

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2020

OR

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

Commission file number: 000-26427

Stamps.com Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

77-0454966

(I.R.S. Employer Identification No.)

1990 E. Grand Avenue

El Segundo, California 90245

(Address of Principal Executive Offices and Zip Code)

(310) 482-5800

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.001 per share	STMP	NASDAQ Global Select Market

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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of July 31, 2020, there were 17,575,686 shares of the Registrant's Common Stock outstanding.

STAMPS.COM INC. AND SUBSIDIARIES
FORM 10-Q QUARTERLY REPORT FOR THE QUARTER ENDED JUNE 30, 2020

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

Assets	June 30, 2020 (Unaudited)	December 31, 2019
Current assets:		
Cash and cash equivalents	\$ 275,053	\$ 156,307
Accounts receivable, net	56,416	74,898
Prepaid expenses	16,411	20,447
Other current assets	35,674	23,031
Total current assets	383,554	274,683
Property and equipment, net	33,141	32,983
Goodwill	375,096	384,540
Intangible assets, net	128,144	145,063
Deferred income taxes, net	27,056	27,056
Lease right-of-use assets	15,967	17,697
Other assets	29,456	20,474
Total assets	\$ 992,414	\$ 902,496
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and other current liabilities	\$ 160,256	\$ 121,853
Deferred revenue	10,681	8,015
Current portion of debt, net of debt issuance costs	—	50,188
Current portion of lease right-of-use liabilities	4,841	4,612
Total current liabilities	175,778	184,668
Deferred income taxes, net	10,725	11,455
Long-term portion of lease right-of-use liabilities	12,319	14,191
Other liabilities	28,322	26,557
Total liabilities	227,144	236,871
Commitments and contingencies (Note 3)		
Stockholders' equity:		
Common stock, \$.001 par value per share; Authorized shares: 47,500 in 2020 and 2019; Issued shares: 33,652 in 2020 and 33,130 in 2019; Outstanding shares: 17,414 in 2020 and 17,029 in 2019	56	56
Additional paid-in capital	1,162,890	1,098,426
Treasury stock, at cost, 16,238 shares in 2020 and 16,101 in 2019	(611,485)	(593,511)
Retained earnings	219,161	150,941
Accumulated other comprehensive income (loss)	(5,352)	9,713
Total stockholders' equity	765,270	665,625
Total liabilities and stockholders' equity	\$ 992,414	\$ 902,496

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

STAMPS.COM INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenues:				
Service	\$ 186,990	\$ 127,429	\$ 326,126	\$ 251,336
Product	6,827	4,785	12,783	10,190
Insurance	4,096	3,431	7,276	6,765
Customized postage	8,817	3,128	11,891	6,485
Total revenues	206,730	138,773	358,076	274,776
Cost of revenues (exclusive of amortization of intangible assets, which is included in general and administrative expense):				
Service	37,465	32,452	73,992	64,687
Product	2,411	1,549	4,149	3,222
Customized postage	7,885	2,440	10,000	4,871
Total cost of revenues	47,761	36,441	88,141	72,780
Gross profit	158,969	102,332	269,935	201,996
Operating expenses:				
Sales and marketing	41,884	33,242	78,888	66,123
Research and development	22,884	19,130	44,207	36,444
General and administrative	33,015	27,535	61,483	53,763
Total operating expenses	97,783	79,907	184,578	156,330
Income from operations	61,186	22,425	85,357	45,666
Foreign currency exchange gain (loss), net	(33)	(152)	(171)	(247)
Interest expense	(456)	(645)	(923)	(1,359)
Interest income and other income (loss), net	6	52	32	117
Income before income taxes	60,703	21,680	84,295	44,177
Income tax expense	8,977	7,688	16,075	14,430
Net income	\$ 51,726	\$ 13,992	\$ 68,220	\$ 29,747
Net income per share:				
Basic	\$ 3.00	\$ 0.81	\$ 3.98	\$ 1.71
Diluted	\$ 2.73	\$ 0.79	\$ 3.68	\$ 1.66
Weighted average shares outstanding:				
Basic	17,231	17,291	17,148	17,418
Diluted	18,927	17,809	18,558	17,911

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

STAMPS.COM INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net income	\$ 51,726	\$ 13,992	\$ 68,220	\$ 29,747
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(338)	(4,886)	(15,065)	(920)
Unrealized gain (loss) on investments	—	—	—	(4)
Comprehensive income	<u>\$ 51,388</u>	<u>\$ 9,106</u>	<u>\$ 53,155</u>	<u>\$ 28,823</u>

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

STAMPS.COM INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)
(Unaudited)

	Six Months Ended June 30, 2020						
	Common Stock		Additional Paid- in Capital	Treasury Stock at Cost	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount					
Balance at December 31, 2019	17,029	\$ 56	\$ 1,098,426	\$ (593,511)	\$ 150,941	\$ 9,713	\$ 665,625
Net income	—	—	—	—	16,494	—	16,494
Other comprehensive income (loss)	—	—	—	—	—	(14,727)	(14,727)
Stock-based compensation expense	—	—	10,725	—	—	—	10,725
Exercise of stock options	103	—	8,818	—	—	—	8,818
Shares issued under the Employee Stock Purchase Plan	50	—	1,950	—	—	—	1,950
Stock repurchase	(80)	—	—	(8,577)	—	—	(8,577)
Balance at March 31, 2020	17,102	\$ 56	\$ 1,119,919	\$ (602,088)	\$ 167,435	\$ (5,014)	\$ 680,308
Net income	—	—	—	—	51,726	—	51,726
Other comprehensive income (loss)	—	—	—	—	—	(338)	(338)
Stock-based compensation expense	—	—	13,221	—	—	—	13,221
Exercise of stock options	368	—	29,750	—	—	—	29,750
Stock repurchase	(56)	—	—	(9,397)	—	—	(9,397)
Balance at June 30, 2020	17,414	\$ 56	\$ 1,162,890	\$ (611,485)	\$ 219,161	\$ (5,352)	\$ 765,270

	Six Months Ended June 30, 2019						
	Common Stock		Additional Paid- in Capital	Treasury Stock at Cost	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount					
Balance at December 31, 2018	17,662	\$ 56	\$ 1,049,669	\$ (528,529)	\$ 91,712	\$ 757	\$ 613,665
Net income	—	—	—	—	15,755	—	15,755
Other comprehensive income (loss)	—	—	—	—	—	3,962	3,962
Issuance of shares for performance-based awards	4	—	—	—	—	—	—
Stock-based compensation expense	—	—	8,857	—	—	—	8,857
Exercise of stock options	29	—	2,381	—	—	—	2,381
Shares issued under the Employee Stock Purchase Plan	13	—	2,100	—	—	—	2,100
Stock repurchase, excluding tax withholding stock repurchase	(235)	—	—	(31,998)	—	—	(31,998)
Tax withholding stock repurchase	(1)	—	—	(93)	—	—	(93)
Balance at March 31, 2019	17,472	\$ 56	\$ 1,063,007	\$ (560,620)	\$ 107,467	\$ 4,719	\$ 614,629
Net income	—	—	—	—	13,992	—	13,992
Other comprehensive income (loss)	—	—	—	—	—	(4,886)	(4,886)
Stock-based compensation expense	—	—	9,808	—	—	—	9,808
Exercise of stock options	12	—	272	—	—	—	272
Stock repurchase	(295)	—	—	(20,187)	—	—	(20,187)
Balance at June 30, 2019	17,189	\$ 56	\$ 1,073,087	\$ (580,807)	\$ 121,459	\$ (167)	\$ 613,628

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

STAMPS.COM INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2020	2019
Operating activities:		
Net income	\$ 68,220	\$ 29,747
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,140	14,069
Stock-based compensation expense	23,946	18,665
Accretion of debt issuance costs	342	186
Changes in operating assets and liabilities, net of assets and liabilities acquired:		
Accounts receivable	17,837	12,733
Prepaid expenses	3,900	(4,773)
Other current assets	(12,791)	(5,439)
Current income taxes	69	8,338
Lease right-of-use assets	2,026	1,519
Other assets	(8,218)	(2,312)
Deferred revenue	2,804	1,192
Lease right-of-use liabilities	(1,953)	(1,553)
Other liabilities	1,787	1,490
Accounts payable and other current liabilities	12,895	(19,538)
Net cash provided by operating activities	<u>124,004</u>	<u>54,324</u>
Investing activities:		
Acquisition of property and equipment	(2,347)	(610)
Net cash used in investing activities	<u>(2,347)</u>	<u>(610)</u>
Financing activities:		
Net proceeds from (repayments of) short-term financing obligations	26,001	(5,190)
Debt issuance costs	(762)	—
Principal payments on term loan	(50,530)	(5,156)
Proceeds from exercise of stock options	38,568	2,653
Issuance of common stock under Employee Stock Purchase Plan	1,950	2,100
Repurchase of common stock	(17,974)	(52,185)
Payments related to tax withholding for share-based compensation	—	(93)
Net cash provided by (used in) financing activities	<u>(2,747)</u>	<u>(57,871)</u>
Effect of exchange rate changes	(164)	113
Net increase (decrease) in cash and cash equivalents	118,746	(4,044)
Cash and cash equivalents at beginning of period	156,307	113,757
Cash and cash equivalents at end of period	<u>\$ 275,053</u>	<u>\$ 109,713</u>
Supplemental information:		
Capital expenditures accrued but not paid at period end	\$ —	\$ 42
Cash paid for amounts included in the measurement of lease liabilities included in cash provided by operating activities	\$ 2,671	\$ 2,239
Lease liabilities arising from obtaining right-of-use assets	\$ 852	\$ 6,785

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

STAMPS.COM INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation

We prepared the consolidated financial statements included herein pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with United States (US) generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to such rules and regulations. We believe that the disclosures are adequate to make the information presented not misleading. We recommend that these consolidated financial statements be read in conjunction with the audited consolidated financial statements and the notes thereto included in our latest annual report on Form 10-K for the fiscal year ended December 31, 2019, filed with the SEC on March 2, 2020.

In our opinion, these unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) considered necessary to present fairly our financial position as of June 30, 2020, our results of operations for the three and six months ended June 30, 2020, and our cash flows for the six months ended June 30, 2020. The results of operations for the interim period are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2020.

Basis of Consolidation

The consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of Stamps.com Inc. and the entities in which we have 100% voting and/or economic control. In August 2018, we completed our acquisition of 100% of the outstanding shares of MetaPack. Please see *Note 2 - "Acquisitions"* in our Notes to Consolidated Financial Statements for further description. References in this Report to "we" "us" "our" or "Company" are references to Stamps.com Inc. and its subsidiaries.

Intercompany accounts and transactions between consolidated entities have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires us to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. Actual results could differ from those estimates, and such differences may be material to the consolidated financial statements. There are significant estimates and judgments inherent in the preparation of the consolidated financial statements including those related to the fair value of intangible assets and goodwill and the allowance for credit losses.

The Company considered the impact of COVID-19 on the assumptions and estimates used and determined that there were no material adverse impacts on the consolidated financial statements for the period ended June 30, 2020. As events continue to evolve and additional information becomes available, our assumptions and estimates may change materially in future periods.

Prior Period Reclassifications

Certain amounts in prior periods have been reclassified to conform with current period presentation.

Accounts Receivable

Our accounts receivable relate to mailing and shipping services, postage purchasing and invoicing, customized postage sales, branded insurance provided to customers prior to billing, and other receivables.

We maintain an allowance for credit losses for expected uncollectible accounts which is recorded as an offset to accounts receivable and changes in such are classified as general and administrative expense in the consolidated statements of operations.

