STAMPS.COM INC
Form 10-Q
August 05, 2010

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

FORM 10-Q

(Mark One)

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended June 30, 2010

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________ to ____________

Commission file number: 000-26427

Stamps.com Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	77-0454966 (I.R.S. Employer Identification No.)

12959 Coral Tree Place
Los Angeles, California 90066
(Address of principal executive offices, including zip code)

(310) 482-5800
(Registrant’s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer þ
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

As of July 31, 2010, there were approximately 14,272,502 shares of the Registrant’s Common Stock issued and outstanding.

STAMPS.COM INC. AND SUBSIDIARY
FORM 10-Q QUARTERLY REPORT FOR THE QUARTER ENDED JUNE 30, 2010

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

STAMPS.COM INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	June 30, 2010 (unaudited)	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 30,405	$ 45,011
Restricted cash	—	554
Short-term investments	6,160	2,224
Accounts receivable, net	4,058	4,367
Other current assets	3,772	3,288
Total current assets	44,395	55,444
Property and equipment, net	2,361	2,102
Intangible assets, net	897	498
Long-term investments	28,129	23,956
Deferred income taxes.	7,650	3,671
Other assets	3,620	3,587
Total assets	$ 87,052	$ 89,258
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 14,741	$ 9,583
Deferred revenue	4,202	4,070
Total current liabilities	18,943	13,653
Commitments and contingencies		
Stockholders' equity:		
Common stock, $.001 par value		
Authorized shares: 47,500 in 2010 and 2009		
Issued shares: 24,472 in 2010 and 24,429 in 2009		
Outstanding shares: 14,292 in 2010 and 15,681 in 2009	47	47
Additional paid-in capital	632,015	630,322
Accumulated deficit	(447,128)	(450,214)
Treasury stock, at cost, 10,180 shares in 2010 and 8,748 shares in 2009	(117,240)	(104,344)
Accumulated other comprehensive income (loss)	415	(206)
Total stockholders' equity	68,109	75,605
Total liabilities and stockholders' equity	$ 87,052	$ 89,258

The accompanying notes are an integral part of these consolidated financial statements.

2

STAMPS.COM INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues:				
Service	$ 16,172	$ 15,207	$ 32,190	$ 30,521
Product	2,809	2,580	5,882	5,197
Insurance	392	395	786	799
PhotoStamps	1,816	1,995	3,317	3,708
Other	—	5	3	5
Total revenues	21,189	20,182	42,178	40,230
Cost of revenues:				
Service	3,253	2,872	6,736	5,880
Product	1,081	1,030	2,220	1,975
Insurance	118	123	232	248
PhotoStamps	1,372	1,521	2,450	2,821
Total cost of revenues	5,824	5,546	11,638	10,924
Gross profit	15,365	14,636	30,540	29,306
Operating expenses:				
Sales and marketing	7,622	8,227	15,606	16,291
Research and development	2,219	2,199	4,389	4,426
General and administrative	3,524	3,306	6,491	6,570
Legal settlements and reserves	5,211	—	5,211	—
Total operating expenses	18,576	13,732	31,697	27,287
Income (loss) from operations	(3,211)	904	(1,157)	2,019
Interest and other income, net	230	232	401	589
Income (loss) before income taxes	(2,981)	1,136	(756)	2,608
Income tax (benefit) expense	(3,922)	84	(3,842)	334
Net income	$ 941	$ 1,052	$ 3,086	$ 2,274
Net income per share				
Basic	$ 0.07	$ 0.06	$ 0.21	$ 0.14
Diluted	$ 0.07	$ 0.06	$ 0.21	$ 0.14
Weighted average shares outstanding				
Basic	14,290	16,301	14,713	16,581
Diluted	14,450	16,427	14,861	16,709

The accompanying notes are an integral part of these consolidated financial statements.

