STAMPS.COM INC
Form 10-Q
August 08, 2013

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, 2013
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	77-0454966
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1990 E. Grand Avenue
El Segundo, California 90245
(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 þ 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, 2013, there were 15,643,946 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, 2013

TABLE OF CONTENTS

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, 2013 (unaudited)	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 53,350	$ 29,576
Short-term investments	6,285	6,323
Accounts receivable, net	11,254	14,432
Other current assets	6,506	5,602
Total current assets	77,395	55,933
Property and equipment, net	28,763	28,631
Intangible assets, net	1,147	1,262
Long-term investments	6,281	10,720
Deferred income taxes.	30,549	30,549
Other assets	4,477	3,757
Total assets	$ 148,612	$ 130,852
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 13,665	$ 16,366
Deferred revenue	1,422	1,532
Total current liabilities	15,087	17,898
Commitments and contingencies		
Stockholders' equity:		
Common stock, $.001 par value Authorized shares: 47,500 in 2013 and 2012Issued shares: 27,941 in 2013 and 27,472 in 2012Outstanding shares: 15,610 in 2013 and 15,319 in 2012	50	50
Additional paid-in capital	658,111	649,694
Accumulated deficit	(365,262)	(381,781)
Treasury stock, at cost, 12,331 shares in 2013 and 12,153 in 2012	(159,522)	(155,260)
Accumulated other comprehensive income	148	251
Total stockholders' equity	133,525	112,954
Total liabilities and stockholders' equity Total liabilities and stockholders' equity	$ 148,612	$ 130,852

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

Table of Contents

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

	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
Revenues:				
Service	$ 24,888	$ 21,781	$49,736	$43,168
Product	4,075	3,452	8,551	7,381
Insurance	1,917	1,702	3,663	3,364
PhotoStamps	1,229	1,289	2,259	2,601
Other	—	3	1	6
Total revenues	32,109	28,227	64,210	56,520
Cost of revenues:				
Service	4,015	3,829	8,570	8,068
Product	1,382	1,278	3,007	2,738
Insurance	676	562	1,317	1,097
PhotoStamps	1,015	969	1,846	1,998
Total cost of revenues	7,088	6,638	14,740	13,901
Gross profit	25,021	21,589	49,470	42,619
Operating expenses:				
Sales and marketing	9,792	9,775	20,175	19,882
Research and development	2,718	2,555	5,343	5,212
General and administrative	3,966	3,435	7,592	7,280
Total operating expenses	16,476	15,765	33,110	32,374
Income from operations	8,545	5,824	16,360	10,245
Interest and other income, net Income before income taxes	95	163	249	287
Income before income taxes Income tax expense	8,640	5,987	16,609	10,532
Income tax expense (benefit) Net income	27	64	90	(11,751)
Net income Net income per share	$ 8,613	$ 5,923	$16,519	$22,283
Net income per share Basic				
Basic Diluted	$ 0.56	$ 0.36	$ 1.07	$ 1.36
Diluted Weighted average shares outstanding	$ 0.53	$ 0.34	$ 1.03	$ 1.30
Weighted average shares outstanding Basic				
Basic Diluted	15,486	16,468	15,407	16,359
Diluted	16,163	17,196	16,082	17,184

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

3

Table of Contents

STAMPS.COM INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	$ 8,613	$ 5,923	$ 16,519	$ 22,283
Other comprehensive income:				
Unrealized (loss) gain on investments	(64)	(23)	(103)	(26)
Comprehensive income	$ 8,549	$ 5,900	$ 16,416	$ 22,257

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

Table of Contents

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

	Six Months Ended June 30, 2013	2012
Operating activities:		
Net income	$16,519	$22,283
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,140	672
Stock-based compensation expense	2,223	2,291
Deferred income tax	—	(11,915)
Changes in operating assets and liabilities:		
Accounts receivable	3,178	261
Other current assets	(1,138)	978
Other assets	(720)	52
Deferred revenue	(110)	(147)
Accounts payable and accrued expenses	(564)	(828)
Net cash provided by operating activities	20,528	13,647
Investing activities:		
Sale of short-term investments	4,138	557
Purchase of short-term investments	(4,159)	(4,436)
Sale of long-term investments	4,429	4,696
Purchase of long-term investments	(34)	(5,548)
Release of restricted cash	—	500
Purchase of property and equipment	(3,011)	(21,993)
Net cash provided by (used in) investing activities	1,363	(26,224)
Financing activities:		
Proceeds from exercise of stock options	5,677	4,712
Issuance of common stock under ESPP	517	426
Repurchase of common stock	(4,311)	—
Net cash provided by financing activities	1,883	5,138
Net increase (decrease) in cash and cash equivalents	23,774	(7,439)
Cash and cash equivalents at beginning of period	29,576	54,087
Cash and cash equivalents at end of period	$53,350	$46,648
Supplemental Information:		
Capital expenditures accrued but not paid at period end	206	—

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

Table of Contents
STAMPS.COM INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Summary of Significant Accounting Policies

Basis of Presentation

We prepared the consolidated 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 ("U.S.") 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 for the fiscal year ended December 31, 2012, filed with the SEC on March 15, 2013.

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, 2013, our results of operations for the three and six months ended June 30, 2013 and our cash flows for the six months ended June 30, 2013. 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, 2013.

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 U.S. 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, the number of PhotoStamps retail boxes that will not be redeemed, deferred income taxes and estimates regarding the useful lives of our building, patents and other amortizable intangible assets.

Contingencies and Litigation

We are subject to various routine 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, 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.
6

Table of Contents
STAMPS.COM INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Property and Equipment

We account for property and equipment at cost less accumulated depreciation and amortization. We compute depreciation using the straight-line method over the estimated useful life of the asset, generally three to five years for furniture, fixtures and equipment and ten to forty years for building and building improvements. We have a policy of capitalizing expenditures that materially increase assets' useful lives and charging ordinary maintenance and repairs to operations as incurred. When property or equipment is disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts, and any gain or loss is included in operations.