STAMPS.COM INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

We evaluate collectability by reviewing accounts receivable on a collective basis where similar characteristics exist and on an individual basis when we identify specific customers with known collectability issues. The evaluation is based on a combination of factors. If we become aware of a customer's inability to meet its financial obligations, an allowance is recorded to reduce the net receivable to the amount reasonably believed to be collectible from the customer. Accounts receivable are written off against the allowance for uncollectible accounts when we determine amounts are no longer collectible. Beginning January 1, 2020, as part of the adoption of ASU 2016-13 as described below in *Accounting Guidance Adopted in 2020*, we recognize allowances for credit losses for all other customers based on either the age of the receivable or applying a loss rate method which incorporates historical experience and an evaluation of macroeconomic factors. As a result of the adoption, we recorded an immaterial increase to our allowance for credit losses which included the estimated impact of COVID-19 on the collectability of our accounts receivable.

As additional information becomes available to us, our future assessment of our allowance for credit losses could materially and adversely impact our consolidated financial statements in future reporting periods.

The allowance for credit losses on accounts receivable was approximately \$8.8 million and \$6.9 million as of June 30, 2020 and December 31, 2019, respectively.

Business Combinations

The acquisition method of accounting is used for business combinations. The results of operations of acquired businesses are included in our consolidated financial statements prospectively from the date of acquisition. The fair value of purchase consideration is allocated to the assets acquired and liabilities assumed from the acquired entity and is generally based on their fair value at the acquisition date. The excess of the fair value of purchase consideration over the fair value of the assets acquired and liabilities assumed is recorded as goodwill. Acquisition-related expenses are recognized in our consolidated financial statements as incurred.

Contingencies and Litigation

In the ordinary course of business, we are subject to various litigation matters as a claimant and a defendant. We record any amounts recovered in these matters when received. We establish loss provisions for claims against us when the loss is both probable and can be reasonably estimated. If either or both of the criteria are not met, we assess whether there is at least a reasonable possibility that a loss, or additional losses, may have been incurred. If there is a reasonable possibility that a loss or additional loss may have been incurred for such proceedings, we disclose the estimate of the amount of loss or possible range of loss, or disclose that an estimate of loss cannot be made, as applicable.

Deferred Revenue

Our deferred revenue relates mainly to service revenue, which generally arises due to the timing of payment versus the provision of services for certain customers billed in advance. Approximately \$7.5 million of revenue recognized in the six months ended June 30, 2020 was included in the deferred revenue balance at December 31, 2019. Approximately \$5.5 million of revenue recognized in the six months ended June 30, 2019 was included in the deferred revenue balance at December 31, 2018.

Fair Value of Financial Instruments

Carrying amounts of certain of our financial instruments, including cash and cash equivalents, accounts receivable and accounts payable, approximate fair value due to their short maturities. Prior to June 30, 2020, the Company had outstanding debt held by third party financial institutions and this was carried at cost, adjusted for debt issuance costs. The Company's debt was not publicly traded and the carrying amount typically approximated fair value for debt that accrued interest at a variable rate for companies with similar financial characteristics as the Company, which were considered Level 2 fair value inputs as defined in Note 8 in our Consolidated Financial Statements.

STAMPS.COM INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Foreign Currency Translation

The functional currency of the Company's major foreign subsidiaries is generally the local currency. Adjustments resulting from translating foreign functional currency financial statements into US dollars are recorded in accumulated other comprehensive income as a component of stockholders' equity. Foreign currency transaction gains and losses are included in foreign currency exchange gain (loss), net. All assets and liabilities denominated in a foreign currency are translated into US dollars at the exchange rate on the balance sheet date. Revenues and expenses are translated at the average exchange rate during the period.

Goodwill and Indefinite-Lived Intangible Assets

Goodwill represents the excess of the fair value of consideration given over the fair value of the tangible assets, identifiable intangible assets and liabilities assumed in business combinations. We are required to test goodwill for impairment annually and whenever events or circumstances indicate the fair value of a reporting unit may be below its carrying value. A reporting unit is the operating segment or a business that is one level below that operating segment. Reporting units are aggregated as a single reporting unit if they have similar economic characteristics.

Goodwill is reviewed for impairment annually on October 1 utilizing either a qualitative or quantitative assessment. We have an option to make a qualitative assessment of a reporting unit's goodwill for impairment. If we choose to perform a qualitative assessment and determine the fair value more likely than not exceeds the carrying value, no further evaluation is necessary. When we perform the quantitative assessment, we compare the fair value of the reporting unit, which we primarily determine using an income approach based on the present value of discounted cash flows, to the respective carrying value, which includes goodwill. If the fair value of the reporting unit exceeds its carrying value, the goodwill is not considered impaired. If the carrying value is higher than the fair value, the difference is recognized as an impairment loss. As of June 30, 2020, we are not aware of any indicators of impairment that would require an impairment analysis other than our annual goodwill impairment analysis.

Indefinite-lived intangible assets are reviewed for impairment annually on October 1 and whenever events or circumstances indicate that the fair value of an indefinite-lived intangible asset may be below its carrying value. In assessing other intangible assets not subject to amortization for impairment, the Company also has the option to perform a qualitative assessment to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of such an intangible asset is less than its carrying amount. If the Company determines that it is not more likely than not that the fair value of such an intangible asset is less than its carrying amount, then the Company is not required to perform any additional tests for assessing those intangible assets for impairment. However, if the Company concludes otherwise or elects not to perform the qualitative assessment, then it is required to perform a quantitative impairment test that involves a comparison of the estimated fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. As of June 30, 2020, we are not aware of any indicators of impairment that would require an impairment analysis other than our annual indefinite-lived intangible assets impairment analysis.

Long-Lived Assets and Finite-Lived Intangible Assets

Long-lived assets including intangible assets with finite useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

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. Leasehold improvements are capitalized and amortized over the shorter of the useful life of the asset or the remaining term of the lease. 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, and any gain or loss is included in income from operations.

STAMPS.COM INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Income Taxes

We are subject to income taxes in the US and foreign jurisdictions. We provide for income taxes at the current and future enacted tax rate and consistent with the laws applicable in each jurisdiction. We account for income taxes in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic No. 740, *Income Taxes (Income Taxes)*, 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. *Income Taxes* 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 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 *Income Taxes* based on all available positive and negative evidence.

Leases

We determine if an arrangement is a lease at inception. Right-of-use (ROU) assets and liabilities are recognized at the present value of the future lease payments at the lease commencement date. For this purpose, we consider only payments that are fixed and determinable at the time of commencement. As most of our leases do not provide an implicit rate, the interest rate used to determine the present value of future lease payments is an estimated incremental borrowing rate. Many of our leases include one or more options to renew. These options are factored into the determination of the lease term and lease payments when their exercise is considered to be reasonably certain.

Our lease agreements generally contain lease and non-lease components. Non-lease components primarily include payments for maintenance and utilities. We elected the practical expedient to combine fixed payments for non-lease components with our lease payments and account for them together as a single lease component which increases the amount of the ROU assets and liabilities.

We also elected to recognize the associated lease payments for leases with an initial term of 12 months or less in the consolidated statements of operations on a straight-line basis without recognizing a ROU asset or liability.

Operating leases are included in lease right-of-use assets, current portion of lease right-of-use liabilities, and long-term portion of lease right-of-use liabilities on our consolidated balance sheets. Operating lease expense is recognized on a straight-line basis over the lease term in income from operations on our consolidated statements of operations.

Other Current Assets

Other current assets principally consist of prepayments for postage and shipping labels and inventory. Prepayments for postage and shipping labels totaled \$31.9 million at June 30, 2020 and \$17.4 million at December 31, 2019.

Other Liabilities

Other liabilities principally consist of long-term unrecognized income tax benefits, as well as indirect tax liabilities and other liabilities.

Revenue Recognition

We recognize revenues when we transfer control of promised goods or services to our customers in an amount that reflects the consideration to which we expect to be entitled to in exchange for those goods or services. We account for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance, and collectability of consideration is probable. Our payment terms vary by the products and services offered. The term between billings and when payment is due is not significant.

Revenues are presented on a disaggregated basis on the consolidated statements of operations.

STAMPS.COM INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Service revenue is recognized over time for each month that customers have access to our platform or at a point in time when assets are transferred to the customer. We earn service revenue from our mailing and shipping operations in several different ways: (1) customers may pay us a monthly fee, based on a subscription plan which may be waived or refunded for certain customers, for which we provide them access to our platform, in which case revenue is earned over the period of time that the customers have access to the platform which is typically month-to-month; (2) we may be compensated directly by our carriers for shipping labels printed that meet certain requirements, in which case revenue is earned over time, which is typically in the same month that the relevant labels are printed; (3) we may earn revenue from customers when they purchase postage, print shipping labels or perform other transactions using our solutions, in which case revenue is earned at the point in time we transfer an asset to the customer and have a present right of payment for the asset transferred; (4) we may earn revenue that may take the form of some or all of the spread between the rate a customer pays and the rate the carrier or integration partner receives, either charged directly or paid by our partners, in which case revenue is earned at a point in time, which is typically when the customer purchases postage or prints a shipping label; and (5) we may earn other types of revenue shares or other compensation from specific customers that have access to our platform or through integration partners, in which case revenue is recognized at a point in time, which is when we have fulfilled our performance obligations.

In the case of monthly fees based on subscription plans, the Company recognizes a reduction of revenue in the period for which a waiver is granted or when a refund is processed, which is typically the same period in which the associated subscription revenue is recognized or, in the case of refunds, could be a later period. Waivers and refunds were not material to the consolidated financial statements during the six months ended June 30, 2020 or June 30, 2019.

Customers may purchase delivery services from carriers through our mailing and shipping solutions. When funds are transferred directly from customers to the carrier, these funds are not recognized as revenue. We also provide mailing and shipping services for which the cost of postage or delivery is included in the cost of the service and, therefore, is recognized as service revenue.

Product revenue consists of products sold through the mailing and shipping supplies stores which are available to our customers from within some of our mailing and shipping solutions. Products sold include mailing labels, shipping labels, thermal printers, scales, and other mailing and shipping-focused office supplies. We recognize product revenue on product purchases upon shipment of orders to customers.

We provide our customers with the opportunity to purchase parcel insurance directly through our solutions. Insurance revenue represents the amount we receive from customers net of the costs paid to our insurance providers. We recognize insurance revenue on insurance purchases upon the ship date of the insured package, which is the point in time when we have fulfilled our performance obligations.

Customized postage revenue, which includes the face value of postage, from the sale of customized postage sheets and rolls is recognized upon transfer of control of the product to the customer, which occurs upon our delivery to the carrier. In the second quarter of 2020, we received notification from the US Postal Service (USPS) that it was eliminating its customized postage program and also revoking our authorization to offer products pursuant to that program effective June 16, 2020. As a result, we do not expect material customized postage revenue or cost of revenue after June 2020.

On a limited basis, we allow third parties to offer products and promotions to our customer base. These arrangements generally provide payment in the form of a flat fee or revenue sharing arrangements where we receive payment upon customers accessing third party products and services. Total revenue from such advertising arrangements was not significant during the six months ended June 30, 2020 or June 30, 2019, respectively.

Segment Information

Our operations consist of two segments: Stamps.com and MetaPack. Please see *Note 10 - "Segment and Geographical Information"* in our Notes to Consolidated Financial Statements for further description.

Short-Term Financing Obligations

We utilize short-term financing, which is separate from our debt and revolving credit facility, to fund certain Company operations. Short-term financing obligations are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets. As of June 30, 2020, we had \$27.0 million in short-term financing obligations and \$41.1 million of unused credit. As of December 31, 2019, we had \$1.0 million in short-term financing obligations and \$69.5 million of unused credit.

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Stock-Based Compensation

We account for share-based employee compensation plans under the fair value recognition and measurement provisions in accordance with applicable accounting standards, which require all share-based payments to employees, including grants of stock options and restricted stock units (RSUs), to be measured based on the grant date fair value of the awards, with the resulting expense generally recognized on a straight-line basis over the period during which the employee is required to perform service in exchange for the award. We account for forfeitures as they occur.