STAMPS.COM INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Operating activities:		
Net income	$ 3,086	$ 2,274
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	449	639
Stock-based compensation expense	1,422	1,612
Deferred income tax	(3,979)	—
Changes in operating assets and liabilities:		
Accounts receivable	309	733
Other current assets	(484)	635
Other assets	(33)	320
Deferred revenue	132	(321)
Accounts payable and accrued expenses	4,758	(1,979)
Net cash provided by operating activities	5,660	3,913
Investing activities:		
Sale of short-term investments	707	15,329
Purchase of short-term investments	(4,606)	—
Sale of long-term investments	4,987	1,274
Purchase of long-term investments	(8,576)	(20,424)
Release of restricted cash	554	—
Purchase of property and equipment	(707)	(156)
Net cash used in investing activities	(7,641)	(3,977)
Financing activities:		
Proceeds from exercise of stock options	102	82
Issuance of common stock under ESPP	169	143
Repurchase of common stock	(12,896)	(8,625)
Net cash used in financing activities	(12,625)	(8,400)
Net decrease in cash and cash equivalents	(14,606)	(8,464)
Cash and cash equivalents at beginning of period	45,011	52,576
Cash and cash equivalents at end of period	$ 30,405	$ 44,112

The accompanying notes are an integral part of these consolidated financial statements.

STAMPS.COM INC AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(ALL INFORMATION WITH RESPECT TO JUNE 30, 2010 AND 2009 IS UNAUDITED)

1. Summary of Significant Accounting Policies

Basis of Presentation

We prepared the financial statements included herein without audit pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with United States ("US") generally accepted accounting principles ("GAAP") have been condensed or omitted pursuant to such rules and regulations. We believe that the disclosures are adequate to make the information presented not misleading. We recommend that these financial statements be read in conjunction with the audited financial statements and the notes thereto included in our latest annual report on Form 10-K.

In our opinion, these unaudited financial statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly our financial position as of June 30, 2010, the results of operations for the three and six months ended June 30, 2010 and cash flows for the six months ended June 30, 2010. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

Principles of Consolidation

The consolidated financial statements include the accounts of Stamps.com Inc. and PhotoStamps Inc. In October 2009, we formed PhotoStamps Inc., a wholly-owned subsidiary, for the purpose of managing our retail gift card operations. Because 100% of the voting control is held by us, we have consolidated PhotoStamps Inc. in the accompanying consolidated financial statements. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates and Risk Management

The preparation of financial statements in conformity with US GAAP requires us to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates, and such differences may be material to the financial statements. Examples include estimates of loss contingencies, promotional coupon redemptions, and deferred income taxes and estimates regarding the useful lives of patents and other amortizable intangibles.

Contingencies and Litigation

We are involved in various litigation matters as a claimant and a defendant. We record any amounts recovered in these matters when received. We record liabilities for claims against us when the loss is probable and estimable. Amounts recorded are based on reviews by outside counsel, in-house counsel and management. Actual results could differ from estimates.

Fair Value of Financial Instruments

Carrying amounts of certain of our financial instruments, including cash, cash equivalents, restricted cash, accounts receivable, and accounts payable, approximate fair value due to their short maturities. The fair values of investments are determined using quoted market prices for those securities or similar financial instruments.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to current year presentations.

STAMPS.COM INC AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(ALL INFORMATION WITH RESPECT TO JUNE 30, 2010 AND 2009 IS UNAUDITED)

Subsequent Events

On July 27, 2010, we entered into binding terms of a settlement agreement with Kara Technology Incorporated and Mr. Salim Kara to resolve all outstanding litigation among the parties. Under the terms of the agreement, we will make a $5.1 million payment for settlement of all claims asserted in the litigation, will purchase the patents asserted in the litigation for $0.4 million, and will grant Salim Kara options on 35,000 shares of Stamps.com stock. An accrual for the $5.1 million settlement expense is included in the second quarter 2010 financial results, and the purchase of the patents will be amortized over the remaining useful life of the patents. Mr. Kara also agreed to cooperate with the Company in the prosecution and enforcement of any patents on which he is named as an inventor, including the patents asserted in the Stamps.com vs. Endicia litigation matters. Because the events that gave rise to the litigation occurred prior to June 30, 2010 and the settlement was reached before our financial statements were released, an accrual for the $5.1 million settlement expense is included in the financial results for the second quarter of 2010, and the purchase of the patents will be amortized over the remaining useful life of the patents.

