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PRESENTATION

Operator

Good morning. And welcome to the Pitney Bowes third-quarter 2014 results conference call. Your lines have been placed 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. Marc Lautenbach, 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 of IR*

Good morning. 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 2013 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 that we do not undertake any other 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, we are providing slides that summarize most of the points we will discuss during the call. These slides can also be found on our investor relations website.

Now, our President and Chief Executive Officer, Marc Lautenbach, will start with a few opening remarks. Marc?

Marc Lautenbach - *Pitney Bowes Inc. - President & CEO*

Good morning and thank you for joining us. By now, I hope you have had a chance to review our third-quarter earnings press release. I am pleased with our performance in third-quarter and the solid financial results we achieved.

This marks the fourth consecutive quarter of year-over-year revenue growth, a clear sign of the steady and continuous progress we are making to execute successfully against our long-term strategy to unlock greater shareholder value. While we are still in the early phases of a multi-year journey to transform Pitney Bowes, we are confident in our ability to continue to meet our financial objectives and deliver sustained value for clients, our shareholders, and our employees.

One year ago, I began our investor call by placing our quarterly performance into the longer-term strategy that we first detailed in May of 2013. I have continued this narrative every quarter, since I believe it is important to view our results through the lens of our multi-year strategic transformation.

Given the steady progress we have made in implementing our strategy so far in 2014, we are even more confident and even more committed to staying the course and taking the disciplined actions necessary to reach our objectives. Once again, our third-quarter results are indicative of how we are advancing against the three strategic initiatives in our transformation: stabilizing our mail businesses, driving operational excellence, and growing our business through expansion in digital commerce.

Let's start with stabilizing our mail businesses. In the third quarter, we saw a revenue decline of 3% for our physical mail businesses in aggregate, which includes small and medium businesses solutions, presort, and production mail. Revenue for these mail-related businesses in the third quarter was impacted 1% by our decision to exit non-core product lines in Norway, and to transition to indirect sales in several markets in Europe.

However, the underlying fundamentals of these businesses continued to improve in the quarter, reflecting the focus on core product lines and implementation of our phased global go-to-market strategies and geographic coverage models. Importantly, the actions we have taken in the third quarter allow us to up deploy our resources in Europe in a more effective way that brings more focus to our clients.

As we discussed last quarter, we accelerated the shift of the accounts to inside sales as part of go-to-market implementation in North America mailing. To that end, we have made progress and expect our performance to improve, as we continue to ramp up inside sales, and in 2015, bring additional web-selling capabilities and enhancements online. In addition, we expect the recurring revenue streams to continue to improve, consistent with our performance so far this year.

As a result of the above actions we have taken in the third quarter, we are better positioned to take advantage of both the market and client opportunities in the fourth quarter and throughout 2015. Our third-quarter performance also demonstrates solid progress and our next strategic priority in proving operational excellence.

As we seen in previous quarters, our drive to become a more efficient and productive company, while improving client satisfaction is once again reflected in our income statement, free cash flow, and balance sheet. EBIT improved in all of our segment groups; this was driven by an $11-million net reduction in SG&A during the quarter. We saw a 200-basis-point improvement as a percentage of revenue.

We also delivered another strong quarter for cash flow. At $118 million for the quarter, we are well on track to meet our expectations for the full year. Our balance sheet remains strong and provides us the flexibility to deploy capital and to enhance shareholder value.

Because of our strong cash position and balance sheet, we repurchased $50 million of our common stock in the third quarter. This purchase helps to offset the dilution of shares that results from the issuance of stock related to our employee stock plans. And finally, year-to-date, we have returned more than $114 million to shareholders in dividend payments on our common stock, in addition to the $50 million in share repurchases during the quarter.

We are making excellent progress against our operation excellence initiatives and will continue to be diligent in the way we manage our balance sheet and capital allocation. Mike will provide additional color in his remarks.

Now let me turn to our third strategic initiative, growth in our digital commerce businesses. Our digital commerce business turned in another outstanding quarter across all product lines, including software, cross-border e-commerce, shipping, and marketing services.

Overall, we grew digital commerce solutions revenue 26% year over year. This is the fourth quarter of double-digit revenue growth for this segment. Equally important, EBIT improved 90% year over year, even as we continued to make investments in technology, sales, and infrastructure.

