STAMPS.COM INC
Form 10-Q
August 07, 2009

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, 2009

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.)

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, 2009, there were approximately 16,139,000 shares of the Registrant’s Common Stock issued and outstanding.

STAMPS.COM INC.

FORM 10-Q QUARTERLY REPORT FOR THE QUARTER ENDED JUNE 30, 2009

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2009 (unaudited)	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 44,112	$ 52,576
Restricted cash	554	554
Short-term investments	940	16,235
Trade accounts receivable, net	2,936	2,962
Other accounts receivable	494	1,201
Other current assets	3,791	4,426
Total current assets	52,827	77,954
Property and equipment, net	2,608	3,086
Intangible assets, net	500	505
Long-term investments	24,636	4,694
Deferred income taxes.	3,671	3,671
Other assets	3,028	3,348
Total assets	$ 87,270	$ 93,258
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 9,195	$ 11,174
Deferred revenue	3,422	3,743
Total current liabilities	12,617	14,917
Commitments and contingencies		
Stockholders' equity:		
Common stock, $.001 par value Authorized shares: 47,500 in 2009 and 2008 Issued shares: 24,399 in 2009 and 24,368 in 2008 Outstanding shares: 16,233 in 2009 and 17,242 in 2008	47	47
Additional paid-in capital	628,647	626,810
Accumulated deficit	(454,117)	(456,391)
Treasury stock, at cost, 8,166 shares in 2009 and 7,126 shares in 2008	(99,238)	(90,613)
Accumulated other comprehensive loss	(686)	(1,512)
Total stockholders' equity	74,653	78,341
Total liabilities and stockholders' equity	$ 87,270	$ 93,258

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

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

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Revenues:				
Service	$ 15,207	$ 15,577	$ 30,521	$ 30,774
Product	2,580	2,583	5,197	5,066
Insurance	395	377	799	765
PhotoStamps	1,995	2,873	3,708	5,877
Other	5	—	5	—
Total revenues	20,182	21,410	40,230	42,482
Cost of revenues:				
Service	2,872	2,262	5,880	5,004
Product	1,030	948	1,975	1,828
Insurance	123	119	248	239
PhotoStamps	1,521	2,092	2,821	4,219
Total cost of revenues	5,546	5,421	10,924	11,290
Gross profit	14,636	15,989	29,306	31,192
Operating expenses:				
Sales and marketing	8,227	8,780	16,291	17,403
Research and development	2,199	2,102	4,426	4,045
General and administrative	3,306	4,457	6,570	8,400
Total operating expenses	13,732	15,339	27,287	29,848
Income from operations	904	650	2,019	1,344
Other income:				
Interest income	232	736	589	1,653
Other income	—	—	—	21
Total other income	232	736	589	1,674
Income before income taxes	1,136	1,386	2,608	3,018
Provision (benefit) for income taxes	84	80	334	(3,486)
Net income	$ 1,052	$ 1,306	$ 2,274	$ 6,504
Net income per share				
Basic	$ 0.06	$ 0.07	$ 0.14	$ 0.33
Diluted	$ 0.06	$ 0.07	$ 0.14	$ 0.33
Weighted average shares outstanding				
Basic	16,301	19,382	16,581	19,553
Diluted	16,427	19,712	16,709	19,831

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

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

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Operating activities:		
Net income	$ 2,274	$ 6,504
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	639	1,208
Stock-based compensation expense	1,612	1,682
Deferred income tax	—	(3,671)
Changes in operating assets and liabilities:		
Trade accounts receivable	26	(435)
Other accounts receivable	707	708
Other current assets	635	(562)
Other assets	320	(806)
Deferred revenue	(321)	(210)
Accounts payable and accrued expenses	(1,979)	1,132
Net cash provided by operating activities	3,913	5,550
Investing activities:		
Sale of short-term investments	15,329	19,125
Purchase of short-term investments	—	(21,536)
Sale of long-term investments	1,274	19,541
Purchase of long-term investments	(20,424)	(6,445)
Purchase of property and equipment	(156)	(328)
Net cash (used in) provided by investing activities	(3,977)	10,357
Financing activities:		
Proceeds from exercise of stock options	82	171
Issuance of common stock under ESPP	143	168
Repurchase of common stock	(8,625)	(4,500)
Net cash used in financing activities	(8,400)	(4,161)
Net (decrease) increase in cash and cash equivalents	(8,464)	11,746
Cash and cash equivalents at beginning of period	52,576	43,667
Cash and cash equivalents at end of period	$ 44,112	$ 55,413

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

STAMPS.COM

NOTES TO FINANCIAL STATEMENTS
(ALL INFORMATION WITH RESPECT TO JUNE 30, 2009 AND 2008 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 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, 2009, the results of operations for the three and six months ended June 30, 2009 and cash flows for the six months ended June 30, 2009. 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, 2009.

