
**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 **March 31, 2019**

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)

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 and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the 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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

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	The NASDAQ Stock Market

- As of April 30, 2019, there were 17,316,796 shares of the Registrant's Common Stock outstanding.
-

STAMPS.COM INC. AND SUBSIDIARIES
FORM 10-Q QUARTERLY REPORT FOR THE QUARTER ENDED MARCH 31, 2019

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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)
(Unaudited)

	March 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 110,925	\$ 113,757
Accounts receivable, net	76,079	83,595
Current income taxes	1,723	8,465
Prepaid expenses	15,355	13,072
Other current assets	13,491	10,722
Total current assets	217,573	229,611
Property and equipment, net	35,101	36,337
Goodwill	384,506	381,710
Intangible assets, net	159,460	163,859
Deferred income taxes, net	29,874	29,874
Lease right-of-use assets	17,159	—
Other assets	12,736	11,383
Total assets	<u>\$ 856,409</u>	<u>\$ 852,774</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 119,237	\$ 133,626
Deferred revenue	7,301	7,159
Current portion of debt, net of debt issuance costs	10,970	10,454
Current portion of lease right-of-use liabilities	3,884	—
Total current liabilities	141,392	151,239
Long-term debt, net of debt issuance costs	47,188	50,189
Deferred income taxes, net	18,749	18,665
Long-term portion of lease right-of-use liabilities	14,533	—
Other liabilities	19,918	19,016
Total liabilities	241,780	239,109
Commitments and contingencies (Note 3)		
Stockholders' equity:		
Common stock, \$.001 par value per share		
Authorized shares: 47,500 in 2019 and 2018		
Issued shares: 33,089 in 2019 and 33,042 in 2018		
Outstanding shares: 17,472 in 2019 and 17,662 in 2018	56	56
Additional paid-in capital	1,063,007	1,049,669
Treasury stock, at cost, 15,617 shares in 2019 and 15,380 in 2018	(560,620)	(528,529)
Retained earnings	107,467	91,712
Accumulated other comprehensive income	4,719	757
Total stockholders' equity	614,629	613,665
Total liabilities and stockholders' equity	<u>\$ 856,409</u>	<u>\$ 852,774</u>

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

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

	Three Months Ended March 31,	
	2019	2018
Revenues:		
Service	\$ 123,907	\$ 120,916
Product	5,405	5,679
Insurance	3,334	4,368
Customized postage	3,357	2,580
Other	—	22
Total revenues	136,003	133,565
Cost of revenues (exclusive of amortization of intangible assets, which is included in general and administrative expense):		
Service	32,235	20,649
Product	1,673	1,751
Insurance	—	998
Customized postage	2,431	2,129
Total cost of revenues	36,339	25,527
Gross profit	99,664	108,038
Operating expenses:		
Sales and marketing	32,881	25,748
Research and development	17,314	12,073
General and administrative	26,228	21,016
Total operating expenses	76,423	58,837
Income from operations	23,241	49,201
Foreign currency exchange gain (loss), net	(95)	—
Interest expense	(714)	(590)
Interest income and other income, net	65	49
Income before income taxes	22,497	48,660
Income tax expense	6,742	1,616
Net income	\$ 15,755	\$ 47,044
Net income per share:		
Basic	\$ 0.90	\$ 2.67
Diluted	\$ 0.87	\$ 2.54
Weighted average shares outstanding:		
Basic	17,547	17,644
Diluted	18,015	18,511

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 March 31,	
	2019	2018
Net income	\$ 15,755	\$ 47,044
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	3,966	—
Unrealized gain (loss) on investments	(4)	1
Comprehensive income	<u>\$ 19,717</u>	<u>\$ 47,045</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)

Three Months Ended March 31, 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	<u>17,472</u>	<u>\$ 56</u>	<u>\$ 1,063,007</u>	<u>\$ (560,620)</u>	<u>\$ 107,467</u>	<u>\$ 4,719</u>	<u>\$ 614,629</u>

Three Months Ended March 31, 2018

	Common Stock		Additional Paid-in Capital	Treasury Stock at Cost	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount					
Balance at December 31, 2017	17,573	\$ 55	\$ 962,227	\$ (387,545)	\$ (76,930)	\$ 6	\$ 497,813
Net income	—	—	—	—	47,044	—	47,044
Other comprehensive income (loss)	—	—	—	—	—	1	1
Issuance of shares for performance-based awards	56	—	—	—	—	—	—
Stock-based compensation expense	—	—	7,548	—	—	—	7,548
Exercise of stock options	380	—	19,632	—	—	—	19,632
Shares issued under the Employee Stock Purchase Plan	15	—	1,981	—	—	—	1,981
Stock repurchase, excluding tax withholding stock repurchase	(120)	—	—	(23,221)	—	—	(23,221)
Tax withholding stock repurchase	(21)	—	—	(4,144)	—	—	(4,144)
Balance at March 31, 2018	<u>17,883</u>	<u>\$ 55</u>	<u>\$ 991,388</u>	<u>\$ (414,910)</u>	<u>\$ (29,886)</u>	<u>\$ 7</u>	<u>\$ 546,654</u>

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

	Three Months Ended	
	March 31,	
	2019	2018
Operating activities:		
Net income	\$ 15,755	\$ 47,044
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,036	5,335
Stock-based compensation expense	8,857	7,548
Deferred income tax expense	—	872
Accretion of debt issuance costs	93	93
Changes in operating assets and liabilities, net of assets and liabilities acquired:		
Accounts receivable	7,639	(11,267)
Prepaid expenses	(2,750)	(1,190)
Other current assets	(2,765)	(413)
Current income taxes	6,742	696
Lease right-of-use assets	715	—
Other assets	(1,353)	37
Deferred revenue	115	(29)
Lease right-of-use liabilities	(781)	—
Other liabilities	899	872
Accounts payable and accrued expenses	(6,758)	5,690
Net cash provided by operating activities	33,444	55,288
Investing activities:		
Acquisition of property and equipment	(262)	(447)
Net cash used in investing activities	(262)	(447)
Financing activities:		
Proceeds from short term financing obligations, net of repayments	(5,850)	(938)
Principal payments on term loan	(2,578)	(2,062)
Proceeds from exercise of stock options	2,381	19,632
Issuance of common stock under Employee Stock Purchase Plan	2,100	1,981
Repurchase of common stock	(31,998)	(27,365)
Payments related to tax withholding for share-based compensation	(93)	(4,144)
Net cash used in financing activities	(36,038)	(12,896)
Effect of exchange rate changes	24	—
Net (decrease) increase in cash and cash equivalents	(2,832)	41,945
Cash and cash equivalents at beginning of period	113,757	153,903
Cash and cash equivalents at end of period	\$ 110,925	\$ 195,848
Supplemental information:		
Cash paid for amounts included in the measurement of lease liabilities included in cash provided by operating activities	\$ 1,132	\$ —
Lease liabilities arising from obtaining right-of-use assets	\$ 5,482	\$ —

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 (U.S.) generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to such rules and regulations. We believe that the disclosures are adequate to make the information presented not misleading. We recommend that these 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, 2018, filed with the SEC on March 1, 2019.

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 March 31, 2019, our results of operations for the three months ended March 31, 2019, and our cash flows for the three months ended March 31, 2019. 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, 2019.

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, which includes Auctane LLC (ShipStation), Interapptive, Inc. (ShipWorks), MetaPack Limited (MetaPack), PhotoStamps Inc., PSI Systems, Inc. (Endicia), and ShippingEasy Group, Inc. (ShippingEasy). 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 U.S. 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 the fair value of assets and liabilities for allocation of the purchase price of companies acquired.