On January 23, 2012, we completed the purchase of our new corporate headquarters in El Segundo, California, for an aggregate purchase price of $13.4 million of which approximately $7.2 million was allocated to land value and $5.5 million was allocated to building value. The purchase was accounted for as a business combination. The building is being depreciated on a straight-line basis over the estimated useful life of 40 years; the land is an asset that does not get depreciated. As a result of the purchase we also acquired existing leases of building tenants, and $700,000 of the initial purchase price was allocated to lease-in-place intangible assets. We are amortizing these intangible assets over the remaining lease terms the longest of which is currently 4.1 years.

Income Taxes

We account for income taxes in accordance with Financial Accounting Standards Board ("FASB") ASC Topic No. 740, Income Taxes ("ASC 740"), which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax basis of recorded assets and liabilities. ASC 740 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some or all of the net deferred tax assets will not be realized. We record a valuation allowance to reduce our gross deferred tax assets, which are primarily comprised of U.S. Federal and State tax loss carry-forwards, to the amount that is more likely than not (a likelihood of more than 50 percent) to be realized. In order for us to realize our deferred tax assets, we must be able to generate sufficient taxable income. We evaluate the appropriateness of our deferred tax assets and related valuation allowance in accordance with ASC 740 based on all available positive and negative evidence.

Revenue Recognition

We recognize revenue from product sales or services rendered, as well as 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 collectability is reasonably assured.

Service revenue is primarily derived from monthly subscription and transaction 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, which includes the face value of postage, from the sale of PhotoStamps sheets and rolls is made pursuant to a sales contract that provides for transfer of both title and risk of loss upon our delivery to the carrier.

Table of Contents
STAMPS.COM INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Sale of PhotoStamps retail boxes are initially recorded as deferred revenue. PhotoStamps revenue related to the sale of these PhotoStamps retail boxes is subsequently recognized when either: 1) the PhotoStamps retail box is redeemed, or 2) the likelihood of the PhotoStamps retail box being redeemed is deemed remote ("breakage") and there is no legal obligation to remit the value of the unredeemed PhotoStamps retail boxes.

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 three and six months ended June 30, 2013 and 2012.

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.

PhotoStamps Retail Boxes

We sell PhotoStamps retail boxes that are redeemable for PhotoStamps on our website. The PhotoStamps retail boxes are sold through various third party retail partners. Our PhotoStamps retail boxes are not subject to administrative fees on unredeemed boxes and have no expiration date. PhotoStamps retail box sales are recorded as deferred revenue. Prior to the second quarter of 2011, revenue was recognized only on boxes that were actually redeemed on our website.

During the second quarter of 2011, we concluded that sufficient company-specific historical evidence existed to determine the period of time after which the likelihood of the PhotoStamps retail boxes being redeemed was remote. Based on our analysis of the redemption data, we estimate that period of time to be 60 months after the sale of our PhotoStamps retail boxes.

Beginning in the second quarter of 2011, we began recognizing breakage revenue related to our PhotoStamps retail boxes utilizing the redemption recognition method. Under the redemption recognition method, we recognize breakage revenue from unredeemed retail boxes in proportion to the revenue recognized from the retail boxes that have been redeemed. Revenue from our PhotoStamps retail boxes is included in PhotoStamps revenue. We continue to recognize retail box breakage revenue from PhotoStamps retail boxes using the redemption recognition method. PhotoStamps retail box breakage revenue during the second quarter of 2013 was not significant to our consolidated financial statements.

Subsequent Events

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.

2. Legal Proceedings

We are subject to various 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.

Table of Contents
STAMPS.COM INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The following table reconciles share amounts utilized to calculate basic and diluted net income per share (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	$ 8,613	$ 5,923	$ 16,519	$ 22,283
Basic - weighted average common shares	15,486	16,468	15,407	16,359
Diluted effect of common stock equivalents	677	728	675	825
Diluted - weighted average common shares	16,163	17,196	16,082	17,184
Earnings per share:				
Basic	$ 0.56	$ 0.36	$ 1.07	$ 1.36
Diluted	$ 0.53	$ 0.34	$ 1.03	$ 1.30

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Anti-dilutive stock option shares	40	120	99	75

4. Stock-Based Employee Compensation

We estimate the fair value of share-based payment awards on the date of grant using an option-pricing model and 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 method over their respective vesting periods of three to five years.

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,	
	2013	2012	2013	2012
Stock-based compensation expense relating to:				
Employee and director stock options	$ 1,081	$ 968	$ 1,924	$ 1,824
Employee stock purchases	—	—	299	467
Total stock-based compensation expense	$ 1,081	$ 968	$ 2,223	$ 2,291

Stock-based compensation expense relating to:				
Cost of revenues	$ 79	$ 70	$ 187	$ 196
Sales and marketing	180	196	418	495
Research and development	171	166	459	522
General and administrative	651	536	1,159	1,078
Total stock-based compensation expense	$ 1,081	$ 968	$ 2,223	$ 2,291

STAMPS.COM INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

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 projected employee stock option exercise behaviors. In the case of options we grant, our assumption of expected volatility is based on the historical volatility of our stock price over the term equal to the expected life of the options. We base the risk-free interest rate on U.S. Treasury zero-coupon issues with a remaining term equal to the expected life of the options 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,	
	2013	2012	2013	2012
Expected dividend yield	—	—	—	—
Risk-free interest rate	0.4 %	0.4 %	0.4 %	0.4 %
Expected volatility	48 %	52 %	47 %	52 %
Expected life (in years)	3.6	3.7	3.7	3.7
Expected forfeiture rate	6 %	7 %	6 %	7 %