Use of Estimates and Risk Management

The preparation of financial statements in conformity with US generally accepted accounting principles 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, deferred income taxes and estimates regarding the useful lives of patents and other amortizable intangibles.

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.

Subsequent Events

We have evaluated subsequent events and transactions through August 7, 2009, which is the date these financial statements were issued. No material subsequent events or transactions have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

Revenue Recognition

We recognize revenue from product sales or services rendered, as well as commissions from the 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 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 our products, including PhotoStamps, 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 by our best estimate of expected product returns, are estimated using historical experience. Commissions from the advertising or sale of products by third party vendors to our customer base are recognized when the revenue is earned and collection is deemed probable.

Customers who purchase postage for use through our NetStamps, shipping label or mailing features, pay face value, 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.

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On a limited basis, we allow third parties to offer products and promotions to the Stamps.com 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 is currently immaterial.

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, is currently immaterial to our financial statements. Because we do not yet 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.

2. Legal Proceedings

Please refer to "Part II - Other Information - Item 1 - Legal Proceedings" of this report for a discussion of our current legal proceedings.

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 convertible preferred stock and stock options and warrants (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):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net income	$ 1,052	$ 1,306	$ 2,274	$ 6,504
Basic - weighted average common shares	16,301	19,382	16,581	19,553
Diluted effect of common stock equivalents	126	330	128	278
Diluted - weighted average common shares	16,427	19,712	16,709	19,831
Earnings per share:				
Basic	$ 0.06	$ 0.07	$ 0.14	$ 0.33
Diluted	$ 0.06	$ 0.07	$ 0.14	$ 0.33

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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,	
	2009	2008	2009	2008
Anti-dilutive stock option shares	2,723	2,200	2,735	2,226

4. Stock-Based Employee Compensation

We account for stock-based awards to employees and directors pursuant to Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), and related SEC rules included in Staff Accounting Bulletin No. 107. SFAS 123R requires us 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. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, 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.

The following table sets forth the stock-based compensation expense that we recognized under SFAS 123R for the periods indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Stock-based compensation expense relating to:				
Employee and director stock options	$ 819	$ 903	$ 1,587	$ 1,652
Employee stock purchases	—	—	25	30
Total stock-based compensation expense	$ 819	$ 903	$ 1,612	$ 1,682
Stock-based compensation expense relating to:				
Cost of revenues	$ 69	$ 69	$ 140	$ 144
Sales and marketing	198	172	389	348
Research and development	164	146	328	298
General and administrative	388	516	755	892
Total stock-based compensation expense	$ 819	$ 903	$ 1,612	$ 1,682

In our SFAS 123R calculations, we use the Black-Scholes option valuation model, 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 U.S. 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.

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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,	
	2009	2008	2009	2008
Expected dividend yield	—	—	—	—
Risk-free interest rate	2.20%	3.06%	1.99%	2.93%
Expected volatility	53%	51%	53%	51%
Expected life (in years)	4.5	5	4.5	5
Expected forfeiture rate	20%	16%	20%	16%

5. Intangible Assets

Our intangible assets consist of patents, trademarks and other intellectual property with a gross carrying value of approximately \$8.3 million and accumulated amortization of approximately \$7.8 million as of each of June 30, 2009 and December 31, 2008. The expected useful lives of our amortizable intangible assets range from 4 to 17 years. During 2008, 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 2008 and determined that the fair value of our intangible assets were in excess of their carrying value as of December 31, 2008. Aggregate amortization expense on patents and trademarks was approximately \$2,000 and \$5,000 for the three and six months ended June 30, 2009, respectively, and \$92,000 and \$362,000 for the three and six months ended June 30, 2008, respectively.