Prior Period Reclassifications

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

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. Historically, the primary items that have generated goodwill include anticipated synergies between the acquired business and the Company and the acquired assembled workforce, neither of which qualifies for recognition as an intangible asset. Acquisition-related expenses are recognized in our consolidated financial statements as incurred.

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

Contingencies and Litigation

In the ordinary course of business, we are subject to various routine litigation matters as a claimant and a defendant. We record any amounts recovered in these matters when received. We 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 \$4.2 million of revenue recognized in the three months ended March 31, 2019 was included in the deferred revenue balance at December 31, 2018. Approximately \$2.1 million of revenue recognized in the three months ended March 31, 2018 was included in the deferred revenue balance at December 31, 2017.

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. The Company's outstanding debt held by third-party financial institutions is carried at cost, adjusted for debt issuance costs. The Company's debt is not publicly traded and the carrying amount typically approximates fair value for debt that accrues interest at a variable rate for companies with similar financial characteristics as the Company, which are considered Level 2 fair value inputs as defined in Note 8 in our Consolidated Financial Statements.

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 U.S. 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 U.S. 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 a business combination. 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.

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

Goodwill is reviewed for impairment annually on October 1 utilizing either a qualitative assessment or a two-step process. 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 two-step process, the first step requires us to 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, there is an indication that impairment may exist and the second step is required. In step two, the implied fair value of goodwill is calculated as the excess of the fair value of the reporting unit over the fair values assigned to its assets and liabilities. If the implied fair value of goodwill is less than the carrying value of the reporting unit's goodwill, the difference is recognized as an impairment loss. As of March 31, 2019, 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 March 31, 2019, 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) 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

On January 1, 2019, we adopted a new lease accounting standard (ASC Topic No. 842, *Leases (Leases)*) that sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both lessees and lessors. For information regarding the impact of adoption, see “*Summary of Significant Accounting Policies - Accounting Guidance Adopted in 2019.*”

Under *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 keep leases with an initial term of 12 months or less off the balance sheet and recognize the associated lease payments in the consolidated statements of income on a straight-line basis over the lease term.

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 condensed 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 income.

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. Revenue is earned over the period of time that the customers have access to the platform which is typically month-to-month; (2) we have been, and in the future potentially could be, compensated directly by the USPS and/or other 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 that have access to our platform when they purchase postage or print shipping labels, 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.

Customers may purchase postage and other delivery services from the USPS and other 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 shipping labels, mailing labels, dedicated postage printers, scales, and other mailing and shipping-focused office supplies. We recognize product revenue on product purchases upon delivery of the order to the customer.

We provide our customers with the opportunity to purchase parcel insurance directly through our solutions. Beginning on October 1, 2018, insurance revenue represents the amount we receive from customers net of the costs paid to our insurance providers. For the periods presented prior to October 1, 2018, insurance revenue represented the gross amount charged to the customer for purchasing insurance and the insurance cost of revenues represented the amount 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.

On a limited basis, we allow third parties to offer products and promotions to our customer base. These arrangements generally provide payment in the form of a flat fee or revenue sharing arrangements where we receive payment upon customers accessing third party products and services. Total revenue from such advertising arrangements was not significant during the three months ended March 31, 2019 or March 31, 2018, respectively.

Segment Information

We have organized our operations into 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, 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 March 31, 2019, we had \$18.0 million in short-term financing obligations and \$50.1 million of unused credit. As of December 31, 2018, we had \$23.8 million in short-term financing obligations and \$96.7 million of unused credit.

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

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 U.S. Treasury zero-coupon issues with a remaining term equal to the expected life of the options assumed at the date of grant. The estimated expected life represents the weighted average period the stock options are expected to remain outstanding, determined based on an analysis of historical exercise behavior.

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 three months ended March 31, 2019 and March 31, 2018, we repurchased approximately 235,461 shares and 120,000 shares for \$32.0 million and \$23.2 million, respectively. Also, in the first quarter of 2019 and the first quarter of 2018, we withheld 1,039 and 21,076 of shares, respectively, to satisfy income tax obligations related to performance-based inducement equity awards issued to the General Manager and the then Chief Technology Officer of ShippingEasy.

Accounting Guidance Adopted in 2019

Disclosure Update and Simplification

In August 2018, the SEC adopted the final rule under SEC Release No. 33-10532, Disclosure Update and Simplification, amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. In addition, the amendments expanded the disclosure requirements on the analysis of stockholders' equity for interim financial statements. Under the amendments, an analysis of changes in each caption of stockholders' equity presented in the balance sheet must be provided in a note or separate statement. The analysis should present a reconciliation of the beginning balance to the ending balance of each period for which a statement of comprehensive income is required to be filed. The Company adopted the new presentation for its consolidated statement of stockholders' equity in the first quarter of 2019.

Leases

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases*, a new accounting standard for leases. The new standard generally requires the recognition of financing and operating lease liabilities and corresponding ROU assets on the balance sheet. For financing leases, a lessee recognizes amortization of the ROU asset as an operating expense over the lease term separately from interest on the lease liability. For operating leases, a lessee recognizes its total lease expense as an operating expense over the lease term.

We adopted the new guidance on January 1, 2019 using the modified retrospective transition approach. We elected the practical expedient to apply the new standard to all leases existing at the date of initial application and not restating comparative periods. We also elected the package of practical expedients permitted under the transition guidance, which allowed us to carryforward our historical lease classification of finance or operating lease, our assessment on whether a contract was or contains a lease, and our initial direct costs for any leases that existed prior to January 1, 2019.

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The adoption of the new standard on January 1, 2019 resulted in recording operating lease ROU assets and operating lease liabilities of approximately \$11.8 million and \$13.6 million, respectively. The adoption did not impact our beginning retained earnings, or our prior year condensed consolidated statements of income and statements of cash flows.

For information regarding the accounting policy and required disclosures under the new standard, see “*Summary of Significant Accounting Policies - Leases*” and *Note 11 - “Leases,”* respectively.

Accounting Guidance Not Yet Adopted

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 will become effective on a prospective basis for the Company on January 1, 2020 and is not expected to have a material impact on the Company's consolidated financial statements.

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 will be required to use a forward-looking expected credit loss model for accounts receivables, loans, and other financial instruments. The guidance will become effective for the Company on January 1, 2020 using a modified retrospective approach with early adoption permitted. We are evaluating the impact of adopting this guidance on the Company's consolidated financial statements.

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.

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.

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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 preliminary allocation of the purchase price. The Company has made a preliminary allocation of the purchase price of MetaPack to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair value. The preliminary allocation of the purchase price is based upon management's estimates and is subject to revision, as a more detailed analysis of intangible assets and tax and other liabilities is completed and additional information on the fair value of assets and liabilities becomes available. A change in the fair value of the net assets may change the amount of the purchase price allocable to goodwill, and could impact the amounts of amortization expense.

The purchase price of MetaPack has been allocated on a preliminary basis as follows to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair value 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	141,468			
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 accrued expenses	(13,415)			
Deferred revenue	(1,145)			
Revolving credit facility	(12,716)			
Deferred income tax liability	(19,288)			
Other liabilities	(824)			
Total purchase consideration	<u>\$ 217,686</u>			

The fair value of the assets acquired and liabilities assumed were preliminarily 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.