As I mentioned last quarter, growing an $800 million a year business at double-digit rates is remarkable. Delivering three consecutive quarters of double-digit growth while expanding margins is even more remarkable.

Within digital commerce, software had another strong revenue growth performance, driven by double-digit growth in licensing revenue. This is the third consecutive quarter of double-digit growth in licensing revenue, an indicator of the client demand for our unique software solutions.

Our e-commerce business also continued to perform very well. Not only did we increase the number of orders processed and packages shipped that use our solution, we also expanded our client base and geographic reach.

We added 10 new direct merchant accounts to our client base. They joined a growing list of businesses that use our advanced solution to make it easier for their clients around the world to access their products.

We also began operations in the UK in September, in support of eBay, enabling eBay sellers to use our solution to offer goods from the UK to buyers in about a dozen markets in the European Union. We are very pleased with the progressive expansion in this important business, as we continue to connect more buyers and sellers worldwide. At the same time, we will continue to invest in scaling our e-commerce business, and we believe that we've only just begun to tap the tremendous growth opportunities that lie ahead as we use our e-commerce solutions to make participation in the global commerce marketplace a reality for businesses of all kinds.

As I said at the opening, we are pleased with our performance in the third quarter. We are executing well and delivering on our commitments.

Our performance in the year is in line with the transformation strategy we detailed almost 18 months ago. A transformation [as distinctive] in growing revenue, in growing profit, while at the same time making substantial investments in our business to improve our competitive position.

That said, we are nowhere near done. We have more opportunities ahead to improve and grow. And we are actively taking the steps to take advantage of every one of these today and going forward.

With that, let me turn the call over to Mike.

Michael Monahan - *Pitney Bowes Inc. - EVP & CFO*

Thank you, Marc, and good morning. As Marc indicated, our third-quarter results are further evidence that we are making progress against our multi-year strategy. The business segment revenue contributions are shifting steadily towards the mix that we outlined at our May Analyst Day, with digital commerce solutions now representing nearly one-quarter of total revenues this quarter.

Also during the quarter, the revenue growth rates for each segment group were in line with our long-term market growth rate expectations, laying the groundwork for longer-term revenue growth and continued EBIT margin improvement. EBIT improved in all three of our segment groups this quarter. Our core businesses again generated strong cash flow, which allowed us to continue to invest in our growth areas.

As part of our objectives to stabilize our mail business and achieve operational excellence, we continued to take actions to improve our go-to-market processes around the world. We are experiencing some immediate benefits through a lower, more variablized cost structure, and expect to generate additional benefits through improved sales, as our inside sales and dealer networks mature and become more productive.

Revenue grew more than 2%, which was the fourth consecutive quarter of year-over-year positive revenue growth. Revenue growth would have been 3% during the quarter when you factor in the actions we took as part of our broader strategy, which included the exit of non-core product lines in Norway and the transition from a direct sales model to a dealer sales network through the international mailing and production mail segments in six smaller European markets.

During the quarter, we increased investment in our ERP system development, as well as our R&D in support of our e-commerce platform expansion and other product initiatives. Even with these incremental investments, we were able to reduce SG&A versus prior year as a result of the ongoing implementation of our go-to-market strategy as well as other cost-reduction initiatives across the business.

Relative to our original cost savings target of $100 million to $125 million, we have successfully reduced our SG&A to date by nearly $100 million. When you add back the incremental investment related to our ERP program, SG&A has declined $10 million. And you should note that we have been able to do this even as we have been incremental investments in our growth areas, particularly e-commerce and software solutions. As a result of our revenue growth and cost-reduction initiatives, adjusted EBIT increased 2%, and adjusted pretax profit increased 6%, reflecting our capital management actions.

Turning to our financial performance for the third quarter, revenue totaled $942 million. Compared to the prior year, revenue grew 2% on both a reported and constant-currency basis. Currency had an immaterial impact on revenue in the quarter.

On a reported basis, revenue grew 26% in digital commerce solutions and 2% in enterprise business solutions. Revenue in SMB solutions declined 5%; however, when adjusted for the exit of non-core product lines and channel changes in Europe, in both current and prior years, the revenue decline would have been 4% for SMB solutions.

Adjusted earnings per diluted share from continuing operations were $0.51 compared to $0.47 in the prior year. Quarter results included tax benefits of $0.08 and $0.06 per share in 2014 and 2013, respectively.