5. Intangible Assets

We have amortizable and non-amortizable intangible assets consisting of patents, trademarks, other intellectual property and lease-in-place intangible assets with a gross carrying value of $9.4 million as of June 30, 2013 and December 31, 2012, respectively, and accumulated amortization of $8.2 million and $8.1 million as of June 30, 2013 and December 31, 2012, respectively. During 2012, we completed our purchase of our new corporate headquarters for an aggregate purchase price of $13.4 million. As a result of the purchase we also acquired existing leases of building tenants, and $700,000 of the initial purchase price was allocated to lease-in-place intangible assets. We are amortizing these intangible assets over the remaining lease terms the longest of which is currently 4.1 years. The expected useful lives of our amortizable intangible assets range from approximately 5 to 17 years. As of June 30, 2013, the remaining weighted average amortization period for our amortizable intangible assets is approximately 4.7 years. During 2012, 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 2012 and determined that the fair value of our intangible assets was in excess of their carrying value as of December 31, 2012. Our expected average yearly amortization expense over the next five years is approximately $122,000.

6. Income Taxes

During the three and six months ended June 30, 2013, our income tax expense consisted of federal and state alternative minimum taxes. Our effective income tax rate differs from the statutory income tax rate primarily as a result of our use of net operating losses to offset current federal and state income taxes. We evaluated the appropriateness of our deferred tax assets and related valuation allowance in accordance with ASC 740 based on all available positive and negative evidence. A valuation allowance is recorded against a portion of our gross deferred tax assets as we have determined the realization of these assets does not meet the more likely than not criteria. In making these determinations, we considered the available positive and negative evidence, including our recent earnings trend, expected future taxable income and the federal and state effective tax rates related to future taxable income.

On March 6, 2012, we entered into a binding agreement with PSI Systems, Inc. (“PSI”) to resolve all outstanding patent litigation among the parties (see Note 2 – Legal Proceedings on our Form 10-Q for the quarterly period ended March 31, 2012). Because of the PSI litigation settlement during the first quarter of 2012, we eliminated what had previously been negative evidence. The litigation settlement became positive evidence because (1) it eliminated the hard-to-predict fluctuations in litigation expenditures, which we expected to be material in future forecasts, (2) it eliminated the potential for a material negative financial judgment against us and (3) it eliminated the possibility of an injunction against us. We believe the other positive and negative evidence we evaluated is consistent (e.g., no material change has occurred) relative to our evaluation of this evidence in prior periods. Based on this discrete event, we extended our forecast of projected taxable income from two years to three years for the portion of our deferred tax asset for which it is more likely than not that a tax benefit will be realized under ASC 740 as of March 31, 2012. As a result, we released a portion of our valuation allowance totaling $11.9 million during the first quarter of 2012. As of June 30, 2013, we continued to maintain a valuation allowance for the remainder of our gross deferred tax assets.

We recorded income tax expense for corporate alternative minimum U.S. federal and state taxes of approximately $27,000 and $90,000 during the three and six months ended June 30, 2013, respectively. We recorded income tax expense for corporate alternative minimum federal taxes of approximately $64,000 and $164,000 during the three and six months ended June 30, 2012, respectively.

7. 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

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, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	$ 53,350	$ 53,350	$ —	$ —
Available-for-sale debt securities	12,566	—	12,566	
Total	$ 65,916	$ 53,350	$ 12,566	$ —

Table of Contents
STAMPS.COM INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

		Fair Value Measurement at Reporting Date Using		
Description	December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	$ 29,576	$ 29,576	$ —	$ —
Available-for-sale debt securities	17,043	—	17,043	—
Total	$ 46,619	$ 29,576	$ 17,043	$ —

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, 2013.

8. Cash Equivalents and Investments

Our cash equivalents and investments consist of money market, asset-backed securities, US government obligation, and public corporate debt securities at June 30, 2013 and December 31, 2012. 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, net using the specific identification method. There was no material realized gain or loss with respect to our investments during the three and six months ended June 30, 2013. Unrealized gains and losses are included as a separate component of stockholders' equity. We do not intend to sell investments with an amortized cost basis exceeding fair value and it is not likely that we will be required to sell the investments before recovery of their amortized cost bases. We have 5 securities with a total fair value of $90,000 that have unrealized losses of approximately $3,500 as of June 30, 2013. The following table summarizes realized gains and losses for the period indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Realized gain	$ 1	$ 3	$ 5	$ 5
Realized loss	—	—	—	(1)
Net realized gain	$ 1	$ 3	$ 5	$ 4

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, 2013, 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

12

Table of Contents
STAMPS.COM INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The following tables summarize our cash, cash equivalents and investments as of June 30, 2013 and December 31, 2012 (in thousands):

	June 30, 2013			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash	$26,227	—	—	$ 26,227
Money market	27,123	—	—	27,123
Cash and cash equivalents	53,350	—	—	53,350
Short-term investments:				
Corporate notes and bonds	6,205	80	—	6,285
Short-term investments	6,205	80	—	6,285
Long-term investments:				
Corporate bonds and asset backed securities	6,213	71	(3)	6,281
Long-term investments	6,213	71	(3)	6,281
Cash, cash equivalents and investments	$65,768	151	(3)	$ 65,916

	December 31, 2012			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash	$7,043	—	—	$ 7,043
Money market	22,533	—	—	22,533
Cash and cash equivalents	29,576	—	—	29,576
Short-term investments:				
Corporate notes and bonds	5,248	66	—	5,314
U.S. government and agency securities	1,005	4	—	1,009
Short-term investments	6,253	70	—	6,323
Long-term investments:				
Corporate bonds and asset backed securities	10,539	190	(9)	10,720
Long-term investments	10,539	190	(9)	10,720
Cash, cash equivalents and investments	$46,368	260	(9)	$ 46,619

Table of Contents

The following table summarizes contractual maturities of our marketable fixed-income securities as of June 30, 2013 (in thousands):

	Amortized Cost	Estimated Fair Value
Due within one year	$ 6,205	$ 6,285
Due after one year through five years	6,213	6,281
Due after five years through ten years	—	—
Total	$ 12,418	$ 12,566

Table of Contents

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,” “seeks,” “anticipates,” “estimates,” “intends,” “plans,” “would,” “could,” ”should,” “will,” “may” or other similar expressions We claim the 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 and 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, 2012 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. This Report and all subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

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.