Deferred taxes were adjusted to record the deferred tax impact of acquisition accounting adjustments primarily related to intangible assets. The incremental deferred tax liabilities were calculated based on the tax effect of the step-up in book basis of the net assets of MetaPack, excluding the amount attributable to goodwill, using the estimated statutory tax rates.

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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.

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 8, 2018, a putative class action complaint was filed against us in a case entitled *Juan Lopez and Nicholas Dixon v. Stamps.com, Inc.*, Case No. 2:18-cv-01101, in the United States District Court for the Central District of California, Western Division, alleging wage and hour claims on behalf of our current and former "non-exempt" hourly call center employees. The complaint sought class certification, unspecified damages, unpaid wages, penalties, restitution, interest, and attorneys' fees and costs. On July 24, 2018, we entered into a preliminary settlement that would resolve this matter for a non-material payment to be distributed to the participating class members. The court granted preliminary approval of the settlement and, at a hearing held on April 29, 2019, requested additional documentation. Therefore the timing of final approval of the settlement is now pending court approval at a time convenient to the court.

On February 28, 2019, a putative class action complaint was filed against us in a case entitled *Grabisch v. Stamps.com, Inc. et al*, Case No. 2:19-cv-01497, in the United States District Court for the Central District of California, Western Division, alleging violations of the Securities Exchange Act of 1934 purportedly on behalf of all those who purchased, or otherwise acquired, Stamps.com common stock between May 3, 2017 and February 21, 2019. On March 13, 2019, a second putative class action complaint, with the same allegations, was filed against us in a case entitled *Karinski v. Stamps.com, Inc. et al*, Case 2:19-cv-01828, in the United States District Court for the Central District of California, Western Division. On April 22, 2019, the Grabisch action was dismissed in its entirety without prejudice. The remaining Karinski complaint seeks class certification, unspecified damages, attorneys' fees and costs. Lead plaintiff motions were filed on April 29, 2019, but a lead plaintiff has not yet been appointed and a consolidated complaint has not yet been filed. We believe that the case is without merit and intend to defend this case vigorously. Due to the very recent filing date 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 March 31, 2019 or December 31, 2018.

Although management at present believes that the ultimate outcome of the various routine 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 March 31, 2019. 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 March 31,	
	2019	2018
Net income	\$ 15,755	\$ 47,044
Basic - weighted average common shares	17,547	17,644
Diluted effect of common stock equivalents	468	867
Diluted - weighted average common shares	18,015	18,511
Earnings per share:		
Basic	0.90	2.67
Diluted	0.87	2.54

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

	Three Months Ended March 31,	
	2019	2018
Anti-dilutive stock options	1,153	95

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5. 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 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. Starting in the third quarter of fiscal 2016 through the fourth quarter of fiscal 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 performance-based 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 March 31,	
	2019	2018
Stock-based compensation expense relating to:		
Stock options	\$ 8,497	\$ 7,191
Employee stock purchases	393	357
Total stock-based compensation expense	\$ 8,890	\$ 7,548
Stock-based compensation expense relating to:		
Cost of revenues	\$ 646	\$ 483
Sales and marketing	2,054	1,518
Research and development	2,304	1,927
General and administrative	3,886	3,620
Total stock-based compensation expense	\$ 8,890	\$ 7,548

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

	Three Months Ended March 31,	
	2019	2018
Expected dividend yield	—%	—%
Risk-free interest rate	2.5%	2.3%
Expected volatility	54.7%	50.5%
Expected life (in years)	3.3	3.4

6. Goodwill and 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.

The following table summarizes goodwill as of December 31, 2018 and March 31, 2019 (in thousands):

	Stamps.com Segment	MetaPack Segment	Total
Goodwill balance at December 31, 2018	\$ 239,705	\$ 142,005	\$ 381,710
Foreign currency translation	—	2,796	2,796
Goodwill balance at March 31, 2019	\$ 239,705	\$ 144,801	\$ 384,506

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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 \$227.7 million at March 31, 2019 and \$226.5 million at December 31, 2018. Non-amortizable assets of \$11.4 million as of both March 31, 2019 and December 31, 2018 consist primarily of the trade name relating to the Endicia acquisition.

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

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Remaining weighted average amortization period (years)
Patents and Others	\$ 8,889	\$ 8,877	\$ 12	0.2
Customer Relationships	110,778	36,586	74,192	8.4
Technology	81,360	19,407	61,953	10.1
Non-Compete	2,211	1,725	486	2.2
Trademarks and Trade Names	13,107	1,679	11,428	10.6
Total amortizable intangible assets at March 31, 2019	<u>\$ 216,345</u>	<u>\$ 68,274</u>	<u>\$ 148,071</u>	9.1

The following table summarizes our amortizable intangible assets as of December 31, 2018 (in thousands, except years):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Remaining weighted average amortization period (years)
Patents and Others	\$ 8,889	\$ 8,866	\$ 23	0.5
Customer Relationships	110,194	33,299	76,895	8.6
Technology	80,878	17,451	63,427	10.3
Non-Compete	2,211	1,668	543	2.4
Trademarks and Trade Names	12,977	1,395	11,582	10.8
Total amortizable intangible assets at December 31, 2018	<u>\$ 215,149</u>	<u>\$ 62,679</u>	<u>\$ 152,470</u>	9.4

We recorded amortization of intangible assets totaling approximately \$5.6 million for the three months ended March 31, 2019. We recorded amortization of intangible assets totaling approximately \$4.0 million for the three months ended March 31, 2018. Amortization of intangible assets is included in general and administrative expense in the accompanying consolidated statements of income.

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

Twelve Month Period Ending March 31,	Estimated Amortization Expense
2020	\$ 22,206
2021	21,948
2022	17,070
2023	10,022
2024	9,675
Thereafter	67,150
Total	<u>\$ 148,071</u>

7. Income Taxes

Our income tax expense was \$6.7 million for the three months ended March 31, 2019. The income tax expense for the three months ended March 31, 2019 was primarily due to (a) our pre-tax income multiplied by an estimated annual effective tax rate and (b) discrete tax benefits related to the exercises of stock awards of approximately \$0.4 million. Our income tax expense was \$1.6 million for the three months ended March 31, 2018. The income tax expense for the three months ended March 31, 2018 was primarily due to (a) our pre-tax income multiplied by an estimated annual effective tax rate and (b) discrete tax benefits related to the exercises of stock awards of approximately \$10.7 million.

Our effective income tax rate differs from the statutory income tax rate 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 March 31, 2019 and December 31, 2018, we have recorded a valuation allowance of \$1.3 million and \$1.2 million 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.

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 March 31, 2019 and December 31, 2018 (in thousands):

Description	March 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	\$ 110,925	\$ 110,925	—	—
Total	\$ 110,925	\$ 110,925	—	—

Description	December 31, 2018	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	\$ 113,757	\$ 113,757	—	—
Total	\$ 113,757	\$ 113,757	—	—

9. Cash and Cash Equivalents

Our cash equivalents consisted of money market funds at March 31, 2019 and December 31, 2018. 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 March 31, 2019 and December 31, 2018, we had no material investments.

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The following tables summarize our cash and cash equivalents as of March 31, 2019 and December 31, 2018 (in thousands):

	March 31, 2019			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash	\$ 104,234	—	—	\$ 104,234
Money market	6,691	—	—	6,691
Cash and cash equivalents	\$ 110,925	—	—	\$ 110,925

	December 31, 2018			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash	\$ 107,118	—	—	\$ 107,118
Money market	6,639	—	—	6,639
Cash and cash equivalents	\$ 113,757	—	—	\$ 113,757

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. Following the MetaPack acquisition (see Note 2) in 2018, the Company added a new segment for the MetaPack business. Previously, the Company had a single reportable segment.

