

STAMPS.COM INC
Form 10-Q
November 09, 2005

**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 September 30, 2005

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.)

**12959 Coral Tree Place
Los Angeles, California 90066**
(Address of Principal Executive Offices)

Registrant's telephone number, including area code: **(310) 482-5800**

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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

As of October 31, 2005, there were approximately 23,296,579 shares of the registrant's Common Stock issued and outstanding.

STAMPS.COM INC.

FORM 10-Q QUARTERLY REPORT FOR THE QUARTER ENDED SEPTEMBER 30, 2005

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PART I. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****STAMPS.COM INC.
BALANCE SHEETS**

(in thousands, except per share data)

	September 30, 2005	December 31, 2004
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 19,242	\$ 11,198
Restricted cash	554	554
Short-term investments	19,352	18,295
Trade accounts receivable, net	1,887	1,534
Other accounts receivable	42	170
Other current assets	1,546	701
Total current assets	42,623	32,452
Property and equipment, net	4,487	3,473
Intangible assets, net	3,941	4,765
Long-term investments	55,977	57,160
Other assets	2,290	2,578
Total assets	\$ 109,318	\$ 100,428
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 6,814	\$ 5,541
Total current liabilities	6,814	5,541
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$.001 par value		
Authorized shares of 47,500 in 2005 and 2004		
Issued shares of 23,175 in 2005 and 22,633 in 2004		
Outstanding shares of 22,879 in 2005 and 22,463 in 2004	46	45
Additional paid-in capital	604,541	601,064
Accumulated deficit	(497,786)	(504,112)
Treasury Stock, at cost - 296 shares in 2005 and 170 shares in 2004	(3,523)	(1,411)
Accumulated other comprehensive loss	(774)	(699)
Total stockholders' equity	102,504	94,887
Total liabilities and stockholders' equity	\$ 109,318	\$ 100,428

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

STAMPS.COM INC.
STATEMENTS OF OPERATIONS
(in thousands, except per share data; unaudited)

	Three Months ended		Nine Months ended	
	September 30,		September 30,	
	2005	2004	2005	2004
Revenues:				
Service	\$ 10,945	\$ 7,120	\$ 30,484	\$ 19,736
PhotoStamps	1,785	1,380	2,944	1,380
Product and other	2,543	2,173	7,865	5,298
Total revenues	15,273	10,673	41,293	26,414
Cost of revenues:				
Service	2,266	2,074	7,294	6,996
PhotoStamps	1,186	845	1,950	845
Product and other	648	563	1,983	1,558
Total cost of revenues	4,100	3,482	11,227	9,399
Gross profit	11,173	7,191	30,066	17,015
Operating expenses:				
Sales and marketing	4,959	3,337	13,098	9,068
Research and development	1,735	1,315	4,811	4,999
General and administrative	2,446	3,738	7,343	10,770
Total operating expenses	9,140	8,390	25,252	24,837
Income (loss) from operations	2,033	(1,199)	4,814	(7,822)
Other income, net:				
Other income	—	1,360	64	1,360
Interest income	588	499	1,585	1,261
Loss on disposal of assets	—	—	—	(987)
Total other income, net	588	1,859	1,649	1,634
Income (loss) before income taxes	2,621	660	6,463	(6,188)
Provision for income taxes	57	—	137	—
Net income (loss)	\$ 2,564	\$ 660	\$ 6,326	\$ (6,188)
Net income (loss) per share:				
Basic	\$ 0.11	\$ 0.03	\$ 0.28	\$ (0.28)
Diluted	\$ 0.11	\$ 0.03	\$ 0.27	\$ (0.28)
Weighted average shares outstanding				
Basic	22,794	22,413	22,665	22,328
Diluted	23,749	23,237	23,670	22,328

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

STAMPS.COM INC.
STATEMENTS OF CASH FLOWS
(in thousands, unaudited)