Other than the above, we are not aware of any material subsequent events or transactions that have occurred that would require recognition in the financial statements or disclosure in the notes to the consolidated financial statements.

Revenue Recognition

We recognize revenue from product sales or services rendered and commissions from advertising or sale of products by third party vendors to our customer base when the following four revenue recognition criteria are met: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the selling price is fixed or determinable, and collectibility is reasonably assured.

Service revenue is based on monthly convenience fees and is recognized in the period that services are provided. Product sales, net of return allowances, are recorded when the products are shipped and title passes to customers. Sales of items, including PhotoStamps, sold to customers are made pursuant to a sales contract that provides for transfer of both title and risk of loss upon our delivery to the carrier. Return allowances for expected product returns, which reduce product revenue, are estimated using historical experience. Commissions from the advertising or sale of products by a third party vendor to our customer base are recognized when the revenue is earned and collection is deemed probable.

Customers pay face value for postage purchased for use through our PC Postage software, and the funds are transferred directly from the customers to the United States Postal Service (“USPS”). We do not recognize revenue for this postage, as it is purchased by our customers directly from the USPS.

PhotoStamps revenue includes the price of postage and is made pursuant to a sales contract that provides for transfer of both title and risk of loss upon our delivery to the carrier.

On a limited basis, we allow third parties to offer products and promotions to our customer base. These arrangements generally provide payment in the form of a flat fee or revenue sharing arrangements where we receive payment upon customers accessing third party products and services. Total revenue from such advertising arrangements was not significant during the six months ended June 30, 2010 and 2009.

We provide our customers with the opportunity to purchase parcel insurance directly through our software. Insurance revenue represents the gross amount charged to the customer for purchasing insurance, and the related cost represents the amount paid to the insurance broker, Parcel Insurance Plan. We recognize revenue on insurance purchases upon the ship date of the insured package.

Revenue from gift cards, which is recognized at the time of redemption, was not significant to our consolidated financial statements during the three and six months ended June 30, 2010 and 2009. Because we do not have meaningful historical data upon which to base estimates for gift cards that will never be redeemed ("breakage"), we have not recorded any breakage income related to our gift card program.

STAMPS.COM INC AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(ALL INFORMATION WITH RESPECT TO JUNE 30, 2010 AND 2009 IS UNAUDITED)

2. Legal Proceedings

On October 22, 2004, Kara Technology Incorporated filed suit against us in the United States District Court for the Southern District of New York, alleging, among other claims, that we infringed certain Kara Technology patents and that we misappropriated trade secrets owned by Kara Technology, most particularly with respect to our NetStamps feature. As discussed above under Subsequent Events in Note 1, we settled this litigation, in July 2010.

On November 22, 2006, we filed a lawsuit against Endicia, Inc. and PSI Systems, Inc. in the United States District Court for the Central District of California for infringement of eleven of our patents covering, among other things, Internet postage technology. We seek an injunction, unspecified damages, and attorneys' fees. On November 10, 2008, we were required to select fifteen claims (from over six hundred claims available) to be the subject of the trial. On November 9, 2009, the Court granted the summary judgment motion of Endicia, Inc. and PSI Systems, Inc. that the fifteen claims we selected are invalid. We have filed an appeal.

On August 8, 2008, PSI Systems, Inc. filed a lawsuit against us in the same court, alleging that we infringed three PSI Systems patents related to Internet postage technology. PSI Systems seeks an injunction, unspecified damages, and attorneys' fees. On September 16, 2008, we filed counterclaims for infringement of four more of our patents. In our counterclaim, we seek an injunction, unspecified damages, and attorneys' fees. The Court issued a "Markman order" to determine the meaning of the claims May 14, 2010. The Court has not scheduled a trial commencement date.

In 2001, we were named, together with certain of our current and former board members and/or officers, as a defendant in several purported class-action lawsuits, filed in the U.S. District Court for the Southern District of New York. The lawsuits allege violations of the Securities Act of 1933 and the Securities Exchange Act of 1934 in connection with our initial public offering and a secondary offering of our common stock. Plaintiffs seek damages and statutory compensation, including interest, costs and expenses (including attorneys' fees). In October 2009, the court approved a settlement of this action, which does not require us to make any payments. The court approval has been appealed.