We use the Black-Scholes-Merton option valuation model to estimate the fair value of share-based payment awards on the date of grant, which requires us to use a number of estimates and subjective assumptions, including stock price volatility, expected term, and risk-free interest rates. 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 US 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.

Trademarks, Trade Names, and Other Intangible Assets (excluding Goodwill)

Acquired trademarks, trade names, and other intangibles (excluding goodwill) include both amortizable and non-amortizable assets and are included in intangible assets, net in the accompanying consolidated balance sheets. Intangible assets are carried at cost less accumulated amortization. Cost associated with internally developed intangible assets is typically expensed as incurred as research and development costs. Amortization of amortizable intangible assets is calculated on a straight-line basis, which is consistent with the expected future cash flows.

Treasury Stock

During the six months ended June 30, 2020 and June 30, 2019, we repurchased approximately 136,000 shares and 531,000 shares for \$18.0 million and \$52.2 million, respectively. Also, in the first quarter of 2019, we withheld 1,039 shares, to satisfy income tax obligations related to performance-based inducement equity awards issued to the General Manager of ShippingEasy.

Accounting Guidance Adopted in 2020

Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract

In August 2018, the FASB issued ASU 2018-15, a standard which aligns the capitalization requirements for implementation costs incurred in a hosting arrangement that is a service contract with the existing capitalization requirements for implementation costs incurred to develop or obtain internal-use software. The service element of a hosting arrangement that is a service contract is not affected by this update, meaning service costs will continue to be expensed as incurred. The guidance became effective on a prospective basis for the Company on January 1, 2020. The adoption of the guidance did not have a material impact on the Company's consolidated financial statements.

Goodwill Impairment

In January 2017, the FASB issued ASU 2017-04, a standard which simplifies the accounting for goodwill impairment. The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. Goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The guidance became effective on a prospective basis for the Company on January 1, 2020. The adoption of the guidance did not have a material impact on the Company's consolidated financial statements.

Fair Value Measurements

In August 2018, the FASB issued ASU 2018-13, a standard which modifies the disclosure requirements on fair value measurements. The guidance became effective for the Company on January 1, 2020. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

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Financial Instruments - Credit Losses

In June 2016, the FASB issued ASU 2016-13, a standard that replaces the incurred loss impairment methodology under current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. We are required to use a forward-looking expected credit loss model for accounts receivable, loans, and other financial instruments. The guidance became effective for the Company on January 1, 2020 using a modified retrospective approach. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

Accounting Guidance Not Yet Adopted

Income Taxes

In December 2019, the FASB issued ASU 2019-12, a standard which eliminates certain exceptions to the general principles of ASC Topic 740 *Income Taxes*. The guidance is effective for reporting periods after December 15, 2020; however, early adoption is permitted. We are currently evaluating the impact of the adoption of this guidance on our consolidated financial statements.

Reference Rate Reform

In March 2020, the FASB issued 2020-04, optional accounting guidance for a limited period of time to ease the potential burden in accounting for reference rate reform. The new standard provides expedients and exceptions to existing accounting requirements for contract modifications and hedge accounting related to transitioning from discontinued reference rates, such as the London Interbank Offered Rate (LIBOR), to alternative reference rates, if certain criteria are met. The new standard was effective upon issuance and generally can be applied to applicable contract modifications through December 31, 2022. We are currently evaluating the impact of the transition from LIBOR to alternative reference interest rates on our Amended Credit Agreement, as described in Note 13 - "Debt", but do not expect a significant impact to our operating results, financial position or cash flows.

2. Acquisitions

We have accounted for all of our acquisitions under the acquisition method of accounting in accordance with the provisions of FASB ASC Topic No. 805 *Business Combinations*.

MetaPack Acquisition

On August 15, 2018, we, through our wholly owned subsidiary Pacific Shelf 1855 Limited (Pacific Shelf), completed the acquisition of MetaPack Limited, a private limited company incorporated in England and Wales, pursuant to a share purchase agreement dated July 24, 2018, as amended (the "Agreement"), by and among certain key sellers named in the Agreement (the "Key Sellers"), MetaPack, Pacific Shelf, and Stamps.com Inc. as Pacific Shelf's guarantor. MetaPack provides multi-carrier enterprise-level solutions to many of the world's preeminent e-commerce retailers and brands.

Pursuant to the Agreement and a related agreement to purchase Minority Shares (as defined below), Pacific Shelf acquired 100% of MetaPack's issued and to be issued share capital by purchasing (i) all of the Key Sellers' shares of MetaPack, representing approximately 80% of the total outstanding shares and (ii) all other issued and to be issued shares of MetaPack (Minority Shares), for a final adjusted purchase price, for all such shares, of approximately £171 million, or \$217.7 million using the August 15, 2018 GBP to USD exchange rate. Total cash paid for the acquisition was funded from cash and investment balances.

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Stamps.com granted inducement stock options for an aggregate of 320,250 shares of Stamps.com common stock to 72 new employees after completion of its acquisition of MetaPack. The stock options were granted as inducements material to the new employees entering into employment with Stamps.com, pursuant to the Stamps.com 2018 MetaPack Equity Inducement Plan, which was approved by Stamps.com's Compensation Committee. The awards were granted without stockholder approval in accordance with Nasdaq Listing Rule 5635(c)(4). Each option vests 25% on the one year anniversary of the grant date with the remaining 75% vesting in approximately equal monthly increments over the succeeding thirty-six months, provided that the option holder is still employed by Stamps.com or one of its subsidiaries on the vesting dates. The stock options have a ten year term and an exercise price equal to closing price of Stamps.com common stock on the grant date of August 15, 2018.

Under the acquisition method of accounting under ASC 805, the total purchase price of the acquired company is allocated to the assets acquired and the liabilities assumed based on their fair values. We have made significant estimates and assumptions in determining the allocation of the purchase price.

The final purchase price of MetaPack has been allocated as follows to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values based on the August 15, 2018 GBP to USD exchange rate (in thousands, except years):

	Fair Value	Fair Value	Useful Life (In Years)	Weighted Average Estimated Useful Life (In Years)
Cash and cash equivalents	\$ 9,186			
Trade accounts receivable	9,767			
Other current assets	2,776			
Property and equipment	1,039			
Goodwill	138,956			
Identifiable intangible assets:				
Trade names		\$ 10,936	12	
Developed technology		40,691	16	
Customer relationships		49,211	16	
Total identifiable intangible assets	100,838			16
Accounts payable and other current liabilities	(13,519)			
Deferred revenue	(1,145)			
Revolving credit facility	(12,716)			
Deferred income tax liability	(15,963)			
Other liabilities	(1,533)			
Total purchase consideration	<u>\$ 217,686</u>			

The fair value of the assets acquired and liabilities assumed were determined using income, cost and market participant approaches. The fair value measurements were primarily based on significant inputs that are not observable in the market and thus represent a Level 3 measurement as defined in ASC 820. The identified intangible assets consist of trade names, developed technology, and customer relationships. The estimated fair values of the trade names and developed technology were determined using the "relief from royalty" method. The estimated fair value of customer relationships was determined using the "excess earnings" method. The rate utilized to discount net cash flows to their present values was approximately 15% and was determined after consideration of the overall enterprise rate of return and the relative risk and importance of the assets to the generation of future cash flows. Intangible assets are being amortized on a straight-line basis over their estimated useful lives. Based on the August 15, 2018 exchange rate, we expect the amortization of acquired intangibles will be approximately \$1.6 million per quarter for the remaining estimated useful lives.

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Goodwill represents the excess of the consideration given over the sum of the fair values assigned to identifiable assets acquired less liabilities assumed in a business combination. The goodwill balance is primarily attributable to the expanded market opportunities for the Company internationally and MetaPack in the United States and the Company's ability to generate future technology. None of the goodwill recognized is expected to be deductible for income tax purposes. The goodwill recorded as part of this acquisition is included in the MetaPack segment (see Note 6 - "Goodwill and Intangible Assets" in our Notes to Consolidated Financial Statements).

Immediately following the acquisition, we repaid in full MetaPack's existing revolving credit facility balance of approximately \$12.7 million.

We incurred approximately \$2.5 million in transaction costs included in general and administrative expense and \$1.0 million of nonrecurring foreign currency exchange loss directly related to the acquisition during the year ended December 31, 2018.

MetaPack revenues and net income included in the Consolidated Statements of Operations for the year ended December 31, 2018 were \$20.3 million and \$1.5 million, respectively, reflecting activity since the acquisition date.

During the quarter ended September 30, 2019, the Company identified additional information about facts and circumstances that existed as of the date of the acquisition. As a result, the Company adjusted the value of current and deferred income taxes and other income tax related liabilities. The net effect of these changes, in addition to other immaterial adjustments, resulted in a corresponding decrease to goodwill of \$2.5 million based on the August 15, 2018 exchange rate. These adjustments are reflected in the table above.

3. Commitments and Contingencies

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.

On February 28, 2019 and March 13, 2019, two putative class action complaints were filed against us in the United States District Court for the Central District of California, Western Division. One of the two putative class actions was dismissed without prejudice, and in the other case, styled as *Karinski v. Stamps.com, Inc. et al*, Case 2:19-cv-01828 (the "Securities Class Action"), the Court appointed a lead plaintiff and approved lead plaintiff's selection of lead counsel. Lead plaintiff filed a consolidated complaint in August 2019, purportedly on behalf of all those who purchased, or otherwise acquired, Stamps.com common stock between May 3, 2017 and May 8, 2019, alleging violations of the Securities Exchange Act of 1934 based on public disclosures that were purportedly rendered misleading based on certain uses of reseller rates. We filed a motion to dismiss in October 2019, and our motion to dismiss was granted in part and denied in part in January 2020. We believe that the case is without merit and intend to defend it vigorously. Due to the early stage of the case, neither the likelihood that a loss, if any, will be realized, nor an estimate of the possible loss or range of loss, if any, can be determined.

On May 16, 2019 and May 21, 2019, two purported shareholder derivative suits were filed in the United States District Court for the Central District of California, Western Division, alleging breaches of fiduciary duties by officers and/or directors, unjust enrichment, abuse of control, waste of corporate assets, and violations of the Securities Exchange Act of 1934, and seeking unspecified damages, attorneys' fees and costs. The two cases have been consolidated as *In re Stamps.com Stockholder Derivative Litigation*, Case 2:19-cv-04272 and co-lead plaintiffs and co-lead counsel have been appointed. On July 8, 2020, the court granted our motion to transfer the consolidated suits to the United States District Court for the District of Delaware. We believe that the case is without merit and intend to defend it vigorously. Due to the early stage of the case, neither the likelihood that a loss, if any, will be realized, nor an estimate of the possible loss or range of loss, if any, can be determined.

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On August 19, 2019, a purported shareholder derivative suit was filed against us in a case titled *City of Cambridge Retirement System v. Kenneth T. McBride, et al* Case No. 2019-0658-AGB, in the Delaware Court of Chancery, alleging breaches of fiduciary duties by officers and/or directors, insider trading, waste of corporate assets, and unjust enrichment. We filed a motion to dismiss in October 2019. We believe that the case is without merit and intend to defend this case vigorously. Due to the early stage of the case, neither the likelihood that a loss, if any, will be realized, nor an estimate of the possible loss or range of loss, if any, can be determined.

On October 3, 2019, a purported shareholder derivative suit was filed against us in a case titled *Harvey v. Kenneth T. McBride, et al* Case No. 1:19-cv-01861-CFC, in the United States District Court for the District of Delaware, alleging breaches of fiduciary duties by officers and/or directors, unjust enrichment, waste of corporate assets, and violations of the Securities Exchange Act of 1934. The Court has entered a stipulation to stay the derivative case pending the outcome of the derivative lawsuit pending in the Delaware Court of Chancery. We believe that the case is without merit and intend to defend this case vigorously. Due to the early stage of the case, neither the likelihood that a loss, if any, will be realized, nor an estimate of the possible loss or range of loss, if any, can be determined.

