segments. Mike?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

Thank you, Murray. This afternoon, we reported results for the third quarter of 2012. As Murray mentioned, many of the trends that we've been seeing throughout the year continued in the third quarter, specifically as it relates to the very uncertain and volatile global economic environment that continues to affect business spending patterns. Adjusted EPS was $0.47 for the third-quarter 2012 as compared with $0.69 per share for the same period in 2011. Last year's adjusted earnings per share included a $0.05 per share benefit from an insurance reimbursement and an $0.08 per share benefit from a tax settlement with the IRS. Excluding these two items, comparative adjusted EPS in the third quarter last year was $0.56.

In general, adjusted results for this quarter and the prior year exclude the impact of restructuring costs, goodwill and asset impairment charges, asset sales and tax settlements that may have occurred in those periods that are not usual occurrences when considering normal ongoing operating results. A reconciliation schedule of GAAP to non-GAAP measures is included in the earnings press release and posted to the investor relations section of our website.

GAAP earnings per diluted share were $0.38 versus $0.85 for the prior year. As outlined in today's press release, and as Murray mentioned, we announced our intention to exit the international mail services business, and as a result, there are $28 million of pre-tax non-cash goodwill, intangible and long-lived asset impairment charges affecting this quarter's GAAP results.

The remainder of my discussion will focus on the comparative operations of our businesses for the periods discussed and, therefore, all income statement related references or net results are on an adjusted basis.

For the third quarter, company revenue totaled $1.2 billion, a decline of 6% on a reported basis. Excluding the impact of currency, revenue declined 5%. Adjusted earnings before interest and taxes, or adjusted EBIT, was $181 million this quarter, and adjusted EBIT margin was 14.9%. Adjusted EBIT this quarter included an incremental investment of $3 million for Volly versus last year, and approximately $3 million for infrastructure, distribution, and related costs associated with our eCommerce growth initiatives. EBIT margin was also impacted by lower revenue in international mailing and software. Last year's EBIT margin benefited from an $18 million insurance reimbursement related to the Dallas facility fire. Adding back depreciation and amortization, EBITDA for the quarter was $241 million, or $1.19 per share.

SG&A for the quarter was $401 million, a decline of $27 million versus the prior year. As a percent of revenues, SG&A was 33%. SG&A continues to benefit from ongoing productivity initiatives and good credit experience, as well as lower benefit costs this quarter. Net interest expense in the quarter including financing interest was $45 million, a decline of $4 million relative to the prior year. The average interest rate was 4.7% for the quarter. The effective tax rate for the quarter was 27.4% versus an effective tax rate of 22.4% last year. The tax rate this quarter and last year benefited from the resolution of matters with tax authorities.

On the balance sheet and cash flow, free cash flow during the quarter was $40 million and $551 million year-to-date. On a GAAP basis, we generated $69 million in cash from operations for the quarter and $440 million year-to-date. As Murray noted, cash flow is lower this quarter than usual. Comparisons of cash flow for this quarter versus the prior year were impacted by a large tax refund of almost $100 million and the timing of tax payments in the third quarter of last year. Comparisons to the second quarter of this year were also impacted by timing of tax payments as well as the timing of working capital requirements.

We continue to closely monitor cash flow results and focus on maintaining a strong balance sheet. We returned $75 million of cash to our shareholders in the form of dividends and had $13 million of restructuring payments related to our strategic transformation program. We are committed to a prudent use of cash. Our priorities for cash remain -- reinvestment in the business consistent with our strategy to deliver innovative solutions and pursue higher growth markets, maintaining a fair return to our shareholders, and managing our debt levels. We have $3.7 billion of debt on the balance sheet at the end of the quarter, which was $550 million less than the amount of debt at the end of last year.

As Murray highlighted, we believe that building on the success of strategic transformation, there are further opportunities to reduce cost and streamline the business. Therefore, we anticipate taking actions that will include organizational and management consolidations. We expect these actions will result in a pre-tax restructuring charge in the fourth quarter in the range of $40 million to $60 million, and are anticipated to generate annualized savings in the range of $45 million to $55 million.

