STAMPS.COM INC
Form 10-K
March 01, 2019
TABLE OF CONTENTS

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

FORM 10-K
(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
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	77-0454966
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

1990 E. Grand Avenue
El Segundo, California 90245
(Address of Principal Executive Offices and Zip Code)
Registrant’s Telephone Number, Including Area Code: (310) 482-5800
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of Each Exchange on Which Registered
Common Stock, $.001 par value	The NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨
Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No þ
Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b 2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o
Emerging growth company o
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. o
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No þ
As of June 29, 2018, the aggregate market value of voting common stock held by non-affiliates of the Registrant was $4,415,776,705 (based upon the closing price of $253.05 per share for shares of the Registrant's Common Stock as reported by The NASDAQ Stock Market on that date). As of January 31, 2019, there were 17,527,387 shares of the Registrant's Common Stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 2019 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission are incorporated by reference in Part III of this Form 10-K.

TABLE OF CONTENTS

STAMPS.COM INC. AND SUBSIDIARIES
FORM 10-K ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2018
TABLE OF CONTENTS

TABLE OF CONTENTS

PART I.

This Annual Report on Form 10-K ("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," 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.

For discussion of some of the factors that could affect our results, see Item 7."Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 1A."Risk Factors."

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.

TABLE OF CONTENTS

ITEM 1. BUSINESS.

Overview

Stamps.com® is a leading provider of Internet-based mailing and shipping solutions in the United States 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.

2

TABLE OF CONTENTS

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. For an update on certain historical arrangements, 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." 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.

Multi-Carrier Shipping Solutions

We offer multi-carrier shipping solutions through our MetaPack, ShippingEasy, ShipWorks, and ShipStation brands. MetaPack, ShippingEasy, ShipWorks, and ShipStation 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.

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.

TABLE OF CONTENTS

ShipStation, which we acquired on June 10, 2014, offers web-based multi-carrier shipping solutions under the brand names ShipStation and Auctane® that target e-commerce merchants, online retailers, fulfillment houses, and warehouses. ShipStation's solutions feature over 300 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.

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.

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, ShipStation, ShipWorks, and ShippingEasy 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.

TABLE OF CONTENTS

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. Some of our international carriers include Australia Post, Canada Post, French Post, and Royal Mail.

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.

Customer Value Proposition for our Mailing and Shipping Business

Shippers

Our shipping customers save time and optimize their shipping operations in a number of ways including:

(1) Our solutions allow customers to easily access more than 450 domestic and international carriers from a single user interface;

(2) Our solutions support all of a customer’s selling channels from a single user interface including multiple marketplaces, shopping carts, their own websites and e-commerce platforms;

(3) Our solutions allow customers to organize their daily shipping tasks such as search, filter and combining orders into a single unified list;

(4) Our solutions support operations and label printing with address verification, rate and delivery time comparisons, using high volume scales and printers, adding integrated insurance and generating packing slips;

(5) Our solutions allow customers to automate and simplify the processing of a large volume of daily orders through batch processing, custom hierarchical rules, shipping presets and automated customer emails;

(6) Our solutions provide a complete record of all packages sent with the ability to retrieve delivery status information quickly and easily;

(7) Our USPS solutions allow customers to generate a single bar-coded form that represents multiple packages in a single shipment so that the USPS can scan the single form to accept all of the packages at once and the customer gets a record that all the packages were accepted by the USPS; and

(8) Our solutions allow customers to send USPS packages with the value of the postage hidden, which is a useful feature for e-commerce shippers that may not want the recipient to see actual shipping cost information.

Our shipping customers save money in a number of ways including:

(1) Our solutions allow customers to receive discounts for most USPS packages;

(2) Our multi-carrier solutions allow customers to optimize between carriers by selecting the lowest cost option based on package size, weight, destination distance and delivery times;

(3) Our solutions allow customers to reduce their customer support costs by automatically generating and sending package delivery status e-mails to customers; and

(4) Our USPS solutions allow customers to access cost effective USPS package classes such as First Class packages, media mail and parcel select.

TABLE OF CONTENTS

Small Businesses and Large Enterprises

Our small business and large enterprise customers can also save money in a number of ways including:

(1) Our USPS solutions allow customers to receive discounts on single piece First Class letter postage rates compared to USPS post offices and other retail USPS locations;

(2) Our USPS solutions allow customers to receive a discounted rate for most USPS packages compared to USPS.com or retail postal rates;

(3) Our USPS solutions allow customers to calculate the exact amount of postage that is required for a mail piece or package depending on mail class, mail form, weight and distance to the destination which allows our customers to avoid overpaying for postage;

(4) Our USPS solutions allow customers to automatically check and validate destination addresses against the USPS address database so customers do not waste postage on undeliverable-as-addressed mail;

(5) Our USPS solutions provide customers with advanced reporting and administrative controls that improve the tracking and control of postage spend allowing customers to proactively manage and reduce their postage spend. The advanced reporting and controls capability is particularly relevant to our large enterprise customers who are managing postage across multiple locations; and

(6) Our USPS solutions allow customers to save up to 50% or more versus the total cost of an entry or mid-level traditional postage meter. The total cost of a traditional postage meter can include hardware rental fees, including items such as a postage meter and scale, maintenance and repair costs, insurance fees, fees to purchase postage and the cost to purchase proprietary ink cartridges.

Our small business and large enterprise customers can also save time in a number of ways including:

(1) Our USPS solutions allow small business customers to mail or ship from their home, office, warehouse or business 24 hours a day, 7 days a week avoiding the time that would ordinarily be spent on a trip to the post office or other retail shipping locations;

(2) Our USPS solutions allow customers to generate mass mailings quickly and easily by printing the address and postage together in a single step process. In addition, printing the address and postage together saves customers time on a single mail piece or package by combining a two-step process into a one-step process that produces more professional looking mail;

(3) Our solutions integrate with most small business productivity applications such as word processors, financial applications and address books so our customers can save time by utilizing these integrations to print postage through their existing applications; and

(4) Our USPS solutions provide customers with centralized electronic reporting so they can easily access and manage their records in one place. The electronic reporting provides greater visibility into postage activity compared to other USPS solutions such as post offices and traditional meters. The advanced reporting and controls capability is particularly relevant to our large enterprise customers who are managing postage spend across multiple locations.

TABLE OF CONTENTS

Marketing of our Mailing and Shipping Business

We target our mailing and shipping marketing at small businesses, home offices, medium-size businesses, large enterprises, e-commerce shippers and warehouse shippers. We market our mailing and shipping solutions through the following channels:

(1) Affiliate Channels. We utilize the traffic and customers of smaller web sites and other businesses or individuals that are too small to qualify for a partnership directly with us by offering financial incentives for these small businesses and individuals to drive traffic to our web site through a third party affiliate management company;

(2) Direct Mail. We send direct mail pieces to prospective customers with prospect lists purchased from third parties or obtained from partners;

(3) Direct Sales. We utilize a direct sales force that sells our mailing and shipping solutions to large enterprises, large retailers, and high volume shippers;

(4) Offline Marketing Programs. We utilize various other offline advertising and marketing programs including telemarketing, tradeshows, retail and other programs;

(5) Partnerships. We work with strategic partners in order to leverage their web site traffic, marketing programs, and existing customer base to distribute our mailing and shipping software. For example, these partnerships may result in a link to our website from a partner’s website, a copy of our software included along with a partner’s software product, the distribution of our software at a retail location, or the bundling of our software with a hardware device;

(6) Remarketing. We remarket our solutions to former customers. Our remarketing efforts are generally focused on new features that may relate to the reasons former customers stopped using our service. We utilize e-mail and regular mail to communicate new features of our products to our former customers;

(7) Shipping Integrations. We market our solutions through partner integrations with e-commerce platforms, multi-carrier shipping management solutions, shopping cart software and other order-entry management applications;

(8) Traditional Media. We utilize television commercials and a variety of traditional and internet-based radio endorsements to advertise our solutions;

(9) Online Advertising. We work with companies to advertise our services online through paid searches, banner ads, permission-based emails, and other online advertising vehicles; and

(10) USPS Referrals. We market to USPS Account Managers with the goal of receiving customer referrals.

Marketing of Customized Postage

We target our customized postage products to both consumers and businesses. We market our customized postage products through the following channels:

(1) Direct Sales. Direct sales where we target businesses and not-for-profit organizations for high volume orders;

(2) Online Advertising. Online advertising including paid search and other online advertising methods;

(3) Partnerships including with on-line portals for photograph management and personalized products and services; and

(4) Marketing. Marketing to customers who have purchased customized postage in the past.

TABLE OF CONTENTS

2019 Business Strategy

Mailing and Shipping Business

Our 2019 Mailing and Shipping business strategy includes the initiatives and plans listed below. These initiatives and plans are subject to change without notice based on our analysis of market and business conditions, and constitute “forward-looking statements,” and accordingly are subject to the cautionary statements, qualifications and limitations on forward-looking statements we discuss at the beginning of Part I of this Report.

(1) Leverage our portfolio of mailing and shipping solutions to drive growth.

With the acquisitions of Endicia, MetaPack, ShippingEasy, ShipStation and ShipWorks, we now have a full and diverse suite of solutions across these brands, and we believe that we have a complete product and robust solution that will meet the needs of our current and of our target domestic and international customers. Our customers’ needs vary based on their specific situations including: (1) specific technology or operating system support such as Windows versus Mac and web-based versus client-based solutions; (2) breadth and depth of product features; (3) product ease-of-use which is often traded off versus product capability and complexity; (4) ease and speed for processing large volumes of packages in the fewest number of steps; (5) breadth and depth of integrations with partner solutions such as e-Commerce tools, shopping carts, and online marketplaces; and (6) number of private carriers supported (e.g., DHL, FedEx, UPS, regional carriers, international carriers, etc.). Our goal is to be able to meet the needs of as many customers as possible so that we can maximize our customer acquisition, maximize our average annual revenue per paid customer (ARPU), reduce our monthly customer cancellation rates, or churn, and increase overall customer usage.