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,	
	2009	2008	2009	2008
Net income	$ 1,052	$ 1,306	$ 2,274	$ 6,504
Unrealized gain (loss) on investments	989	(187)	826	(505)
Comprehensive income	$ 2,041	$ 1,119	$ 3,100	$ 5,999

7. Income Taxes

During the three and six months ended June 30, 2009, our income tax expense consisted of alternative minimum federal tax and state income tax. Our effective income tax rate differs from the statutory income tax rate primarily as a result of our use of federal net operating losses ("NOLs") to offset current federal tax expense. A valuation allowance was originally recorded against our deferred tax assets as we determined the realization of these assets did not meet the more likely than not criteria in accordance with SFAS No. 109, "Accounting for Income Taxes." 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 the first quarter of 2009, we re-evaluated our future operating income projections and determined that the realization of our net deferred tax asset continue to be more likely than not. 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. As a result of not being able to use our state NOLs, 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, 2009, we recorded a current tax provision for corporate alternative minimum federal taxes and state taxes of approximately $84,000 and $334,000, respectively.

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Under Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109", we are required to determine whether it is more likely than not that a tax position will be sustained upon examination based on the technical merits of the position. A tax position that meets the more likely than not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. We have concluded that there are no significant uncertain tax positions requiring recognition in our financial statements. Our policy is to recognize interest and penalties expense, if any, related to unrecognized tax benefits as a component of income tax expense. As of June 30, 2009, we have not recorded any interest and penalty expense.

8. Fair Value Measurements

SFAS No. 157, "Fair Value Measurement" ("SFAS 157") defines fair value, establishes a framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. On January 1, 2009, we adopted FASB Financial Staff Position ("FSP") SFAS No. 157-2, "Effective Date of FASB Statement No. 157" ("FSP SFAS 157-2"), which deferred the application date of the provisions of SFAS No. 157 for all nonfinancial assets and liabilities to fiscal years beginning after November 15, 2008 except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. The adoption of FSP SFAS 157-2 did not have a material impact to our financial statements. The fair value hierarchy for disclosure of fair value measurements under SFAS 157 is as follows:

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 accordance with SFAS 157 (in thousands):

		Fair Value Measurement at Reporting Date Using		
Description	June 30, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 44,112	$ 44,112	$ —	$ —
Available-for-sale debt securities	26,130	—	26,130	—
Total	$ 70,242	$ 44,112	$ 26,130	$ —

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.

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NOTES TO FINANCIAL STATEMENTS
(ALL INFORMATION WITH RESPECT TO JUNE 30, 2009 AND 2008 IS UNAUDITED)

8. Cash, Cash Equivalents and Investments

Our cash equivalents and investments consist of money market, U.S. government obligations, asset-backed securities and public corporate debt securities at June 30, 2009 and December 31, 2008. On April 1, 2009, we adopted FSP No. SFAS 107-1 and APB 28-1, "Interim Disclosure about Fair Value of Financial Instruments" ("FSP SFAS 107-1 and APB 28-1") and FSP No. SFAS 115-2 and SFAS 124-2, "Recognition and Presentation of Other-Than Temporary Impairments" ("FSP SFAS 115-2 and SFAS 124-2"). FSP SFAS 107-1 and APB 28-1 amends the required disclosure about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements and the required disclosures in summarized financial information at interim reporting periods. FSP SFAS 115-2 and SFAS 124-2 amend the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements.

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 investments are classified as available for sale and are recorded at market value using the specific identification method. Unrealized gains and losses are included as a separate component of stockholders' equity. We have twelve securities with a total fair value of approximately $6.9 million that has unrealized loss of approximately $811,000 as of June 30, 2009. Realized gains and losses are reflected in other income. The following table summarizes realized gains and losses for the period indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Realized gain	$ 0.5	$ 1.5	$ 36.0	$ 6.4
Realized loss	(0.1)	(0.2)	(5.0)	(20.3)
Net realized gain (loss)	$ 0.4	$ 1.3	$ 31.0	$ (13.9)

Other-than-temporary impairment ("OTTI") is recorded when the fair value of our available for sale securities is less than historical cost, and it is probable that all contractual cash flows will not be collected. We evaluate for OTTI on at least a quarterly basis and as of the three and six months ended June 30, 2009, we did not incur any OTTI. In conducting this assessment, we evaluated 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
NOTES TO FINANCIAL STATEMENTS
(ALL INFORMATION WITH RESPECT TO JUNE 30, 2009 AND 2008 IS UNAUDITED)

The following table summarizes our cash, cash equivalents, restricted cash and investments as of June 30, 2009 and December 31, 2008 (in thousands):