Now I'd like to discuss the third quarter results for each of our segments. This information can also be found in our earnings press release and the slides that we posted to our website in the Investor Relations section.

North America Mailing revenue for the quarter was $448 million, and EBIT was $169 million. During the quarter, the North American mailing segment continued to increase year-over-year placements of Connect+ and pbWebConnect mailing systems and SendSuiteLive shipping solutions. As a result this quarter, we experienced the best year-over-year equipment sales performance in six quarters, although it was a decline of less than 4%. Overall revenue declined primarily because of lower recurring revenue streams. EBIT margin was impacted by fewer lease extensions on existing equipment. Because there are fewer lease extensions this quarter, there was a higher proportion of equipment sales, which will result in an improvement in customer retention and future recurring revenue streams.

International Mailing revenue for the quarter was $154 million, and EBIT was $11 million. Revenue declined versus the prior year due to fewer equipment upgrades and lower equipment sales, especially in the UK. Revenue comparisons were also impacted by a postal rate change in France in the third quarter of last year, which generated $6 million of equipment sales related to postal rate updates, or PROMs, and there is no similar rate change this year. EBIT margin declined year-over-year due to lower revenue, lack of PROM sales this quarter and the overall mix of business.

Turning to the Enterprise Business Solutions group, Production Mail revenue for the quarter was $122 million and EBIT was $4 million. Production Mail revenue grew due to increased worldwide equipment sales during the quarter, in part because of the Drupa Trade Show held during the second quarter. EBIT improved when compared to the prior year due to the growth of revenue and cost reduction initiatives in the US and Europe. The improvement in margin was partially offset by continued investment in our Volly service. Excluding the investment in Volly, EBIT margin would have been approximately 540 basis points higher.

Software revenue for the quarter was $89 million, and EBIT was $1 million. Software is where we experienced the greatest effects of the challenging global economic environment. Revenue comparisons with the prior year were also challenging given the high number of large licensing deals that we closed during the third quarter of 2011. Continued austerity measures by the public sector globally are also adversely impacting our business. EBIT margin declined versus the prior year principally because of lower licensing revenue, relatively higher R&D investment and marketing spend in the quarter.

Management Services revenue for the quarter was $221 million, and EBIT was $10 million. Management Services revenue and EBIT margin continue to be impacted by ongoing pricing pressures as a result of ongoing worldwide economic and competitive conditions and lower volumes. However, we continue to have positive net new written business. This, coupled with our new strategic initiatives in print outsourcing are expected to drive revenue growth in the future.

Mail Services revenue is $142 million, and EBIT was $17 million. Increased standard mail volumes and continued penetration in the work share discount categories continue to drive revenue growth for the pre-sort operations. Overall, Mail Services revenue declined slightly this quarter as a result of lower mail and catalogue volumes in the international mail services business.

As Murray mentioned, we are focusing on the higher growth cross-border eCommerce opportunities and are exiting the slower growth international mail services. EBIT margin comparisons this quarter versus the prior year were impacted by the $18 million insurance reimbursement received in the third quarter last year. Also impacting margin was the company's continued investment in software applications and the distribution network to facilitate the expansion of its eCommerce solutions. Marketing Services revenue was $40 million, and EBIT was $9 million. EBIT margin benefited from reduced print production costs and ongoing productivity initiatives.

That concludes my comments, and I will turn the call over to Murray who will discuss guidance. Murray.

Murray Martin - *Pitney Bowes Inc - Chairman, President and CEO*

Thanks, Mike. We're operating in a very challenging and uncertain environment. While we expect effects of global economic uncertainty to persist, based on results to date and expectations for the fourth quarter, we are reaffirming our previously announced 2012 guidance for revenue, adjusted earnings per share, and free cash flow. Revenues is anticipated to be flat to minus 4%, adjusted earnings per share is expected to be in the range of $1.95 to $2.15, and free cash flow is expected to be in the range of $750 million to $850 million.