Overview

Stamps.comÒ 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

PC Postage Business

Our PC Postage solutions enable our customers to buy and print USPS approved postage and services with just a personal computer (“PC”), printer and Internet connection, right from their home or office.
We offer the following PC Postage products and services to our customers:
15

Table of Contents

- PC Postage Services. After completing the registration process, customers can purchase and print postage 24 hours a day, seven days a week, through our software or web interface. When a customer purchases postage for use through our service, the customer pays the face value of the postage, and the funds are transferred directly from the customer's account to the USPS's account. The customer then draws down their prepaid account balance as they print postage and repurchases postage as necessary. Customers typically pay a monthly subscription fee for access to our 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 to their mail pieces USPS Special Services such as Delivery Confirmation ™, Signature Confirmation ™, Registered Mail, Certified Mail, Insured Mail, Return Receipt, Collect on Delivery and Restricted Delivery. Our customers can print postage (1) on NetStamps® labels, which can be used just like regular stamps, (2) 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, (3) on plain 8.5" x 11" paper or on special labels for packages, and (4) 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.

We offer multiple PC Postage service plans with different features and capabilities targeted to meet different customer needs. Our Pro Plan offers a basic set of Stamps.com mailing and shipping features with single-user capability. Our Premiere plan typically targeted at larger small businesses adds multiple-user functionality, automated Certified Mail forms, additional reference codes and higher allowable postage balances as compared to our Pro Plan feature set. Our Professional Shipper plan is typically targeted at 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 three years. Our Enterprise plan is typically targeted at 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.

Customers typically pay us a monthly service fee ranging from $15.99 to $39.99 depending on the service plan. In certain circumstances, customers may be on a plan where they do not owe us any monthly service fees. We have an arrangement with the USPS under which if a customer or integration partner prints a certain amount of Priority or Express Mail postage, they can qualify to have their service fees waived or refunded and the USPS compensates us directly. In addition, we also have plans for less than $15.99 which offer more limited functionality targeted at retaining customers who print a lower volume of postage.

- PC Postage Integrations. As part of our PC Postage services, we offer back-end integration solutions where we provide the electronic postage for transactions to partners who manage the front-end process. Our software integrates directly into the most popular e-commerce platforms, allowing web store managers to completely automate their order fulfillment process by processing, managing, and shipping orders from virtually any e-commerce source through 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®.

In 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 do not 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 the USPS. A transaction fee of $0.07 per label is charged to non-subscription customers for each label printed. In October 2012, Amazon.com launched an internally developed Marketplace USPS shipping solution based on a permit mail system that resulted in a reduction in postage printed through our solution. Amazon's shipping solution is utilized by merchants for certain mail classes while our shipping solution is utilized for the other mail classes. In addition, we continue to provide the integrated Amazon.com Marketplace solution to our existing Stamps.com subscription customers.

Table of Contents

During the first quarter of 2011, we began providing the electronic postage for shipping transactions generated by Click-N-Ship®, a web-based service available at USPS.com that allows USPS customers to purchase and print shipping labels for domestic and international Priority and Express packages at no additional mark-up over the cost of postage.

- 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, messaging regarding our free or discounted shipping promotions, cross-selling product recommendation during the checkout process, product search capabilities, and same-day shipping of orders with 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.

PhotoStamps

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.

When we refer to our PC Postage business, we are referring to our PC Postage Service and Integrations, Mailing & Shipping Supplies Store and Branded Insurance offering. We do not include our PhotoStamps business when we refer to our PC Postage business.

Results of Operations

Total revenue in the second quarter of 2013 was $32.1 million, an increase of 14% from $28.2 million in the second quarter of 2012. Total revenue during the six months ended June 30, 2013 was $64.2 million, an increase of 14% from $56.5 million in the six months ended June 30, 2012. PC Postage revenue, which includes service revenue, product revenue and insurance revenue, was $30.9 million in the second quarter of 2013, an increase of 15% from $26.9 million in the second quarter of 2012 and was $62.0 million in the six months ended June 30, 2013, an increase of 15% from $53.9 million in the six months ended June 30, 2012. PhotoStamps revenue in the second quarter of 2013 was $1.2 million, a decrease of 5% from $1.3 million in the second quarter of 2012 and was $2.3 million in the six months ended June 30, 2013, a decrease of 13% from $2.6 million in the six months ended June 30, 2012.

The following table sets forth the breakdown of revenue for the three and six months ended June 30, 2013 and 2012 and the resulting percentage change (revenue in thousands):

	Three months ended June 30,			Six months ended June 30,		
	2013	2012	% Change	2013	2012	% Change
Service revenue	$24,888	$21,781	14 %	$49,736	$ 43,168	15 %
Product revenue	4,075	3,452	18 %	8,551	7,381	16 %
Insurance revenue	1,917	1,702	13 %	3,663	3,364	9 %

PC postage revenue	$30,880	$26,935	15	%	$61,950	$ 53,913	15	%
PhotoStamps revenue	$1,229	$1,289	(5	%)	$2,259	$ 2,601	(13	%)
Other revenue	—	3	(100	%)	1	6	(83	%)
Total revenue	$32,109	$28,227	14	%	$64,210	$ 56,520	14	%

17

Table of Contents

Core PC Postage revenue in the second quarter of 2013 was $30.1 million, an increase of 15% from $26.2 million in the second quarter of 2012. Core PC Postage revenue during the six months ended June 30, 2013 was $60.4 million, an increase of 15% from $52.4 million during the six months ended June 30, 2012. Non-Core PC Postage revenue in the second quarter of 2013 was $731,000, which was unchanged from the $732,000 in the second quarter of 2012. Total Non-Core PC Postage revenue was $1.5 million in both the six months ended June 30, 2013 and 2012.