We are subject to various other routine legal proceedings and claims incidental to our business, and we do not believe that these proceedings and claims would reasonably be expected to have a material adverse effect on our financial position, results of operations or cash flows.

3. Net Income per Share

Net income per share represents net income attributable to common stockholders divided by the weighted average number of common shares outstanding during a reported period. The diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock, including stock options (commonly and hereafter referred to as "common stock equivalents"), were exercised or converted into common stock. Diluted net income per share is calculated by dividing net income during a reported period by the sum of the weighted average number of common shares outstanding plus common stock equivalents for the period. The following table reconciles share amounts utilized to calculate basic and diluted net income per share (in thousands, except per share data):

7

STAMPS.COM INC AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(ALL INFORMATION WITH RESPECT TO JUNE 30, 2010 AND 2009 IS UNAUDITED)

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Net income	$ 941	$ 1,052	$ 3,086	$ 2,274
Basic - weighted average common shares	14,290	16,301	14,713	16,581
Diluted effect of common stock equivalents	160	126	148	128
Diluted - weighted average common shares	14,450	16,427	14,861	16,709
Earnings per share:				
Basic	$ 0.07	$ 0.06	$ 0.21	$ 0.14
Diluted	$ 0.07	$ 0.06	$ 0.21	$ 0.14

The calculation of dilutive shares excludes the effect of the following options that are considered anti-dilutive (in thousands):

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Anti-dilutive stock option shares	2,142	2,723	2,287	2,735

4. Stock-Based Employee Compensation

We are required to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model and to recognize stock-based compensation expense during each period based on the value of that portion of share-based payment awards that is ultimately expected to vest during the period, reduced for estimated forfeitures. We estimate forfeitures at the time of grant based on historical data and revise, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Compensation expense recognized for all employee stock options granted is recognized using the straight-line single method over their respective vesting periods of three to five years.

STAMPS.COM INC AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(ALL INFORMATION WITH RESPECT TO JUNE 30, 2010 AND 2009 IS UNAUDITED)

The following table sets forth the stock-based compensation expense that we recognized for the periods indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Stock-based compensation expense relating to:				
Employee and director stock options	$ 717	$ 819	$ 1,389	$ 1,587
Employee stock purchases	—	—	33	25
Total stock-based compensation expense	$ 717	$ 819	$ 1,422	$ 1,612
Stock-based compensation expense relating to:				
Cost of revenues	$ 58	$ 69	$ 121	$ 140
Sales and marketing	168	198	353	389
Research and development	128	164	279	328
General and administrative	363	388	669	755
Total stock-based compensation expense	$ 717	$ 819	$ 1,422	$ 1,612

We use the Black-Scholes option valuation model to estimate the fair value of share-based payment awards on the date of grant, which requires us to make a number of highly complex and subjective assumptions, including stock price volatility, expected term, risk-free interest rates and actual and projected employee stock option exercise behaviors. In the case of options we grant, our assumption of expected volatility was based on the historical volatility of our stock price. We base the risk-free interest rate on US Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of grant. The estimated expected life represents the weighted-average period the stock options are expected to remain outstanding determined based on an analysis of historical exercise behavior.

The following are the weighted average assumptions used in the Black-Scholes valuation model for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Expected dividend yield	—	—	—	—
Risk-free interest rate	2.1%	2.2%	2.1%	2.0%
Expected volatility	50%	53%	50%	53%
Expected life (in years)	4.5	4.5	4.5	4.5
Expected forfeiture rate	0%	20%	20%	20%

5. Intangible Assets

We have amortizable and non-amortizable intangible assets consisting of patents, trademarks and other intellectual property with a gross carrying value of $8.7 million and $8.3 million as of June 30, 2010 and December 31, 2009, respectively. Accumulated amortization was $7.8 million as of June 30, 2010 and December 31, 2009. The expected useful lives of our amortizable intangible assets range from 4 to 17 years. During 2009, we assessed whether events or changes in circumstances occurred that could potentially indicate that the carrying amount of our intangible assets may not be recoverable. We concluded that there were no such events or changes in circumstances during 2009 and determined that the fair value of our intangible assets were in excess of their carrying value as of December 31, 2009. Aggregate amortization expense on patents and trademarks was not material to our consolidated financial statements for the three and six months ended June 30, 2010 and June 30, 2009. Our amortization expense for the next five years is approximately $220,000.