As I outlined earlier, given our intentions to further streamline the business and reduce costs while shifting to higher growth opportunities, we will incur an expected restructuring charge in the fourth quarter of $40 million to $60 million.

We are updating our GAAP EPS guidance to the range of $1.78 to $2.08 per diluted share. GAAP EPS reflects the goodwill and asset impairment charges of $0.09 per share related to our exit from our International Mail Services business and the anticipated restructuring charge of $0.15 to $0.25 per share. GAAP EPS also includes the $0.11 per share of net tax benefits and $0.06 per share benefit from the sale of leveraged lease assets in Canada, both of which occurred in the first quarter of the year.

Pitney Bowes is a global leader, and we believe that the steps we have taken and the actions we have underway will provide long-term benefit to our shareholders. Operator, we will now open it up to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Kartik Mehta, Northcoast Research.

Kartik Mehta - *Northcoast Research - Analyst*

Good afternoon, Murray and Mike. Just maybe your thoughts on impact from all the postal rate changes that seem to be occurring. And with that as well, if you could just talk about the impact to Pitney Bowes from a postal restructuring as well.

Murray Martin - *Pitney Bowes Inc - Chairman, President and CEO*

Sure. As we look at postal rate changes, as long as they're in a reasonable percentage, which the cap that is in place does force them to be, it generally does not have a material effect in the near term. So it does, however, enhance the need for postal equipment as they look at how the rates are affected and easily implemented with our software based systems. Of course, all of those rates are downloaded automatically. At the same time, as we look at postal restructuring, we see the post needing to look at how to provide easier access for customers in more locations, and that we would see as potentially beneficial to us as well as how they would outsource more of their activities. They have a very aggressive work share program, which we participate in, in our pre-sort business where we have 36 sites, and that also, depending on how they reorganize, could be beneficial. And then, thirdly, as they look at creating more automation around mail, we do that automatically for our customers in our pre-sort activity, and this eliminates their need to make the investments. So it actually enriches our pre-sort opportunities.

Kartik Mehta - *Northcoast Research - Analyst*

And then, Murray, could you just talk about this eCommerce opportunity you have? Obviously you must think it's a fairly large opportunity to create a business group around it. Is there any way to provide metrics as to how big you think the market is and maybe what Pitney's potential in that market is?

Murray Martin - *Pitney Bowes Inc - Chairman, President and CEO*

I think the market is quite significant. As you look at eCommerce traffic, and we'll look to provide more definitive information in that over the coming periods, but the eCommerce traffic is growing particularly in the cross-border area. It has been challenged with the uncertainty of what fully loaded, delivered cost is for buyers. So there is a significant dropout when people realize that it is a cross-border sale. And that's really what this is focused at. It provides the consumer with an all-in price, including duties, taxes, et cetera.

We will then manage that and inspect the goods before they leave the country to ensure that they comply with the appropriate duties and taxes. But the customer will see an all-in price and not have any surprises. This everyone believes will actually accelerate cross-border eCommerce.

We are launching to 18 counties initially, and then we will be looking to expand that. But as we move through the fourth quarter, we'll look to give you more information on what the market opportunity is for cross-border parcels.

Kartik Mehta - *Northcoast Research - Analyst*

And then just one last question, Mike. On the cost savings that you're going to realize, is that -- will you realize the entire amount in 2013, or is that more of a run rate that you believe you will achieve in 2013?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

Yes. I think that we'll achieve the majority of that in 2013. It is an annualized run rate. But we think that the timing of the actions are such that we'll see the majority of that in 2013.

Kartik Mehta - *Northcoast Research - Analyst*

Thank you very much. I appreciate it.

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

Thank you.

Operator

Ananda Baruah, Brean Capital.