GAAP earnings per share from continuing operations were $0.55, which included $0.05 per share of other income related to the Company's divestiture of an investment. GAAP EPS from continuing operations also included a restructuring charge of $0.01 per share, associated with the previously announced cost-reduction plans. GAAP earnings per diluted share for the third quarter were $0.65, which included income of $0.10 per share from discontinued operations.

Free cash flow during the quarter was $118 million, and on a GAAP basis, we generated $117 million in cash from operations. In comparison to the prior year, free cash flow was primarily impacted by the timing of working capital requirements, higher capital expenditures related to our ERP implementation, and a decline in bank reserve deposits.

During the quarter, we used $38 million of cash to return value to our shareholders in the form of dividends, and we used $50 million to repurchase shares of our common stock. Additionally, we made $9 million in restructuring payments in the quarter. On a year-to-date basis, free cash flow was $418 million, and $397 million on a GAAP basis.

Turning to the income statement, please note that all income-statement-related results are on an adjusted basis. Adjusted earnings before interest and taxes or adjusted EBIT was $172 million this quarter, which was $4 million, or 2% higher than the prior year.

Adjusted EBIT margin was 18.3%, which was flat to the prior year. Adding back depreciation and amortization, adjusted EBITDA for the quarter was $222 million, or $1.09 per share.

SG&A for the quarter was $342 million, which was $11 million lower versus the prior year. As a percentage of revenue, SG&A was 36.3%, which was an improvement of 200 basis points. This was achieved despite the incremental expense related to the new ERP implementation. Excluding the ERP expense this quarter, SG&A would have been 35.7% of revenue.

During the quarter, we recorded a pretax restructuring charge of $4.5 million for actions associated with our previously announced plans to reduce costs, particularly our go-to-market strategies. Net interest expense, which includes financing interest, was $42 million, which was a decline of about $4 million when compared to the prior year. This is the result of reactions we had taken to reduce our overall debt by more than $400 million over the last 12 months.

Average outstanding borrowings during the quarter were about $432 million lower than the prior year. The average interest rate this quarter was 5.28%, which was 15 basis points higher than the prior year.

The effective tax rate on adjusted earnings for the quarter was 16%, compared to 18.3% in the third quarter last year. Both years include the favorable resolution of certain tax matters. Excluding these tax benefits, the tax rate would have been flat at 28% for both years.

Looking at the balance sheet, we had $3.2 billion of debt on the balance sheet at the end of the quarter, which was $413 million less than the third quarter of last year.

Now I'd like to discuss the third-quarter results for each of our business segments. This information can also be found in our earnings press release and the slides that we posted to the www.pb.com website under the investor relations section.

In North American mailing, revenue for the quarter was $363 million and EBIT was $160 million. Revenue declined 5% on a reported and 4% on a constant-currency basis when compared to the prior year.

Within the North American mailing results, recurring revenue streams continued decline at a lesser rate versus prior periods, due to sustained growth in supplies revenue and a further moderation in the decline of financing and rentals revenue. However, equipment sales declined, as the Company continues to drive productivity improvement in its transition to expand to inside sales and web channels.

EBIT margin was 43.9%, an improvement of 230 basis points versus the prior year, as a result of the overall operational initiatives and the ongoing benefits from the go-to-market strategy.

In international mailing, revenue for the quarter was $132 million and EBIT was $16 million. Revenue declined 6% on a reported basis and 8% on a constant-currency basis when compared to the prior year. This quarter's results reflect a number of actions related to the international mailing, go-to-market, and geographic coverage models.

As I mentioned earlier, at the end of June, we exited additional non-core product lines in Norway, and during the third quarter, expanded our indirect sales activities by transitioning from a direct sales model to a dealer network in six smaller European markets. Excluding the revenue related to these transactions in both the current and prior years, on a comparative basis, revenue would have declined 2%, which is in line with our stabilization objectives.

We also continued to shift additional client accounts to inside sales in the major European markets during the quarter. In addition to creating a more variable cost structure, these changes lessen our sensitivity to the uncertain economic conditions in Europe. EBIT margin was 12.2%, which was an improvement of 110 basis points versus the prior year due to changes in go-to-market, including the shift in strategy for smaller markets.

Turning to the enterprise business solutions group, in production mail, revenue for the quarter was $113 million and EBIT was $10 million. Revenue declined 3% on a reported basis and 2% on a constant-currency basis when compared to the prior year. On a regional basis, revenues were relatively flat in North America and grew in Europe, primarily due to increased production print installation.