STAMPS.COM INC AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(ALL INFORMATION WITH RESPECT TO JUNE 30, 2010 AND 2009 IS UNAUDITED)

6. Comprehensive Income

The following table provides the data required to calculate comprehensive income (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net income	$ 941	$ 1,052	$ 3,086	$ 2,274
Unrealized gain on investments	313	989	621	826
Comprehensive income	$ 1,254	$ 2,041	$ 3,707	$ 3,100

7. Income Taxes

During the three and six months ended June 30, 2010, our income tax expense consisted of both federal and state alternative minimum tax. Our effective income tax rate differs from the statutory income tax rate primarily as a result of our use of net operating losses (NOLs) to offset current federal and state tax expense. A valuation allowance was originally recorded against our deferred tax assets because we determined that the realization of these assets did not meet the more likely than not criteria. During the first quarter of 2008, we determined that a full valuation allowance against our deferred tax assets was not necessary and recorded a partial reversal of the deferred tax valuation allowance of $3.7 million. During 2009, we re-evaluated our deferred tax assets and determined that the realization of our net deferred tax asset of $3.7 million continues to be more likely than not. During the second quarter of 2010, we re-evaluated our deferred tax assets and determined that an additional release of our valuation allowance was appropriate and as a result we recorded an income tax benefit of approximately $4.0 million. In making such determination, we considered all available positive and negative evidence, including our recent earnings trend and expected continued future taxable income. We continue to maintain a valuation allowance for the remainder of our deferred tax assets.

In September 2008, the State of California passed legislation temporarily suspending the use of NOLs to offset current state income tax expense for the tax years 2008 and 2009. As a result of not being able to use our state NOLs in these years, we incurred approximately $51,000 and $258,000 of additional California state income tax expense during the three and six months ended June 30, 2009, respectively. During the three and six months ended June 30, 2010, we recorded a tax provision for corporate alternative minimum taxes of approximately $57,000 and $137,000, respectively, which reflected our ability to use our NOLs to offset 2010 state income tax expense.

8. Fair Value Measurements

Financial assets measured at fair value on a recurring basis are classified in one of the three following categories, which are described below:

Level 1 - Valuations based on unadjusted quoted prices for identical assets in an active market

Level 2 - Valuations based on quoted prices in markets where trading occurs infrequently or whose values are based on quoted prices of instruments with similar attributes in active markets

Level 3 -	Valuations based on inputs that are unobservable and involve management judgment and our own assumptions about market participants and pricing

10

STAMPS.COM INC AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(ALL INFORMATION WITH RESPECT TO JUNE 30, 2010 AND 2009 IS UNAUDITED)

The following table summarizes our financial assets measured at fair value on a recurring basis (in thousands):

		Fair Value Measurement at Reporting Date Using		
Description	June 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	$ 30,405	$ 30,405	$ —	$ —
Available-for-sale debt securities				
Asset-backed securities	4,523	—	4,523	—
Corporate bonds	28,739	—	28,739	—
US Treasury	1,027	1,027	—	—
Total	$ 64,694	$ 31,432	$ 33,262	$ —

The fair value of our available-for-sale debt securities included in the Level 2 category is based on the market values obtained from an independent pricing service that were evaluated using pricing models that vary by asset class and may incorporate available trade, bid and other market information and price quotes from well established independent pricing vendors and broker-dealers.

There were no non-financial assets or liabilities that were required to be measured at fair value as of June 30, 2010.