Ananda Baruah - *Brean Murray, Carret & Co. - Analyst*

Good afternoon, Mike and Murray. Thanks for taking the question. Few things if I could. Would you guys just mind, you're reaffirming the guidance, sort of suggest to get to -- by my math, to get to the lower end of that, you need to do, at least 10% revenue growth sequentially. Can you give us the thinking behind what gives you confidence to be able to do that in the fourth quarter? Thanks.

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

Yes. Just to refresh in terms of the way that we provide our guidance, it's on a constant currency basis. So we are, I think, year-to-date at right about minus 4%. So we believe that the fourth quarter affords us some opportunities for improvement in our revenue growth rate. So the 10% sequential, I'm not sure I can relate to that in the way that you described it. But as Murray described, the eCommerce opportunity and some of the other comparisons in the businesses, we see opportunity for improvement in the fourth quarter.

Ananda Baruah - *Brean Murray, Carret & Co. - Analyst*

Mike, is it, I guess, headwind from currency this year? Is it 150 to 200 basis points? Is that --

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

It's about 160 basis points in the third quarter and a similar amount on a year-to-date basis.

Ananda Baruah - *Brean Murray, Carret & Co. - Analyst*

Got it. Got it. That's helpful. Thanks. I guess you're sort of assuming a fairly normal seasonality in Q4, it sounds like, in the hardware businesses?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

Yes. I mean, obviously the seasonality that you're referring to is we tend to have a higher level of equipment sales in the fourth quarter than in the first three quarters. That is the normal trend in the business. Obviously, whatever factors will play out in Production Mail and software and the like in the business, those always tend to have some larger transaction impacts that aren't always easy to anticipate.

Ananda Baruah - *Brean Murray, Carret & Co. - Analyst*

Okay. And I guess on the restructuring, it sounds like -- so you're doing the exiting from international mail services. Where -- the other restructuring that you alluded to that's going to make up the balance of the charge, could you just talk about where you are going to be focused on there? And do you anticipate having to do anything sort of after this round that you're talking about, the $40 million to $60 million charge? Are there any other businesses under review? Can you just give us the full scope of what you guys are looking at doing?

Murray Martin - *Pitney Bowes Inc - Chairman, President and CEO*

So let me deal with the second part of your question first. We always review all of our businesses and will continue to review all of our businesses to see how they contribute and what their long-term contribution is to the strategic direction that we're going and whether they are a best fit within our portfolio or whether they would fit better elsewhere. So that is something we do on a regular and ongoing basis, and we will continue to do that within all segments of the business.

As to the restructuring charge itself, as you recall, we executed and completed a three-year program that was very broad based and affected pretty well every area around the world. And what we're doing here is targeting specifically the management and professional areas to ensure that they are aligned with the revision of the business model with the changing mix of the business in growth, in enterprise and the margin mix that occurs as a result. So it's a very targeted approach and in the areas that I mentioned. Therefore, it should execute fairly quickly and completely.

Ananda Baruah - *Brean Murray, Carret & Co. - Analyst*

Great. That's helpful, Murray. Thanks a lot. Just -- I don't think this was disclosed yet. But what's the revenue impact from the exiting of the international mail services business? And then how much of a cost savings should we expect to be passed to the bottom line? Thanks.

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

In terms of the mail services business, that's roughly $140 million annualized revenue base today. In terms of the -- yes. In terms of the savings opportunity, as Murray outlined, the savings opportunity is really driven around a couple things. One is, obviously, to enhance the bottom line. We're also looking at how we better manage the changing mix of margins in the business and also reflecting the more challenging economic environment overall. So, obviously, as we take the formal charge and have the specifics around it, we'll talk about that in more detail in the fourth quarter.

Ananda Baruah - *Brean Murray, Carret & Co. - Analyst*

Okay. Great. Thanks. Thank you.

Operator

Shannon Cross, Cross Research.