The Company had not accrued any material amounts related to any of the Company's legal proceedings as of June 30, 2020 or December 31, 2019.

Although management at present believes that the ultimate outcome of the various proceedings, individually and in the aggregate, will not materially harm our financial position, results of operations, cash flows, or overall trends, legal proceedings are subject to inherent uncertainties, and unfavorable rulings or other events could occur. An unfavorable outcome for an amount in excess of management's present expectations may result in a material adverse impact on our business, results of operations, financial position, and overall trends.

Commitments

Our significant contractual obligations and commercial commitments (other than debt commitments) consist of operating lease obligations as of June 30, 2020. Please see *Note 11 - "Leases"* for additional information.

4. Net Income per Share

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,	
	2020	2019	2020	2019
Net income	\$ 51,726	\$ 13,992	\$ 68,220	\$ 29,747
Basic - weighted average common shares	17,231	17,291	17,148	17,418
Diluted effect of common stock equivalents	1,696	518	1,410	493
Diluted - weighted average common shares	18,927	17,809	18,558	17,911
Earnings per share:				
Basic	\$ 3.00	\$ 0.81	\$ 3.98	\$ 1.71
Diluted	\$ 2.73	\$ 0.79	\$ 3.68	\$ 1.66

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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,	
	2020	2019	2020	2019
Anti-dilutive stock options	<u>678</u>	<u>2,307</u>	<u>1,103</u>	<u>1,730</u>

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5. Stock-Based Compensation

In 2018, our stock-based compensation expense included performance-based inducement equity awards relating to the ShippingEasy acquisition. Starting in the third quarter of fiscal 2018, our stock-based compensation expense included inducement equity awards relating to the MetaPack acquisition as described in *Note 2 - "Acquisitions."*

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,	
	2020	2019	2020	2019
Stock-based compensation expense relating to:				
Stock options	\$ 12,830	\$ 9,447	\$ 23,072	\$ 17,944
Employee stock purchases	391	377	874	770
Total stock-based compensation expense	<u>\$ 13,221</u>	<u>\$ 9,824</u>	<u>\$ 23,946</u>	<u>\$ 18,714</u>
Stock-based compensation expense relating to:				
Cost of revenues	\$ 925	\$ 555	\$ 1,844	\$ 1,201
Sales and marketing	2,362	2,285	4,669	4,339
Research and development	2,947	2,490	5,825	4,794
General and administrative	6,987	4,494	11,608	8,380
Total stock-based compensation expense	<u>\$ 13,221</u>	<u>\$ 9,824</u>	<u>\$ 23,946</u>	<u>\$ 18,714</u>

The following are the weighted average assumptions used in the Black-Scholes-Merton option valuation model for stock options granted in the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Expected dividend yield	—%	—%	—%	—%
Risk-free interest rate	0.2%	1.8%	0.7%	2.1%
Expected volatility	87.5%	79.8%	85.0%	67.2%
Expected life (in years)	3.3	3.3	3.3	3.3

6. Goodwill and Intangible Assets

The following table summarizes goodwill as of December 31, 2019 and June 30, 2020 (in thousands):

	Stamps.com Segment	MetaPack Segment	Total
Goodwill balance at December 31, 2019	\$ 239,705	\$ 144,835	\$ 384,540
Foreign currency translation	—	(9,444)	(9,444)
Goodwill balance at June 30, 2020	<u>\$ 239,705</u>	<u>\$ 135,391</u>	<u>\$ 375,096</u>

We have amortizable and non-amortizable intangible assets consisting of trademarks, trade names, developed technology, non-compete agreements, customer relationships, and other. The gross carrying amount of amortizable and non-amortizable intangible assets was \$222.9 million at June 30, 2020 and \$229.4 million at December 31, 2019. Non-amortizable assets of \$11.4 million as of both June 30, 2020 and December 31, 2019 consist primarily of the trade name relating to the Endicia acquisition.

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The following table summarizes our amortizable intangible assets as of June 30, 2020 (in thousands, except years):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Remaining weighted average amortization period (years)
Patents and Others	\$ 8,195	\$ 8,195	\$ —	0.0
Customer Relationships	108,826	52,731	56,095	7.0
Technology	79,646	28,859	50,787	8.7
Non-Compete	2,211	1,996	215	1.0
Trademarks and Trade Names	12,673	3,016	9,657	9.3
Total amortizable intangible assets at June 30, 2020	<u>\$ 211,551</u>	<u>\$ 94,797</u>	<u>\$ 116,754</u>	7.8

The following table summarizes our amortizable intangible assets as of December 31, 2019 (in thousands, except years):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Remaining weighted average amortization period (years)
Patents and Others	\$ 8,195	\$ 8,195	\$ —	0.0
Customer Relationships	111,997	46,503	65,494	7.7
Technology	82,269	25,240	57,029	9.4
Non-Compete	2,211	1,889	322	1.5
Trademarks and Trade Names	13,378	2,549	10,829	9.9
Total amortizable intangible assets at December 31, 2019	<u>\$ 218,050</u>	<u>\$ 84,376</u>	<u>\$ 133,674</u>	8.5

We recorded amortization of intangible assets totaling approximately \$5.5 million and \$11.0 million for the three and six months ended June 30, 2020, respectively. We recorded amortization of intangible assets totaling approximately \$5.6 million and \$11.1 million for the three and six months ended June 30, 2019, respectively. Amortization of intangible assets is included in general and administrative expense in the accompanying consolidated statements of operations.

Our estimated amortization expense for the next five years and thereafter is as follows (in thousands):

Twelve Month Period Ending June 30,	Estimated Amortization Expense
2021	\$ 21,562
2022	14,222
2023	9,407
2024	9,407
2025	7,552
Thereafter	54,604
Total	<u>\$ 116,754</u>

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7. Income Taxes

Our income tax expense was \$9.0 million and \$16.1 million for the three and six months ended June 30, 2020, respectively. Our income tax expense was \$7.7 million and \$14.4 million for the three and six months ended June 30, 2019, respectively. Income taxes expected at the US federal statutory income tax rate of 21 percent differ from the reported income tax expense primarily as a result of permanent tax adjustments for non-deductible expenses, state taxes, and tax benefits from research and development tax credits and exercises of stock awards.

As of June 30, 2020 and December 31, 2019, we have recorded a valuation allowance of \$1.8 million and \$1.7 million, respectively, against certain state research and development credits for which we believe it is more likely than not that these deferred tax assets will not be realized. We also have recorded a valuation allowance against the activity of certain foreign jurisdictions.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was signed into law in the US to provide certain relief as a result of the COVID-19 pandemic. The CARES Act is not expected to have a material impact on our consolidated financial statements.

8. Fair Value Measurements

Financial assets measured at fair value on a recurring basis are classified in one of the three categories 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 tables summarize our financial assets measured at fair value on a recurring basis as of June 30, 2020 and December 31, 2019 (in thousands):

Description	June 30, 2020	Fair Value Measurement at Reporting Date Using		
		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	\$ 275,053	\$ 275,053	—	—
Total	\$ 275,053	\$ 275,053	—	—

Description	December 31, 2019	Fair Value Measurement at Reporting Date Using		
		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	\$ 156,307	\$ 156,307	—	—
Total	\$ 156,307	\$ 156,307	—	—

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9. Cash and Cash Equivalents

Our cash equivalents consisted of money market funds at June 30, 2020 and December 31, 2019. 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. At June 30, 2020 and December 31, 2019, we had no material investments.

The following tables summarize our cash and cash equivalents as of June 30, 2020 and December 31, 2019 (in thousands):

	June 30, 2020			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash	\$ 268,227	—	—	\$ 268,227
Money market	6,826	—	—	6,826
Cash and cash equivalents	<u>\$ 275,053</u>	<u>—</u>	<u>—</u>	<u>\$ 275,053</u>
	December 31, 2019			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash	\$ 149,508	—	—	\$ 149,508
Money market	6,799	—	—	6,799
Cash and cash equivalents	<u>\$ 156,307</u>	<u>—</u>	<u>—</u>	<u>\$ 156,307</u>

10. Segment Information and Geographic Data

Segment Information

Operating segments are defined as components of an enterprise for which discrete financial information is available that is evaluated regularly by the chief operating decision maker (CODM) for purposes of allocating resources and evaluating financial performance. The Company's Chairman and Chief Executive Officer has been identified as the CODM as defined by guidance regarding segment disclosures.

The Company's reportable segments have been determined based on the distinct nature of their operations and customer bases, and the financial information that is evaluated regularly by the CODM.

The Stamps.com segment derives revenue from external customers from offering mailing and shipping labels online and shipping software solutions to consumers, small businesses, e-commerce shippers, enterprise mailers, and high volume shippers. The Stamps.com reportable segment includes the results of brand names Stamps.com, Endicia, ShippingEasy, ShipEngine, ShipStation, and ShipWorks. Stamps.com's customers are primarily located in the US.

The MetaPack segment consists of the operations of MetaPack which derives revenues from external customers from offering multi-carrier enterprise-level shipping software solutions to large e-commerce retailers and brands. MetaPack's customers are primarily located in Europe.

Revenues, cost of revenues, and operating expenses are generally directly attributed to our segments. Inter-segment revenues are not presented separately, as these amounts are immaterial. Our CODM does not evaluate operating segments using asset information, and therefore total segment assets are not presented.

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The following table presents our segment information and includes a reconciliation of income from operations to income before income taxes (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Segment revenues				
Stamps.com	\$ 191,047	\$ 126,280	\$ 328,592	\$ 249,184
MetaPack	15,683	12,493	29,484	25,592
Total revenues	<u>\$ 206,730</u>	<u>\$ 138,773</u>	<u>\$ 358,076</u>	<u>\$ 274,776</u>
Segment income (loss) from operations				
Stamps.com	\$ 62,901	\$ 25,782	\$ 91,128	\$ 51,093
MetaPack	(1,715)	(3,357)	(5,771)	(5,427)
Total income from operations	<u>\$ 61,186</u>	<u>\$ 22,425</u>	<u>\$ 85,357</u>	<u>\$ 45,666</u>
Company's total segment income from operations				
Company's total segment income from operations	\$ 61,186	\$ 22,425	\$ 85,357	\$ 45,666
Foreign currency exchange gain (loss), net	(33)	(152)	(171)	(247)
Interest expense	(456)	(645)	(923)	(1,359)
Interest income and other income (loss), net	6	52	32	117
Income before income taxes	<u>\$ 60,703</u>	<u>\$ 21,680</u>	<u>\$ 84,295</u>	<u>\$ 44,177</u>

Geographic Data

No sales to an individual customer or country other than the US accounted for more than 10% of revenue for these six months ended June 30, 2020 or June 30, 2019.

The following table presents our revenues by geography, based on the billing addresses of our customers (in thousands, unaudited):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenues				
United States	\$ 190,295	\$ 126,024	\$ 327,365	\$ 248,724
International	16,435	12,749	30,711	26,052
Total revenues	<u>\$ 206,730</u>	<u>\$ 138,773</u>	<u>\$ 358,076</u>	<u>\$ 274,776</u>

11. Leases

The Company's material lease contracts are generally for corporate office space. The Company leases facilities pursuant to noncancelable operating lease agreements expiring through 2029.

Operating lease cost for the three and six months ended June 30, 2020 was approximately \$1.3 million and \$2.5 million, respectively. Operating lease cost for the three and six months ended June 30, 2019 was approximately \$1.3 million and \$2.4 million, respectively.