When we refer to our "Core PC Postage business", we are referring to the portion of our PC Postage business targeting our small business, enterprise and high volume shipping customers, and "Core PC Postage revenue" is the revenue from our Core PC Postage business. When we refer to our "Non-Core PC Postage business", we are referring to the portion of our PC Postage business that targets a more consumer oriented customer through the "enhanced promotion" marketing channel and "Non-Core Postage revenue" is the revenue from our Non-Core PC Postage business". In the "enhanced promotion" channel, we work with various companies to advertise our service in a variety of sites on the Internet. These companies typically offer an additional promotion (beyond what we typically offer) directly to the customer in order to get the customer to try our service and we find that this channel attracts more consumer oriented customers.

The following table sets forth the breakdown of PC Postage revenue, which includes Core PC Postage revenue and Non-Core PC Postage revenue and the resulting percent change for the periods indicated (revenue in $000s):

	Three months ended June 30,			Six months ended June 30,		
	2013	2012	% Change	2013	2012	% Change
Core PC Postage Revenue	$ 30,149	$ 26,203	15 %	$ 60,436	$ 52,399	15 %
Non-Core PC Postage Revenue	731	732	-	1,514	1,514	-
PC postage revenue	$ 30,880	$ 26,935	15 %	$ 61,950	$ 53,913	15 %

The increase in Core PC Postage revenue was driven by both an increase in average revenue per paid customer and an increase in paid customers. The average monthly revenue per paid customer in the second quarter of 2013 was $21.51, an increase of 3% compared to $20.90 in the second quarter of 2012. Paid customers in the second quarter of 2013 were approximately 467,000, an increase of 12% compared to 418,000 in the second quarter of 2012. We define paid customers for the quarter as ones from whom we successfully collected service fees or otherwise earned revenue from at least once during that quarter.

The following table sets forth the growth in paid customers and average quarterly revenue per paid customer for our Core PC Postage business:

	Three months ended June 30,		
	2013	2012	% Change
Paid customers for the quarter (000s)	467	418	12 %
Average quarterly revenue per paid customer	$ 64.53	$ 62.71	3 %
Core PC postage revenue (000s)	$ 30,149	$ 26,203	15 %

The increase in paid customers is primarily driven by an increased number of new paid customers as a result of new customers generated by our increased spend in our Core PC Postage marketing channels while our lost customer churn rates decreased slightly compared with the prior year.

For our Core PC Postage business, our average quarterly and monthly Core PC Postage revenue per paid customer in the second quarter of 2013 was $64.53 and $21.51 respectively, which increased by 3% compared to $62.71 and $20.90, respectively, in the second quarter of 2012. The increase in average revenue per paid customer was primarily attributable to higher service revenue per paid customer from our high volume shipping and enterprise customers and higher store sales per paid customer from increased NetStamps label purchases.

18

Table of Contents

Revenue by Product

The following table shows our revenue and revenue as a percentage of total revenue for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Total Revenues				
Service	$24,888	$21,781	$49,736	$43,168
Product	4,075	3,452	8,551	7,381
Insurance	1,917	1,702	3,663	3,364
PhotoStamps	1,229	1,289	2,259	2,601
Other	—	3	1	6
Total revenues	$32,109	$28,227	$64,210	$56,520
Revenue as a percentage of total revenues				
Service	78 %	77 %	77 %	76 %
Product	13 %	12 %	13 %	13 %
Insurance	6 %	6 %	6 %	6 %
PhotoStamps	4 %	5 %	4 %	5 %
Other	0 %	0 %	0 %	0 %
Total revenues	100 %	100 %	100 %	100 %

Our revenue is derived primarily from five sources: (1) service and transaction fees related to our PC Postage service; (2) product revenue from the direct sale of consumables and supplies through our Supplies Store; (3) insurance revenue from our branded insurance offering; (4) PhotoStamps revenue from our PhotoStamps business; and (5) other revenue, consisting of advertising revenue derived from advertising programs with our existing customers.

Service revenue increased 14% to $24.9 million in the second quarter of 2013 from $21.8 million in the second quarter of 2012 and increased 15% to $49.7 million in the six months ended June 30, 2013 from $43.2 million in the six months ended June 30, 2012. The 14% increase in service revenue during the second quarter of 2013 consisted of a 15% increase in service revenue from our Core PC Postage business while the service revenue from our Non-Core PC Postage business was unchanged. The 15% increase in our Core PC Postage service revenue consisted of a 12% increase in paid customers and a 3% increase in average service revenue per customer. The 15% increase in service revenue during the six months ended June 30, 2013 consisted of a 16% increase in service revenue from our Core PC Postage business while the service revenue from our Non-Core PC Postage business was unchanged.

Product revenue increased 18% to $4.1 million in the second quarter of 2013 from $3.5 million in the second quarter of 2012 and increased 16% to $8.6 million in the six months ended June 30, 2013 from $7.4 million in the six months ended June 30, 2012. The increase was primarily attributable to the following: (1) increased NetStamps label sales; (2) growth in our paid customer base; (3) the postal rate increase in January 2013, which generated incremental label sales for the period of time around the rate increase, (4) marketing our Supplies Store to our existing customer base; and (5) growth in postage printed, which helps drive sales of consumable supplies such as labels. Total postage printed by customers using our service increased 60% to $372 million during the second quarter of 2013 from $233 million printed during the second quarter of 2012 and increased 65% to $750 million during the six months ended June 30, 2013 from $454 million printed during the six months ended June 30, 2012.