Revenues declined in Asia-Pacific due to fewer installations of inserting and production print equipment. EBIT margin was 8.4%, which was a decline of 70 basis points versus the prior year, due to the lower revenue and the related margin contribution.

In presort services, revenue for the quarter was $111 million and EBIT was $22 million. Revenue grew 6% on both a reported and constant-currency basis when compared to the prior year. Revenue benefited from the improved qualification of mail for presort discounts, as a result of operational enhancements and the effective implementation of the postal rate change at beginning of the year. EBIT margin was 19.7%, which was an improvement of 30 basis points versus the prior year, due to the revenue growth and ongoing operational productivity.

For the digital commerce solutions segment, revenue was $221 million, and EBIT increased 90% to $95 million. Digital commerce solutions was nearly one-quarter of consolidated revenue in the quarter, up from 15% when we first introduced this segment at our May 2013 Analyst Day.

This reflects substantial organic growth in the portfolio. This organic growth continued in the third quarter, as revenue grew 26% on a reported basis and 25% on a constant-currency basis. The segment experienced revenue growth in each of its four product categories: e-commerce, software, shipping, and marketing services.

E-commerce experienced continued growth in the number of orders processed and packages shipped. In addition, in September, we began operations in the UK to enable sellers on eBay to use Pitney Bowes cross-border e-commerce solutions when offering goods from the UK to buyers in about a dozen markets in the European Union.

Software solutions double-digit revenue growth was led by an increase in licensing revenue, which benefited from several large deals during the quarter, reflecting in part the investments in channel specialization. Revenue growth in the areas shipping, solutions, and marketing services resulted from new client acquisitions for the respective product offerings.

EBIT margin was 11.1%, which was an improvement of 380 basis points versus the prior year. EBIT margin reflects the benefits of revenue growth, net of the impact of our continued investments in e-commerce, technology, and infrastructure. That concludes my comments on our financial performance for this quarter.

Now I'd like to update you on our 2014 guidance. We are reaffirming annual guidance for revenue growth and free cash flow. We are increasing guidance for adjusted earnings per share and GAAP earnings per share from continuing operations. Annual revenue growth, excluding the impacts of currency, is still expected to be in the range of 1% to 3% when compared to the prior year.

Guidance includes the impact in the exit of the non-core product lines in Norway, and the shift from a direct sales model to an indirect dealer sales network in six smaller European markets. As a result, this guidance anticipates a reduction in revenue for the balance of the year of about $12 million.

Free cash flow is still expected to be in the range of $475 million to $575 million. Adjusted earnings per share from continuing operations is now expected to be in the range of $1.85 to $1.92, versus the range of $0.80 to $1.90 previously expected, which reflects the year-to-date results and anticipated increased investment in ERP development and marketing expense in the fourth quarter. GAAP earnings per diluted share from continuing operations guidance to be in the range of $1.64 to $1.71, versus the range of $1.55 to $1.65 previously expected.

The changing guidance resulted from $0.05 per share of other income this quarter related to the Company's agreement to divest its investment in a partnership, as well as the incremental $0.01 per share charge for restructuring costs this quarter. Restructuring costs totaled $0.07 per share year to date.

Guidance also includes $0.19 per share of debt extinguishment costs recorded in the first quarter. Our guidance excludes any further actions that are under consideration to streamline our operations and further reduce our cost structure.

That concludes my remarks. Operator, you may now open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator instructions)

Kartik Mehta, Northcoast Research.

Kartik Mehta - *Northcoast Research - Analyst*

Good morning, Marc and Mike. Marc, I wanted to ask you about the sustainability of North America mailing margins. You've obviously been able to improve those margins, even though revenue hasn't been growing. And I'm wondering how long is that sustainable, or are you anticipating that we should start seeing a reverse in the North American revenue?

Marc Lautenbach - *Pitney Bowes Inc. - President & CEO*

Well, there's two different question there: one is on revenue and one is on margins. Obviously, margins have benefited over the last 18 months, as we have gone to a different go-to-market.

I still think there is headroom there. We've made a significant shift from a go-to-market that was oriented towards face-to-face sales to inside sales. And that has given us a more efficient coverage model and, candidly, a more effective coverage model from a client perspective.

Still in front of us is further use of the web, which will, again, provide another benefit. So I think there's more headroom there, whether there's the same level that we have seen over the last 18 months, probably not.