The Stamps.com segment derives revenue from external customers from offering postage online and shipping software solutions offered 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, 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 outside the US.

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.

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Information about segments during the periods presented were as follows (in thousands):

	Three Months Ended March 31,	
	2019	2018
Segment revenues		
Stamps.com	\$ 122,904	\$ 133,565
MetaPack	13,099	—
Total revenues	<u>\$ 136,003</u>	<u>\$ 133,565</u>
Segment income (loss) from operations		
Stamps.com	\$ 25,311	\$ 49,201
MetaPack	(2,070)	—
Total income from operations	<u>\$ 23,241</u>	<u>\$ 49,201</u>
Company's total segment income from operations	\$ 23,241	\$ 49,201
Foreign currency exchange gain (loss), net	(95)	—
Interest expense	(714)	(590)
Interest income and other income, net	65	49
Income before income taxes	<u>\$ 22,497</u>	<u>\$ 48,660</u>

Geographic Data

No sales to an individual customer or country other than the US accounted for more than 10% of revenue for the three months ended March 31, 2019 or March 31, 2018. The following table presents our revenues by geography, based on the billing addresses of our customers (in thousands, unaudited):

	Three Months Ended March 31,	
	2019	2018
Revenues		
United States	\$ 122,700	\$ 132,955
International	13,303	610
Total revenues	<u>\$ 136,003</u>	<u>\$ 133,565</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 months ended March 31, 2019 was approximately \$1.1 million. Operating lease cost for the three months ended March 31, 2018 was approximately \$933,000.

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The following table is a schedule of maturities of operating lease liabilities as of March 31, 2019 (in thousands):

Twelve Month Period Ending March 31,	Operating Lease Obligations
2020	\$ 4,774
2021	4,834
2022	3,763
2023	3,089
2024	2,317
Thereafter	2,435
Total undiscounted cash flows	21,212
Less amount representing interest	(2,795)
Present value of lease liabilities	\$ 18,417

The table above reflects payments for noncancelable operating leases with initial or remaining terms of one year or more as of March 31, 2019. 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 March 31, 2019, the weighted-average remaining lease term (in years) and discount rate related to the operating leases were as follows:

	March 31, 2019
Weighted-average remaining lease term	5.1
Weighted-average discount rate	5.3%

12. Subsequent Events

We are not aware of any material subsequent events or transactions that have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements, except as described below and in *Note 3 - "Commitments and Contingencies"* in our Notes to Consolidated Financial Statements.

Prior to issuance, we became aware of potential adverse amendments, renegotiations, changes, or termination of certain contracts between the USPS and certain of our strategic partners who are part of the USPS's reseller program, and through which we derive material revenues and profits (such potential events, collectively the "Reseller Restructuring"); however there is significant uncertainty as to whether, how and when any Reseller Restructuring may be implemented. As such, an estimate of any future financial impact for accounting purposes cannot be made at this time.

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, 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, 2018, as well as those described elsewhere in this Report 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. 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 trade names and registered trademarks include Stamps.com, Auctane, Endicia, MetaPack, NetStamps, PhotoStamps, 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 (U.S.) and Europe. Under the Stamps.com and Endicia® brands, customers use our United States Postal Service (USPS) only solutions to mail and ship a variety of mail pieces and packages through the USPS. Customers using our solutions can receive discounted postage rates compared to USPS.com and USPS retail locations on certain mail pieces such as First Class letters and domestic and international Priority Mail® and Priority Mail Express® packages. Stamps.com was the first ever USPS-approved PC Postage vendor to offer a software only mailing and shipping solution in 1999. Endicia became a USPS-approved PC Postage vendor in 2000. Under the MetaPack™, ShippingEasy®, ShipStation®, and ShipWorks® brands, customers use our multi-carrier solutions to ship packages through multiple carriers such as Canada Post, DHL, FedEx, Royal Mail, UPS, USPS, and others. Our customers include individuals, small businesses, home offices, medium-size businesses, large enterprises, e-commerce merchants, large retailers, and warehouse shippers.

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, 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 products and services to our customers under the Stamps.com, Endicia, MetaPack, ShippingEasy, ShipStation, and ShipWorks brands:

USPS Mailing and Shipping Solutions

Under the Stamps.com and Endicia brands, customers use our USPS-approved mailing and shipping solutions to mail and ship a variety of mail pieces and packages through the USPS. Customers can purchase and print postage 24 hours a day, seven days a week, through our software or web interfaces. Typically, customers fund an account balance prior to using our service.

Our USPS mailing and shipping solutions enable users to print "electronic postage" directly onto envelopes, plain paper, or labels using only a standard personal computer, 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 (1) on NetStamps® labels, which can be used just like regular stamps, (2) on envelopes and postcards or on labels in a single step process that saves time and provides a professional look, (3) on plain 8.5" x 11" paper or on special labels for packages, and (4) on integrated customs forms for international mail and packages.

Our mailing and shipping solutions incorporate address verification technology that verifies each destination address for mail or packages sent using our solutions against a database of all known addresses in the United States. Our mailing and shipping solutions are also integrated with common small business and productivity software applications such as word processing, contact and address management, and accounting and financial applications. Our shipping solutions feature integrations with hundreds of partners and carriers including popular shipping management products, shopping carts, online marketplaces, and other e-commerce solutions.

We target different customer categories with service plans that provide various features and capabilities. We target smaller offices, home offices, and smaller online sellers that need a more basic set of mailing and shipping features. We target larger enterprises that need a richer set of mailing capabilities such as multiple-user functionality, automated Certified Mail forms, additional reference codes and higher allowable postage balances. We target shippers such as e-commerce merchants, online retailers, fulfillment houses, warehouses, and large retailers that need shipping specific features such as direct integration into the customer's order databases, faster label printing speed, and the ability to customize and save shipping profiles. We target large corporations with multiple geographic locations that need enhanced reporting and the ability for a central location, such as a corporate headquarters, to have greater visibility and control over postage expenditures across their distributed network of locations. We target large volume mailers that need features designed for presort mail, Certified Mail, and bulk address updating.

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. We have been, and in the future potentially could be, compensated directly by the USPS and/or other carriers for shipping labels printed that meet certain requirements. We may earn revenue from customers that have access to our platform when they purchase postage or print shipping labels. 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. We may earn other types of revenue shares or other compensation from specific customers that have access to our platform or through integration partners.

See "Risk Factors--Risks Related to our Industry--The discontinuation of certain financial compensation arrangements with the USPS will have an adverse effect on our revenues and operating results, unless we are successful in replacing the lost revenue and profit with similar compensation from the USPS or other potential partners, of which there is no assurance," "Risk Factors--Risks Related to our Industry--The USPS could modify, discontinue or terminate agreements and other financial compensation arrangements, which would have an adverse effect on our revenue and operating results," "Risk Factors--Risks Related to our Industry--The USPS or our integration partners could cause discounts our customers receive to be diminished or terminated, which would have an adverse effect on our results of operations, reputation and competitiveness," and "Risk Factors--Risks Related to our Industry--Strategic business Partners or carriers could modify or terminate agreements and other financial compensation arrangements, which could materially adversely affect our results of operations and prospects," in our Annual Report on Form 10-K for the fiscal year ended December 1, 2018, filed with the SEC on March 1, 2019.

See also “Business Outlook and Forward-Looking Statements,” below, in this Management's Discussion and Analysis of Financial Condition and Results of Operations.