STAMPS.COM INC. AND SUBSIDIARIES
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The following table is a schedule of maturities of operating lease liabilities as of June 30, 2020 (in thousands):

Twelve Month Period Ending June 30,	Operating Lease Obligations
2021	\$ 5,575
2022	4,300
2023	3,890
2024	2,363
2025	1,022
Thereafter	2,039
Total undiscounted cash flows	19,189
Less amount representing interest	(2,029)
Present value of lease liabilities	\$ 17,160

The table above reflects payments for noncancelable operating leases with initial or remaining terms of one year or more as of June 30, 2020. The table above does not include obligations for leases that have not yet commenced and does not include lease payments that were not fixed at commencement or modification.

As of June 30, 2020, the weighted-average remaining lease term (in years) and discount rate related to the operating leases were as follows:

	June 30, 2020
Weighted-average remaining lease term	4.4
Weighted-average discount rate	4.9%

12. Accounts Payable and Other Current Liabilities

The following table summarizes our accounts payable and other current liabilities as of June 30, 2020 and December 31, 2019 (in thousands):

	June 30, 2020	December 31, 2019
Accounts payable	\$ 46,889	\$ 47,783
Customer prepayments for postage and shipping labels	55,294	40,002
Income taxes payable	6,563	7,996
Payroll and related accruals	22,570	23,029
Short-term financing obligations	26,983	982
Other accruals	1,957	2,061
Accounts payable and other current liabilities	\$ 160,256	\$ 121,853

STAMPS.COM INC. AND SUBSIDIARIES
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13. Debt

During the second quarter of 2020, the Company repaid the existing term loan balance outstanding under the Credit Agreement dated November 18, 2015. The optional prepayment satisfied the \$47.5 million term loan balance, gross of debt issuance costs, in full.

Revolving Credit Facility

On June 29, 2020, we entered into a \$130 million revolving credit facility (the "Amended Credit Agreement") with a group of banks. Our Amended Credit Agreement matures on June 29, 2022 (the "Maturity Date"). The Amended Credit Agreement contains an option, subject to certain conditions, to arrange with existing lenders and/or new lenders to provide up to an aggregate of an additional \$75 million in revolving loans. The Amended Credit Agreement is secured by substantially all of our assets.

In connection with entering into the Amended Credit Agreement, we incurred approximately \$762,000 in creditor and third-party fees which were recorded as deferred expense and will be amortized as interest expense over the two year life of the Amended Credit Agreement.

There were no amounts drawn on the revolving credit facility as of June 30, 2020. Because we have a letter of credit outstanding totaling approximately \$60,000 relating to a facility lease, we have approximately \$129.9 million of available and unused borrowings under the revolving credit facility as of June 30, 2020.

Borrowings under the Amended Credit Agreement are payable on the Maturity Date. The borrowings bear interest, at our option, at the base rate, as defined, plus an applicable margin or a LIBOR plus an applicable margin, in each case such margin will be between 1.25% and 3.00% and is determined by certain financial measures. We will also pay commitment fees on the average daily unused portion of the revolving credit facility, as defined, based upon certain financial measures through the Maturity Date in addition to other fees customary to a credit facility of this size and type.

We are subject to certain customary affirmative and negative covenants under our Amended Credit Agreement, including quarterly financial covenants such as a maximum Consolidated Total Leverage Ratio and a minimum Consolidated Interest Coverage Ratio, as defined therein. As of June 30, 2020, we were in compliance with the covenants of the Amended Credit Agreement.

The Amended Credit Agreement also includes negative covenants, subject to exceptions, restricting or limiting our ability to among other things, incur additional indebtedness, grant liens, repurchase stock, pay dividends and engage in certain investment, acquisition and disposition transactions. The Amended Credit Agreement imposes certain requirements in order for us to make any dividend payments. As of June 30, 2020, we were in compliance with these financial covenants.

Potential Impact of LIBOR Transition

The Chief Executive of the U.K. Financial Conduct Authority (the "FCA"), which regulates LIBOR, has announced that the FCA will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021. That announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. Moreover, it is possible that LIBOR will be discontinued or modified prior to 2021.

Under the terms of the Company's Amended Credit Agreement, in the event of the discontinuance of the LIBOR Rate, a mutually agreed-upon alternate benchmark rate will be established to replace the LIBOR Rate. The Company and the Administrative Agent (as defined in the Amended Credit Agreement) shall, in good faith, endeavor to establish an alternate benchmark rate that gives due consideration to prevailing market convention for determining a rate of interest for similar credit arrangements in the US at such time. The Company does not anticipate that the discontinuance or modification of the LIBOR Rate will materially impact its liquidity or financial position.

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14. Subsequent Events

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

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

This Quarterly Report on Form 10-Q (this "Report") 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"). You can find many (but not all) of these statements by looking for words such as "approximates," "believes," "expects," "anticipates," "estimates," "projects," "seeks," "intends," "plans," "could," "would," "may" or other similar expressions in this Report. Our forward-looking statements relate to future events or our future performance and include, but are not limited to, any statements that refer to future responses to and effects of COVID-19, statements concerning our business strategy, future commercial revenues, market growth, capital requirements, new product introductions, expansion plans and the adequacy of our funding. Other statements contained in this Report that are not historical facts are also forward-looking statements.

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 us and information available to us at the time made. 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 can be expected to differ from our expectations, and those differences may be material. Accordingly, investors should use caution in relying on forward-looking statements 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, 2019 and under "Item 1A. Risk Factors" within "Part II - Other Information" of our Form 10-Q for the quarterly period ended March 31, 2020, as well as those described elsewhere in this Report (if any) and in our other 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. Without limiting the foregoing, the significant and unprecedented uncertainty regarding the business and economic impact of the ongoing COVID-19 pandemic (as well as the impact of efforts of governments, businesses and individuals to mitigate the effects of such pandemic) on us, our customers, our carrier and integration partners and the global economy, makes it particularly difficult to predict the nature and extent of impacts on demand for our products and services, making our business outlook subject to considerable uncertainty. In addition, the global economic climate and additional or unforeseen effects from the COVID-19 pandemic amplify many of the other risks we face. 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. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances after the date of this Report.

Our registered trademarks include Stamps.com, Auctane, Endicia, MetaPack, NetStamps, PhotoStamps, ShipEngine, ShippingEasy, ShipStation, ShipWorks, and the Stamps.com logo. This Report also references trade names and trademarks of other entities. References in this Report to "we" "us" "our" or "Company" are references to Stamps.com Inc. and its subsidiaries.

Overview

Stamps.com® is a leading provider of Internet-based mailing and shipping solutions in the United States (US) and Europe. Our portfolio of solutions are marketed under the brand names Stamps.com®, Endicia®, MetaPack®, ShippingEasy®, ShipEngine®, ShipStation®, and ShipWorks®. Our software solutions allow customers to print mailing and shipping labels for multiple carriers around the world through downloadable software, web-based user interfaces (UIs) and application programming interfaces (APIs). Our solutions provide our customers with access to discounted carrier rates for select carriers, including USPS® and UPS® and advanced functionality users can leverage for both improved operational efficiency and financial savings. Our customers primarily include small businesses, home offices, medium-size businesses, large enterprises, e-commerce merchants, large retailers and high volume shippers including warehouses, fulfillment houses and omni-channel retailers.

Segment Information and Geographic Data

Our operations consist of two segments: Stamps.com and MetaPack. The Stamps.com segment includes the results of brand names Stamps.com, Endicia, ShippingEasy, ShipEngine, ShipStation and ShipWorks. Stamps.com's customers are primarily located in the US. The MetaPack segment offers multi-carrier enterprise-level shipping software solutions to large e-commerce retailers and brands who are primarily located in Europe.

Mailing and Shipping Business References

When we refer to our "mailing and shipping business," we are referring to our mailing and shipping products and services including our USPS and multi-carrier mailing and shipping solutions, consolidation services, mailing and shipping integrations, mailing and shipping supplies stores, and branded insurance offerings. We do not include our customized postage business when we refer to our mailing and shipping business. When we refer to our "mailing and shipping revenue," we are referring to our service, product and insurance revenue generated by our mailing and shipping customers. We do not include our customized postage revenue generated by our customized postage business in our "mailing and shipping revenue."

Services and Products

Mailing and Shipping Business

We offer the following mailing and shipping services to our customers under the Stamps.com, Endicia, MetaPack, ShipEngine, ShippingEasy, ShipStation and ShipWorks brands:

Mailing Solutions

As part of our mailing and shipping business, we offer our USPS-approved solutions to mail and ship a variety of domestic and international mail pieces and packages through the USPS. Our USPS mailing solutions enable our customers to print "electronic postage" using only a personal computing device, printer and Internet connection. Our solutions support a variety of USPS mail classes including First Class Mail®, Media Mail®, Parcel Select®, Priority Mail®, Priority Mail Express, and others. Customers can also add USPS Special Services to their mail pieces, such as Certified Mail®, Collect on Delivery, Insured Mail, Registered Mail®, Restricted Delivery, Return Receipt, Signature Confirmation™ and USPS Tracking®. Our customers can print postage on (1) NetStamps® labels, which can be used just like regular stamps, (2) envelopes and postcards or on labels in a single step process that saves time and provides a professional look, (3) plain 8.5" x 11" paper, (4) special labels for packages, and (5) integrated customs forms for international mail and packages. Our USPS mailing solutions also provide our customers with access to discounted postage rates on certain mail classes.

Multi-Carrier Shipping Solutions

As part of our mailing and shipping business, we offer our industry leading domestic and international multi-carrier e-commerce shipping solutions. Our multi-carrier solutions collectively enable our customers to print approved shipping labels for more than 450 regional, national and international carriers and integrate with more than 300 partners including shopping carts, marketplaces, e-commerce tools and various other software products. Our multi-carrier solutions also provide our customers with access to discounted carrier rates including USPS and UPS.

Consolidation Services

As part of our mailing and shipping business, we offer domestic and international shipping services through our consolidator partners, who group packages by destination and ship the packages directly or through partners. These services seek to take advantage of economies of scale, with the goal of yielding lower shipping costs for our customers.

Back-End Integrations

As part of our mailing and shipping services, we offer our back-end integration solutions where we provide the electronic postage for transactions to partners who manage the front-end users. Our solutions integrate 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 types of packages.

We have integration partnerships with the USPS where we provide electronic postage for mailing and shipping transactions generated by certain USPS-branded programs. For example, we provide the electronic postage for Click-N-Ship®, a web-based service available at USPS.com that allows USPS customers to purchase and print shipping labels for certain domestic and international mail classes or packages at no additional mark-up over the cost of postage.

Mailing & Shipping Supplies

As part of our mailing and shipping services, we offer mailing and shipping-focused office supplies to our customers through our online supplies stores. Our supplies stores are available within our mailing and shipping solutions and sell a variety of products including NetStamps labels, shipping labels, mailing labels, postage printers and scales.

Branded Insurance

As part of our mailing and shipping services, we offer branded insurance for packages to our customers so that they may insure their mail or packages in a fully integrated, online process that eliminates any trips to retail carrier locations or the need to complete any special forms. Our branded insurance is offered by certain brands including Stamps.com, Endicia, ShippingEasy, ShipStation, and ShipWorks as part of their solutions. Our branded insurance is provided by our insurance providers.

Customized Postage

We offered customized postage under the PhotoStamps® brand name. Customized postage is a patented form of USPS postage that allowed consumers to turn digital photos, designs or images into valid USPS-approved postage. With this product, individuals or businesses could create customized USPS-approved postage using pictures of their children, pets, vacations, celebrations, business logos and more. Customized postage can be used as regular postage to send letters, postcards or packages. PhotoStamps were available from our www.photostamps.com website.

The USPS eliminated its customized postage program and also revoked our authorization to offer products pursuant to that program effective June 16, 2020. See *Business Outlook and Forward-Looking Statements*, below in this Item 2.