(2) Invest for growth in the shipping part of our business.

Our shipping customers include e-commerce merchants, warehouses, fulfillment houses, large retailers and other types of shippers. E-commerce shipping is the fastest growing part of the mailing and shipping industry. According to quarterly U.S. Census Bureau Retail E-Commerce Sales reports, U.S. e-commerce sales for the twelve months ended September 30, 2018 grew approximately 15% over e-commerce sales for the twelve months ended September 30, 2017. According to the United Kingdom's Office for National Statistics, 2017 e-commerce sales by businesses in the UK non-financial sector with 10 employees or more grew 16% over 2016 sales. Accordingly, a large percentage of our company investments are being made to target e-commerce shippers. For 2019 and beyond we expect to continue making these large investments in order to attract these types of shippers to our solutions. Shipping customers are more expensive to acquire than small business customers but yield higher longer-term returns on investment with their typical characteristics including higher ARPU and lower churn when compared to other small businesses that predominately use our services to send mail.

(3) Expand the features and functionality of our solutions, particularly in the shipping part of our business.

We plan to continue to enhance our technology and solutions for our target customers that include e-commerce merchants, warehouses, fulfillment houses, large retailers and other types of shippers. We plan to enhance and add new features and functionality that will improve the value proposition of our solutions for shippers. We plan to add new integrations for easier data export and import from the tools that customers use and add new carrier and partner integrations. We plan to continue to build our support for new products such as inventory management, customer management and mobile solutions. We also plan to continue offering services such as our international shipping program, which bundles international shipping with valuable customer benefits such as free package pickup, free insurance, upgraded delivery speeds, enhanced tracking, simpler customs procedures, and other benefits.

(4) Increase our sales and marketing investment.

Based on recent analysis and trends, we expect to get a strong return on our investment from our mailing and shipping customers because they have a high expected lifetime value relative to the expected cost of acquiring those customers. Accordingly, we plan to increase our total sales and marketing expense in 2019 versus 2018. We plan to continue increasing our investment in direct sales, direct mail, traditional media, radio, television, search engine marketing, search engine optimization as well as refining our customer acquisition process through affiliates, partners, telemarketing and other areas.

TABLE OF CONTENTS

(5) Enhance our enterprise solutions sales and marketing efforts.

Our solutions targeted at enterprise customers continue to have a stronger customer value proposition compared to postage meters and our customers continue to be attracted to our enterprise solution versus a postage meter. We believe this customer preference is based on our lower total cost of ownership and the greater visibility into individual employee activity available from our centralized front-end reporting tool that has capabilities that are not available with a postage meter, such as real time data, improved web-based postage management tools, and enhanced web-based financial and administrative controls for central decision makers. For 2019 we plan to increase, optimize and refine our enterprise customer lead generation and sales and marketing efforts.

Customized Postage

In 2019 we plan to continue marketing customized postage, but with limited spending and expectations. In recent years, we reduced our consumer-focused marketing spending in order to lower our customer acquisition costs and improve our expected returns and profitability in the customized postage business. We plan to continue our programs of focused direct-to-website marketing spending with a goal of keeping the overall cost per acquisition at a level that provides an attractive financial return. We also plan to continue our efforts to generate high volume business orders which have become a larger part of our customized postage business in recent years.

Competition

We compete with all of the alternate ways that consumers and businesses may access the services of the USPS, including retail mailing and shipping locations, USPS online products, USPS software solutions, traditional postage meters, and other USPS-approved PC Postage products. We also compete with other multi-carrier products, e-commerce products with shipping capabilities, shipping technology products available from private carriers, package manifesting systems, and large enterprise software solutions with shipping functionality such as transportation management, warehouse management, or enterprise resource planning systems.

Retail Mailing and Shipping Locations

The majority of our small business customers use our USPS solutions as an alternative to visiting USPS or other retail locations. The USPS owns and operates approximately 31,000 retail post offices across the United States. Many of the USPS retail post offices also feature a USPS kiosk for self-serve mailing and shipping services with more convenient access and over extended access hours. The USPS authorizes thousands of additional contract post offices, community post offices and village post offices which allow third parties to operate post offices that are not owned by the USPS, such as those available in Hallmark stores. We also compete for mailing and shipping customers with alternatives such as postage stamps and prepaid USPS shipping labels available at grocery stores and at discount chains such as Costco. We also compete with USPS mailing and shipping services available at small business mailing and shipping centers such as UPS Stores or FedEx Offices stores, and those available inside office supply stores. Further, we have not been approved to offer our customers “Forever” postage rates, which are rates that do not ever expire and do not require extra postage following a postage rate increase.

We believe customers choose our products over retail mailing and shipping services because of the convenience of our solution, the breadth of features we offer, the quality of our support organization and ability to mail or ship from their home or business without making a trip to retail locations. We believe customers choose retail locations over our solutions because of the additional fees that we typically charge, the convenience of utilizing a retail location, and/or the preference for a Forever postage label.

TABLE OF CONTENTS

USPS Online Products

We compete with online services available at USPS.com. Users of USPS.com are able to print shipping labels using similar tools that we offer. But the services and features available at USPS.com are provided without service fees, creating a disadvantage for us because we typically charge service fees in our business model. The services at USPS.com also integrate well with other USPS online services such as package tracking, post office locators, and other USPS services. Additionally, USPS.com accepts PayPal for payment of postage but we are not approved to do so. USPS.com also features a mobile application for more convenient customer access to USPS services.

USPS services are also integrated directly into web shipping solutions available through Amazon.com, eBay, and PayPal. Sellers operating within these marketplaces may purchase USPS shipping labels in a convenient manner as part of the standard checkout flow. In all of these online marketplaces, customers can print postage for shipping without paying a monthly service fee like we typically charge. These solutions also feature USPS package rate discounts that are similar to ours, and in some cases superior to the discounts we are approved to offer customers. For postage payment, these web shipping solutions use the USPS's electronic verification system (eVS), the USPS's solution branded ePostage or another approved USPS PC postage vendor.

We believe customers choose our solutions over USPS online products because of the capabilities and performance of our products, the breadth of features that we offer, and the quality of our support organization. We believe customers choose USPS online products to meet their shipping needs over our solutions because of the additional fees that we may charge and/or the convenience of using one of these online products.

USPS Software Solutions

We compete with USPS private-labeled downloadable software and API (application program interface) solutions which are offered under the brand names Click-N-Ship Business Pro and USPS Web Tools. These solutions are targeted at higher volume business users or partners and include enhanced features for higher volume customers compared to those available at USPS.com. For postage payment, these solutions utilize the USPS's electronic verification system (eVS), or utilize the USPS's solution branded ePostage, which are two similar systems for providing access to USPS shipping without needing PC Postage. eVS and ePostage offer more convenient solutions to higher-volume shippers with certain advantages over our PC Postage products such as: (1) labels can be printed "offline" without requiring an internet connection; (2) labels are not charged to a customer's account until they are inserted into the mail stream; (3) eVS/ePostage labels do not expire and can be used at any time; (4) eVS/ePostage labels do not need to be saved and submitted for refunds; and (5) eVS/ePostage labels are able to support certain USPS returns products. However, we do offer our own eVS products that have some of the same capabilities. Additionally, all USPS software solutions are made available to customers with no additional monthly or transaction fees, and they may also be offered with discounts on the postage rates that are superior to the discounts that we are able to provide to our customers.

We believe customers choose our solutions over USPS software solutions because of the capabilities and performance of our products, the breadth of features that we offer, and the quality of our sales and support organization. We believe customers choose USPS software solutions over our solutions because of the additional fees that we may charge, the convenience of using one of these software products, and/or the package rates which are offered to the customer and which may be superior to the package rates we offer.

Traditional Postage Meters

We compete with traditional postage meters offered by FP Mailing Solutions, Hasler, Neopost, and Pitney Bowes in the U.S. market. Postage meters offer customers a simple user interface and often work better in a higher volume mail preparation process since postage meters can add postage after an envelope has already been stuffed and sealed, and can automatically weigh an envelope and add the appropriate postage. Additionally, more expensive postage meters can add postage to envelopes at rates that are faster than postage can be added using our USPS solutions since we are limited by the speed of an office printer.

We believe that customers choose our mailing and shipping services over traditional postage meters because of our lower total cost of ownership and/or the greater visibility and financial controls we provide and which are not readily available with postage meters. We believe customers choose postage meters over our solutions because of the ease of use, speed, and/or convenience of those products.

10

TABLE OF CONTENTS

Other USPS-Approved Vendors

We compete with EasyPost and Pitney Bowes which, in addition to Stamps.com and Endicia, are USPS-approved PC Postage providers. We also compete with Shippo which is an approved USPS ePostage provider.

Pitney Bowes is the current leader in the U.S. traditional postage meter business and offers software and web-based PC Postage services and integrations similar to our mailing and shipping services and integrations under the brand names pbSmartPostage™ and SendPro™. Pitney Bowes also offers shipping APIs that customers and partners can integrate with Pitney Bowes solutions to obtain shipping labels. Pitney Bowes shipping APIs facilitate the web shipping solutions available through eBay and PayPal where sellers operating within those marketplaces may purchase USPS shipping labels in a convenient manner.