Shannon Cross - *Cross Research - Analyst*

Thank you very much. Hopefully, you can hear me. I'm on a cell since we have no power. But my first question is just with regard to working capital and cash flow this quarter. Mike, could you give some more specifics about sort of the uses of cash and if you expect on the working capital side at least it could have been more timing rather than sort of a change, and if we should expect to bounce back in fourth quarter?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

Sure, I mean -- yes. Relative to the second quarter, if you were to compare it to the second quarter, there are some definite timing differences, particularly within accounts payable and accrued liabilities. One example of it, fairly sizable number, is accrued interest. We pay most of our interest on a semiannual basis. So, we accrue over two quarters and then pay. So that creates a meaningful timing difference between the second and third quarter. On an annualized basis, it obviously washes out.

Similarly, things like payroll where we accrue at the end of a period for the number of days outstanding to pay, there was a big difference between the second and third quarter as well. There was some AR timing, accounts receivable timing that's -- you can get big payments in just before the end of the quarter, end of quarter. So that was relatively minor. But those are the biggest items and some minor employee liability accruals. But on an annualized basis, we expect these things to even out. And that's why we have reaffirmed our full-year guidance of the $750 million to $850 million.

Shannon Cross - *Cross Research - Analyst*

Okay. Great. And I don't know. Mike or Murray, can you talk a bit about what you are hearing from customers, clearly on the software side you had some pressures in terms of not getting some big deals signed. But maybe if you could give us some ideas of how things progressed during the quarter in your various segments, and if you saw any signs of improvement or stability or decline. That would be helpful.

Murray Martin - *Pitney Bowes Inc - Chairman, President and CEO*

Sure. As we looked at the software in particular, in Europe and in the US, there is a reasonable amount of public sector business. And with the environment that's existed over the last quarter, the public sector business has been very slow and not really bringing itself to completion. I'd say that was a significant item. The second significant item is the number of large transactions. The number of large transactions closed was down.

So there is a delay. People are requiring more sign-offs in layers, which is increasing the time to get a business signed. So I think that is the second item that we have seen in the quarter, is delayed closing of those deals due to the signing of the business. Certainly I don't think we saw any strengthening in the quarter from an economic point of view. And, in fact, in most areas of the world saw more volatility.

Shannon Cross - *Cross Research - Analyst*

Okay. Great. And just curious did things get worse toward the end of the quarter or just sort of continuing volatility?

Murray Martin - *Pitney Bowes Inc - Chairman, President and CEO*

I think fairly continuing volatility. Certainly in all businesses, everything hinges on the end of the quarter. But it really wasn't anything different than we saw during the period.

At the same time, from the positive side on the North American mailing, which is lower ticket, we did see a reduction in the rate of decline that we had experienced in the past. It was about half of what it has been. So we are seeing some positive signs there. But I wouldn't call it aggressively positive that SMB is -- as a sector has turned up. But we have seen a high acceptance of our products and services and the ability to bring that in.

And then as Mike mentioned, a lot of those are going in as new rather than lease extension. And that also is longer term and over the long term will supply long-term revenue.

Shannon Cross - *Cross Research - Analyst*

Okay. Great. My last question is just with regards to the equipment that you sold. It sounds like as you just said, that's a positive. But I'm curious as to what you're seeing in terms of mixed shift down or are people sort of staying with the same kind of product? And also, what is sort of the pricing environment out there? Are you seeing any rational pricing, or are people being fairly accepting of the fact that the market is not very strong so no reason to price aggressively?

Murray Martin - *Pitney Bowes Inc - Chairman, President and CEO*

Two things in that regard. Firstly, the high-end items, Connect+ continues to move very well. And so we aren't seeing what we'd call any disproportionate downsizing. If anything, people in the upper market area are staying with the product because they see more feature functionality and capabilities to deliver more value. So we really don't see too much there. At the same time, as we launched WebConnect, WebConnect supplies digital services as an adjunct to the product. And so again it's providing a larger value proposition for the customers.

So I think those two things in the mailing business have kept the size question as relatively stable and not created any real shift in that. Certainly there is a question of confidence in the low end of the market. The NFIB report showed that the confidence has not improved in the market. And so we would like to see that because that would give us more breadth of that market space here in the US, so I think those are the ways we see the lower end. We expect it to continue. From your pricing question, there is always sensitivity in pricing in the market. But I wouldn't say we have seen anything that is significantly different than we have in the past periods.