9. Cash Equivalents and Investments

Our cash equivalents and investments consist of money market, asset-backed securities, US treasury and public corporate debt securities at June 30, 2010 and December 31, 2009. We consider all highly liquid investments with an original or remaining maturity of three months or less at the date of purchase to be cash equivalents. All of our investments are classified as available for sale and are recorded at market value using the specific identification method. Realized gains and losses are reflected in other income using the specific identification method. There was no material realized gain or loss with respect to our investments during the second quarter of 2010. Unrealized gains and losses are included as a separate component of stockholders' equity. We have 9 securities with a total fair value of $4.5 million that have unrealized losses of approximately $111,000 as of June 30, 2010. The following table summarizes realized gains and losses for the period indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Realized gain	$ 8	$ 1	$ 10	$ 36
Realized loss	—	—	—	(5)
Net realized gain	$ 8	$ 1	$ 10	$ 31

On at least a quarterly basis, we evaluate our available for sale securities, and record an "other-than-temporary impairment" ("OTTI") if we believe their fair value is less than historical cost, and it is probable that we will not collect all contractual cash flows. We did not record any OTTI during the three and six months ended June 30, 2010, after evaluating a number of factors including, but not limited to:

- How much fair value has declined below amortized cost
- The financial condition of the issuers
- Significant rating agency changes on the issuer
- Our intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value

STAMPS.COM INC AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(ALL INFORMATION WITH RESPECT TO JUNE 30, 2010 AND 2009 IS UNAUDITED)

The following table summarizes our cash, cash equivalents, restricted cash and investments as of June 30, 2010 and December 31, 2009 (in thousands):

	June 30, 2010			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash equivalents:				
Cash	$ 10,376	$ -	$ -	$ 10,376
Money market	20,029	-	-	20,029
Cash and cash equivalents	30,405	-	-	30,405
Short-term investments:				
Corporate notes and bonds	6,119	49	(8)	6,160
Short-term investments	6,119	49	(8)	6,160
Long-term investments:				
Corporate bonds and asset backed securities	26,745	460	(103)	27,102
US Treasury	1,010	17	-	1,027
Long-term investments	27,755	477	(103)	28,129
Cash equivalents and investments	$ 64,279	$ 526	$ (111)	$ 64,694

	December 31, 2009			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash equivalents:				
Cash	$ 9,132	$ -	$ -	$ 9,132
Money market	35,879	-	-	35,879
Cash and cash equivalents	45,011	-	-	45,011
Restricted cash:				
Corporate notes and bonds	554	-	-	554
Restricted cash	554	-	-	554
Short-term investments:				
Corporate notes and bonds	2,221	17	(14)	2,224
Short-term investments	2,221	17	(14)	2,224
Long-term investments:				
Corporate bonds and asset backed securities	24,165	250	(459)	23,956
Long-term investments	24,165	250	(459)	23,956
Cash equivalents, restricted cash and investments	$ 71,951	$ 267	$ (473)	$ 71,745

STAMPS.COM INC AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(ALL INFORMATION WITH RESPECT TO JUNE 30, 2010 AND 2009 IS UNAUDITED)

The following table summarizes contractual maturities of our marketable fixed-income securities as of June 30, 2010 (in thousands):

	Amortized Cost	Estimated Fair Value
Due within one year	$ 6,119	$ 6,159
Due after one year through five years	26,257	26,672
Due after five years through ten years	1,498	1,458
Total	$ 33,874	$ 34,289

13

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

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements relate to expectations concerning matters that are not historical facts. You can find many (but not all) of these statements by looking for words such as "approximates," "believes," "expects," "anticipates," "estimates," "intends," "plans," "would," "may" or other similar expressions in this report. We cl protection of the safe harbor contained in the Private Securities Litigation Reform Act of 1995. We caution investors that any forward-looking statements presented in this report, or that we may make orally or in writing from time to time, are based on beliefs and assumptions made by, and information currently available to, us. Such statements are based on assumptions, and the actual outcome will be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control or ability to predict. Although we believe that our assumptions are reasonable, they are not guarantees of future performance, and some will inevitably prove to be incorrect. As a result, our actual future results may differ from our expectations, and those differences may be material. We are not undertaking any obligation to update any forward-looking statements. Accordingly, investors should use caution in relying on past forward-looking statements, which are based on known results and trends at the time they are made, to anticipate future results or trends.

Please refer to the risk factors under "Item 1A. Risk Factors" of our Form 10-K for the year ended December 31, 2009 as well as those described elsewhere in our public filings. The risks included are not exhaustive, and additional factors could adversely affect our business and financial performance. We operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time, and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Stamps.com, NetStamps, PhotoStamps, Hidden Postage, Stamps.com Internet postage and the Stamps.com logo are our trademarks. This report also references trademarks of other entities.