Insurance revenue increased 13% to $1.9 million in the second quarter of 2013 from $1.7 million in the second quarter of 2012 and increased 9% to $3.7 million in the six months ended June 30, 2013 from $3.4 million in the six months ended June 30, 2012. This increase was primarily attributable to the expansion of our existing package insurance offering to cover packages being shipped to international destinations and increased insurance purchases by high volume shippers; partially offset by a reduction in insurance purchases by other customers.

Table of Contents

We continued to reduce our PhotoStamps sales and marketing spending in the second quarter of 2013 compared with the second quarter of 2012, and plan to continue to reduce our sales and marketing spending on PhotoStamps in future periods to maintain or improve profitability in that business. As a result of this decision PhotoStamps revenue decreased 5% to $1.2 million in the second quarter of 2013 from $1.3 million in the second quarter of 2012 and decreased 13% to $2.3 million in the six months ended June 30, 2013 from $2.6 million in the six months ended June 30, 2012. Total PhotoStamps sheets shipped was approximately 72,000 in the second quarter of 2013, a 4% increase compared to 69,000 in the second quarter of 2012 and was 129,000 in the six months ended June 30, 2013, a decrease of 11% compared to 145,000 in the six months ended June 30, 2012. Average revenue per sheet shipped decreased 8% in the second quarter of 2013 to $17.1 from $18.7 in the second quarter of 2012 and decreased 3% in the six months ended June 30, 2013 to $17.5 from $18.0 in the six months ended June 30, 2012. The decrease was primarily attributable to a higher mix of high volume business orders which typically have a lower price per sheet.

Other revenue consists of commissions from the advertising or sale of products by third party vendors to our customer base. Other revenue is currently not material to our consolidated financial statements.

Cost of Revenues

The following table shows cost of revenues and cost of revenues as a percentage of its associated revenue for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Cost of Revenues				
Service	$ 4,015	$ 3,829	$ 8,570	$ 8,068
Product	1,382	1,278	3,007	2,738
Insurance	676	562	1,317	1,097
PhotoStamps	1,015	969	1,846	1,998
Total cost of revenues	$ 7,088	$ 6,638	$ 14,740	$ 13,901
Cost as percentage of associated revenues				
Service	16 %	18 %	17 %	19 %
Product	34 %	37 %	35 %	37 %
Insurance	35 %	33 %	36 %	33 %
PhotoStamps	83 %	75 %	82 %	77 %
Total cost as a percentage of total revenues	22 %	24 %	23 %	25 %

Cost of service revenue principally consists of the cost of customer service, certain promotional expenses, system operating costs, credit card processing fees and customer misprints that do not qualify for reimbursement from the USPS. Cost of product revenue principally consists of the cost of products sold through our Mailing & Shipping Supplies Store and the related costs of shipping and handling. The cost of insurance revenue principally consists of parcel insurance offering costs. Cost of PhotoStamps revenue principally consists of the face value of postage, customer service, image review costs, and printing and fulfillment costs.

Cost of service revenue increased 5% to $4.0 million in the second quarter of 2013 from $3.8 million in the second quarter of 2012 and increased 6% to $8.6 million in the six months ended June 30, 2013 from $8.1 million in the six months ended June 30, 2012. The increase, both during the second quarter of 2013 and six months ended June 30, 2013, is primarily attributable to higher customer service costs to support our growing customer base. Promotional expense, which represents a material portion of total cost of service revenue, is expensed in the period in which a customer qualifies for the promotion while the revenue associated with the acquired customer is earned over the customer's lifetime. As a result, promotional expense for newly acquired customers may exceed the revenue earned from those customers in that period. Promotional expense was approximately $772,000 and $832,000 in the second quarter of 2013 and 2012, respectively. Promotional expense was approximately $1.9 million both during the six months ended June 30, 2013 and 2012.

Cost of product revenue increased 8% to $1.4 million in the second quarter of 2013 from $1.3 million in the second quarter of 2012 and increased 10% to $3.0 million in the six months ended June 30, 2013 from $2.7 million in the six months ended June 30, 2012. The percentage increase in the cost of product revenue was lower compared to the percentage increase in product revenue both in the first quarter of 2013 and six months ended June 30, 2013 primarily due to lower fulfillment costs as a percentage of product revenue.

Table of Contents

Cost of insurance revenue increased 20% to $676,000 in the second quarter of 2013 from $562,000 in the second quarter of 2012 and increased 20% to $1.3 million in the six months ended June 30, 2013 from $1.1 million in the six months ended June 30, 2012. The percentage increase in cost of insurance revenue was higher compared to the percentage increase in insurance revenue primarily due to the level and mix of discounted insurance rates for shippers.

Cost of PhotoStamps revenue increased 5% to $1.0 million in the second quarter of 2013 from $969,000 in the second quarter of 2012 and decreased 8% to $1.8 million in the six months ended June 30, 2013 from $2.0 million in the six months ended June 30, 2012. Cost of PhotoStamps revenue as a percentage of PhotoStamps revenue increased during both the second quarter and six months ended June 30, 2013 by approximately 8% and 5%, respectively. The increase in cost of PhotoStamps revenue as a percentage of PhotoStamps revenue is primarily due to higher than normal level of high volume business orders, which typically have lower gross margins.

Operating Expenses

The following table is our operating expense and operating expense as a percentage of total revenue for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Operating expenses:				
Sales and marketing	$9,792	$9,775	$20,175	$19,882
Research and development	2,718	2,555	5,343	5,212
General and administrative	3,966	3,435	7,592	7,280
Total operating expenses	$16,476	$15,765	$33,110	$32,374
Operating expenses as a percent of total revenue:				
Sales and marketing	30 %	35 %	31 %	35 %
Research and development	9 %	9 %	8 %	9 %
General and administrative	12 %	12 %	12 %	13 %
Total operating expenses	51 %	56 %	51 %	57 %

Sales and Marketing

Sales and marketing expense principally consists of spending to acquire new customers and compensation and related expenses for personnel engaged in sales, marketing, and business development activities. Sales and marketing expense remained unchanged at $9.8 million in both the second quarter of 2013 and 2012, and increased 1% to $20.2 million in the six months ended June 30, 2013 from $19.9 million in the six months ended June 30, 2012. Sales and marketing spending in both the second quarter and six months ended June 30, 2013 in our Core PC Postage business increased as we continued to focus on customer acquisition while spending in our Non-Core PC postage and PhotoStamps businesses both decreased compared to 2012. Ongoing marketing programs include the following: customer referral programs, customer re-marketing efforts, direct mail, online advertising, partnerships, telemarketing, and traditional advertising.