Shannon Cross - *Cross Research - Analyst*

Great. Thank you very much.

Murray Martin - *Pitney Bowes Inc - Chairman, President and CEO*

Thank you.

Operator

Hale Holden, Barclays.

Hale Holden - *Barclays Capital - Analyst*

Hi. Just a couple quick ones. For the slowdown in lease renewals, is that purely a function of higher sales, or is it a function of sort of turnoff of a system?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

Yes. In terms of lease renewals, that is a conscious decision to market new equipment to customers where we've introduced new product to the marketplace in the form of Connect+ and pbWebConnect. And we believe that those customers will gain, as Murray mentioned, more value over time by having the additional feature functionality. So it's a trade-off of lease extensions can be higher margin because there is not a new piece of equipment, where a new equipment sale is a better revenue value over the long-term for the company in terms of the recurring revenue streams.

Hale Holden - *Barclays Capital - Analyst*

So we should expect this margin impact kind of for the next two to three quarters against recycle grounded and the new equipment becomes sort of wider installed in the base?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

Yes. As it sort of evens out as a percentage of the base, that would have an impact on the margin. Correct.

Hale Holden - *Barclays Capital - Analyst*

Okay. For the fourth quarter restructuring charge, can you give us a sense of how much that will be actual cash out the door?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

Yes. There will be a -- I would say the majority of that will be cash based because it will be principally severance oriented.

Hale Holden - *Barclays Capital - Analyst*

Okay. And then for -- again for the restructuring kind of plan or the cost reduction plan, if I recall this correctly, the last time you went through this three-year plan, you hired McKenzie to kind of come in and help you out with it. So the impression was there wasn't really a lot of wood to chop after they were done. So it's sort of how do you balance cutting into muscle or -- and are you doing this one on your own or have you hired someone to come help you with it?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

Yes. Actually, we had Booz & Company, who helped us out in the original one. That was a very broad based initiative across the whole business. What we are really doing here is an extension of what we would call continuous improvement in the business. Obviously, as the business evolves and new opportunities arise and we see changes in some of the businesses, we continue to look for opportunities. And in many ways, as Murray mentioned, this initiative is around looking at the full extent of what we accomplished in strategic transformation and fine-tuning our management levels and spans of control and those types of things and looking at some of the professional levels where we feel we can get more accomplished with the investments we've made in infrastructure. We are doing this on our own.

Hale Holden - *Barclays Capital - Analyst*

Got it. Thank you. Appreciate it.

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

Thank you.

Operator

Chris Whitmore, Deutsche Bank.

Chris Whitmore - *Deutsche Bank - Analyst*

Thanks. I wanted to try to understand the equipment sales number a little bit better. If I exclude production sales from your equipment line, it looks like that number was down somewhere in the mid teens on the year on year basis. Is that a fair representation of what meter placements did on a year on year basis?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

No, Chris. I think, Production Mail was up. There is a significant impact of currency in there due to the international side. So in the North America business, as I think I mentioned in my comments earlier, we're down a little under 4%. In international, excluding the currency impacts, we were down I think about 6% to 7%. So those are the underlying changes in the core mailing business in the equipment sales number. The DMT numbers or Production Mail numbers would have some currency effects in there as well.

Chris Whitmore - *Deutsche Bank - Analyst*

Okay. Thanks. That's very helpful. But nonetheless, we're looking at continued declines in that installed base. As we look into 2013, and I know it's early to talk about '13, but as we look into next year and given what we've seen in terms of placements, is it fair to assume the recurring revenue streams are set to continue to decline in that mid to high digit single rate?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

What we pointed to, I think, is that those rates of decline in the recurring revenue streams are starting to moderate, and our expectation is that assuming we achieve our sales objectives that we would continue to see those moderate, in part because we have moved through a turn of the lease base. But also the effects of other products and services. I think you'd see that support services was flat on a constant currency basis. It was actually positive in North American mailing because of the placement of our shipping solutions. So we have some products and revenue opportunities to continue to address those recurring revenue streams. But there is an underlying change in the meter base that will continue to be something that we're going to work at over time.