Multi-Carrier Shipping Solutions

We offer multi-carrier shipping solutions through our MetaPack, ShippingEasy, ShipStation, and ShipWorks brands. MetaPack, ShippingEasy, ShipStation, and ShipWorks offer leading multi-carrier solutions for shippers including e-commerce merchants, online retailers, warehouses, fulfillment houses, large retailers, and other types of shippers that use multiple carriers such as Canada Post, DHL, FedEx, Royal Mail, UPS, USPS, and many others.

MetaPack, which we acquired on August 15, 2018, provides multi-carrier enterprise-level solutions to many of the world's preeminent e-commerce retailers and brands. MetaPack provides its customers access to a carrier library with support for over 450 parcel carriers. MetaPack's platform also provides sophisticated solutions including carrier management, a carrier optimization engine, a track and trace system, a parcel returns system, a delivery analysis and carrier service-level agreement (SLA) monitoring system, a sophisticated cross-border solution, and a system that provides dynamic delivery options right in the shopping cart. From a single integration, Metapack's customers are able to offer delivery choice and convenience in all major e-commerce markets around the world. Metapack's software also improves its customers' shopping cart order conversion rates and order delivery satisfaction ratings.

ShippingEasy, which we acquired on July 1, 2016, offers web-based multi-carrier shipping solutions that allow online retailers and e-commerce merchants to organize, process, fulfill, and ship their orders quickly and easily. ShippingEasy's solutions feature over 50 integrations with partners and carriers, including marketplaces, shopping carts, and e-commerce platforms, allowing its customers to import and export fulfillment and tracking data in real time across all of their selling channels. ShippingEasy's solutions download orders from all selling channels and automatically map custom shipping preferences, rates, and delivery options across all of its supported carriers. ShippingEasy's easy-to-use solutions also include complimentary access to ShippingEasy customer service shipping specialists helping merchants to streamline workflow and save on shipping costs.

ShipStation, which we acquired on June 10, 2014, offers web-based multi-carrier shipping solutions that target e-commerce merchants, online retailers, fulfillment houses, and warehouses. ShipStation's solutions feature over 325 integrations with partners and carriers, including marketplaces, shopping carts, and e-commerce platforms. ShipStation offers multi-carrier shipping options and automation features like custom hierarchical rules and product profiles that allow customers to easily and automatically optimize their shipping. Using ShipStation, an online retailer or e-commerce merchant can ship their orders from wherever they sell and however they ship.

ShipWorks, which we acquired on August 29, 2014, offers software-based multi-carrier shipping solutions that target e-commerce merchants, online retailers, fulfillment houses, and warehouses. ShipWorks offers simple, powerful, and easy to use solutions for shippers. ShipWorks' solutions feature over 100 integrations with partners and carriers, including marketplaces, shopping carts and e-commerce platforms. ShipWorks offers multi-carrier shipping options and features including importing orders from any marketplace or shopping cart, easily comparing shipping rates and services, sending email notifications to buyers, updating online order status, generating reports, and many more.

Consolidation Services

As part of our mailing and shipping business, we offer domestic and international shipping services through consolidators, 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.

Mailing and Shipping Integrations

As part of our mailing and shipping services, we offer 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.

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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.

In addition, MetaPack, ShippingEasy, ShipStation, and ShipWorks have hundreds of integrations with partners and carriers, including marketplaces, shopping carts, and e-commerce platforms as part of their multi-carrier shipping solutions. Integrations with partners include Amazon, BigCommerce, ChannelAdvisor, eBay, Magento, PayPal, Shopify, Volusion, Yahoo! Stores, and many others. Carrier integrations include Canada Post, DHL, FedEx, Royal Mail, UPS, USPS, and many others.

Mailing & Shipping Supplies Stores

Stamps.com and Endicia's mailing & shipping supplies stores (our "Supplies Stores") are available to our customers from within our mailing and shipping solutions and sell NetStamps labels, shipping labels, other mailing labels, dedicated postage printers, scales, and other mailing and shipping-focused office supplies. Our Supplies Stores feature store catalogs, messaging regarding free or discounted shipping promotions, cross-selling product recommendations during the checkout process, product search capabilities, and same-day shipping of orders with expedited shipping options. Our multi-carrier solutions do not have mailing and shipping supplies stores as part of their solutions.

Branded Insurance

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

International

We offer international mailing and shipping solutions for both our US domestic customers mailing and shipping to destinations outside the US and, primarily through our subsidiaries, mailing and shipping solutions for customers outside the US directly from international posts and carriers. International carriers include Australia Post, Canada Post, French Post, Royal Mail, and many others.

Customized Postage

We offer customized postage under the PhotoStamps® brand name. Customized postage is a patented form of postage that allows consumers to turn digital photos, designs or images into valid USPS-approved postage. With this product, individuals or businesses can 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 is available from our www.photostamps.com website.

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

The results of our operations during the three months ended March 31, 2019 include MetaPack’s operations. The results of our operations during the three months ended March 31, 2018 do not include the operations of MetaPack. Please see *Note 2 – “Acquisitions”* in our Notes to Consolidated Financial Statements for further description. Accordingly, care should be used in comparing periods that include the operations of MetaPack with those that do not include such operations.

The results of our operations during the three months ended March 31, 2018 include service revenues paid directly to us by the USPS for certain classes of shipping labels (“Package Incentive Payments”) under an agreement that terminated on December 31, 2018. The results of our operations during the three months ended March 31, 2019 do not include any Package Incentive Payments. Accordingly, care should be used in comparing periods that include Package Incentive Payments with those that do not include Package Incentive Payments.

Three Months Ended March 31, 2019 and March 31, 2018

Total revenue increased 2% to \$136.0 million in the three months ended March 31, 2019 from \$133.6 million in the three months ended March 31, 2018. Mailing and shipping revenue, which includes service revenue, product revenue, and insurance revenue, was \$132.6 million in the three months ended March 31, 2019, an increase of 1% from \$131.0 million in the three months ended March 31, 2018. Customized postage revenue increased 30% to \$3.4 million in the three months ended March 31, 2019 from \$2.6 million in the three months ended March 31, 2018.

The following table sets forth the breakdown of revenue for the three months ended March 31, 2019 and March 31, 2018 and the resulting percentage change (revenue in thousands):

	Three Months Ended March 31,		
	2019	2018	% Change
Revenues			
Service	\$ 123,907	\$ 120,916	2.5 %
Product	5,405	5,679	(4.8)%
Insurance	3,334	4,368	(23.7)%
Mailing and shipping revenue	132,646	130,963	1.3 %
Customized postage	3,357	2,580	30.1 %
Other	—	22	(100.0)%
Total revenues	\$ 136,003	\$ 133,565	1.8 %

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
2019	736
2018	740

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The following table sets forth the change in paid customers and average monthly revenue per paid customer for our mailing and shipping business (in thousands except average monthly revenue per paid customer and percentage):

	Three Months Ended March 31,		
	2019	2018	% Change
Paid customers for the quarter	736	740	(0.6)%
Average monthly revenue per paid customer	\$ 60.05	\$ 58.96	1.9 %
Mailing and shipping revenue	\$ 132,646	\$ 130,963	1.3 %

The number of paid customers was approximately flat in the three months ended March 31, 2019 and March 31, 2018 primarily as a result of our strategic shift to focusing on the acquisition of high-volume shipper customers, which are numerically fewer, but generally have a much higher lifetime value.