COVID-19

In March 2020, the World Health Organization declared the outbreak of a novel strain of the coronavirus (“COVID-19”) to be a pandemic. The pandemic is having widespread, rapidly evolving impacts on economies, financial markets, and business practices. We are closely monitoring the impact of COVID-19 on all aspects of our business.

Since the first quarter of 2020, we have taken a number of precautionary measures to help minimize the risk of exposure to our employees, including significantly revising travel policies and implementing temporary office closures as all employees are advised to work remotely where possible.

We experienced a net financial benefit in the second quarter resulting from increased domestic shipping volume which we believe is related to shelter in place orders and an increase in requirements to work from home. We cannot predict how long these circumstances will continue, and it should not be assumed that they will yield any net financial benefit to us beyond the second quarter of 2020. Further, it is not possible to determine the duration and scope of the pandemic, including any recurrence, the actions taken in response to the pandemic, the scale and rate of economic change from the pandemic, any ongoing effects on consumer demand and spending patterns, or other impacts of the pandemic, and whether these or other currently unanticipated consequences of the pandemic are reasonably likely to materially affect our results of operations. See “Item 1A. Risk Factors” within “Part II - Other Information” in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, filed with the SEC on May 8, 2020, for additional discussion of the risks posed, among other things, by the COVID-19 pandemic, and uncertainties we, our customers, business partners, and the national and global economies face as a result.

Acquisitions*MetaPack*

On August 15, 2018, we, through our wholly owned subsidiary Pacific Shelf 1855 Limited, completed our acquisition of MetaPack Limited. The net purchase price totaled approximately £171 million, or \$218 million using the August 15, 2018 GBP to USD exchange rate, and was funded from current cash and investment balances.

In connection with the acquisition, we granted inducement stock options for an aggregate of 320,250 shares of Stamps.com common stock to 72 MetaPack employees.

Please see Note 2 - "Acquisitions" in our Notes to Consolidated Financial Statements for further description.

Results of Operations**Three and Six Months Ended June 30, 2020 and June 30, 2019**

Total revenue increased 49% to \$206.7 million in the three months ended June 30, 2020 from \$138.8 million in the three months ended June 30, 2019. Total revenue increased 30% to \$358.1 million in the six months ended June 30, 2020 from \$274.8 million in the six months ended June 30, 2019. Mailing and shipping revenue, which includes service revenue, product revenue, and insurance revenue, was \$197.9 million in the three months ended June 30, 2020, an increase of 46% from \$135.6 million in the three months ended June 30, 2019. Mailing and shipping revenue was \$346.2 million in the six months ended June 30, 2020, an increase of 29% from \$268.3 million in the six months ended June 30, 2019. Customized postage revenue increased 182% to \$8.8 million in the three months ended June 30, 2020 from \$3.1 million in the three months ended June 30, 2019. Customized postage revenue increased 83% to \$11.9 million in the six months ended June 30, 2020 from \$6.5 million in the six months ended June 30, 2019.

Revenue by Segment

The following table sets forth the revenue by segment for the three and six months ended June 30, 2020 and June 30, 2019 and the resulting percentage change (revenue in thousands):

	Three Months Ended June 30,		
	2020	2019	% Change
Segment revenues			
Stamps.com	\$ 191,047	\$ 126,280	51.3 %
MetaPack	15,683	12,493	25.5 %
Total revenues	\$ 206,730	\$ 138,773	49.0 %

	Six Months Ended June 30,		
	2020	2019	% Change
\$ 328,592	\$ 249,184	31.9 %	
29,484	25,592	15.2 %	
\$ 358,076	\$ 274,776	30.3 %	

The majority of the 49% increase in total revenue is due to a 51% increase in total revenue from the Stamps.com operating segment as discussed below.

Consolidated Revenue

The following table sets forth the breakdown of revenue for the three and six months ended June 30, 2020 and June 30, 2019 and the resulting percentage change (revenue in thousands):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	% Change	2020	2019	% Change
Revenues						
Service	\$ 186,990	\$ 127,429	46.7%	\$ 326,126	\$ 251,336	29.8%
Product	6,827	4,785	42.7%	12,783	10,190	25.4%
Insurance	4,096	3,431	19.4%	7,276	6,765	7.6%
Mailing and shipping revenue	197,913	135,645	45.9%	346,185	268,291	29.0%
Customized postage	8,817	3,128	181.9%	11,891	6,485	83.4%
Total revenues	\$ 206,730	\$ 138,773	49.0%	\$ 358,076	\$ 274,776	30.3%

We define “paid customers” for the quarter as ones from whom we successfully collected service fees or otherwise earned revenue at least once during that quarter, and we define average monthly revenue per paid customer (ARPU) as one-third of quarterly mailing and shipping revenue divided by paid customers.

The following table sets forth the number of paid customers in the period for our mailing and shipping business (in thousands):

Year	First Quarter	Second Quarter
2020	777	956
2019	736	742

The following table sets forth the change in paid customers and ARPU for our mailing and shipping business (in thousands except ARPU and percentage):

	Three Months Ended June 30,		
	2020	2019	% Change
Paid customers for the quarter	956	742	28.7%
ARPU	\$ 68.98	\$ 60.96	13.2%
Mailing and shipping revenue	\$ 197,913	\$ 135,645	45.9%

The number of paid customers increased by 28.7% in the three months ended June 30, 2020 compared to the three months ended June 30, 2019 primarily as a result of our customer acquisition efforts which we believe were positively impacted by shelter in place orders.

Our ARPU increased by 13.2% in the three months ended June 30, 2020 compared to the three months ended June 30, 2019. The increase was primarily attributable to the growth in our shipping business where we have the ability to better monetize shipping volume as compared to monthly flat rate subscription fees, a portion of which we believe is due to the impact of increased shipping volumes related to shelter in place orders and an increase in requirements to work from home, in addition to increased recurring monthly subscription revenues from newly acquired customers.

Revenue by Product

The following table shows the components of our revenues and their respective percentages of our total revenue for the periods indicated (in thousands except percentage):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenues				
Service	\$ 186,990	\$ 127,429	\$ 326,126	\$ 251,336
Product	6,827	4,785	12,783	10,190
Insurance	4,096	3,431	7,276	6,765
Customized postage	8,817	3,128	11,891	6,485
Total revenues	\$ 206,730	\$ 138,773	\$ 358,076	\$ 274,776
Revenue as a percentage of total revenues				
Service	90.4%	91.8%	91.1%	91.5%
Product	3.3%	3.4%	3.6%	3.7%
Insurance	2.0%	2.5%	2.0%	2.5%
Customized postage	4.3%	2.3%	3.3%	2.3%
Total revenue	100.0%	100.0%	100.0%	100.0%

Our revenue is derived primarily from five sources: (1) service and transaction related revenues from our mailing services, our multi-carrier shipping services, and our mailing and shipping integrations; (2) product revenue from the direct sale of consumables and supplies through our supplies stores; (3) package insurance revenue from our branded insurance offerings; (4) customized postage revenue from the sale of customized postage labels; and (5) other revenue, consisting of advertising revenue derived from advertising programs with our existing customers. Other revenue was not material to our consolidated financial statements in the three and six months ended June 30, 2020 and June 30, 2019.

Service revenue is recognized over time for each month that customers have access to our platform or at a point in time when assets are transferred to the customer. We earn service revenue from our mailing and shipping operations in several different ways: (1) customers may pay us a monthly fee, based on a subscription plan which may be waived or refunded for certain customers, for which we provide them access to our platform, in which case revenue is earned over the period of time that the customers have access to the platform which is typically month-to-month; (2) we may be compensated directly by our carriers for shipping labels printed that meet certain requirements, in which case revenue is earned over time, which is typically in the same month that the relevant labels are printed; (3) we may earn revenue from customers when they purchase postage, print shipping labels or perform other transactions using our solutions, in which case revenue is earned at the point in time we transfer an asset to the customer and have a present right of payment for the asset transferred; (4) we may earn revenue that may take the form of some or all of the spread between the rate a customer pays and the rate the carrier or integration partner receives, either charged directly or paid by our partners, in which case revenue is earned at a point in time, which is typically when the customer purchases postage or prints a shipping label; and (5) we may earn other types of revenue shares or other compensation from specific customers that have access to our platform or through integration partners, in which case revenue is recognized at a point in time, which is when we have fulfilled our performance obligations.

In the case of monthly fees based on subscription plans, we recognize a reduction of revenue in the period for which a waiver is granted or when a refund is processed, which is typically the same period in which the associated subscription revenue is recognized or, in the case of refunds, could be a later period. Waivers and refunds were not material to the consolidated financial statements in the three months ended June 30, 2020 or June 30, 2019.

Customers may purchase delivery services from carriers through our mailing and shipping solutions. When funds are transferred directly from customers to the carrier, these funds are not recognized as revenue. We also provide mailing and shipping services for which the cost of postage or delivery is included in the cost of the service and, therefore, is recognized as service revenue.

Service revenue increased 47% to \$187.0 million in the three months ended June 30, 2020 from \$127.4 million in the three months ended June 30, 2019. Service revenue increased 30% to \$326.1 million in the six months ended June 30, 2020 from \$251.3 million in the six months ended June 30, 2019. The increase in service revenue during the three months ended June 30, 2020 was driven by a 13.9% increase in our average monthly service revenue per paid customer (Service Revenue ARPU) and a 28.7% increase in paid customers.

The increase in our Service Revenue ARPU during the three months ended June 30, 2020 was primarily attributable to the growth in our shipping business where we have the ability to better monetize shipping volume as compared to monthly flat rate subscription fees, a portion of which we believe is due to the impact of increased shipping volumes related to shelter in place orders and an increase in requirements to work from home, in addition to increased recurring monthly subscription revenues from newly acquired customers.

Product revenue increased 43% to \$6.8 million in the three months ended June 30, 2020 from \$4.8 million in the three months ended June 30, 2019. Product revenue increased 25% to \$12.8 million in the six months ended June 30, 2020 from \$10.2 million in the six months ended June 30, 2019. Product revenue is primarily driven by label sales, such as NetStamps, which are used for mailing. The increase in product revenue in the three and six months ended June 30, 2020 was not material to the consolidated financial statements.

Insurance revenue increased 19% to \$4.1 million in the three months ended June 30, 2020 from \$3.4 million in the three months ended June 30, 2019. Insurance revenue increased 8% to \$7.3 million in the six months ended June 30, 2020 from \$6.8 million in the six months ended June 30, 2019. The increase in insurance revenue in the three and six months ended June 30, 2020 was not material to the consolidated financial statements.

Customized postage revenue increased 182% to \$8.8 million in the three months ended June 30, 2020 from \$3.1 million in the three months ended June 30, 2019. Customized postage revenue increased 83% to \$11.9 million in the six months ended June 30, 2020 from \$6.5 million in the six months ended June 30, 2019. The increase in customized postage revenue in the three and six months ended June 30, 2020 was primarily attributable to a particular television marketing campaign for which we committed to donate the associated profits to charity.

Cost of Revenue

The following table shows cost of revenues and cost of revenues as a percentage of associated revenue for the periods indicated (in thousands except percentage):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Cost of revenues				
Service	\$ 37,465	\$ 32,452	\$ 73,992	\$ 64,687
Product	2,411	1,549	4,149	3,222
Customized postage	7,885	2,440	10,000	4,871
Total cost of revenues	\$ 47,761	\$ 36,441	\$ 88,141	\$ 72,780
Cost as percentage of associated revenue				
Service	20.0%	25.5%	22.7%	25.7%
Product	35.3%	32.4%	32.5%	31.6%
Customized postage	89.4%	78.0%	84.1%	75.1%
Total cost as a percentage of total revenues	23.1%	26.3%	24.6%	26.5%

Cost of service revenue principally consists of the cost of customer service, certain promotional expenses, system operating costs, credit card processing fees, vendor costs and expenses, 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 supplies stores and the related costs of shipping and handling. Cost of customized postage revenue principally consists of the face value of postage, customer service, image review costs, and printing and fulfillment costs.