In terms of revenue, our models have always been predicated on low single-digit declines. That's kind of where we are, and that's how we are thinking about it going forward.

Michael Monahan - *Pitney Bowes Inc. - EVP & CFO*

Kartik, it's Mike. I would add to Marc's comments on the margin side. Obviously, we laid out in May our plans around ERP and the benefits that we will continue to accrue in '16 and '17, in particular. So we do see opportunity for continued improvement.

Kartik Mehta - *Northcoast Research - Analyst*

And then, Mike, share buyback, that was really good to see this quarter. Are you in a phase now where you see yourself consistently buying back shares, or was this more of a one-time just an opportunity that you wanted to take advantage of?

Michael Monahan - *Pitney Bowes Inc. - EVP & CFO*

Yes, I would say I'd go back to what we said again in May, around having more options around capital allocation. We saw an opportunity here to bring some shares in. It does help a little bit with normal dilution. We will continue to look at it going forward. We'll obviously consult with the Board as part of our overall capital allocation strategy.

Kartik Mehta - *Northcoast Research - Analyst*

Thank you very much. I really appreciate it.

Michael Monahan - *Pitney Bowes Inc. - EVP & CFO*

Thank you.

Operator

Ananda Baruah, Brean Capital.

Ananda Baruah - *Brean Capital, LLC - Analyst*

Hi. Thanks, guys for taking the questions, a few if I could. The first is on North America mailing, as well in the press release, and in your prepared remarks, you guys made reference to the shift to the non-direct sales method continuing to impact the growth. So I was hoping to just get a sense of to what degree that's continuing to happen, and when you think it may stop being a headwind to growth and when growth could actually improve.

Marc, I believe on the last call you made mention that you expected that to normalize in the second half of the year to March-quarter levels. So I wanted to get thoughts on that, and then I have a couple of follow-ups. Thanks.

Marc Lautenbach - *Pitney Bowes Inc. - President & CEO*

I'd go back to what we said in the third quarter. As we exited the second quarter, what we said was the shift from face-to-face sales to inside sales was largely behind us, and we expected to get back to a trend that looked more like the first quarter in the second half, and that's still our view. So I don't see anything that's really changed at all from what we saw in the second quarter.

Michael Monahan - *Pitney Bowes Inc. - EVP & CFO*

I think the broader context as well is that we've seen improving trends in the recurring revenue streams in the third quarter as well, so we continue to see the overall model working. As Marc said, we are fine tuning on the inside sales and are looking to bring more web-based capability online as well in the near future.

Ananda Baruah - *Brean Capital, LLC - Analyst*

Got it, thanks for that, appreciate that. And then, moving to the net impact of your efficiency initiatives, the cost pass-through to the bottom line continues to be really impressive. The rate was essentially unchanged on a quarterly basis, and that's with investment in the ERP. It seems like you guys are at $110 million now, ex-ERP $100 million, so you're right in your -- you're tracking the plan for year end.

As you continue the next few quarters to get into the heart of the ERP investment, can you continue that same pass-through. Are you gaining those kinds of efficiencies internally to be able to do that? Or should we begin to think differently about the pass-through on a quarterly basis until you get through that at any point in time here? And then I have one last one. Thanks.

Michael Monahan - *Pitney Bowes Inc. - EVP & CFO*

Sure, in terms of that, we sort of bifurcated this into two distinct pieces: there was the initiatives that were principally led by the go-to-market as Marc had described, and that's a lot of the benefit that we are seeing in the current results. Obviously, we are continuing that in the rest of the mailing business around the world, and there are some additional benefits to be gained from that.

In terms of ERP, that is a timing question, and while we've seen some spending increase over the last couple of quarters, as we noted in the fourth quarter, our guidance includes the expectations that that will increase somewhat more. We are in the build stage of that process, so there will be timing from quarter to quarter. But we believe that we've layered in both the opportunity for continued cost reduction, along with investment. And then we believe the second wave of cost benefits will come as we begin to deploy the ERP system around the world.

Ananda Baruah - *Brean Capital, LLC - Analyst*

Got it, thanks. And then the last one from me, I'm going to wrap it in clarification for Marc as well. Marc, just a quick clarification on the first question with regards to North American mailing growth. Is that to say that you expect to get to that down 1%, 2% range in the fourth quarter? I guess that would be baked into the guidance; that's the clarification.