	June 30, 2009			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash	$ 4,456	$ -	$ -	$ 4,456
Money market	39,656	-	-	39,656
Cash and cash equivalents	44,112	-	-	44,112
Restricted cash:				
Corporate notes and bonds	554	-	-	554
Restricted cash	554	-	-	554
Short-term investments:				
Corporate notes and bonds	958	6	(24)	940
Short-term investments	958	6	(24)	940
Long-term investments:				
Corporate bonds and asset backed securities	25,304	119	(787)	24,636
Long-term investments	25,304	119	(787)	24,636
Cash and equivalents, restricted cash and investments	$ 70,928	125	(811)	$ 70,242

	December 31, 2008			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash	$ 6,762	$ -	$ -	$ 6,762
Money market	45,814	-	-	45,814
Cash and cash equivalents	52,576	-	-	52,576
Restricted cash:				
Corporate notes and bonds	554	-	-	554
Restricted cash	554	-	-	554
Short-term investments:				
Corporate notes and bonds	14,285	-	(48)	14,237
U.S. Government and agency securities	2,002	-	(4)	1,998
Short-term investments	16,287	-	(52)	16,235
Long-term investments:				
Corporate bonds and asset backed securities	6,154	-	(1,460)	4,694
Long-term investments	6,154	-	(1,460)	4,694
Cash and equivalents, restricted cash and investments	$ 75,571	-	(1,512)	$ 74,059

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NOTES TO FINANCIAL STATEMENTS
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The following table summarizes contractual maturities of our marketable fixed-income securities as of June 30, 2009 (in thousands):

	Amortized Cost	Estimated Fair Value
Due within one year	$ 1,512	$ 1,494
Due after one year through five years	23,293	22,908
Due after five years through ten years	2,011	1,728
Total	$ 26,816	$ 26,130

Total restricted cash of approximately $554,000 as of June 30, 2009 and December 31, 2008 is related to a letter of credit for a facility leased by us under a lease that will expire in February 2010.

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, 2008 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.

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 $236 million and $150 million, respectively, with potential value of up to $94 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. We estimate that as of June 30, 2009 we were at approximately a 28% 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) of Stamps.com 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 Stamps.com cannot make any additional purchases of Stamps.com stock without a waiver from our board of directors. Full details of the NOL Protective Measures are contained in our Definitive Proxy filed with the Securities Exchange Commission on April 2, 2008.

As of July 31, 2009, we had approximately 16,139,000 shares outstanding, and therefore ownership of approximately 807,000 shares or more would currently constitute a “5% shareholder”. We strongly urge that any stockholder contemplating owning more than 650,000 shares contact us before doing so.

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 (“USPS”) mail classes including First Class Mail®, Priority Mail®, Express Mail®, Media Mail®, Parcel Post®, and others. Our customers include home businesses, small businesses, corporations and individuals. We were the first ever USPS-licensed vendor to offer PC Postage® in a software-only business model in 1999.

Our Services and Products

We offer the following products and services to our customers:

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 ConfirmationTM, Signature ConfirmationTM, Registered Mail, Certified Mail, Insured Mail, Return Receipt, Collect on Delivery and Restricted Delivery to their mail pieces. After installing our free 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. Currently the majority of new customers signing up for our service pay a monthly convenience fee ranging from $15.99 to $34.99.

Our customers can print postage (i) on NetStamps® labels, which can be used just like regular stamps, (ii) directly on envelopes 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. 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 and can be integrated into 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®

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 now 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. In May 2009 our PhotoStamps product successfully completed its market test and is no longer in market test status. 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, OEM and private label inkjet and laser toner cartridges, 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.

Recent Accounting Pronouncements

In April 2009, the FASB issued FSP No. SFAS 107-1 and APB 28-1, Interim Disclosure about Fair Value of Financial Instruments ("FSP SFAS 107-1 and APB 28-1"). FSP SFAS 107-1 and APB 28-1 amends the required disclosure about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements and the required disclosures in summarized financial information at interim reporting periods. FSP SFAS 107-1 and APB 28-1 is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods after March 15, 2009. The adoption of FSP SFAS 107-1 and APB 28-1 did not have a material impact on our financial statements.

In April 2009, the FASB issued FSP No. SFAS 115-2 and SFAS 124-2, Recognition and Presentation of Other-Than Temporary Impairments ("FSP SFAS 115-2 and SFAS 124-2"). FSP SFAS 115-2 and SFAS 124-2 amend the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. FSP SFAS 115-2 and SFAS 124-2 is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods after March 15, 2009. The adoption of FSP SFAS 115-2 and SFAS 124-2 did not have a material impact on our financial statements.