Cost of service revenue increased 15% to \$37.5 million in the three months ended June 30, 2020 from \$32.5 million in the three months ended June 30, 2019. Cost of service revenue increased 14% to \$74.0 million in the six months ended June 30, 2020 from \$64.7 million in the six months ended June 30, 2019. The increase was primarily attributable to higher system operating and customer service costs to support our growing business.

Cost of service revenue as a percent of service revenue decreased to 20% in the three months ended June 30, 2020 from 25% in the three months ended June 30, 2019. Cost of service revenue as a percent of service revenue decreased to 23% in the six months ended June 30, 2020 from 26% in the six months ended June 30, 2019. The decrease in cost of service revenue as a percent of service revenue in the three and six months ended June 30, 2020 was due to the increase in service revenue as described above.

Cost of product revenue increased 56% to \$2.4 million in the three months ended June 30, 2020 from \$1.5 million in the three months ended June 30, 2019. Cost of product revenue increased 29% to \$4.1 million in the six months ended June 30, 2020 from \$3.2 million in the six months ended June 30, 2019. The increase in cost of product revenue in the three and six months ended June 30, 2020 was not material to the consolidated financial statements.

Cost of product revenue as a percent of product revenue increased to 35% in the three months ended June 30, 2020 from 32% in the three months ended June 30, 2019. Cost of product revenue as a percent of product revenue was 32% in the six months ended June 30, 2020 and 32% in the six months ended June 30, 2019. The increase in cost of product revenue as a percent of product revenue in the six months ended June 30, 2020 was not material to the consolidated financial statements.

Cost of customized postage revenue increased 223% to \$7.9 million in the three months ended June 30, 2020 from \$2.4 million in the three months ended June 30, 2019. Cost of customized postage revenue increased 105% to \$10.0 million in the six months ended June 30, 2020 from \$4.9 million in the six months ended June 30, 2019. The increase in cost of customized postage revenue during the three and six months ended June 30, 2020 was directly related to the increase in customized postage revenue as described above.

Cost of customized postage revenue as a percent of customized postage revenue increased to 89% in the three months ended June 30, 2020 from 78% in the three months ended June 30, 2019. Cost of customized postage revenue as a percent of customized postage revenue increased to 84% in the six months ended June 30, 2020 from 75% in the six months ended June 30, 2019. The increase in cost of customized postage revenue as a percent of customized postage revenue in the three and six months ended June 30, 2020 was primarily attributable to a particular television marketing campaign, resulting in lower margins.

Income (Loss) from Operations by Segment

The following table sets forth income (loss) from operations and the resulting percentage change by segment for the three and six months ended June 30, 2020 and June 30, 2019 (in thousands, except percentage):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	% Change	2020	2019	% Change
Segment income (loss) from operations						
Stamps.com	\$ 62,901	\$ 25,782	144.0%	\$ 91,128	\$ 51,093	78.4 %
MetaPack	(1,715)	(3,357)	48.9%	(5,771)	(5,427)	(6.3)%
Total income from operations	\$ 61,186	\$ 22,425	172.8%	\$ 85,357	\$ 45,666	86.9 %

Our Stamps.com segment income from operations increased by 144% to \$62.9 million in the three months ended June 30, 2020 from \$25.8 million in the three months ended June 30, 2019. Our Stamps.com segment income from operations increased by 78% to \$91.1 million in the six months ended June 30, 2020 from \$51.1 million in the six months ended June 30, 2019. The increase in our segment income from operations for the three and six months ended June 30, 2020 was primarily due to the 51% and 32% increase in total revenue from the Stamps.com operating segment for the three and six months ended June 30, 2020, respectively, partially offset by the following items described further below: (a) the increase in cost of service revenue primarily attributable to higher system operating and customer service costs to support our growing business; (b) the increase in discretionary and sales volume-based partner marketing spend; (c) the increase in research and development headcount-related expenses including stock-based compensation; (d) the increase in sales and marketing headcount-related expenses including

stock-based compensation; and (e) increase in general and administrative headcount-related expenses including stock-based compensation.

Our MetaPack segment loss from operations decreased to \$1.7 million in the three months ended June 30, 2020 from \$3.4 million in the three months ended June 30, 2019. Our MetaPack segment loss from operations increased to \$5.8 million in the six months ended June 30, 2020 from \$5.4 million in the six months ended June 30, 2019. The changes in MetaPack segment loss from operations in the three and six months ended June 30, 2020 were not material to the consolidated financial statements.

Consolidated Operating Expenses

The following table outlines the components of our operating expense and their respective percentages of total revenues for the periods indicated (in thousands except percentages):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Operating expenses:				
Sales and marketing	\$ 41,884	\$ 33,242	\$ 78,888	\$ 66,123
Research and development	22,884	19,130	44,207	36,444
General and administrative	33,015	27,535	61,483	53,763
Total operating expenses	\$ 97,783	\$ 79,907	\$ 184,578	\$ 156,330
Operating expenses as a percent of total revenues:				
Sales and marketing	20.3%	24.0%	22.0%	24.1%
Research and development	11.1%	13.8%	12.3%	13.3%
General and administrative	16.0%	19.8%	17.2%	19.6%
Total operating expenses as a percentage of total revenues	47.3%	57.6%	51.5%	56.9%

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. Our sales and marketing programs include direct sales, customer referral programs, customer re-marketing efforts, direct mail, online advertising, partnerships, telemarketing, and traditional advertising.

Sales and marketing expense increased 26% to \$41.9 million in the three months ended June 30, 2020 from \$33.2 million in the three months ended June 30, 2019. Sales and marketing expense increased 19% to \$78.9 million in the six months ended June 30, 2020 from \$66.1 million in the six months ended June 30, 2019. The increase during the three months ended June 30, 2020 was primarily attributable to an increase in discretionary and sales volume-based partner marketing spend of \$7.7 million and a net increase in headcount-related expenses including stock-based compensation of \$1.7 million. The increase during the six months ended June 30, 2020 was primarily attributable to an increase in discretionary and sales volume-based partner marketing spend of \$10.5 million and a net increase in headcount-related expenses including stock-based compensation of \$3.1 million. These increases were partially offset by a \$0.7 million decrease in travel expenses.

Sales and marketing expense as a percent of total revenue decreased to 20% in the three months ended June 30, 2020 from 24% in the three months ended June 30, 2019. Sales and marketing expense as a percent of total revenue decreased to 22% in the six months ended June 30, 2020 from 24% in the six months ended June 30, 2019. The decrease in sales and marketing expense as a percent of total revenue was primarily attributable to increased total revenue in excess of increased sales and marketing expense.

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 20% to \$22.9 million in the three months ended June 30, 2020 from \$19.1 million in the three months ended June 30, 2019. Research and development expense increased 21% to \$44.2 million in the six months ended June 30, 2020 from \$36.4 million in the six months ended June 30, 2019. The increase during the three months ended June 30, 2020 was primarily attributable to a \$3.4 million increase in headcount-related expense including stock-based compensation. The increase during the six months ended June 30, 2020 was primarily attributable to a \$7.1 million increase in headcount-related expense including stock-based compensation. The increases in headcount-related expenses were incurred to support our expanded product offerings and technology infrastructure investments.

Research and development expense as a percent of total revenue decreased to 11% in the three months ended June 30, 2020 from 14% in the three months ended June 30, 2019. Research and development expense as a percent of total revenue decreased to 12% in the six months ended June 30, 2020 from 13% in the six months ended June 30, 2019. The decrease in research and development expense as a percent of total revenue was primarily attributable to increased total revenue in excess of increased research and development expense.

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 20% to \$33.0 million in the three months ended June 30, 2020 from \$27.5 million in the three months ended June 30, 2019. General and administrative expense increased 14% to \$61.5 million in the six months ended June 30, 2020 from \$53.8 million in the six months ended June 30, 2019. The increase during the three months ended June 30, 2020 was primarily attributable to a net increase in headcount-related expense including stock-based compensation of \$3.0 million and general increases in operating expenses. The increase during the six months ended June 30, 2020 was primarily attributable to a net increase in headcount-related expense including stock-based compensation of \$3.4 million and general increases in operating expenses.

General and administrative expense as a percent of total revenue decreased to 16% in the three months ended June 30, 2020 from 20% in the three months ended June 30, 2019. General and administrative expense as a percent of total revenue decreased to 17% in the six months ended June 30, 2020 from 20% in the six months ended June 30, 2019. The decrease in general and administrative expense as a percent of total revenue was primarily attributable to increased revenue in excess of increased general and administrative expense.

Foreign Currency Exchange Gain (Loss), Net

Foreign currency transaction gains and losses are included in foreign currency exchange gain (loss), net. The foreign currency exchange losses, net of \$33,000 in the three months ended June 30, 2020 and \$171,000 in the six months ended June 30, 2020 were not material to the consolidated financial statements.

Interest Income and Other Income

Interest income and other income primarily consists of interest income from cash and cash equivalents. Interest income and other income decreased to \$6,000 in the three months ended June 30, 2020 from \$52,000 in the three months ended June 30, 2019. Interest income and other income decreased to \$32,000 in the six months ended June 30, 2020 from \$117,000 in the six months ended June 30, 2019. Interest and other income is not material to the consolidated financial statements.

Interest Expense

Through June 30, 2020, interest expense consists of interest expense from the debt under our credit facility dated November 18, 2015 and the associated accretion of debt issuance costs. Interest expense decreased to \$456,000 in the three months ended June 30, 2020 from \$645,000 in the three months ended June 30, 2019. Interest expense decreased to \$923,000 in the six months ended June 30, 2020 from \$1.4 million in the six months ended June 30, 2019. Interest expense in the 2020 period was affected primarily by lower interest rates and lower outstanding debt balances under our credit facility dated November 18, 2015. During the second quarter of 2020, the Company repaid the existing debt. See *Note 13 - "Debt"* in our Notes to Consolidated Financial Statements and *Liquidity and Capital Resources* below for further description.

Provision for Income Taxes

Our income tax expense was \$9.0 million and \$16.1 million for the three and six months ended June 30, 2020, respectively. Our income tax expense was \$7.7 million and \$14.4 million for the three and six months ended June 30, 2019, respectively. Income taxes expected at the US federal statutory income tax rate of 21 percent differ from the reported income tax expense primarily as a result of permanent tax adjustments for non-deductible expenses, state taxes, and tax benefits from research and development tax credits and exercises of stock-based awards.

See Note 7 — “Income Taxes” in our Notes to Consolidated Financial Statements for further discussion.

Liquidity and Capital Resources

Changes in cash and cash equivalents for the six months ended June 30, 2020 and June 30, 2019 were as follows (in thousands):

	Six Months Ended June 30,		Change
	2020	2019	
Net cash provided by operating activities	\$ 124,004	\$ 54,324	\$ 69,680
Net cash used in investing activities	(2,347)	(610)	(1,737)
Net cash provided by (used in) financing activities	(2,747)	(57,871)	55,124
Effect of exchange rate changes	(164)	113	(277)
Net increase (decrease) in cash and cash equivalents	\$ 118,746	\$ (4,044)	\$ 122,790

As of June 30, 2020 and December 31, 2019, we had \$275.1 million and \$156.3 million, respectively, primarily in cash and cash equivalents.

Net cash provided by operating activities was approximately \$124.0 million and \$54.3 million during the six months ended June 30, 2020 and June 30, 2019, respectively. The increase in net cash provided by operating activities was primarily attributable to the following changes in the consolidated statement of cash flows line items: \$32.4 million increase in cash flows from accounts payable and other current liabilities, a \$8.7 million increase in cash flows from prepaid expenses, a \$5.3 million increase in cash flows from stock-based compensation expense, and a \$5.1 million increase in cash flows from net accounts receivable, partially offset by a \$8.3 million decrease in cash flows from current income taxes primarily due to the prior year decrease in current income taxes, a \$7.4 million decrease in cash flows from other current assets, and a \$5.9 million decrease in cash flows from other assets.