The increase in our average monthly revenue per paid customer was primarily the result of revenues in the three months ended March 31, 2019 from MetaPack which we did not have in the comparable period of 2018 and a year-over-year increase in consolidation services revenues, partially offset by the decrease in revenues in the three months ended March 31, 2019 due to the termination of our agreement with the USPS which provided for Package Incentive Payments in the 2018 period.

Revenue by Product

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

	Three Months Ended March 31,	
	2019	2018
Revenues		
Service	\$ 123,907	\$ 120,916
Product	5,405	5,679
Insurance	3,334	4,368
Customized postage	3,357	2,580
Other	—	22
Total revenues	\$ 136,003	\$ 133,565
Revenue as a percentage of total revenues		
Service	91.1%	90.5%
Product	4.0%	4.3%
Insurance	2.4%	3.3%
Customized postage	2.5%	1.9%
Other	0.0%	0.0%
Total revenue	100.0%	100.0%

Our revenue is derived primarily from five sources: (1) service and transaction related revenues from our USPS mailing and shipping 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.

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. Revenue is earned over the period of time that the customers have access to the platform which is typically month-to-month; (2) we have been, and in the future potentially could be, compensated directly by the USPS and/or other 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 that have access to our platform when they purchase postage or print shipping labels, 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.

Service revenue increased 2% to \$123.9 million in the three months ended March 31, 2019 from \$120.9 million in the three months ended March 31, 2018. The increase in service revenue during the three months ended March 31, 2019 was driven by a 3.0% increase in our average monthly service revenue per paid customer (Service Revenue ARPU), partially offset by a 0.6% decrease in paid customers.

The increase in our Service Revenue ARPU during the three months ended March 31, 2019 was primarily attributable to the factors that resulted in an increase in the average total mailing and shipping revenue per paid customer described in the previous section.

Product revenue decreased 5% to \$5.4 million in the three months ended March 31, 2019 from \$5.7 million in the three months ended March 31, 2018. Product revenue is primarily driven by label sales, such as NetStamps, which are used for mailing. As our growth has been driven more by shipping than mailing over the recent years, our product revenue has not kept pace and is approximately flat year over year.

Beginning on October 1, 2018, insurance revenue represents the amount we receive from customers net of the costs paid to our insurance providers. For the periods presented prior to October 1, 2018, insurance revenue represented the gross amount charged to the customer for purchasing insurance and the insurance cost of revenue represented the amount paid to our insurance providers. Insurance revenue decreased 24% to \$3.3 million in the three months ended March 31, 2019 from \$4.4 million in the three months ended March 31, 2018. Our insurance revenue decreased year over year despite the growth in service revenue primarily due to the change to recognizing revenue on the net basis of accounting beginning October 1, 2018 as described above. Additionally, high volume shipper customers often self-insure, so while the high volume shipping business results in higher service fee revenue, it may not result in higher insurance revenue.

Customized postage revenue increased 30% to \$3.4 million in the three months ended March 31, 2019 from \$2.6 million in the three months ended March 31, 2018. The increase was primarily attributable to increases in partner sales and website orders, partially offset by decreases in high volume customer orders.

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 March 31,	
	2019	2018
Cost of revenues		
Service	32,235	20,649
Product	1,673	1,751
Insurance	—	998
Customized postage	2,431	2,129
Total cost of revenues	\$ 36,339	\$ 25,527
Cost as percentage of associated revenue		
Service	26.0%	17.1%
Product	31.0%	30.8%
Insurance	—%	22.8%
Customized postage	72.4%	82.5%
Total cost as a percentage of total revenues	26.7%	19.1%

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. For the periods presented prior to October 1, 2018, the cost of insurance revenue principally consists of parcel insurance offering costs through our third party insurance providers as described in the previous section. 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 56% to \$32.2 million in the three months ended March 31, 2019 from \$20.6 million in the three months ended March 31, 2018. Our acquisition of MetaPack resulted in cost of service revenue increasing by \$4.6 million in the three months ended March 31, 2019 compared to the 2018 period. The remaining increase for the three months ended March 31, 2019 was primarily attributable to the growth of our consolidation services. Promotional expenses were not material in the three months ended March 31, 2019 and March 31, 2018.

Cost of service revenue as a percent of service revenue increased to 26% in the three months ended March 31, 2019 from 17% in the three months ended March 31, 2018. The increase is primarily attributable to: (i) the relative increase in service revenue from service offerings, such as consolidation services, for which the vendor costs and expenses are included both in revenue and in cost of service revenue; (ii) the decrease in service revenue attributable to the termination of our agreement with the USPS that provided for Package Incentive Payments; and (iii) the acquisition of MetaPack, which has higher cost of service revenue as a percent of service revenue.

Cost of product revenue decreased 4% to \$1.7 million in the three months ended March 31, 2019 from \$1.8 million in the three months ended March 31, 2018. The decrease during the three months ended March 31, 2019 is primarily due to the decrease in our product revenue.

Cost of product revenue as a percent of product revenue was 31% in the three months ended March 31, 2019 and 31% in the three months ended March 31, 2018.

The decrease in cost of insurance revenue to zero in the three months ended March 31, 2019 from \$1.0 million in the three months ended March 31, 2018 was due to the change to recognizing revenue on a net basis of accounting beginning October 1, 2018 as described in the previous section. Cost of insurance revenue as a percent of insurance revenue was 23% in the three months ended March 31, 2018.

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Cost of customized postage revenue increased 14% to \$2.4 million in the three months ended March 31, 2019 from \$2.1 million in the three months ended March 31, 2018. The increase in cost of customized postage revenue during the three months ended March 31, 2019 is primarily due to the increase in our customized postage volume.

Cost of customized postage revenue as a percent of customized postage revenue was 72% in the three months ended March 31, 2019 and 83% in the three months ended March 31, 2018. The decrease in cost of customized postage revenue as a percent of customized postage revenue is primarily due to the relative increase in our customized postage revenue related to partner sales and website orders which have a higher margin compared to high volume orders.

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 March 31,	
	2019	2018
Operating expenses:		
Sales and marketing	\$ 32,881	\$ 25,748
Research and development	17,314	12,073
General and administrative	26,228	21,016
Total operating expenses	\$ 76,423	\$ 58,837
Operating expenses as a percent of total revenues:		
Sales and marketing	24.2%	19.3%
Research and development	12.7%	9.0%
General and administrative	19.3%	15.7%
Total operating expenses as a percentage of total revenues	56.2%	44.1%

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 28% to \$32.9 million in the three months ended March 31, 2019 from \$25.7 million in the three months ended March 31, 2018. The increase during the three months ended March 31, 2019 was primarily attributable to an increase in discretionary and sales volume-based partner marketing spend of \$3.1 million and an increase in headcount-related expenses including stock-based compensation of \$3.0 million. The increases in headcount-related expenses were primarily attributable to the inclusion of headcount-related expenses for MetaPack employees.

Sales and marketing expense as a percent of total revenue was 24% in the three months ended March 31, 2019 which was up compared to 19% in the three months ended March 31, 2018. Sales and marketing expense as a percentage of total revenue increased primarily due to the decrease in revenue attributable to the termination of our agreement with the USPS which provided for Package Incentive Payments.

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.

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Research and development expense increased 43% to \$17.3 million in the three months ended March 31, 2019 from \$12.1 million in the three months ended March 31, 2018. The increase during the three months ended March 31, 2019 was primarily attributable to an increase in headcount-related expense including stock-based compensation of \$3.4 million and a \$1.0 million increase in allocated information technology expenses. The increases in headcount-related expenses were incurred to support our expanded product offerings and technology infrastructure investments and include headcount-related expenses for MetaPack employees.