For ease of presentation, all dollar figures in excess of $1 million are rounded to the nearest $100,000 and all figures under $1 million are rounded to the nearest $1,000; all percentages are rounded to the nearest percent unless otherwise shown.

SPECIAL NOTICE REGARDING PURCHASES OF MORE THAN 5% OF OUR STOCK

We currently have federal and state net operating loss ("NOL") carry-forwards of approximately $230 million and $150 million, respectively, with potential value of up to approximately $90 million in tax savings over the next 15 years. Under Internal Revenue Code Section 382 rules, if a "change of ownership" is triggered, our NOL asset may be impaired. A change in ownership can occur whenever there is a shift in ownership by more than 50 percentage points by one or more "5% shareholders" within a three-year period.

Under our certificate of incorporation, any person, or entity, including company and investment firm, that wishes to become a "5% shareholder" (as defined in our certificate of incorporation) must first obtain a waiver from our board of directors. In addition, any person, company or investment firm that is already a "5% shareholder" of ours cannot make any additional purchases of our stock without a waiver from our board of directors. The NOL protective provisions contained in our certificate of incorporation (the "NOL Protective Measures") are more specifically described in our Definitive Proxy filed with the Securities and Exchange Commission on April 2, 2008.

On July 22, 2010, our Board of Directors suspended the NOL Protective Measures by approving a waiver from the NOL Protective Measures to all persons and entities, including companies and investment firms. As a result, our stockholders are now allowed to become “5% shareholders” and existing “5% shareholders” are allowed to make additional purchases of our stock each without having to comply with the restrictions contained in the NOL Protective Measures. For complete details about this waiver from the NOL Protective Measures, please see our Form 8-K filed on July 28, 2010.

Overview

Stamps.com® is the leading provider of Internet-based postage solutions. Our customers use our service to mail and ship a variety of mail pieces, including postcards, envelopes, flats and packages, using a wide range of United States Postal Service (the "USPS") mail classes, including First Class Mail®, Priority Mail®, Express Mail®, Media Mail®, Parcel Post®, and others. Our customers include individuals, small businesses, home offices, medium-size businesses and large enterprises, and within these segments we target both mailers and shippers. We were the first ever USPS-licensed vendor to offer PC Postage® in a software-only business model in 1999.

Services and Products

We offer the following products and services to our customers

Ÿ PC Postage Service. Our USPS-approved PC Postage service enables users to print "electronic stamps" directly onto envelopes, plain paper, or labels using only a standard personal computer, printer and Internet connection. Our service currently supports a variety of USPS and international mail classes. Customers can also add USPS Special Services such as Delivery Confirmation™, Signature Confirmation™, Registered Mail, Certified Mail, Insured Mail, Return Receipt, Collect on Delivery and Restricted Delivery to their mail pieces. After installing our software and completing the registration process, customers can purchase and print postage 24 hours a day, seven days a week. When a customer purchases postage for use through our service, the customer pays face value, and the funds are transferred directly from the customer's account to the USPS's account.

In addition to postage purchases, customers pay us a monthly service fee ranging from $15.99 to $39.99 depending on the features and capabilities of the particular service. Our Pro Plan offers a basic set of Stamps.com mailing & shipping features with a single-user capability. Our Premiere plan for larger small businesses adds multiple-user functionality, automated Certified Mail forms, FedEx label printing, additional reference codes and higher allowable postage balances to our Pro Plan feature set. Our Professional Shipper plan is targeted to higher volume shippers such as fulfillment houses, retailers and e-commerce merchants and features direct integration into a customer's order databases, faster label printing speed, the ability to customize and save shipping profiles, and integrations with many of the industry's leading shipping management systems. We have launched shipping integrations with several of these e-commerce focused companies over the past year. While these integrations have not had a material impact on our financial results to date, we believe they have the potential to be material in the future. Our Enterprise service is targeted to organizations with multiple geographic locations and features enhanced reporting that allows a central location such as a corporate headquarters greater visibility and control over postage expenditures across their network of locations.