And then the question for Mike is, you mentioned that you have a benefit from other baked into the increase in the 2000 -- in the fiscal year guidance. Is that the tax benefit that you realized this quarter or is that something else? And if its something else, how is the tax benefit this quarter reflected in the guide? Thanks.

Marc Lautenbach - *Pitney Bowes Inc. - President & CEO*

I'll go back to -- I got this question, I believe, in the second quarter, as well, in terms of the specific number for North American (inaudible). I resisted the temptation of giving a specific number in the second quarter, and I will continue to resist that temptation. I will only say that we expect it to get -- as inside sales continues to mature and that go-to-market stabilizes, a trend that looks more like the first quarter is what we're expecting to see.

Ananda Baruah - *Brean Capital, LLC - Analyst*

Got it. Thanks. And then, Mike?

Michael Monahan - *Pitney Bowes Inc. - EVP & CFO*

In terms of the guidance, the other is the benefit from the divestiture of an investment that's baked into there. The overall guidance does include the tax, because that was in the base-adjusted earnings number. As you can see, we moved our guidance range up to reflect the changes we've seen both in the business to date, as well as is our outlook for the fourth quarter.

Ananda Baruah - *Brean Capital, LLC - Analyst*

Thank you.

Operator

Shannon Cross, Cross Research.

Shannon Cross - *Cross Research - Analyst*

Thank you very much. I wanted to start on the e-commerce business. Marc, can you talk a bit about the 12 new customers? I assume they're relatively small, but how are you thinking about growing that business?

And then, from a timing perspective, how should we think about the opportunity to expand, you know how the UK is selling into Europe, so to expand the international capabilities of that platform?

Marc Lautenbach - *Pitney Bowes Inc. - President & CEO*

Thanks, Shannon, for the question. Let me just start with the market opportunity, because I think it bears repeating. The market opportunity for e-commerce is plus or minus $7 billion, so we've made great strides over the last couple of years growing that business, but we still have tremendous headroom.

And we think of that market opportunity in two dimensions: the first, as you mentioned, the smaller merchants, not that -- I think we added 10, not 12, in the release. But we think that's an important add as we go forward. So the way we're thinking about the market opportunities in terms of anchored clients, which we think of eBay as, and then these smaller merchants. So we have -- and smaller is relative to eBay, but not small in absolute sizes.

So we are adding salespeople to pursue that opportunity, and we are excited about what we're able to achieve in the third quarter. But I think we are just scratching the surface as it relates to the merchants.

As it relates to the anchor clients, as you rightly noted, so far our business has been US out. And while the US is a substantial economy, it's certainly not the preponderance of the economy around the world. So we saw the move into UK as a very important step forward for that business as we continue to keep our eye on that $7-billion opportunity.

And I would just parenthetically add that business has ramped in the UK fairly quickly, relative to what we had seen in the United States. So we're very excited. Our focus continues to be on providing great client service there, so we won't scale faster than we think we can provide a level of service that we're proud of. But it is a remarkable business in terms of the opportunity, as well as the level of growth that we've been able to achieve in the last two years.

Shannon Cross - *Cross Research - Analyst*

And what level of investment is required to go into the UK? I'm just curious what you had to put in place. Did you put a distribution facility in place there, or are you leveraging out other people to ship the product? I'm just curious as to what -- as you grow around the world, what is required?

Michael Monahan - *Pitney Bowes Inc. - EVP & CFO*

Shannon, it's Mike. Our model is a fairly asset-light model, so we use partners as much as possible in terms of the distribution elements, and even some of the package reparation elements of that. We've really focused our investments in the technology, and now increasingly in building out the channel and the infrastructure support for customers in the form of, certainly dealing with the merchant direct or the smaller accounts and all. So we've tried to focus our investments in the areas where we bring unique value and differentiation and leverage third-party service providers in more of the physical aspects of it.

Shannon Cross - *Cross Research - Analyst*

Okay, great. And then, can you just provide a more detail in terms of the ERP implementation? What was the level of investment this quarter?

And then if we think about timing as we go through 2015, where are you at in terms of the planning stages versus implementation? And are you planning on doing this, I would assume, country by country, starting smaller countries, maybe? Any color you can give us on where you are at and more specifics on ERP.