Research and development expense as a percent of total revenue was 13% in the three months ended March 31, 2019 which was up compared to 9% in the three months ended March 31, 2018. Research and development expense as a percentage of total revenue increased primarily due to the decrease in revenue attributable to the termination of our agreement with the USPS which provided for Package Incentive Payments and the acquisition of MetaPack which had higher research and development expense as a percent of total revenue.

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 25% to \$26.2 million in the three months ended March 31, 2019 from \$21.0 million in the three months ended March 31, 2018. In the three months ended March 31, 2019, MetaPack general and administrative expense was \$4.5 million. The remaining increase during the three months ended March 31, 2019 was primarily due to other general increases in operating expenses, partially offset by a \$0.8 million decrease in headcount-related expense including stock-based compensation.

General and administrative expense as a percent of total revenue was 19% in the three months ended March 31, 2019 and 16% in the three months ended March 31, 2018. General and administrative expense as a percentage of total revenue increased primarily due to the decrease in revenue attributable to the termination of our agreement with the USPS which provided for Package Incentive Payments and the acquisition of MetaPack which had higher general and administrative expenses as a percent of total revenue.

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 loss, net of \$95,000 in the three months ended March 31, 2019 was not material to the consolidated financial statements.

Interest Income and Other Income

Interest income and other income primarily consists of interest income from cash, cash equivalents, and investments. Interest and other income increased to \$65,000 in the three months ended March 31, 2019 from \$49,000 in the three months ended March 31, 2018. Interest and other income is not material to the consolidated financial statements.

Interest Expense

Interest expense consists of interest expense from the debt under our credit facility and the associated accretion of debt issuance costs. Interest expense increased to \$714,000 in the three months ended March 31, 2019 from \$590,000 in the three months ended March 31, 2018. The increase in interest expense was primarily attributable to higher interest rates, partially offset by lower outstanding debt balances under our credit facility.

Provision for Income Taxes

Our income tax expense was \$6.7 million for the three months ended March 31, 2019. Our income tax expense was \$1.6 million for the three months ended March 31, 2018.

Our effective income tax rate differs from the statutory income tax rate 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.

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 three months ended March 31, 2019 and March 31, 2018 were as follows:

	Three Months Ended March 31,		Change
	2019	2018	
Net cash provided by operating activities	\$ 33,444	\$ 55,288	\$ (21,844)
Net cash used in investing activities	(262)	(447)	185
Net cash used in financing activities	(36,038)	(12,896)	(23,142)
Effect of exchange rate changes	24	—	24
Net (decrease) increase in cash and cash equivalents	\$ (2,832)	\$ 41,945	\$ (44,777)

As of March 31, 2019 and December 31, 2018, we had \$110.9 million and \$113.8 million, respectively, primarily in cash and cash equivalents.

Net cash provided by operating activities was approximately \$33.4 million and \$55.3 million during the three months ended March 31, 2019 and March 31, 2018, respectively. The decrease in net cash provided by operating activities was primarily attributable to the following changes in the consolidated statement of cash flows line items: (1) a decrease in net income of \$31.3 million and (2) a \$12.4 million decrease in cash flows due to a decrease in accounts payable and accrued expenses, partially offset by (a) an \$18.9 million increase in cash flows due to a decrease in accounts receivable and (b) a \$6.0 million increase in cash flows due to a decrease in current income taxes.

Net cash used in investing activities was approximately \$262,000 and \$447,000 during the three months ended March 31, 2019 and March 31, 2018, respectively. The decrease in net cash used in investing activities was not material.

Net cash used in financing activities was approximately \$36.0 million and \$12.9 million during the three months ended March 31, 2019 and March 31, 2018, respectively. The increase in net cash used in financing activities was primarily due to (1) the decrease in proceeds received from exercise of stock options of \$17.3 million, (2) the \$4.9 million decrease in proceeds from short term financing obligations, net of repayments, and (3) the \$4.6 million increase in stock repurchases, partially offset by the \$4.1 million decrease in payments of statutory income tax withholding obligations that were funded by shares withheld.

The following table is a schedule of our significant contractual obligations and commercial commitments (other than debt commitments), which consist of minimum operating lease payments as of March 31, 2019 (in thousands):

Twelve Month Period Ending March 31,	Operating Lease Obligations
2020	\$ 4,774
2021	4,834
2022	3,763
2023	3,089
2024	2,317
Thereafter	2,435
Total undiscounted cash flows	21,212
Less amount representing interest	(2,795)
Present value of lease liabilities	\$ 18,417

On November 18, 2015, we entered into a Credit Agreement with a group of banks, which provided for a term loan of \$82.5 million and a revolving credit facility with a maximum borrowing of \$82.5 million. Our Credit Agreement matures on November 18, 2020. In connection with entering into the Credit Agreement, we incurred approximately \$1.8 million in debt issuance costs which were recorded as debt discount and are being accreted as interest expense over the life of the Credit Agreement. Interest expense associated with the debt issuance costs for each of the three months ended March 31, 2019 and March 31, 2018 was approximately \$93,000. In December 2017, we repaid all of our revolving credit facility outstanding debt of \$62.0 million.

Borrowings under the term loan are payable in quarterly installments which began on December 31, 2015. We pay interest on our Credit Agreement equal to the London Interbank Offered Rate plus an applicable margin, between 1.25% and 2.00%, based upon certain financial measures. As of March 31, 2019, our applicable margin was our applicable margin was 1.25% and the interest rate on our outstanding loan was approximately 3.75%. We are subject to certain customary quarterly financial covenants under our Credit Agreement such as a maximum total leverage ratio and a minimum fixed charge coverage ratio. As of March 31, 2019, we were in compliance with the covenants of the Credit Agreement.

The Credit Agreement 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 Credit Agreement imposes certain requirements in order for us to make dividend payments. As of March 31, 2019, such requirements were: (1) our Consolidated Total Leverage Ratio, as defined in the Credit Agreement, must be less than 2.50 to 1.00; (2) our Fixed Charge Coverage Ratio, as defined in the Credit Agreement, must be greater than 1.25 to 1.00; and (3) our Liquidity as defined in the Credit Agreement must be greater than \$20 million. As of March 31, 2019, our Consolidated Total Leverage Ratio was 0.25 to 1.00, our Fixed Charge Coverage Ratio was 16.92 to 1.00 and our Liquidity was approximately \$193 million, which includes cash and cash equivalent balances, as well as the available balance under the revolving credit facility. Based on our actual financial condition and results of operations, we do not believe that the provisions of the Credit Agreement currently represent a restriction to our ability to pay dividends in permissible amounts.

The contractual maturities of our debt obligations due subsequent to March 31, 2019 are as follows (in thousands):

Year Ending March 31,	Amount
2020	\$ 11,344
2021	47,437
Thereafter	—
Total debt	58,781
Less: debt issuance costs	623
Total debt, net of debt issuance costs	\$ 58,158

The estimated interest payments related to our debt due subsequent to March 31, 2019 are as follows (in thousands):

Year Ending March 31,	Amount
2020	\$ 2,088
2021	1,085
Thereafter	—
Total	\$ 3,173

The above estimated interest payments assume an interest rate of 3.75%, which is our interest rate as of March 31, 2019.

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

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.