We believe that our customers choose our mailing and shipping solutions over those of other PC Postage providers because of our superior user interface, our larger breadth of features, our extensive partner integrations and our quality of customer service and support. For example, (1) we are the only mailing and shipping service that is tightly integrated into the native capabilities of Microsoft Office for use with Office’s mailing capabilities such as mail merge and envelope printing; (2) we support more address books than any other PC Postage software; and (3) we are the only company that offers customers the additional choice of our Themed and Photo NetStamps labels. Based on USPS data and our estimates, we believe we have the highest number of PC Postage customers of any PC Postage provider.

Private Carrier Technology Solutions

We compete with private carriers who offer their own shipping technology solutions such as FedEx Ship Manager, FedEx.com, UPS WorldShip, and UPS.com. These private carrier solutions are provided at no cost to the customer and in many cases also include free implementation, free hardware such as printers or scales, and free consumables and other supplies. When customers evaluate carriers’ technology solutions, among other factors, they consider the cost and complexity of the technology product needed to access a particular carrier’s services.

We believe customers choose our solutions over private carrier technology solutions in order to utilize the package services of the USPS, to access multiple carriers from a single interface and because of the capabilities and performance of our products, the breadth of features that we offer, and the quality of our sales and support organization. We believe customers choose private carrier technology solutions over our solutions when they decide to utilize one of the private carriers instead of the USPS, as well as because of the additional free implementation, hardware or supplies the carrier offers, the quality of the carrier’s sales and support organization, and/or the technical capabilities of the private carrier’s solution. In some cases a customer may use both our USPS solution and a private carrier technology solution to meet their different needs.

Multi-Carrier E-commerce Solutions

MetaPack, ShippingEasy, ShipStation and ShipWorks provide multi-carrier solutions targeted at shippers such as warehouses, fulfillment houses, e-commerce shippers, large retailers, and other types of high volume shippers enabling the use of more than just the USPS for their business. In this area of our business, we compete with alternative means available to those categories of customer, including: other similar multi-carrier solutions (some of which are offered for free for lower volume users); warehouse and transportation management systems that offer multi-carrier shipping capabilities; package manifesting systems; e-commerce shopping carts that offer multi-carrier shipping solutions; and inventory management solutions or listing management solutions that offer multi-carrier solutions.

We believe customers choose our multi-carrier e-commerce products over alternative solutions because of the capabilities and performance of our products, the breadth of features we offer, the value of our product, and the quality of our sales and support organization. We believe customers choose other multi-carrier e-commerce solutions over our solutions because of the higher fees that we may charge, the convenience of utilizing an integrated multi- carrier shipping solution as part of an overall e-commerce product, and the breadth and depth of features available in a larger enterprise solution that also includes multi-carrier shipping.

TABLE OF CONTENTS

Industry Overview

Small and Home Businesses

According to the statistics provided by the U.S. Census Bureau, Statistics of U.S. Businesses, and the Internal Revenue Service, respectively, there were approximately 6 million small businesses with 1 – 99 employees and approximately 26 million sole proprietorships in 2016. Our mailing and shipping solutions target the home office, home business, small office and small business customers. We believe that some portion of the approximately 32 million small businesses and sole proprietorships are potential customers for our solutions.

Mailing & Shipping

According to the USPS Fiscal 2018 Final Revenue, Pieces, and Weight by Classes of Mail and Special Services Report, the total USPS revenue was $70.8 billion during its fiscal year ended September 30, 2018. Of this amount approximately $51.6 billion was represented by mail classes that are supported using our current solutions (First Class Mail, First Class Packages, International Mail, Media Mail, Parcel Select, Priority Mail, Priority Mail Express, and special services including Certified Mail, Return Receipt, USPS tracking and package insurance). The $51.6 billion in supported mail classes is comprised of (1) $26.0 billion in First Class mail; (2) $20.7 billion in shipping and package services; (3) $1.5 billion in international mail; (4) $0.9 billion in special services; and (5) $2.5 billion in ancillary and other mail services. We believe that some portion of the $51.6 billion in supported mail classes was generated by users who are potential customers for our solutions.

Our multi-carrier shipping solutions MetaPack, ShippingEasy, ShipStation and ShipWorks also address the potential market represented by the private carriers. According to data derived from the UPS 2018 Annual Report on Form 10-K, UPS earned $43.6 billion of U.S. Domestic Package segment revenue on 4.4 billion packages shipped and $14.4 billion of International Package segment revenue on 810.9 million packages shipped. According to data derived from the FedEx 2018 Annual Report on Form 10-K and the FedEx Q2 Fiscal 2019 Statistics Report, FedEx earned $12.8 billion of U.S. FedEx Express segment package revenue on 695.9 million packages shipped, $15.2 billion on International FedEx Express segment package revenue on 830.5 million packages shipped, and $18.4 billion on FedEx Ground segment revenue on 2.1 billion packages shipped. When taken together, we estimate that the top 3 U.S. carriers (UPS, FedEx and the USPS) have domestic and international package revenue of approximately $125.1 billion. According to data derived from Deutsche Post DHL Group’s 2017 Annual Report, we estimate there is approximately $1.9 billion represented by DHL Express International shipments originating in the U.S. and $11.6 billion originating outside the U.S. We believe some portion of the approximately $138.6 billion package revenue was generated by users who are potential customers for our solutions.

E-commerce

According to quarterly U.S. Census Bureau Retail E-Commerce Sales reports, U.S. e-commerce sales for the twelve months ended September 30, 2018 were estimated at $497 billion, an increase of 15.0% over e-commerce sales for the twelve months ended September 30, 2017. E-commerce sales accounted for 9.4% of total U.S. retail sales in the twelve months ended September 30, 2018 which was up from 8.6% of total retail sales in the twelve months ended September 30, 2017. According to the United Kingdom's Office for National Statistics, 2017 e-commerce sales by businesses in the UK non-financial sector with 10 employees or more were estimated at £560 billion, growing 16% over 2016 sales estimated at £484 billion. We believe the growth in e-commerce sales drives growth in the number of e-commerce packages shipped and that e-commerce merchants are potential customers of our solutions.

The PC Postage Certification and Regulatory Approval Process

Our technology must meet strict U.S. government security standards. Our PC Postage products complete extensive USPS testing and evaluation in the areas of operational reliability, financial integrity and security to become certified for commercial distribution. The USPS certification process to become an USPS-approved PC Postage vendor is a standardized extensive process. The process includes testing and reviews by the USPS and an independent test laboratory, and certification of meeting Federal Information Processing Standards. While the USPS has no published timeline or estimated time to complete the process, it took the existing approved vendors years to complete. Stamps.com was approved in 1999 and Endicia was approved in 2000.

TABLE OF CONTENTS

Our Technology

Our systems are located in multiple geographically disparate high-security data centers as well as secure connected cloud infrastructure platforms. These systems create the data used to generate information-based indicia and third party certified labels. They also process postage purchases using proprietary secure technology that meets USPS security requirements. Our services currently include Windows and Mac based client applications, web-based applications, and API Integrations that support a variety of label and envelope options along with a wide range of printers. In addition, our applications employ an internally developed user authentication mechanism for additional security.

Our transaction processing servers are a combination of secure, commercially available and internally developed technologies that are designed to provide secure and reliable transactions. Our implementation of security system hardware meets government standards for security and data integrity. The performance and scalability of our PC Postage system is designed to allow many users to simultaneously process postage transactions through our system. Our database servers are designed and built with industry-leading database technologies.

We rely on a combination of patent, trade secret, copyright, trade name, and trademark laws and contractual restrictions, such as confidentiality agreements and licenses, to establish and protect our rights in our products, services, know-how and information. We have a portfolio of issued and pending US and international patents. We also have a number of trade names and registered and unregistered trademarks. We plan to apply for more patents, trade names, and trademarks in the future. Our issued in force and pending patents have a range of expiration dates from 2019 until 2036. See Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations--Research and Development” for the amount spent during each of the last three fiscal years on Company-sponsored research and development activities.

Employees

As of December 31, 2018, we had approximately 1,179 employees across all of our companies. Our employees work in various departments including customer support, research and development, sales and marketing, information technology and general administration. None of our employees are represented by a labor union. We believe that we have a good relationship with our employees.

TABLE OF CONTENTS

Geographical and Revenue Information
Geographical Information

In 2016 and 2017, primarily as a result of our Endicia acquisition, we had international revenue and assets that were less than 1% of total revenue and assets, with the remainder in the United States. In 2018, we expanded our international operations with our acquisition of MetaPack Ltd. on August 15, 2018, at which time we became subject to increased economic, political, regulatory, currency exchange, foreign tax and other risks arising from such foreign operations. See Item 1A. "Risk Factors – Risks Related to Our Business," for a more detailed description of certain risks attendant to our foreign operations.

Revenue Information

During 2016, 2017 and 2018, we did not recognize revenue from any one customer that represented 10% or more of our total revenues.

See Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations--Results of Operations for years ended December 31, 2018 and 2017," and "Management's Discussion and Analysis of Financial Condition and Results of Operations--Results of Operations for years ended December 31, 2017 and 2016," for the percentage of total revenue contributed by categories of similar products or services that accounted for 10% or more of consolidated revenue. Our product and insurance revenues are subject to seasonal variations with the first and fourth calendar quarters being typically seasonally stronger and the second and third calendar quarters being typically seasonally slower. Our service revenue is subject to seasonal variation driven by our growth in packages shipped where the fourth calendar quarter is typically seasonally stronger due to the holiday shipping season and to a lesser extent, by customer acquisition which is typically seasonally stronger in the first and fourth calendar quarters and typically seasonally slower in the second and third calendar quarters. Our customized postage revenue is typically seasonally stronger in the fourth calendar quarter due to the holidays but can fluctuate from quarter to quarter based on high volume business orders.