Net cash used in investing activities was approximately \$2.3 million and \$0.6 million during the six months ended June 30, 2020 and June 30, 2019, respectively. The increase in net cash used in investing activities was primarily attributable to the increase in property and equipment cash outflows.

Net cash used in financing activities was approximately \$2.7 million and \$57.9 million during the six months ended June 30, 2020 and June 30, 2019, respectively. The decrease in net cash used in financing activities was primarily due to the \$35.9 million increase in proceeds received from stock option exercises, the \$34.2 million decrease in common stock repurchases, the \$31.2 million increase in cash flows due to the increase in short term financing obligations, offset by the \$45.4 million increase in term loan principal payments, including the optional prepayment of the remaining debt balance.

Significant contractual obligations as of June 30, 2020 were as follows (in thousands):

	Payments due by period				
	Total	Less than 1 year	1-3 Years	3-5 Years	More than 5 years
Debt Obligations ⁽¹⁾	\$ —	\$ —	\$ —	\$ —	\$ —
Estimated Interest on Debt Obligations ⁽¹⁾	—	—	—	—	—
Capital Lease Obligations	—	—	—	—	—
Operating Lease Obligations ⁽²⁾	19,189	5,575	8,190	3,385	2,039
Purchase Obligations	—	—	—	—	—
Other Long-Term Liabilities	—	—	—	—	—
Total	\$ 19,189	\$ 5,575	\$ 8,190	\$ 3,385	\$ 2,039

(1) The Company has no outstanding debt obligations as of June 30, 2020. See additional details described below.

(2) Amounts represent the undiscounted cash lease payments under non-cancelable leases.

During the second quarter of 2020, the Company repaid the existing term loan balance outstanding under the Credit Agreement dated November 18, 2015. The optional prepayment satisfied the \$47.5 million term loan balance in full.

On June 29, 2020, we entered into a revolving credit facility (the "Amended Credit Agreement") with a group of banks, which provides for a revolving credit facility with a maximum borrowing of \$130.0 million. Our Amended Credit Agreement matures on June 29, 2022 (the "Maturity Date"). The Amended Credit Agreement is secured by substantially all of our assets. In connection with entering into the Amended Credit Agreement, we incurred approximately \$762,000 in creditor and third-party fees which were recorded as deferred expense and will be accreted as interest expense over the life of the Amended Credit Agreement. See *Note 13 - "Debt"* in our Notes to Consolidated Financial Statements for further description.

The COVID-19 pandemic and resulting global disruptions have caused significant market volatility. This disruption can contribute to defaults in our accounts receivable, affect asset valuations resulting in impairment charges, and affect the availability of credit. We expect to continue to maintain financing flexibility in the current market conditions. However, due to the rapidly evolving global situation, it is not possible to predict whether unanticipated consequences of the pandemic are reasonably likely to materially affect our liquidity and capital resources in the future.

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.

Business Outlook and Forward-Looking Statements

The following forward-looking statements are accompanied by, and should only be read in conjunction with, the qualifications and limitations described in the forward-looking statements discussion at the beginning of this Item 2 and the risks and other factors set forth in Item 1A of Part II of our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2020, filed with the SEC on May 8, 2020, and in Item 1A "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2019, filed with the SEC on March 2, 2020.

We expect our mailing and shipping revenue to increase in 2020 compared to 2019.

The USPS eliminated its customized postage program and also revoked our authorization to offer products pursuant to that program effective June 16, 2020. The revenue and cost of revenue associated with these products appear on our financial statements as "Customized Postage." As a result, we do not expect material customized postage revenue or cost of revenue after June 2020.

We expect our sales and marketing expenses to be higher in 2020 as compared to 2019 and we expect the percent increase in sales and marketing expense in 2020 to be greater than the percent increase in 2019. The increases are as a result of the annualized effect of our headcount investments in 2019, and our plan to increase our investments in headcount resources and spending in discretionary marketing channels in 2020 to drive growth. We will continue to monitor our customer metrics and the state of the economy and adjust our level of spending accordingly. Sales and marketing spend is expensed in the period incurred, while the revenue and profits associated with the acquired customers are earned over the customers' lifetimes. As a

result, increased sales and marketing spend in future periods could result in a reduction in operating profit and cash flow compared to past periods.

We expect research and development expenses to be higher in 2020 as compared to 2019 and we expect the percent increase in research and development expense in 2020 to be less than the percent increase in 2019. The increases are a result of the annualized effect of our headcount investments in 2019, and our plan to increase our investments in headcount resources in 2020 to drive growth.

We expect general and administrative expenses to be higher in 2020 as compared to 2019 and we expect the percent increase in general and administrative expense in 2020 to be less than the percent increase in 2019. The increase is a result of the annualized effect of our headcount investments in 2019, and our plan to increase our investments in headcount resources in 2020.

We expect our stock-based compensation expense in 2020 to be similar to 2019 due to an increase in the weighted average grant date fair values of options granted in 2020 relative to non-vested options at December 31, 2019.

Absent borrowings, we expect our interest expense in 2020 to be lower than 2019 due to lower average outstanding debt balances under our credit facility.

We expect our effective tax rate for 2020 to be lower than 2019; however, there are factors that impact taxable income compared to book income which can be difficult to predict and can change from quarter-to-quarter.

As discussed earlier in this Report, our expectations are subject to substantial uncertainty and 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 qualifications and limitations on forward-looking statements discussion in the beginning of Item 2 of this Report and the risks and other factors set forth in Item 1A of Part II of our Quarterly Report on Form 10-Q filed with the SEC on May 8, 2020, and Item 1A "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on March 2, 2020, including those related to the ongoing COVID-19 pandemic. Our business has grown through acquisitions during 2014 through 2018; however the expectations above do not assume any future acquisitions or dispositions, any of which could have a significant impact on our current expectations. As described in our forward-looking statements discussion, we do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances after the date of this Report.

Critical Accounting Policies and Judgments

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 Policies and Judgments" of our Annual Report on Form 10-K for the year ended December 31, 2019, filed with the SEC on March 2, 2020.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Borrowings under our Amended Credit Agreement bear interest, at our option, at the base rate, as defined, plus an applicable margin or a London Interbank Offered Rate (LIBOR) plus an applicable margin, in each case such margin will be between 1.25% and 3.00% and is determined by certain financial measures. There were no amounts drawn on the revolving credit facility as of June 30, 2020. See *Note 13 - "Debt"* in our Notes to Consolidated Financial Statements for further description.

We have foreign currency risks related to our revenue and operating expenses denominated in currencies other than the US dollar, primarily the British Pound Sterling. Accordingly, changes in exchange rates could negatively affect our results. We have experienced and will continue to experience fluctuations in our net income as a result of transaction gains or losses related to revaluing monetary asset and liability balances that are denominated in currencies other than the functional currency of the entities in which they are recorded.

We do not hold or issue financial instruments for trading purposes. We do not have material exposure to market risk with respect to investments. We do not use derivative financial instruments for speculative or trading purposes. Nor do we use forwards, options or other derivative instruments to hedge our forecast cash flow currency exposures, our foreign currency intercompany transactions or otherwise. However, we may adopt specific hedging strategies in the future. Our cash balances would not be materially affected by significant changes in exchange rates.

Our cash equivalents consist of money market securities and had a weighted average maturity of 1 day and a weighted average interest rate of 0.1% at June 30, 2020. The aggregate value of our cash and cash equivalents was \$275.1 million at June 30, 2020. 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-term 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.

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 Exchange Act).

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, 2020, 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.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See *Note 3 - "Commitments and Contingencies"* of our Notes to Consolidated Financial Statements, which is incorporated herein by reference.

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, 2019 filed with the SEC on March 2, 2020, other than those disclosed in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, filed with the SEC on May 8, 2020.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**Issuer Purchases of Equity Securities**

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, 2020 - April 30, 2020	22,389	\$ 140.05	22,389	\$ 11,850
May 1, 2020 - May 31, 2020	15,965	\$ 187.38	15,965	\$ 8,850
June 1, 2020 - June 30, 2020	17,985	\$ 181.78	17,985	\$ 5,550

On March 8, 2019, our board of directors approved a \$60 million share repurchase plan which was scheduled to expire in September 2019. On May 1, 2019, our board of directors adjusted the repurchase parameters of the plan such that it was expected to repurchase a further \$9 million, between May 9, 2019 and the plan's initially scheduled expiration in September 2019 in addition to the \$24 million purchased under the plan prior to such period. On July 29, 2019 and October 31, 2019, our board of directors approved further adjustments to the plan to extend its term. On February 13, 2020, our board of directors approved a new share repurchase plan, which became effective February 24, 2020, that replaced our prior stock repurchase plan and authorized the Company to repurchase up to \$40 million of stock over the six months following its effective date. On February 28, 2020, our board of directors adjusted the repurchase parameters of the plan in response to increased market volatility, resulting in an expected aggregate repurchase thereunder of up to approximately \$19 million through the plan's scheduled expiration in August 2020. On August 3, 2020, our Board of Directors approved termination of the current plan ahead of schedule and approved a new share repurchase program that will take effect on August 11, 2020, following such termination. The new plan authorizes us to repurchase up to \$40 million of stock over approximately six months following its effective date.

From time to time we withhold shares of our stock to satisfy income tax obligations related to performance-based or restricted equity awards. See *Note 1 - "Summary of Significant Accounting Policies-Treasury Stock"* in our Notes to Consolidated Financial Statements included elsewhere in this filing.

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, as well as restrictions under our Amended Credit Agreement. 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.

ITEM 6. EXHIBITS

10.1	Amended and Restated Credit Agreement, dated as of June 29, 2020, by and among Stamps.com Inc., Wells Fargo Bank, National Association, JPMorgan Chase Bank, N.A., and Bank of America, N.A. Portions of this exhibit have been omitted pursuant to Rule 601(b)(10) of Regulation S-K as not material and likely to cause competitive harm to the registrant if publicly disclosed. (1)
10.2	Reaffirmation and Amendment Agreement, dated as of June 29, 2020, by and among Stamps.com Inc. in favor of Wells Fargo Bank, National Association as administrative agent for the benefit of the Secured Parties (as defined therein). (1)
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 - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

(1) Incorporated herein by reference to the Company's Form 8-K filed with the Securities and Exchange Commission on July 6, 2020 (File No. 000-26427).

* Furnished, not filed.

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)

Date: August 7, 2020

By: /s/ KEN MCBRIDE
Ken McBride
Chairman and Chief Executive Officer

Date: August 7, 2020

By: /s/ JEFF CARBERRY
Jeff Carberry
Chief Financial Officer

**Certification Pursuant to Section 302
of the Sarbanes-Oxley Act of 2002**

I, Ken McBride, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Stamps.com Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2020

/s/ KEN MCBRIDE

Ken McBride
Chairman and Chief Executive Officer
(Principal Executive Officer)

**Certification Pursuant to Section 302
of the Sarbanes-Oxley Act of 2002**

I, Jeff Carberry, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Stamps.com Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2020

/s/ JEFF CARBERRY

Jeff Carberry
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Stamps.com Inc. (the "Company") on Form 10-Q for the period ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ken McBride, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: August 7, 2020

/s/ KEN MCBRIDE

Ken McBride
Chairman and Chief Executive Officer
(Principal Executive Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Stamps.com Inc. (the "Company") on Form 10-Q for the period ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeff Carberry, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: August 7, 2020

/s/ JEFF CARBERRY

Jeff Carberry
Chief Financial Officer
(Principal Financial Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.