Michael Monahan - *Pitney Bowes Inc. - EVP & CFO*

Sure, in terms of the spend around ERP, it was another $0.02 in the quarter investment in ERP. We had said at the beginning of the year that we thought we would spend upwards of $0.10 against this investment. I think we'll stay certainly within that level in terms of P&L impact.

We did also say we expected to invest $30 million to $50 million of capital in 2014 associated with it, and that's a capitalization of some of the technology and hardware associated with deployment. To date, we're right -- just a little bit below $30 million, so I would expect we'll finish the year again right in the zone of what we originally suggested.

'14 and '15 are the two big investment years, in terms of both the design and now the build. And then ultimately, as we go into '15 and into '16 beginning the deployments, to your point, it will be a deployment on a geographic basis. We'll start in a small market, make sure we've got everything the way we want it to be, and then roll out from there. So we're on track as we defined the program and managing it within the spend that we originally outlined.

Shannon Cross - *Cross Research - Analyst*

Okay, great. And just one clarification, corporate and other expense, was there anything special or one-time in that this quarter?

Michael Monahan - *Pitney Bowes Inc. - EVP & CFO*

We just talked about it. That's where the ERP expense is being [approved].

Shannon Cross - *Cross Research - Analyst*

Okay. Thank you very much.

Michael Monahan - *Pitney Bowes Inc. - EVP & CFO*

Sure.

Operator

George Tong, Piper Jaffray.

George Tong - *Piper Jaffray - Analyst*

Hi. Good morning. Starting with e-commerce, can you discuss your opportunity to add what you would call anchor clients on top of eBay? And maybe provide some additional details on your current penetration with e-Bay and what additional runway you have?

Michael Monahan - *Pitney Bowes Inc. - EVP & CFO*

In terms of large clients, we look at clients both from a -- in the case of an eBay, they're obviously a large community of buyers and sellers platform providers are also potential opportunities. And then obviously, we are building out a base of merchant direct. And the way that we look at it is focus on the expansion globally. That's initially with eBay and initially into the UK.

Continue to work other larger customers who may have potential to benefit from our program by being able to broaden their market. And then continue to add the smaller direct merchants that we do business directly with; I think Marc noted we added 10 in the quarter. We have over 30 now in that space, and they will build volume over time. But I think it helps reinforce the value of the solution we have to have those types of clients joining the portfolio.

George Tong - *Piper Jaffray - Analyst*

That's helpful. With your recent new progress in further scaling e-commerce, have you re-thought about what your longer-term target is for run-rate revenues for that business, whether you're still on track to that $300 million over the next two to three years?

Michael Monahan - *Pitney Bowes Inc. - EVP & CFO*

Yes, I think it's safe to say we believe we are well on track to do that. And as Marc mentioned, with a $7-billion market opportunity, we continue to look at ways of making that a more substantial business than that.

George Tong - *Piper Jaffray - Analyst*

Got it. That's helpful. And then, switching gears to margins within digital commerce, how do you expect margin trends to play out over the next several quarters? And do you continue to feel comfortable that you can take margins there to 20% longer-term? And maybe discuss what initiatives you have to take that margin run rate higher.

Marc Lautenbach - *Pitney Bowes Inc. - President & CEO*

A little bit of where we are in the journey there: we have over the last several quarters, a couple of years for that matter, made substantial investments in our sales channel. You are seeing that begin to pay off, specifically if you look at the software license line item.

That said, we are still in early stages of the maturity of that business. So what I would say is we still see no reason that longer-term that business wouldn't have the kinds of margins you would see in other software businesses, and that's 20%, plus or minus.

While we'll continue to invest over the next several quarters, I think the third quarter was an important inflection point, in terms of -- a stair step function in terms of margins in that business. So we're getting to the point where I think you may not see it evenly every quarters, but you will see continued revenue growth, along with the opportunity for margin expansion.

George Tong - *Piper Jaffray - Analyst*

That's helpful. And then lastly, in North America SMB, in past quarters you've seen some pretty good product-driven catalysts in terms of contributing to revenue performance. Do you see in your upcoming pipeline of products any potential catalysts that can further drive stability and/or improvement in your equipment sales and recurring revenue trends?

Marc Lautenbach - *Pitney Bowes Inc. - President & CEO*

I would say it this way, in every on of our businesses, we continue to look at how we innovate. That business is no different. I'd say we've got some exciting things that we're thinking about, but those are still, I would say, in the planning stages. So probably a little early to talk a lot about those.