Company Information

We were founded in September 1996 and we were incorporated in Delaware in January 1998 as StampMaster, Inc., changing our name to Stamps.com Inc. in December 1998. We completed our initial public offering in June 1999. Our common stock is listed on the NASDAQ Stock Market under the symbol "STMP."

Our principal executive office is located at 1990 E. Grand Avenue, El Segundo, CA 90245, and our telephone number is (310) 482-5800.

Available Information

We make available on our website (www.stamps.com), free of charge, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. Information contained on our website is not part of this Annual Report on Form 10-K. Our Annual Report on Form 10-K may also be obtained free of charge by written request to Investor Relations, Stamps.com Inc., 1990 E. Grand Avenue, El Segundo, CA 90245. The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov.

TABLE OF CONTENTS

ITEM 1A. RISK FACTORS.

The following discussion is divided into three sections. The first section, captioned “Risks Related to Our Industry,” discusses some of the risks relating to the mailing and shipping technology industry in which we operate. The second section, captioned “Risks Related to Our Business,” discusses some of the risks relating to our business operations. The third section, captioned “Risks Related to Our Common Stock,” discusses some of the risks particular to an investment in our common stock. You should carefully consider all of the following risks and the other information in this Report and our other filings with the Securities and Exchange Commission (the “SEC”) before you decide to invest in our Company or to maintain or increase your investment. The risks included in this section are not the only ones we face. 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 potential 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. If any of the following risks actually occur, our business, results of operations, financial condition and future prospects would likely suffer. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.

This Report contains forward-looking statements based on current expectations, assumptions, estimates and projections about us and the Internet. See the discussion of forward-looking statements on page 1 of Part I of this Report.

Risks Related to Our Industry

Postal Reform may negatively affect, or cause disruptions to, our services and business, and could adversely affect our ability to compete and our results of operations.

The USPS has reached its congressionally mandated debt limit and faces ongoing fiscal liquidity issues. The USPS currently only has two of its nine presidentially appointed Governors. It has embarked on cost cutting initiatives and has asked Congress to enact various Postal Reform measures. Newly appointed Governors, including the two that were appointed in 2018, could change the focus of cost cutting initiatives. Among the measures discussed are cutbacks in delivery schedules and locations, mail processing capability, and retail post office hours and locations. Any such changes actually approved and implemented may adversely affect the attractiveness of the products and services we are able to offer our customers and could therefore seriously harm the competitiveness of our business. Additionally, absent Congressional action, any USPS fiscal crisis could interrupt basic USPS operations, as well as payments to USPS suppliers such as us, each of which could also seriously harm our business.

Regulations and/or USPS policy or practices may cause disruptions to, or the discontinuance of our business.

We are subject to continued USPS scrutiny and other government regulations. The availability of our services is dependent upon us continuing to meet USPS performance specifications and regulations. The USPS could change its certification requirements or specifications for PC Postage or other programs or revoke or suspend the approval of one or more of our services or those of our third party service providers at any time. If at any time we fail to meet USPS requirements, we may be prohibited from offering our services, and our business would be severely and negatively impacted. In addition, the USPS could suspend or terminate our approval or offer services that compete against us, any of which could stop or negatively impact the commercial adoption of our services. Any changes in requirements or specifications for PC Postage could adversely affect our pricing, cost of revenues, operating results and margins by increasing the cost of providing our services.

Our business is subject to regulation by other federal, state and foreign government agencies, and our failure to comply, or allegations thereof, could restrict our ability to generate revenue, require us to pay fines and/or disgorge certain profits, or otherwise have an adverse effect on our financial condition and results of operations.

The USPS could also decide that PC Postage should no longer be an approved postage service due to security concerns, financial difficulties within the USPS or other issues. Our business would suffer dramatically if we were unable promptly to adapt our services to any new requirements or specifications or if the USPS were to discontinue PC Postage as an approved postage method. Alternatively, the USPS could introduce competitive programs or amend PC Postage requirements to make certification easier to obtain, which could lead to more competition from third parties or the USPS itself. If we are unable to compete successfully, particularly against large, traditional providers of postage products, such as Pitney Bowes, who enter the online postage market, our revenues and operating results will suffer.

TABLE OF CONTENTS

The USPS could decide that our customized postage products should no longer be approved products for such reasons as the belief that they present an unacceptable risk to USPS revenues, exposes the USPS or its customers to legal liability, or causes public or political embarrassment or harm to the USPS in any way. If the USPS were to discontinue our customized postage products, our revenues and operating results would suffer.

In addition, USPS regulations may require that our personnel with access to postal information or resources receive security clearance prior to doing relevant work. We may experience delays or disruptions if our personnel cannot receive necessary security clearances in a timely manner, or at all. The regulations may limit our ability to hire qualified personnel. For example, sensitive clearance may only be provided to US citizens or aliens who are specifically approved to work on USPS projects.

Finally, any approved USPS market test or new service that benefits us could also ultimately be suspended or cancelled by the USPS, causing disruptions to our business.

Our operating results could be impaired if we, or the Internet generally, become subject to additional government regulation.

Changes in the laws and regulations applicable to the Internet or us, including those relating to user privacy, pricing, content, copyrights, distribution, characteristics and quality of products and services, and export controls, could seriously harm our business, financial condition and results of operations. Moreover, the applicability of existing laws to the Internet is uncertain with regard to many issues, including property ownership, export of specialized technology, sales tax, state income taxes, libel and personal privacy, and changes in their interpretation could similarly harm us. The application of laws and regulations from jurisdictions whose laws do not currently apply to our business, or the application of existing laws and regulations to the Internet and other online services could also harm our business.

We have employees and offer our services in multiple states and internationally. These or other jurisdictions may claim that we are required to qualify to do business as a foreign corporation in each state or foreign country. Our failure to qualify as a foreign corporation in a jurisdiction where we are required to do so could subject us to taxes and penalties. Other states and foreign countries may also attempt to regulate our services or prosecute us for actual or perceived violations of their laws.

TABLE OF CONTENTS

Our business is subject to extensive, complex, overlapping and frequently changing rules, regulations and legal interpretations including those regarding privacy, and our results of operations, financial condition and reputation may be adversely affected by the demands of compliance and/or by our liability for any failure to comply.

Our business is also subject to laws, rules, regulations, policies and legal interpretations in the markets in which we operate and where our customers reside, including, but not limited to, those governing privacy, data protection and consumer protection. The legal and regulatory requirements applicable to us are extensive, complex, frequently changing, and increasing in number, and may impose overlapping and/or conflicting requirements or obligations. Any failure or perceived failure to comply with existing or new laws and regulations (including changes to or expansion of the interpretation of those laws and regulations), including without limitation those discussed in this risk factor or in other risk factors, may:

- subject us to significant fines, penalties, criminal and civil lawsuits, forfeiture of significant assets, and other enforcement actions in one or more jurisdictions;
- result in additional compliance and licensure requirements;
- increase regulatory scrutiny of our business;
- restrict our operations; and
- force us to change our business practices, make product or operational changes or delay planned product launches or improvements.

The foregoing could, individually or in the aggregate:

- expose us to significant liability;
- impose significant costs;
- require us to expend substantial resources;
- increase the cost and complexity of compliance;
- damage our brands and business;
- make our products and services less attractive;
- result in the loss of customers;
- limit our ability to grow the business;
- adversely affect our results of operations; and
- harm our reputation.

The complexity of U.S. federal, state and international regulatory and enforcement regimes, among other things, could result in a single event giving rise to a large number of overlapping investigations and legal and regulatory proceedings by multiple government authorities in different jurisdictions.

We are subject to a number of laws, rules and directives (which we refer to as “privacy laws”) relating to the collection, use, retention, security, processing and transfer (which we refer to as “process”) of personally identifiable information about our customers and employees (which we refer to as “personal data”) in the countries where we have operations and where our users reside. Much of the personal data that we process is regulated by multiple privacy laws and, in some cases, the privacy laws of multiple jurisdictions.

TABLE OF CONTENTS

There is uncertainty associated with the legal and regulatory environment around privacy and data protection laws, which continue to develop in ways we cannot predict, including with respect to evolving technologies. Privacy and data protection laws may be interpreted and applied inconsistently from country to country and impose inconsistent or conflicting requirements. Complying with varying jurisdictional requirements could increase the costs and complexity of compliance or require us to change our business practices in a manner adverse to our business, and violations of privacy and data protection-related laws can result in significant penalties and damage to our brand and business. In addition, compliance with inconsistent privacy laws may restrict our ability to provide products and services to our customers. A determination that there have been violations of privacy or data protection laws could expose us to significant damage awards, fines and other penalties that could, individually or in the aggregate, materially harm our business and reputation.

The European Union (EU) has adopted a comprehensive overhaul of its data protection regime from the current national legislative approach to a single European Economic Area Privacy Regulation, the General Data Protection Regulation (GDPR), which became effective in 2018. The EU data protection regime extends the scope of the EU data protection law to all foreign companies processing data of EU residents. It imposes a strict data protection compliance regime with severe penalties of up to the greater of 4% of worldwide turnover and €20 million and includes new rights such as the "portability" of personal data. Although the GDPR will apply across the EU without a need for local implementing legislation, as has been the case under the current data protection regime, local data protection authorities (DPAs) will still have the ability to interpret the GDPR, which has the potential to create inconsistencies on a country-by-country basis. See "Risks Related to Our Business - Our MetaPack acquisition has increased our risk profile to GDPR, and privacy and cyber security laws of California, as well as other jurisdictions, may affect our operations," below.