Segment Analysis

We acquired MetaPack on August 15, 2018, and, accordingly, there is no inclusion of MetaPack's results prior to our ownership within this Report. Given the absence of MetaPack data in our results prior to our ownership of MetaPack, and the inclusion of segment financial information contained in Note 10 to the Notes to Consolidated Financial Statements contained in this Report, we believe that, as of the filing of this Report, a segment presentation in this Management's Discussion and Analysis of Results of Operations section is not necessary to form an understanding of our overall business. We intend to provide a segment analysis in our future Management's Discussion and Analysis of Results of Operations sections when appropriate to facilitate an understanding of our business.

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 "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on March 1, 2019.

As previously disclosed, our agreement with the USPS that provided for Package Incentive Payments to be paid directly to us by the USPS for certain classes of shipping labels terminated on December 31, 2018. In addition, we have recently become aware of potential adverse amendments, renegotiations, changes, or termination of certain contracts between the USPS and certain of our strategic partners who are part of the USPS's reseller program, and through which we derive material revenues and profits (such potential events, collectively the "Reseller Restructuring"); however there is significant uncertainty as to whether, how and when any Reseller Restructuring may be implemented.

We expect our mailing and shipping revenue to decrease in 2019 compared to 2018 primarily due to the termination on December 31, 2018 of our agreement with the USPS which provided for Package Incentive Payments and the potential Reseller Restructuring, partially offset by an increase due to MetaPack results being included for the full fiscal year in 2019, compared to the period from August 15 through year end in 2018. Our mailing and shipping revenue is also dependent on our ability to increase our sales and marketing spend to acquire new customers and to retain our existing customers. To the extent we are not able to achieve our target increase in spending and acquire or retain customers, this would further negatively impact our 2019 mailing and shipping revenue growth expectations.

Our expectations of mailing and shipping revenue reflect the discontinuation of Package Incentive Payments as well as the uncertainty regarding any potential Reseller Restructuring. As a result, our revenue and operating results will be adversely affected unless we are successful in timely replacing the lost revenue with similar compensation from the USPS or other potential partners. While we have strategies to replace some portion of these revenues with new carrier relationships, these plans are in various stages, and we do not expect any material replacement of such revenues to occur during the 2019 fiscal year. Further, there is no assurance as to when, if or to what extent we may ultimately succeed in implementing such strategies, all of which carry negotiation and execution risks. Unless and until we replace these lost revenues and associated profit margins, our operating results in 2019 and beyond may be materially less than in 2018. See "Risk Factors--Risks Related to our Industry--The discontinuation of certain financial compensation arrangements with the USPS will have an adverse effect on our revenues and operating results, unless we are successful in replacing the lost revenue and profit with similar compensation from the USPS or other potential partners, of which there is no assurance," "Risk Factors--Risks Related to our Industry--The USPS could modify, discontinue or terminate agreements and other financial compensation arrangements, which would have an adverse effect on our revenue and operating results," "Risk Factors--Risks Related to our Industry--The USPS or our integration partners could cause discounts our customers receive to be diminished or terminated, which would have an adverse effect on our results of operations, reputation and competitiveness," and "Risk Factors--Risks Related to our Industry--Strategic business Partners or carriers could modify or terminate agreements and other financial compensation arrangements, which could materially adversely affect our results of operations and prospects," in our Annual Report on Form 10-K for the fiscal year ended December 1, 2018, filed with the SEC on March 1, 2019.

We expect customized postage revenue to decline in 2019 compared to 2018, due to certain high volume business purchases occurring in 2018, which may not be repeated in 2019. High volume business orders for customized postage can fluctuate significantly from quarter to quarter and therefore historical trends may not be indicative of future results for customized postage revenue.

We expect our sales and marketing expenses to be higher in 2019 as compared to 2018 and we expect the percent increase in sales and marketing expense in 2019 to be less than the percent increase in 2018. The increases are as a result of the inclusion of MetaPack, the annualized effect of our headcount investments in 2018, and our plan to increase our investments in headcount resources in 2019 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 2019 as compared to 2018 and we expect the percent increase in research and development expense in 2019 to be greater than the percent increase in 2018. The increases are a result of the inclusion of MetaPack, the annualized effect of our headcount investments in 2018, and our plan to increase our investments in headcount resources in 2019 to drive growth.

We expect general and administrative expenses to be higher in 2019 as compared to 2018. The increase is a result of the inclusion of MetaPack, the annualized effect of our headcount investments in 2018, and our plan to increase our investments in headcount resources in 2019. We expect the percent increase in general and administrative expense in 2019 to be less than the percent increase in 2018.

We expect our stock-based compensation expense to be higher in 2019 compared to 2018.

We expect our interest and other income (expense), net in 2019 to be approximately similar to 2018 due to higher expected interest rates, partially offset by lower outstanding balances.

We expect our effective tax rate for 2019 to be higher than 2018. The increase in our estimated effective tax rate for 2019 was primarily driven by an increase in projected non-deductible expenses related to executive compensation coupled with a reduction in projected pre-tax book income.

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 this Report and Item 1A "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2018 filed with the SEC on March 1, 2019. 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, 2018, filed with the SEC on March 1, 2019.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

On November 18, 2015, we entered into a Credit Agreement with a group of banks, which provided for a term loan of \$82.5 million and a revolving credit facility with a maximum borrowing of \$82.5 million. Our Credit Agreement matures on November 18, 2020. As of March 31, 2019, the debt outstanding under our Credit Agreement, gross of debt issuance costs, was \$58.8 million. Borrowings under the term loan are payable in quarterly installments which began on December 31, 2015. We pay interest on our Credit Agreement at a rate equal to the London Interbank Offered Rate plus an applicable margin, which is between 1.25% and 2.00%, based upon certain financial measures. As of March 31, 2019, our applicable margin was our applicable margin was 1.25% and the interest rate on our outstanding loan was approximately 3.75%. Interest expense would not be significantly affected by either a 10% increase or decrease in the rates of interest on our debt.

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. However, we may adopt specific hedging strategies in the future.

Our cash equivalents consist primarily of money market securities and had a weighted average maturity of 16 days and a weighted average interest rate of 2.4% at March 31, 2019. The aggregate value of our cash and cash equivalents was \$110.9 million at March 31, 2019. 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

As discussed in Note 2 in our Notes to Consolidated Financial Statements, we acquired MetaPack on August 15, 2018. We are in the process of integrating certain processes, systems and controls relating to MetaPack into our existing system of internal control over financial reporting in accordance with our integration plans. Except for the foregoing, during the quarter ended March 31, 2019, 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, 2018, filed with the SEC on March 1, 2019.

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)
January 1, 2019 - January 31, 2019	151,604	\$ 164.45	151,604	\$ —
February 1, 2019 - February 28, 2019	—	n/a	—	\$ —
March 1, 2019 - March 31, 2019	83,857	\$ 84.18	83,857	\$ 52,941

On October 24, 2018, the Board of Directors approved a stock repurchase plan that took effect upon expiration of the prior plan on November 11, 2018 and authorized the Company to repurchase up to \$90 million of stock over the six months following its effective date. On March 8, 2019, our Board of Directors approved a \$60 million share repurchase plan which is scheduled to expire in September 2019. As of May 8, 2019, we had repurchased approximately \$24 million under this plan. On May 1, 2019, our Board of Directors adjusted the repurchase parameters of the plan which is now expected to repurchase a further \$9 million, between May 9, 2019 and the plan's expiration in September 2019, in addition to the \$24 million purchased under the plan prior to such period.

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 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

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

* 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: May 9, 2019

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

Date: May 9, 2019

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: May 9, 2019

/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: May 9, 2019

/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 March 31, 2019 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: May 9, 2019

/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 March 31, 2019 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: May 9, 2019

/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.