Chris Whitmore - *Deutsche Bank - Analyst*

Can you expand on that last comment in terms of the turn in the meter base? Do you mean you're seeing an increased amount of leases up for renewal or upgrade?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

No. My last comment was about support services, which was professional services, was positive. And that was, in part, because of placement of our shipping systems, which have a good bit of professional services associated with them.

Chris Whitmore - *Deutsche Bank - Analyst*

So can you comment on the outlook for upgrades within the base and the timing of those contract renewals or runoffs?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

Yes. We, obviously, will talk about '13 come the fourth quarter earnings announcements. But we don't see significant changes in the base as we go forward, or the opportunity in the base as we go forward.

Chris Whitmore - *Deutsche Bank - Analyst*

Okay. And my last question was more of a bigger picture strategy question, and this was touched on a little bit before. But, I'm trying to understand whether or not you're looking at more significant strategic action for software or PBMS. I think most people look at software as a business as a whole that has consistently under-performed at pretty low profitability. What are you driving to change the performance of that business? And is there a time frame where you'd consider potentially selling some of these other businesses if you can't accelerate the growth and start to generate better returns in those businesses?

Murray Martin - *Pitney Bowes Inc - Chairman, President and CEO*

Chris, as I mentioned earlier, we do look at all of these all the time, and we look at them very closely, and we'll always look to make the right decisions on how we maximize the value of the business. The software business, there are portions of it, the product called Spectrum, which is accelerating very well. It's a new product. So we look at what are the new growth initiatives that are in the business and how will they perform over an extended time period. As we've mentioned previously, in the PBMS business, the print outsourcing is just beginning in that business and expansion of our document processing services. But we look at those against the long term and the market and determine whether we think they are a best fit within our portfolio or whether they would be maximized best elsewhere. So we continuously do that and we'll continue to.

Chris Whitmore - *Deutsche Bank - Analyst*

Thank you.

Operator

Steve Searl, Conning Asset Management.

Steve Searl - *Conning Asset Management - Analyst*

Yes. With respect to the Volly product, can you elaborate on the comments in your press release that you deferred its availability until 2013? You're adding additional I think software features to that? Could you elaborate on that?

Murray Martin - *Pitney Bowes Inc - Chairman, President and CEO*

Sure. As we have said since the beginning, that Volly is really a significant change in the way people work and will work going forward. And that means it will continuously evolve. And the first requirement for that product to be successful is to have sufficient documents available to ensure that there is a real user experience and people can begin to see the benefit. What we're doing is we look at the product is saying we have -- as I also mentioned, signed 60 large billers with 6500 brands. But now you have to have a structure that infuses those easily.

And as we look at the processes around how we do that, we're looking at how to make that easier, simpler, and quicker to bring people on so that we can get the density. And we felt we need to get some of those changes in place to create that density capability, because if we launch the product without documents, it's going to not have the reputation that it needs. And so we have always said that we will launch it when we believe there is enough documents for a positive usage experience. Now, at the same time I also mentioned some of the financial services companies that are coming on board. But again, we have to get the connectors in place to bring those documents in.

Steve Searl - *Conning Asset Management - Analyst*

Okay. So at this point, you have not booked any revenues related to Volly?

Murray Martin - *Pitney Bowes Inc - Chairman, President and CEO*

No.

Steve Searl - *Conning Asset Management - Analyst*

And --

Murray Martin - *Pitney Bowes Inc - Chairman, President and CEO*

No. We had not forecasted even with the launch of anything meaningful in revenues this year or next year.