Any failure, or perceived failure, by us to comply with our posted privacy policies or with any applicable regulatory requirements or orders, or privacy, data protection, information security or consumer protection-related privacy laws and regulations in one or more jurisdictions could result in proceedings or actions against us by governmental entities or others, including class action privacy litigation in certain jurisdictions, subject us to significant fines, penalties, judgments and negative publicity, require us to change our business practices, increase the costs and complexity of compliance, and adversely affect our business. As noted above, we are also subject to the possibility of security and privacy breaches, which themselves may result in a violation of these privacy laws.

We do not collect sales or consumption taxes in some jurisdictions, and if such jurisdictions successfully challenged this practice, we could be subject to liabilities that could have a material adverse effect on our financial condition and results of operations.

We do not collect sales or consumption taxes in certain jurisdictions. An increasing number of states and foreign jurisdictions have considered or adopted laws or administrative practices that attempt to impose obligations on out-of-state or out of jurisdiction retailers to collect taxes on their behalf. A successful assertion by one or more states or foreign countries requiring us to remit taxes where we do not do so could result in substantial tax liabilities, including for past sales, as well as penalties and interest.

Certain states have been aggressively seeking to require even those businesses that do not maintain a physical presence in such states to collect sales and use taxes, rather than relying on the consumers to pay such taxes themselves. In June 2018, the United States Supreme Court issued a decision in South Dakota v. Wayfair, et al. that upheld a South Dakota statute that imposes sales tax collection on an out of state seller under certain conditions that do not include physical presence in South Dakota. This, and any similar laws in other states, could result in us being required to collect state sales and use taxes in jurisdictions where we have not historically done so. This could reduce demand for our products and services, and adversely affect our results of operations.

TABLE OF CONTENTS

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.

As previously disclosed in our Quarterly Report on Form 10-Q for our second fiscal quarter of 2018, during the second quarter of 2018, the USPS provided a notice requiring the renegotiation of certain important financial compensation arrangements, and that there is a risk that renegotiation would be unsuccessful and lead to materially less favorable terms or that the USPS could decide to not renew one or more of these financial compensation arrangements. As we previously disclosed, our recent negotiations with the USPS resulted in the discontinuation of the aforementioned arrangements. As a result, and as previously disclosed, 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. 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 mitigating 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.

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.

The USPS could decide to amend, renegotiate, discontinue or terminate one or more financial compensation arrangements from which we benefit that exist now or in the future. If the USPS decides to amend, renegotiate, discontinue or terminate any of our agreements or our integration partners' agreements under which we are compensated directly or indirectly by the USPS or integration partners for shipping customers who print certain classes of postage, or our credit card cost sharing agreements which govern the allocation of credit card fees paid by the USPS and us, then our revenue and operating results would suffer. In the history of our relationship with the USPS, we have had many of these important agreements renewed only on short-term extensions and without assurances of any long-term commitments by the USPS. More recently, certain important financial compensation arrangements with the USPS were neither renewed nor extended at the end of their terms (see "--The discontinuation of certain 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" above). We expect continued uncertainty as to these compensation arrangements going forward, and, whether or not ultimately renewed, there could be prolonged periods where we operate without such agreements, which would have an adverse impact on our operating results. If any of these financial compensation arrangements are not renewed, or if renegotiation leads to renewal on materially less favorable terms, then our revenue and operating results will be adversely affected.

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.

The USPS could decide to amend or terminate the discounts our customers and integration partners receive. Customers using our services receive discounted postage rates, either from Stamps.com or from integration partners that provide discounted rates, compared to USPS retail rates on certain mail pieces such as First Class letters and packages, domestic and international Priority Mail and Priority Mail Express packages, and other discounts available to high-volume shipping customers. We also earn compensation by offering customers a discounted postage rate that is provided to the customers by our integration partners. If the USPS decides to withdraw certain discounts or even remove the discounts entirely, our revenue and operating results will suffer. If the Postal Regulatory Commission decides the discounts are unlawful and require the USPS to cancel or change them, then our revenue and operating results would suffer. These discounts are subject to terms and conditions of agreements between third parties and the USPS, and there can be no assurance that our integration partners will continue to have access to such discounts or that they will continue to make them available to our customers on favorable terms or at all. Any disruption to our ability to provide discounts to our customers could have a material adverse effect on our results of operations, reputation and competitiveness.

TABLE OF CONTENTS

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.

Strategic business partners, such as the USPS, other postal services, multi-carrier software providers, e-commerce platforms, private shipping services, shipping service resellers, or others, could decide to amend, renegotiate or terminate agreements or financial compensation arrangements that exist now or in the future. For instance, if these partners amend, renegotiate or terminate agreements allowing us to integrate their services with our products and services, our revenues and operating results could suffer and our ability to attract customers that rely on these services could suffer.

If we are unable to compete successfully against alternative methods of accessing relevant mailing and shipping services, our revenues and operating results will suffer.

We compete with all of the alternate ways that consumers and businesses may access mailing and shipping services from the USPS, including the following: online services available at USPS.com; USPS retail locations; USPS kiosks; multi-carrier solutions; integrated web shipping solutions such as eBay/PayPal or Amazon.com; traditional postage meters; other USPS-approved PC Postage vendors; USPS permit manifesting solutions; and commercial retail locations that sell postage or shipping services (for example grocery stores, discount warehouses, small business mailing and shipping centers, office supply chains, and others). Some of these alternative means of accessing USPS services are available with no additional markup over the face value of postage and some are available with discounted postage rates that are better than the discounts that we are able to provide to our customers. Through our subsidiaries, MetaPack, ShippingEasy, ShipStation and ShipWorks, we also compete with all of the alternate ways that consumers and businesses may access the mailing and shipping services of carriers other than the USPS, including multi-carrier solutions providers. We also compete with the technology solutions available from these carriers themselves, which allow customers to access those carriers, and which are typically provided to the customers for no additional fees.

We may not be able to establish or maintain a competitive position against current or future competitors as they enter the market. Many of our competitors have longer operating histories, larger customer bases, greater brand recognition, greater financial, marketing, service, support, technical, intellectual property and other resources than us. As a result, our competitors may be able to devote greater resources to marketing and promotional campaigns, adopt more aggressive pricing policies and devote substantially more resources to web site and systems development. This increased competition may result in reduced operating margins, loss of market share and a diminished brand. We may from time to time make pricing, service or marketing decisions or acquisitions as a strategic response to changes in the competitive environment. These actions could result in reduced margins and seriously harm our business.

We face competitive pressures from new technologies or the expansion of existing technologies approved for use by the USPS and other carriers. We may also face competition from a number of indirect competitors that specialize in electronic commerce and other companies with substantial customer bases in the computer and other technical fields. Additionally, companies that control access to transactions through a network or web browsers could also promote our competitors or charge us a substantial fee for inclusion. In addition, changes in postal regulations could adversely affect our service and significantly impact our competitive position. For example, in 2018, Amazon.com launched a delivery service that is designed to compete directly with carriers such as the USPS, UPS and FedEx. By leveraging a large customer base and substantial resources, Amazon and/or other companies may be able to win substantial market share at the expense of other carriers and the technology and service providers that support them, including the Company and its subsidiaries. We may be unable to compete successfully against current and future competitors, and the competitive pressures we face could seriously harm our business.

TABLE OF CONTENTS

If we do not respond effectively to technological change, our services and products could become obsolete and our business will suffer.

The development of our services, products and other technology entails significant technical and business risks. To remain competitive, we must continue to enhance and improve the responsiveness, functionality and features of our online operations. The Internet and the electronic commerce industry are characterized by rapid technological change, changes in user and customer requirements and preferences, frequent new product and service introductions embodying new technologies, and the emergence of new industry standards and practices.

The evolving nature of the Internet or the postage markets could render our existing technology and systems obsolete. Our success will depend, in part, on our abilities:

- to develop, license or acquire leading technologies useful in our business;
- to enhance our existing services;
- to develop new services or features and technology that address the increasingly sophisticated and varied needs of our current and prospective users; and
- to respond to technological advances and emerging industry and regulatory standards and practices in a cost-effective and timely manner.

Future advances in technology may not be beneficial to, or compatible with, our business. Furthermore, we may not be successful in using new technologies effectively or adapting our technology and systems to user requirements or emerging industry standards on a timely basis. Our ability to remain technologically competitive may require substantial expenditures and lead time. If we are unable to adapt in a timely manner and at reasonable cost to changing market conditions or user requirements, our business, financial condition and results of operations could be seriously harmed.

Our MetaPack acquisition could be adversely impacted by Brexit.

Although negotiations between the UK and EU regarding the UK’s proposed withdrawal from the EU (“Brexit”) began in June 2017, it is still unclear what terms may be agreed to in the final outcome and for any transitional period or whether there will be a Brexit without any agreement with the EU, a minimal agreement or a delayed agreement (a "Hard or Delayed Brexit"). Ongoing changes in the EU’s regulatory framework applicable to our business, including changes related to Brexit and any other changes in the composition of the EU’s member states, may add further complexity to our global risks and operations. Given the significant UK presence we have after acquiring MetaPack, we could be adversely impacted both by the ongoing uncertainty of the Brexit negotiations, and by the final outcome of such negotiations. In particular, any outcome that negatively impacts the ability of UK based businesses to deliver services to EU member states, or that increases the costs of such service delivery, would likely have an adverse impact on our business. For example, it is possible that there will be greater restrictions on imports and exports between the UK and EU countries and increased regulatory complexities. These changes may adversely affect our sales, operations and financial results. Further, our operations in the UK may be adversely affected by extreme fluctuations in UK exchange rates. Moreover, the imposition of any import restrictions and duties levied on our UK services as imported for EU customers may make our service more expensive for such customers and less competitive from a pricing perspective. Given the lack of comparable precedent, it is unclear how Brexit may negatively impact the economies of the UK, the E.U. countries and other nations. However, any of these effects of Brexit, among others, could adversely affect our financial position, results of operations or cash flows. Further, any of these effects may be significantly exacerbated by a Hard or Delayed Brexit, which is increasingly possible given the lack of progress in negotiations, and anticipated deadline for Brexit at the end of March 2019.