In April 2009, the FASB issued FSP No. SFAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly ("FSP SFAS 157-4"). FSP SFAS 157-4 provides guidelines for (1) estimating fair value in accordance with SFAS No. 157, "Fair Value Measurement", when the volume and level of activity for an asset or liability have significantly decreased and (2) identifying circumstances indicating that a transaction is not an orderly one. FSP SFAS 157-4 is effective for interim and annual periods ending after June 15, 2009, but entities may early adopt for the interim and annual periods ending after March 15, 2009. The adoption of FSP SFAS 157-4 did not have a material impact on our financial statements.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events ("SFAS No. 165"). SFAS No. 165 establishes guidance for the accounting for and the disclosure of events that happen after the date of the balance sheet but before the release of the financial statements. We adopted SFAS No. 165 for the quarter ending June 30, 2009 and its adoption did not have a material impact on our financial statements.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles ("SFAS No. 168). SFAS No. 168 replaces SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles, and becomes the source of authoritative US generally accepted accounting principles recognized by the FASB to be applied by nongovernmental entities. SFAS No. 168 is effective for financial statements issued for interim and annual reports ending after September 15, 2009. The adoption of SFAS No. 168 will not have a material impact on our financial statements.

Results of Operations

Total revenue was $20.2 million during the second quarter of 2009, a decrease of 6% from $21.4 million in the second quarter of 2008. Total revenue during the six months ended June 30, 2009 was $40.2 million, a decrease of 5% from $42.5 million during the six months ended June 30, 2008. PC Postage subscriber related revenue, including service revenue, product revenue and insurance revenue in the second quarter of 2009 was $18.2 million, a decrease of 2% from $18.5 million in the second quarter of 2008, and was $36.5 million in the six months ended June 30, 2009, a change of less than 1% from $36.6 million in the six months ended June 30, 2008. PhotoStamps revenue in the second quarter of 2009 was $2.0 million, a decrease of 31% from $2.9 million in the second quarter of 2008, and was $3.7 million in the six months ended June 30, 2009, a decrease of 37% from $5.9 million in the six months ended June 30, 2008.

We use several PC Postage marketing channels to acquire customers, including partnerships, online advertising, affiliate channel, direct mail, traditional media advertising, enhanced promotion online channel, and others. 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. Because our enhanced promotion channel is characterized by higher customer attrition rates and lower customer acquisition costs than our other channels, we decided in the first quarter of 2008 to shift our marketing strategy and customer acquisition spending to focus on our non-enhanced promotion channels.

Primarily as a result of this decision, we estimate that while subscriber related revenue for customers acquired through our non-enhanced promotion channels in the second quarter of 2009 was $16.6 million, an increase of 3% from $16.1 million in the second quarter of 2008, and was $33.2 million in the six months ended June 30, 2009, an increase of 5% from $31.7 million in the six months ended June 30, 2008, subscriber related revenue for customers acquired through our enhanced promotion channel in the second quarter of 2009 was $1.5 million, a decrease of 36% from $2.4 million in the second quarter of 2008, and was $3.3 million in the six months ended June 30, 2009, a decrease of 32% from $4.9 million in the six months ended June 30, 2008.

We define paid customers as ones from whom we successfully collected service fees at least once during the quarter. Total number of paid customers originally acquired through our non-enhanced promotion channels in the second quarter of 2009 was 317,000, an increase of 1% from 314,000 in the second quarter of 2008.

We believe that the slight increase in paid customers in the second quarter of 2009 was attributable to our increased customer acquisition spending on our non-enhanced promotional channels. For customers originally acquired through our non-enhanced promotion channels, our average subscriber related monthly revenue per paid customer in the second quarter of 2009 was $17.50, an increase of 2% from $17.14 in the second quarter of 2008. This increase is primarily attributable to more customers on higher priced subscription plans.

The following table sets forth our results of operations as a percentage of total revenue for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Total Revenues				
Service	75.3%	72.8%	75.9%	72.5%
Product	12.8%	12.0%	12.9%	11.9%
Insurance	2.0%	1.8%	2.0%	1.8%
PhotoStamps	9.9%	13.4%	9.2%	13.8%
Other	0.0%	0.0%	0.0%	0.0%
Total revenues	100.0%	100.0%	100.0%	100.0%
Cost of revenues				