	Nine Months ended September 30,	
	2005	2004
Operating activities:		
Net income (loss)	\$ 6,326	\$ (6,188)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,262	2,465
Loss on disposal of capitalized assets	—	987
Compensation charge relating to the return of capital dividend	—	1,781
Changes in operating assets and liabilities:		
Trade accounts receivable, net	(353)	(365)
Other accounts receivable	128	658
Other current assets	(845)	(141)
Other assets (non-current)	288	(475)
Accounts payable and accrued expenses	1,273	1,708
Net cash provided by operating activities	9,079	430
Investing activities:		
Sale of short-term investments	9,330	52,975
Purchase of short-term investments	(10,472)	(33,331)
Sale of long-term investments	52,127	84,204
Purchase of long-term investments	(50,934)	(43,717)
Sale of restricted cash investments	—	3,168
Acquisition of property and equipment	(2,452)	(1,457)
Net cash (used in) provided by investing activities	(2,401)	61,842
Financing activities:		
Proceeds from exercise of stock options	3,096	1,293
Issuance of common stock under ESPP	382	285
Repurchase of common stock	(2,112)	—
Return of capital dividend	—	(77,695)
Net cash provided by (used in) financing activities	1,366	(76,117)
Net increase (decrease) in cash and cash equivalents	8,044	(13,845)
Cash and cash equivalents at beginning of period	11,198	24,526
Cash and cash equivalents at end of period	\$ 19,242	\$ 10,681

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

STAMPS.COM INC.
NOTES TO FINANCIAL STATEMENTS
(ALL INFORMATION WITH RESPECT TO SEPTEMBER 30, 2005 AND 2004 IS UNAUDITED)

1. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements included herein have been prepared by Stamps.com Inc. (“Stamps.com” or “Company”) without audit pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulation. The Company believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's latest annual report on Form 10-K.

In the opinion of the Company, these unaudited financial statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly the financial position of the Company as of September 30, 2005 and December 31, 2004, the results of its operations for the three and nine months ended September 30, 2005 and 2004, and its cash flows for the nine months ended September 30, 2005 and 2004.

Use of Estimates and Risk Management

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates and such differences may be material to the financial statements. Examples include estimates of loss contingencies and estimates regarding the useful lives of patents and other amortizable intangibles.

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

Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 109, “Accounting for Income Taxes”. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statements and the tax basis of assets and liabilities using the enacted tax rate in effect for the years in which the differences are expected to be realized or settled. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not a tax benefit will not be realized.

Due to the Company’s history of operating losses, no tax expense was recorded prior to fiscal 2005. However the Company recorded a tax provision subject to the corporate alternative minimum tax of approximately \$57,000 and \$137,000 for the three and nine months ended September 30, 2005, respectively. The effective rate differs from the statutory rate due to the utilization of net operating loss carryovers which had a valuation allowance recorded against them.

Stock-Based Employee Compensation

The Company accounts for its employee stock plan under the intrinsic value method prescribed by Accounting Principles Board (“APB”) Opinion No. 25, “Accounting for Stock Issued to Employees”, and related interpretations, and has adopted the disclosure-only provisions of SFAS No. 123, “Accounting for Stock-Based Compensation” and as amended by SFAS No. 148, “Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123”.

STAMPS.COM INC.**NOTES TO FINANCIAL STATEMENTS (continued)**

(ALL INFORMATION WITH RESPECT TO SEPTEMBER 30, 2005 AND 2004 IS UNAUDITED)

SFAS No. 123, and as amended by SFAS No. 148, permits companies to recognize, as expense over the vesting period, the fair value of all stock-based awards on the date of grant. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. Because the Company's stock-based compensation plans have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, management believes that the existing option valuation models do not necessarily provide a reliable single measure of the fair value of awards from the plan. Therefore, as permitted, the Company applies the existing accounting rules under APB No. 25 and provides pro forma net income (loss) and pro forma net income (loss) per share disclosures for stock-based awards made during the year as if the fair value method defined in SFAS No. 123, as amended, had been applied. The following table illustrates the effect on net income (loss) and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123 (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income (loss) as reported	\$ 2,564	\$ 660	\$ 6,326	\$ (6,188)
Add: Stock price based employee expense included in net loss	—	—	—	—
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(447)	(526)	(1,049)	