Geopolitical uncertainty, and changes to international trade agreements, tariffs, import and excise duties, taxes or other governmental rules and regulations could adversely affect our business and results of operations.

We are seeking to grow our revenue generated from customers located outside the U.S. and, after acquiring MetaPack, a significant portion of our assets, including employees, are located outside the U.S. Risks associated with international operations, any of which could have a material adverse effect on our business, liquidity, financial condition and/or results of operations, include:

- political instability, and the possibility of deteriorating relationships involving countries in which we operate;
- the imposition of new or modified international trade restrictions, tariffs, import and excise duties or other taxes;
- import and export requirements, including restrictions on sales to certain end customers;
- restrictions on foreign ownership and investments, including potential intervention by the Committee on Foreign Investment in the United States (CFIUS) or by other applicable administrative review boards to block strategic transactions that might otherwise be in shareholders' interests;
- restrictions on repatriation of cash earned in foreign countries;
- changes in local political, economic, social and labor conditions;
- a less developed and less certain legal and regulatory environment in some countries, which, among other things, can create uncertainty regarding contract enforcement, intellectual property rights and liability issues; and
- inadequate levels of compliance with applicable anti-bribery laws, including the Foreign Corrupt Practices Act.

The U.S. federal government or other governmental bodies may propose changes to international trade agreements, tariffs, taxes and other government rules and regulations. Any changes to the international trading system, or the emergence or escalation of an international trade dispute, could significantly impact our business and have a negative impact on our revenues. In addition, the U.S. and other countries in which we operate impose import and excise duties, tariffs and other taxes on our products in varying amounts. Any significant increases in import and excise duties or other taxes on our products could have a material adverse effect on our business, liquidity, financial condition and/or results of operations.

Any factors that reduce cross-border trade or make such trade more difficult or expensive would lower our revenues and profits and could harm our business.

Cross-border trade (i.e., transactions where the merchant and consumer are in different countries) is subject to, and may be impacted by, foreign exchange rate fluctuations. In addition, the potential interpretation and application of laws of multiple jurisdictions (e.g., the jurisdiction of the merchant and of the consumer) are often extremely complicated in the context of cross-border trade. Changes to or the interpretation and/or application of laws applicable to cross-border trade could impose additional requirements (which may impose conflicting obligations) and restrictions on cross-border trade and increase the costs associated with cross-border trade. Any factors that increase the costs of cross-border trade or restrict, delay, or make cross-border trade more difficult or impractical would lower our revenues and profits and could harm our business.

TABLE OF CONTENTS

Global and regional economic conditions could sour rapidly and unexpectedly, which would adversely affect our business.

Our operations and performance depend significantly on global and regional economic conditions. Adverse economic conditions and events have negatively impacted global and regional financial markets in the past, and uncertainty about global and regional economic events and conditions may result in consumers and businesses postponing spending in response to tighter credit, higher unemployment, financial market volatility, government austerity programs, negative financial news, declines in income or asset values, and other factors many of which are beyond our ability to anticipate. These and other global and regional economic events and conditions could have a material adverse impact on demand for our products and services, our results of operations and our financial condition.

Our business may be impacted by political events, war, terrorism, public health issues, natural disasters and other business interruptions that could materially adversely affect our results of operations and financial condition.

War, terrorism, geopolitical uncertainties, public health issues and other business interruptions have caused and could cause damage or disruption to the economy and commerce on a global or regional basis, which could have a material adverse effect on our business, our customers, and integration partners and other companies with which we do business. Our business operations are subject to interruption by, among others, natural disasters, fire, power shortages, earthquakes, floods, nuclear power plant accidents and other industrial accidents, terrorist attacks and other hostile acts, labor disputes, public health issues and other events beyond our control. Such events could decrease demand for our products and services or make it difficult or impossible for us or our integration partners to deliver products and services to our customers. In the event of a natural disaster, we could incur significant losses, require substantial recovery time and experience significant expenditures in order to resume operations.

Risks Related to Our Business

If we do not successfully attract and retain skilled personnel for permanent management and other key personnel positions, we may not be able to effectively implement our business plan.

Our success depends largely on the skills, experience and performance of the members of our senior management and other key personnel. Any of these individuals can terminate his or her employment with us at any time. If we lose key employees and are unable to replace them with qualified individuals, our business and operating results could be seriously harmed. In addition, our future success will depend largely on our ability to continue attracting and retaining highly skilled personnel. We may be unable to successfully attract, assimilate or retain qualified personnel. Further, we may be unable to retain the employees we currently employ or attract additional qualified personnel to replace those key employees that may depart. The failure to attract and retain the necessary personnel could seriously harm our business, financial condition and results of operations.

If we fail to effectively market and sell our services and products, our business will be substantially harmed and could fail.

In order to acquire customers and achieve widespread distribution and use of our services and products, we must develop and execute cost-effective marketing campaigns and sales programs. We currently rely on a combination of marketing techniques to attract new customers including direct mail, online marketing and business partnerships. We may be unable to continue marketing our services and products in a cost-effective manner. If we fail to acquire customers in a cost-effective manner, our results of operations will be adversely affected.

TABLE OF CONTENTS

To the extent our target customers do not, or our current customers do not continue to, accept our services, our business will be adversely affected and could fail.

We must minimize the rate of loss of existing customers while adding new customers. Customers cancel their subscription to our service for many reasons, including a perception that they do not use the service sufficiently. Also customers may feel the costs for service are too high, they may be going out of business, or they may have other issues that are not satisfactorily resolved. We must continually add new customers both to replace customers who cancel and to continue to grow our business beyond our current customer base. If too many of our customers cancel our service, or if we are unable to attract new customers in numbers sufficient to grow our business, our operating results will be adversely affected. Further, if excessive numbers of customers cancel our service, we may be required to incur significantly higher marketing expenditures than we currently anticipate to seek to replace these customers with new customers.

We may not successfully implement strategies to increase the adoption of our services and products, which would limit our growth, adversely affect our business and cause the price of our common stock to decline.

Our continuing profitability depends on our ability to successfully implement our strategy of increasing the adoption of our services and products. Factors that might cause our revenues, margins and operating results to fluctuate include the factors described below in this section as well as:

- the costs of our marketing programs to establish and promote our brands;
- the demand for our services and products;
- our ability to develop and maintain strategic distribution relationships; the number, timing and significance of new products or services introduced by us and by our competitors;
- our ability to develop, market and introduce new and enhanced products and services on a timely basis;
- the level of service and price competition;
- our operating expenses;
- USPS regulation and policies relating to PC Postage;
- the modification or termination of financial compensation arrangements with the USPS, strategic business partners and other carriers; and
- general economic factors.

Our business could suffer if we are unsuccessful in making, integrating, and maintaining commercial agreements, strategic alliances, and other business relationships.

We provide e-commerce and other services to businesses through commercial agreements, strategic alliances, and business relationships. Under these agreements, we provide web services, shipping, mailing, and other services. These arrangements are complex and require substantial infrastructure capacity, personnel, and other resource commitments, which may limit the amount of business we can service. We may not be able to implement, maintain, and develop the components of these commercial relationships, which may include web services, fulfillment, customer service, inventory management, tax collection, payment processing, hardware, content, and third-party software, and engaging third parties to perform services. The amount of compensation we receive under certain of our commercial agreements is partially dependent on the volume of the other company’s sales. Therefore, if the other company’s offering is not successful, the compensation we receive may be lower than expected or the agreement may be terminated. Moreover, we may not be able to enter into additional commercial relationships and strategic alliances on favorable terms. We also may be subject to claims from businesses to which we provide these services if we are unsuccessful in implementing, maintaining, or developing these services.

As our agreements terminate, we may be unable to renew or replace these agreements on comparable terms, or at all. We may in the future enter into amendments on less favorable terms or encounter parties that have difficulty meeting their contractual obligations to us, which could adversely affect our operating results.

TABLE OF CONTENTS

Our present and future e-commerce services agreements, other commercial agreements, and strategic alliances create additional risks such as:

- disruption of our ongoing business, including loss of management focus on existing businesses;
- impairment of other relationships;
- variability in revenue and income from entering into, amending, or terminating such agreements or relationships; and
- difficulty integrating under the commercial agreements.

Our expansion into new products, services, technologies, and geographic regions subjects us to additional business, legal, financial, and competitive risks.

We may have limited or no experience in our newer markets, and our customers may not adopt our new offerings. These offerings may present new and difficult technology challenges, and we may be subject to claims if customers of these offerings experience service disruptions or failures or other quality issues. In addition, profitability, if any, in our newer activities may be lower than in our older activities, and we may not be successful enough in these newer activities to recoup our investments in them. If any of this were to occur, it could damage our reputation, limit our growth, and negatively affect our operating results.

TABLE OF CONTENTS

Our business could suffer if we are unsuccessful in making, integrating, and maintaining acquisitions and investments.
We have acquired a number of companies, and we may acquire or invest in or enter into joint ventures with additional companies. These transactions create risks such as:

- disruption of our ongoing business, including loss of management focus on existing businesses;
- problems retaining key personnel;
- additional operating losses and expenses of the businesses we acquired or in which we invested;
- the potential impairment of tangible and intangible assets and goodwill, including as a result of acquisitions;
- the potential impairment of customer and other relationships of the company we acquired or in which we invested or our own customers as a result of any integration of operations;
- the difficulty of completing such transactions and achieving anticipated benefits within expected timeframes, or at all;
- the difficulty of incorporating acquired operations, technology, and rights into our offerings, and unanticipated expenses related to such integration;
- the difficulty of integrating a new company's accounting, financial reporting, management, information and information security, human resource, and other administrative systems to permit effective management, and the lack of control if such integration is delayed or not implemented;
- for investments in which an investee's financial performance is incorporated into our financial results, either in full or in part, the dependence on the investee's accounting, financial reporting, and similar systems, controls, and processes;
- the difficulty of implementing at companies we acquire the controls, procedures, and policies appropriate for a larger public company;
- the risks associated with businesses we acquire or invest in, which may differ from or be more significant than the risks our other businesses face;
- potential unknown liabilities associated with a company we acquire or in which we invest; and
- for foreign transactions, additional risks related to the integration of operations across different cultures and languages, and the economic, political, and regulatory risks associated with specific countries.