Research and Development

Research and development expense principally consists of compensation for personnel involved in the development of our services, depreciation of equipment and software and expenditures for consulting services and third party software. Research and development expense increased 6% to $2.7 million in the second quarter of 2013 from $2.6 million in the second quarter of 2012 and increased 3% to $5.3 million in the six months ended June 30, 2013 from $5.2 million in the six months ended June 30, 2012. The increase is primarily due to an increase in headcount-related expenses to support our expanded product offerings.

Table of Contents

General and Administrative

General and administrative expense principally consists of compensation and related costs for executive and administrative personnel, fees for legal and other professional services, depreciation of equipment, software and building used for general corporate purposes and amortization of intangible assets. General and administrative expense increased 15% to $4.0 million in the second quarter of 2013 from $3.4 million in the second quarter of 2012 and increased 4% to $7.6 million in the six months ended June 30, 2013 from $7.3 million in the six months ended June 30, 2012. The increase, both during the second quarter and six months ended June 30, 2013, is primarily due to increase in headcount related expenses to support the growth in the business.

Interest and Other Income, Net

Interest and other income, net primarily consists of interest income from cash equivalents, short-term and long-term investments and rental income from our corporate headquarters in El Segundo, California. Interest and other income, net decreased 42% to approximately $95,000 in the second quarter of 2013 from approximately $163,000 in the second quarter of 2012 and decreased 13% to $249,000 in the six months ended June 30, 2013 from $287,000 in the six months ended June 30, 2012. The decrease, both during the second quarter and six months ended June 30, 2013 is primarily due to lower yields on our investment balances including certain investments in our portfolio that matured and were replaced with lower yield investments.

Provision for Income Taxes

Income tax expense was $27,000 and $64,000 in the second quarter of 2013 and 2012, respectively. The decrease during the second quarter of 2013 is primarily due to lower taxable income as a result of additional temporary differences. During the six months ended June 30, 2013, we incurred income tax expense of $90,000 compared with an income tax benefit of $11.8 million in the six months ended June 30, 2012. During the six months ended June 30, 2012, our net income tax benefit consisted of a reduction of a portion of our valuation allowance on our deferred tax asset (as described below) and federal and state alternative minimum taxes. Our effective income tax rate during the second quarter of 2013 and 2012 and the six months ended June 30, 2013 differs from the statutory income tax rate primarily as a result of our use of net operating losses to offset current federal and state income taxes. Our effective income tax rate during the six months ended June 30, 2012 differs from the statutory income tax rate primarily as a result of the reduction of a portion of our valuation allowance.

We evaluated the appropriateness of our deferred tax assets and related valuation allowance in accordance with Accounting Standards Codification ("ASC") 740 based on all available positive and negative evidence, including our recent earning trend, expected future taxable income and the federal and state effective tax rates related to future taxable income. On March 6, 2012, we entered into a binding agreement with PSI Systems, Inc. ("PSI") to resolve all outstanding patent litigation among the parties (see Note 2 – Legal Proceedings on our Form 10-Q for the quarterly period ended March 31, 2012). Because of the PSI litigation settlement during the first quarter of 2012, we eliminated what had previously been negative evidence. The litigation settlement became positive evidence because (1) it eliminated the hard-to-predict fluctuations in litigation expenditures, which we expected to be material in future forecasts, (2) it eliminated the potential for a material negative financial judgment against us and (3) it eliminated the possibility of an injunction against us. We believe the other positive and negative evidence we evaluated is consistent (e.g., no material change has occurred) relative to our evaluation of this evidence in prior periods. Based on this discrete event, we extended our forecast of projected taxable income from two years to three years for the portion of our deferred tax asset for which it is more likely than not that a tax benefit will be realized under ASC 740 as of March 31, 2012. As a result, we released a portion of our valuation allowance totaling $11.9 million during the first quarter of 2012. As of June 30, 2013, we continued to maintain a valuation allowance for the remainder of our gross deferred tax assets.

We recorded income tax expense for corporate alternative minimum federal and state taxes of approximately $27,000 and $90,000 during the three and six months ended June 30, 2013, respectively.

Table of Contents

Liquidity and Capital Resources

As of June 30, 2013 and December 31, 2012, we had approximately $66 million and $47 million, respectively, in cash, cash equivalents and short-term and long-term investments. We invest available funds in short-term and long-term securities, including money market funds, corporate bonds, asset backed securities, and US government and agency bonds, and do not engage in hedging or speculative activities.

There have been no material changes to our contractual obligations and commercial commitments included in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2012.

On January 23, 2012, we completed the purchase of two adjacent buildings in El Segundo, California that now serve as our corporate headquarters for an aggregate purchase price of $13.4 million. We substantially completed the renovation and construction project on the property in 2012. We moved into our new corporate headquarters during the third quarter of 2012. We occupy a portion of the 99,600 square foot space, with the remaining portion of the space continuing to be leased to the existing tenants. The purchase of the property and renovations were funded out of our cash flow from operations and existing cash and investments.

Net cash provided by operating activities was $20.5 million and $13.6 million during the six months ended June 30, 2013 and 2012, respectively. The increase in net cash provided by operating activities was primarily attributable to the growth in our revenue and changes in our operating assets and liabilities.