In terms of equipment sales in that business, I would only comment that that's becoming a smaller and smaller percentage of the total. So while it's something that we continue to think of as important, if you look at that relative to the total mix, it is a lot less important now than it was a couple of quarters ago.

It begins to, I think, reveal how the model works, with software license revenue growth increasing at a fairly healthy rate, and equipment sales in SMB moderating. And balancing those two gives you the arbitrage in margins that you would want.

George Tong - *Piper Jaffray - Analyst*

Great. Thanks very much.

Operator

Scott Wipperman, Goldman Sachs.

Scott Wipperman - *Goldman Sachs - Analyst*

Good morning, thanks for taking the question. Maybe just to jump back to capital allocation and the balance sheet. Mike, just curious, any early thoughts on how you plan to deal with the March 2015 debt maturities? I know there's also some, I think a term loan still in 2015 as well. Any thoughts in how you're looking at '15 and '16 in particular would be helpful, and then I have a follow-up.

Michael Monahan - *Pitney Bowes Inc. - EVP & CFO*

Sure. In terms of '15, I think we really have options on how we deal with that, whether we were to go back to refinance it. Obviously, we have sufficient cash and cash flow that we could manage it that way.

So as always, and as everyone does, we'll continue to look at the markets and what they look like and what options we have in the business at that point in time and make a decision closer to the time that that matures. But I think we do have options around that.

In terms of '16, as you're aware, we have some debt come due, a little bit of term loan and then some preferred stock, which is related to our Pitney owes International Holding business; it's about $300 million. And similarly, we are investigating options around each one of those. But again, I think both from a free cash flow as well as an option to go to the market, we really are, I think, positioned pretty will to deal with maturities in '15 and '16.

Scott Wipperman - *Goldman Sachs - Analyst*

Great. Then on the non-core asset sales in Europe, I know the divestiture in Norway I think was fairly small, but you have taken a number of actions in the last 18 months. I'm just curious, are there any more ancillary non-core businesses in Europe, or do you think the portfolio is you want it to be there? Any expectation of further transition to dealer networks in anymore markets there?

Marc Lautenbach - *Pitney Bowes Inc. - President & CEO*

I would say this: you're never done looking at the portfolio, and that's because value continues to shift in the market. And as value continues to shift in the market, we will continue to reallocate our resources to where we think the best returns are.

That being said, I don't see anything of the magnitude that we've done over the last 18 months in front of us in the near term, but we will continue to tidy up the portfolio. We'll continue to look at our geographic footprint to ensure that our resources are best allocated, and that we can serve clients in a way that we would be proud of. So that stuff is never done. It's just part of running a business.

Scott Wipperman - *Goldman Sachs - Analyst*

Great. Thanks for taking the questions.

Operator

(Operator instructions)

No further questions in queue.

Marc Lautenbach - *Pitney Bowes Inc. - President & CEO*

Great. So let me close. First of all, thank you, everyone, for your time this morning. I'd like to close on a couple of points. First of all, I'm very pleased with the third quarter, and I'm pleased for lots of different reasons. One is it really was an instantiation, again, of our overall model. And that is moderate declines in our core business, more than offset from a revenue and profit perspective through productivity, as well as our growth in digital commerce.

The second point that I would make, again, is that we are ahead of the schedule that we had set out for ourselves a couple years ago. There is a lot of work that we've done, a lot is in front of us, but I could not have envisioned in May of 2013 that would be in the place that we are right now.

The final point that I'd make is I've had the opportunity to work on lots of transformations in my previous career. It is unusual to find a transformation where you are increasing revenue and increasing profit, while at the same time, you're making substantial investments in the business. So, the past is not a prologue; I think it's a fairly unique transformation in what we've been able to accomplish and where we are.

So lot's to do, but I think it's a pretty unique transformation and a great opportunity for the Company as well as our investors. So with that, we will close the call. And look forward to speaking to you in January. Thank you.

Operator

Ladies and gentlemen, this conference will be made available for replay after 10:00 am today, and run through Sunday, November 30th at midnight. You may access the AT&T Executive Playback service at anytime by dialing 1-800-475-6701 and entering the access code 337-149. International participants may dial 1-320-365-3844. Those numbers again: 1-800-475-6701 or 1-320-365-3844 with the access code 337-149. That does conclude our conference for today. Thanks for your participation and for using AT&T Executive Teleconference service. You may now disconnect.