As a result of future acquisitions or mergers, we might need to issue additional equity securities, spend our cash, or incur debt, contingent liabilities, or amortization expenses related to intangible assets, any of which could reduce our profitability and harm our business or only be available on unfavorable terms, if at all. In addition, valuations supporting our acquisitions and strategic investments could change rapidly given the current global economic climate. We could determine that such valuations have experienced impairments or other-than-temporary declines in fair value which could adversely impact our financial results.

Our expansion places a significant strain on our management, operational, financial, and other resources.
We have significantly expanded our global operations with our MetaPack acquisition, including increasing our product and service offerings and scaling our infrastructure to support our services businesses. This expansion, as well as any further or other expansion, increases the complexity of our business and places significant strain on our management, personnel, operations, systems, technical performance, financial resources, and internal financial control and reporting functions. We may not be able to manage growth effectively, which could damage our reputation, limit our growth, and negatively affect our operating results.

TABLE OF CONTENTS

If we fail to meet the demands of our customers, our business will be substantially harmed and could fail.

Our services and products must meet the commercial demands of our customers, which include home businesses and offices, small and medium sized businesses, corporations and individuals. We cannot be sure that our services will appeal to or be adopted by an ever-growing range of customers. If we are unable to ship products such as items from our Supplies Store in a timely manner to our customers, our business may be harmed. Moreover, our ability to obtain and retain customers depends, in part, on our customer service capabilities. If we are unable at any time to address customer service issues adequately or to provide a satisfactory customer experience for current or potential customers, our business and reputation may be harmed. If we fail to meet the demands of our customers, our results of operations will be adversely affected.

A failure to further develop and upgrade our services and products could adversely affect our business.

Any delays or failures in developing our services and products, including upgrades of current services and products, may have a harmful impact on our results of operations. The need to extend our core technologies, and those of the companies we acquire, into new features and services and to anticipate or respond to technological changes could affect our ability to develop these services and features. Delays in features or upgrade introductions could cause a decline in our revenue, earnings or stock price. We cannot determine the ultimate effect these delays or the introduction of new features or upgrades will have on our revenue or results of operations.

We may implement pricing plans and promotions that may adversely affect our future revenues and margins.

Our ability to generate gross margins depends upon our ability to generate significant revenues from a large base of active customers. In order to attract customers in the future, we may run special promotions and offers, such as trial periods, discounts on fees, postage and supplies, and other promotions. In addition, we may offer new pricing plans for new and existing customers. We cannot be sure that customers will be receptive to future fee structures and special promotions that we may implement. Even though we have established a sizeable customer base, we still may not generate sufficient gross margins to remain profitable. In addition, our ability to generate revenues or sustain profitability could be adversely affected by the special promotions or additional changes to our pricing plans.

We depend on third-party suppliers and outsource providers, and our business and results could be adversely affected if we fail to manage these vendors effectively.

We depend on third-party suppliers and outsource providers for a variety of services, components and supplies, including carrier services whether offered under third party brands or our own branding, and certain asset-intensive portions of our logistics business. In certain instances, we rely on single-sourced or limited-sourced suppliers and outsourcing vendors because doing so is advantageous due to quality, price or lack of alternative sources. If production or services were interrupted and we were not able to find alternate third-party suppliers, we could experience disruptions in operations including higher service costs. If outsourcing services were interrupted, not performed, or the performance was poor, our ability to process, record and report transactions with our customers, integration partners and other counterparties could be impacted. Such interruptions in the provision of supplies and/or services could impact our ability to meet customer demand, damage our reputation and relationships and adversely affect our revenue and profitability.

Third party assertions of violations of their intellectual property rights could adversely affect our business and operating results.

Substantial litigation regarding intellectual property rights exists in our industry. Third parties may currently have, or may eventually be issued, patents upon which our products or technology infringe. Any of these third parties might make a claim of infringement against us. We may become aware of, or we may increasingly receive correspondence claiming, potential infringement of other parties’ intellectual property rights. We could incur significant costs and diversion of management time and resources to defend claims against us, regardless of their validity. Any associated costs (including settlement costs, judgments and legal expenses) and business distractions could have a material adverse effect on our business, financial condition and results of operations. In addition, litigation in which we are accused of infringement might cause product development delays, require us to develop non-infringing technology or require us to enter into royalty or license agreements, which might not be available on acceptable terms, or at all. If a successful claim of infringement were made against us and we could not develop non-infringing technology or license the infringed or similar technology on a timely and cost-effective basis, our business could be significantly harmed or fail. Any loss resulting from intellectual property litigation could severely limit our operations, cause us to pay license fees, or prevent us from doing business.

TABLE OF CONTENTS

A failure to protect our own intellectual property could harm our competitive position and adversely affect our results of operations and prospects.

We rely on a combination of patent, trade secret, copyright and trademark laws and contractual restrictions, such as confidentiality agreements and licenses, to establish and protect our rights in our products, services, know-how and information. We have a portfolio of issued and pending US and international patents. We also have a number of registered and unregistered trademarks. We plan to apply for more patents in the future. We may not receive patents for any of our patent applications. Even if patents are issued to us, claims issued in these patents may not protect our technology. In addition, a court might hold any of our patents, trademarks or service marks invalid or unenforceable. Even if our patents are upheld or are not challenged, the costs of enforcing our patents can be material, and third parties may develop alternative technologies or products without infringing our patents. If our patents fail to protect our technology or our trademarks and service marks are successfully challenged, our competitive position could be harmed. We also generally enter into confidentiality agreements with our employees, consultants and other third parties to control and limit access to, and disclosure of, our confidential information. These contractual arrangements or other steps taken to protect our intellectual property may not prove to be sufficient to prevent misappropriation of technology or deter independent third party development of similar technologies. Additionally, the laws of foreign countries may not protect our services or intellectual property rights to the same extent as do the laws of the United States.

If we are unable to protect our information technology systems against service interruptions, misappropriation of data or breaches of security, our operations could be disrupted, our reputation may be harmed and we could be subject to legal and/or regulatory proceedings and liability.

We depend on the efficient and uninterrupted operation of our computer and communications hardware systems to support numerous business processes and activities. In addition, we must provide a high level of security for the transactions we execute. We rely on internally developed and third-party technology to provide secure transmission of postage and other confidential information. Any breach of these security measures would severely impact our business and reputation and would likely result in the loss of customers and revenues. Furthermore, if we fail to provide adequate security, the USPS could prohibit us from selling postage over the Internet.

Our systems and operations are vulnerable to damage or interruption from a number of sources, including fire, flood, power loss, telecommunications failure, break-ins, earthquakes and similar events. Our Internet host provider does not guarantee that our Internet access will be uninterrupted, error-free or secure. Our servers are also vulnerable to computer viruses, physical, electrical or electronic break-ins and similar disruptions. We have experienced minor system interruptions in the past and may experience similar or larger system interruptions again in the future. In addition, we are susceptible to system and operational disruptions caused by substantial changes to the demand for our services and surges in the use of our service by customers. Any substantial system interruptions in the future, whatever the cause, could result in the loss of data and could completely impair our ability to generate revenues from our service.

Our servers also periodically experience directed attacks intended to cause a disruption in service. Among other things, any breach of our information technology security could result in the unauthorized disclosure, theft or misuse of sensitive and confidential information regarding the company, our strategic partners, our customers and our employees. Any attempts to disrupt our service or our internal systems, if successful, could harm our business, be expensive to remedy and damage our reputation. Additionally, we could be exposed to potential liability, litigation, governmental inquiries, investigations or regulatory enforcement actions, our brand and reputation damaged, and we could be subject to the payment of fines or other penalties, legal claims and significant remediation costs.

Our insurance may not be sufficient to cover expenses related to system and operational disruptions or attacks on our web site, servers or internal systems. We do not presently have a full disaster recovery plan in effect to cover the loss of all facilities and equipment. We cannot be certain that our business interruption insurance coverage will be sufficient to compensate us for losses that may occur as a result of business interruptions.

TABLE OF CONTENTS

We are exposed to risks associated with the collection of credit card information and other customer data and the secure transmission of confidential information over public networks, and our potential liability as well as the costs we may incur to mitigate such risks could adversely affect our financial condition and results of operations.

A significant portion of our customer transactions requires the collection of customer data, such as credit card information. We and other parties involved in processing customer transactions must be able to transmit confidential information, including credit card information, securely over public networks. Third parties may have the technology or knowledge to breach the security of customer transaction data. Although we have security measures related to our systems and the privacy of our customers, we cannot guarantee these measures will effectively prevent others from obtaining unauthorized access to our information and our customers' information. Any person who circumvents our security measures could destroy or steal valuable information or disrupt our operations.

We experience attempted cyber-attacks of varying degrees on a regular basis. Our security measures may also be breached due to employee error, malfeasance, system errors or vulnerabilities, including vulnerabilities of our vendors, or otherwise. Such breach or unauthorized access, increased government surveillance, or attempts by outside parties to fraudulently induce employees, users, or customers to disclose sensitive information in order to gain access to our data or our users' or customers' data could result in significant legal and financial exposure, damage to our reputation, and a loss of confidence in the security of our websites, products and services that could potentially have an adverse effect on our business. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose users and customers.