Net cash provided by in investing activities was $1.4 million during the six months ended June 30, 2013. Net cash used in investing activities was $26.2 million during the six months ended June 30, 2012. The decrease in net cash used in investing activities was primarily due to the purchase and build-out of our new corporate headquarters in 2012. There were no similar capital projects in 2013.

Net cash provided by in financing activities was $1.9 million and $5.1 million during the six months ended June 30, 2013 and 2012, respectively. The decrease in net cash provided by financing activities is primarily due to the increase in our stock repurchase program.

We believe our available cash and marketable securities, together with the cash flow from operations, will be sufficient to fund our business for at least the next twelve months.

Updated Expectations for 2013

We currently expect the following trends for 2013:

- We expect total revenue to be in a range of between $125 million to $135 million.
- We expect earnings per share to be in the range between $1.73 to $1.93 per fully diluted share.
- We expect growth in Core PC Postage revenue to be in the low to mid teens in 2013 compared to 2012.
- We expect enhanced promotion revenue will be flat to down in 2013 compared to 2012.
- We expect PhotoStamps revenue will be down in 2013 compared to 2012 as we continue to minimize investments in these areas.

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- We are targeting small business customer acquisition spending on our Core PC Postage business to be up by 5% to 15% compared to 2012.

- We expect research and development expenses to be higher in 2013 as compared to 2012, primarily related to expected increased headcount costs to support the growth in our products and services.

- We expect General and Administrative expenses to be higher in 2013 compared to 2012, primarily related to increased headcount costs.

As discussed above, our results are subject to macro economic factors and other factors which could cause these trends to be worse than our current expectation or which could cause actual results to be materially different than our current expectations. These expectations are “forward looking statements”, are made only as of the date of this Report and are subject to the qualification and limitations on the forward-looking statements discussion on page 15 of this Report, and are made on the basis of the safe-harbor described thereon.

23

Table of Contents

Critical Accounting Policies

Management's discussion and analysis of our financial condition and results of operations is based on our unaudited financial statements. The preparation of these financial statements is based on the selection of accounting policies and the application of significant accounting estimates, some of which require management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and notes. For more information regarding our critical accounting estimates and policies, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates and Policies" of our Form 10-K for the year ended December 31, 2012.

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 $200 million and $100 million, respectively. 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. We estimate that as of June 30, 2013, we were at approximately at 20% level compared with the 50% level that would trigger impairment of our NOL asset.

Under our certificate of incorporation, any person, company or 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. This waiver may be revoked by our board of directors at any time if the board deems the revocation necessary to protect against a Section 382 "change of ownership" that would limit our ability to utilize future NOLs. For complete details about this waiver from the NOL Protective Measures, please see our Form 8-K filed on July 28, 2010.

As of July 31, 2013, we had approximately 15,643,946 million shares outstanding, and therefore ownership of approximately 780,000 shares or more would currently constitute a "5% shareholder". We strongly urge that any stockholder contemplating becoming a 5% or more shareholder contact us before doing so.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio. We have not used derivative financial instruments in our investment portfolio. None of the instruments in our investment portfolio are held for trading purposes. At June 30, 2013, our cash, cash equivalents and investments consist of money market, U.S. government obligations, asset-backed securities and public corporate debt securities with weighted average maturity of 147 days. At June 30, 2013, our cash, cash equivalents and investments approximated $66 million and had a related weighted average interest rate of approximately 0.60%. Interest rate fluctuations impact the carrying value of the portfolio. The fair value of our portfolio of marketable securities would not be significantly affected by either a 10% increase or decrease in the rates of interest due primarily to the short duration nature of the portfolio. We do not believe that the future market risks related to the above securities will have a material adverse impact on our financial position, results of operations or liquidity.

As we do not have any operations outside of the United States, we are not exposed to foreign currency risks.
24

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934).

As of the end of the period covered by this Report, our management evaluated, with the participation of our Principal Executive Officer and Principal Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Principal Executive Officer and Principal Financial Officer have concluded, as of that time, that our disclosure controls and procedures were effective.

Changes in Internal Controls

During the quarter ended June 30, 2013, there has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 2 – “Legal Proceedings” of our Notes to Consolidated Financial Statements.

ITEM 1A. RISK FACTORS

We are not aware of any material changes to the risk factors included in Item 1A “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2012.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

During the second quarter of 2013, we repurchased 105,400 shares of our common stock as described in the following table:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs (in 000’s)
April 1, 2013 – April 30, 2013	105,400	$ 23.82	105,400	$ 26,650
May 1, 2013 – May 31, 2013	—	—	—	$ 26,650
June 1, 2013 – June 30, 2013	—	—	—	$ 26,650

On April 18, 2013, the Board of Directors approved a new share repurchase program that replaces all prior repurchase programs as of April 26, 2013, and authorizes the Company to repurchase up to 1.0 million shares of our stock during the next six months.

We will consider repurchasing stock in the future by evaluating such factors as the price of the stock, the daily trading volume and the availability of large blocks of stock and any additional constraints related to material inside information we may possess. Our repurchase of any of our shares will be subject to limitations that may be imposed on such repurchases by applicable securities laws and regulations and the rules of The NASDAQ Stock Market. Repurchases may be made in the open market, or in privately negotiated transactions from time to time at our discretion. We have no commitment to make any repurchases.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

26

Table of Contents

ITEM 6. EXHIBITS

31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002. *
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002. *
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* In accordance with Securities Exchange Commission Release No. 33-8212, these exhibits are being furnished, are not being filed as part of this Report on Form 10-Q or as a separate disclosure document, and are not being incorporated by reference into any Securities Act of 1933 registration statement.

Table of Contents

SIGNATURES

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

STAMPS.COM INC.
(Registrant)

August 8, 2013 By: /s/ KEN MCBRIDE
Ken McBride
Chairman and Chief Executive Officer

August 8, 2013 By: /s/ KYLE HUEBNER
Kyle Huebner
Co-President and Chief Financial Officer