Our software integrates directly into the most popular e-commerce platforms, allowing webstore managers to completely automate their order fulfillment process to process, manage, and ship orders from virtually any e-commerce source from a single interface without manual data entry. Managers can retrieve order data and print complete shipping labels for all USPS mail classes including First Class International®.

During July 2010 we launched a partnership with Amazon.com that makes our domestic and international shipping labels available to Amazon.com Marketplace users. The service allows customers to automatically pay for postage using their Marketplace Payments account, to set a default ship-from address so they don't have to type or write it for each shipment, and to automatically populate the ship-to address on the label. Domestic and international mail classes are supported, and Marketplace users may request carrier pickup from USPS. A transaction fee is charged to customers for each label printed at $0.07 per label.

Our customers can print postage (i) on NetStamps® labels, which can be used just like regular stamps, (ii) directly on envelopes, postcards or on other types of mail or labels, in a single-step process that saves time and provides a professional look, (iii) on plain 8.5” x 11” paper or on special labels for packages, and (iv) on integrated customs forms for international mail and packages. For added convenience, our PC Postage services incorporate address verification technology that verifies each destination address for mail sent using our service against a database of all known addresses in the United States. Our PC Postage service is also integrated with common small business and productivity software applications such as word processing, contact and address management, and accounting and financial applications. We also offer several different versions of NetStamps, such as Themed NetStamps and Photo NetStamps that allow customers to add stock or full custom designs to their mail while still providing the same NetStamps convenience of printing and using postage whenever it is needed.

- PhotoStamps®. In May 2009 we successfully completed the market test of our PhotoStamps product. PhotoStamps is a patented form of postage that allows consumers to turn digital photos, designs or images into valid US postage. With this product, individuals or businesses can create customized US postage using pictures of their children, pets, vacations, celebrations, business logos and more. PhotoStamps can be used as regular postage to send letters, postcards or packages. The product is available via our separately-marketed website at www.photostamps.com. Customers upload a digital photograph or image file, customize the look and feel by choosing a border color to complement the photo, select the value of postage, and place the order online. Each sheet includes 20 individual PhotoStamps, and orders arrive via US Mail in a few business days. We do not include our PhotoStamps business when we refer to our PC Postage business.

- Mailing & Shipping Supplies Store. Our Mailing & Shipping Supplies Store (our “Supplies Store”) is available to our customers from within our PC Postage software and sells NetStamps labels, shipping labels, other mailing labels, dedicated postage printers, scales, and other mailing and shipping-focused office supplies. Our Supplies Store features a store catalog, same day shipping capabilities, messaging of our free or discounted shipping promotions, cross sell during checkout, product search capabilities, and expedited and rush shipping options.

- Branded Insurance. We offer Stamps.com branded insurance to our customers so that they may insure their mail or packages in a fully integrated, online process that eliminates any trips to the post office or the need to complete any special forms. Our branded insurance is provided in partnership with Parcel Insurance Plan and is underwritten by Fireman's Fund. We also offer official USPS insurance alongside our branded insurance product.

Results of Operations

Total revenue in the second quarter of 2010 was $21.2 million, an increase of 5% from $20.2 million in the second quarter of 2009. Total revenue during the six months ended June 30, 2010 was $42.2 million, an increase of 5% from $40.2 million during the six months ended June 30, 2009. PC Postage revenue, including service revenue, product revenue and insurance revenue, in the second quarter of 2010 was $19.4 million, an increase of 7% from $18.2 million in the second quarter of 2009, and was $38.9 million in the six months ended June 30, 2010, an increase of 6% from $36.5 million in the six months ended June 30, 2009. PhotoStamps revenue in the second quarter of 2010 was $1.8 million, a decrease of 9% from $2.0 million in the second quarter of 2009, and was $3.3 million in the six months ended June 30, 2010, a decrease of 11% from $3.7 million in the six months ended June 30, 2009. The following table sets forth the breakdown of revenue for the three and six months ended June 30, 2010 and 2009 and the resulting percentage change (revenue in thousands):

	Three months ended June 30,		Six months ended June 30,
	2010	2009	