Steve Searl - *Conning Asset Management - Analyst*

Okay. Changing subjects. Your cash balances, can you tell us how much of that was domestic versus offshore at $930 million?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

Sure. At $930 million, I think we had about $460 million of cash on the balance sheet. About just under $150 million of that was outside the US, and the rest was in the US. Some held as capital in our bank and other available to us.

Steve Searl - *Conning Asset Management - Analyst*

Okay. And were there any commercial paper balances at the end of the quarter? And were you active in the markets in the quarter?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

We had zero commercial paper balances at the end of the quarter. We do utilize commercial paper interim periods in the quarter.

Steve Searl - *Conning Asset Management - Analyst*

Okay. And is it too early to make some initial comments on your plans for your June debt maturity next year?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

We look at that and have been taking steps to look at how we would manage that going forward. In fact, in October, we did issue $220 million of term notes to -- with banks. Those are relatively short duration. They are consistent with our bank line term and at favorable rates. So we view that as partly available for payment of our bonds due in 2013.

Steve Searl - *Conning Asset Management - Analyst*

Can you just refresh me? What is the term of your bank line?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

It's through 2016. About three plus years.

Steve Searl - *Conning Asset Management - Analyst*

So these notes issued mature in '16?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

Yes, I think late '15, '16.

Steve Searl - *Conning Asset Management - Analyst*

All right. Thank you.

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

Thank you.

Operator

Ananda Baruah, Brean Capital.

Ananda Baruah - *Brean Murray, Carret & Co. - Analyst*

Hi, guys. Thanks for the follow up. Mike, I guess of the $350 million or so much -- the $300 million that's actually inside the US, do you know how much -- do you know virtually how much of that you have access to?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

Yes. There is about $150 million of it that we would say is being used either as capital for the bank or we have other commitments within our businesses for it. So that would leave the balance available.

Ananda Baruah - *Brean Murray, Carret & Co. - Analyst*

Okay. Got it. That's helpful. Thanks. And then I guess could we just -- I just wanted to quickly run back to your comments, the incremental investment comments on Volly. I think you said there was $3 million incremental year-over-year. I think you said for eCommerce, you've invested $3 million. I guess could you just give us what the year-to-date investments are for Volly in total, and then maybe the year-to-date investments in eCommerce, and then what should we expect as run rates as we go into '13 for each of those because it sounds like eCommerce is growing, becoming --

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Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

I would say Volly is in line with the guidance that we gave at the beginning of the year. We had about $17 million of costs through the first three quarters and that's I think consistent with the run rate that we talked about in our guidance range. With respect to eCommerce, that spend in the third quarter was really a ramp up of spend as we went to launch with the product -- or going to launch with the product and beginning to expand it. So while we did some investment early in the year, we increased that ramp particularly around the distribution network in the third quarter. Obviously, we are looking to begin to generate revenue with the eCommerce business and that would help cover the cost as we go forward.

Ananda Baruah - *Brean Murray, Carret & Co. - Analyst*

Got it. I mean, do you think that could be a break-even at some point in 2013, or is this looking to be a net investment?

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

Obviously, it depends upon the rate of adoption. But we anticipate that being a net contributor in '13.

Ananda Baruah - *Brean Murray, Carret & Co. - Analyst*

Got it. Great. Thanks.

Michael Monahan - *Pitney Bowes Inc - EVP and CFO*

Thank you.

Operator

There are no further questions.

Murray Martin - *Pitney Bowes Inc - Chairman, President and CEO*

Thank you for your participation. And I'd just like to conclude by saying we continue to take actions to drive sustainable long-term growth for Pitney Bowes and our shareholders, and we're focused on positioning the company to succeed in the changing market landscape. Thank you and have a great day.

Operator

Ladies and gentlemen, this conference will be available for replay beginning at 7.00 p.m. today through December 1 at midnight. You may access the AT&T teleconference replay system any time by dialing (1-800)475-6701 and entering the access code 265198. International participants dial (320)365-3844, access code 265198. That does conclude our conference for today. Thank you for your participation and for using AT&T executive teleconference. You may now disconnect.