Any security breach could also expose us to risks of data loss, litigation and liability, and could seriously disrupt operations and harm our reputation, any of which could adversely affect our financial condition and results of operations.

In addition, state and federal laws and regulations are increasingly enacted to protect consumers against identity theft. These laws and regulations will likely increase the costs of doing business and if we fail to implement appropriate security measures, or to detect and provide prompt notice of unauthorized access as required by some of these laws and regulations, we could be subject to potential claims for damages and other remedies, which could adversely affect our business and results of operations.

Our MetaPack acquisition has increased our risk profile to GDPR, and privacy and cyber security laws of California, as well as other jurisdictions, may affect our operations.

Our exposure to financial and reputational risks under the European Economic Area Privacy Regulation, the General Data Protection Regulation (GDPR) has significantly increased as a result of our expanding European operations, in particular due to our MetaPack acquisition. See "Risks Related to Our Industry - Our business is subject to extensive, complex, overlapping and frequently changing rules, regulations and legal interpretations including those regarding privacy, and our results of operations, financial condition and reputation may be adversely affected by the demands of compliance and/or by our liability for any failure to comply," above. Even without any cyber event or data breach, our compliance costs will be significantly increased.

The state of California has enacted the California Consumer Privacy Act of 2018, a privacy and cyber security law, which establishes strict data protection and privacy controls and reporting requirements and increases liabilities for non-compliance. In addition, other jurisdictions, including other states, have enacted, or may enact, their own privacy and cyber security laws. Any such laws may impact our operations and the California legislation underscores the increasing risk profile of our business to both cyber events and the emerging, strict, regulatory framework governing all businesses dealing in personal data.

TABLE OF CONTENTS

The modification or termination of agreements with our integration partners could adversely affect our business.

We have partnership agreements with many integration partners in the high volume shipping area of our business. These partners integrate our mailing and shipping services into their offerings and provide customers that use our services through their products. The modification or termination of any of these agreements by us or our partners could result in lost customers, reduced postage printed and lost revenue and our results of operations could be adversely affected.

Increases in payment processing fees would increase our operating expenses and adversely affect our results of operations.

Our customers pay for our services using credit cards and debit cards and by use of automated clearing house payments. Our acceptance of these payment methods requires our payment of certain fees. From time to time, these fees may increase, either as a result of rate changes by the payment processing companies or as a result of a change in our business practices that increase the fees on a cost-per-transaction basis. If these fees for accepting payment methods increase in future periods, it would adversely affect our results of operations.

A decline in our ability to effectively bill our customers by credit card and debit card would adversely affect our results of operations.

Our ability to effectively charge our customers through credit cards and debit cards is subject to many variables, including our own billing technology and practices, the practices and rules of payment processing companies, and the practices and rules of issuing financial institutions. If we do not effectively charge and bill our customers in future periods through credit cards and debit cards, it would adversely affect our results of operations.

Pending or future litigation could have a material adverse effect on our financial position and results of operations.

Litigation is uncertain, and the outcome of individual cases is often not predictable with any degree of certainty. We establish loss provisions only for matters in which losses are 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. Future litigation could involve potential compensatory or punitive damage claims, or sanctions, that, if awarded could require us to pay damages or make other expenditures in amounts that could exceed any loss provisions we may have established or otherwise could have a material adverse effect on our financial position or results of operations. Future litigation could also involve injunctive relief, where a court could prohibit, or materially restrict, our ability to compete in certain businesses or opportunities, any of which could have a material adverse effect on our business operations or financial results. For information concerning material litigation in which we are involved, please see the “Legal Proceedings” section in the Notes to Consolidated Financial Statements contained elsewhere in this Report.

Credit card fraud and our response to it could adversely affect our business.

We routinely receive orders placed with fraudulent credit card data. We do not carry insurance against the risk of credit card fraud, so our failure to adequately control fraudulent credit card transactions could reduce our net revenues and our profit. We may suffer losses as a result of postage purchases placed with fraudulent credit card data even if the associated financial institution approved payment. If we are unable to detect or control credit card fraud, our liability for these transactions could harm our business, prospects, financial condition and results of operation. Further, to the extent our efforts to prevent fraudulent transactions result in our inadvertent refusal to fill legitimate business requests, we would lose the benefit of legitimate potential sales and risk the alienation of legitimate customers.

TABLE OF CONTENTS

Default on the credit we may provide for printing postage to one or more of our larger customers could adversely impact our results of operations.

As we acquire larger customers that require larger postage volumes to support their businesses, we offer invoicing and extend credit terms to certain of these customers to facilitate their access to postage and use of our services. If one or more of these customers were to default on amounts owed, it could adversely affect our results of operations.

Our level of indebtedness could adversely affect our financial condition, financial flexibility, competitive position and results of operations.

Our level of indebtedness could have significant effects on our business. For example, our current indebtedness and any other indebtedness we may incur in the future could:

- require us to dedicate a substantial portion of our cash flow from operations to make payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other elements of our business strategy and other general corporate purposes, including share repurchases and payment of dividends;
- increase our vulnerability to adverse changes in general economic, industry and competitive conditions;
- limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;
- restrict us from exploiting business opportunities;
- make it more difficult to satisfy our financial obligations, including payments on our indebtedness;
- make it more likely that we experience an event of default or other event that could result in the acceleration of our obligation to repay our indebtedness;
- place us at a competitive disadvantage compared to our competitors that have less indebtedness;
- limit our ability to borrow additional funds for working capital, capital expenditures, acquisitions, debt service requirements, execution of our business strategy or other general corporate purposes; and
- adversely affect our financial results as the interest rate on our current debt is subject to changes in the London Interbank Offered Rate and changes in certain financial measures, and the interest rate on any indebtedness we may incur in the future may be subject to similar interest rate changes and thus could increase in future periods.

To service our debt and fund our other capital requirements, we will require a significant amount of cash, and our ability to generate cash will depend on many factors beyond our control. If we are unable to generate sufficient cash, our liquidity and financial condition would be adversely affected.

Our ability to meet our debt service obligations and to fund working capital, capital expenditures and investments in our business, will depend upon our future performance, which will be subject to financial, business and other factors affecting our operations, many of which are beyond our control. For example, this could include general and regional economic, financial, competitive, legislative, regulatory and other factors. We cannot ensure that we will generate cash flow from operations, or that future borrowings will be available, in an amount sufficient to enable us to pay our debt or to fund our other liquidity needs.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we could face substantial liquidity problems and could be forced to reduce or delay investments and capital expenditures or to dispose of material assets or operations, seek additional indebtedness or equity capital or restructure or refinance our indebtedness. We may not be able to timely effect any such alternative measures on commercially reasonable terms or at all and, even if successful, those alternative actions may not allow us to meet our scheduled debt service obligations.

Our inability to generate sufficient cash flows to satisfy our debt obligations, or to refinance our indebtedness on commercially reasonable terms, or at all, would materially and adversely affect our liquidity and financial condition.

TABLE OF CONTENTS

Our Credit Agreement imposes certain limitations on our ability to make dividend payments and to engage in further borrowing, which could hamper our control over liquidity.

Our Credit Agreement, dated as of November 18, 2015 (the “Credit Agreement”), imposes certain requirements in order for us to make dividend payments to our shareholders. Please see the “Liquidity and Capital Resources” section of the “Management's Discussion and Analysis of Financial Condition and Results of Operations” section of this Report for additional information. Adverse changes in our financial condition and results of operations could result in the Credit Agreement prohibiting us from paying any dividends or incurring additional debt in the future.

We are exposed to various risks associated with the credit and capital markets, which could negatively affect our financial condition, cash flow, and reported earnings.

Our cash equivalents and investments may be comprised of money market, asset-backed securities and public corporate debt securities. Global credit and capital markets can be suddenly and unexpectedly impaired, such as during the global economic crisis experienced in the last decade, and there can be no assurance that such markets will recover quickly or at all. Declines in the fair value of securities in our investment portfolio could lead to an increased risk that an other-than-temporary impairment exists. Uncertainties in the credit and capital markets or credit rating downgrades on any investments in our portfolio could cause impairment to our investment portfolio, which could negatively affect our financial condition, cash flow, and reported earnings.

We could be subject to changes in our tax rates, the adoption of new U.S. or international tax legislation or exposure to additional state or international tax liabilities which may adversely impact our financial results.

We are subject to examination of our income tax returns by the U.S. Internal Revenue Service and other domestic and foreign tax authorities. In addition, the application of other indirect taxes (such as sales and use tax, value added tax, goods and services tax, business tax and gross receipt tax) to a business such as Stamps.com is a complex and evolving issue, and states are increasingly seeking to assess sales tax on subscription fees. State or local authorities may attempt to collect taxes on our income based on this evolving area. The application of existing, new or future laws could have adverse effects on our business, prospects and operating results. There have been, and will continue to be, substantial ongoing costs associated with complying with the various indirect tax requirements in the numerous markets in which we conduct or will conduct business.

Among other factors, our effective tax rate is affected by the actions of third parties that we can neither control nor accurately predict, including the market for our common stock and the occurrence and timing of exercise of options awarded under our equity incentive plans. Actions that have generated material tax deductions for us in prior periods, such as the exercise of employee stock options, may not be repeated at the same levels in future periods, and our effective tax rate may increase as a result.

The potential of increased deficits that may result from the Tax Cuts and Jobs Act of 2017 and/or other economic, political or other factors that we are not able to predict, could prompt future legislative action that may increase our tax rates, modify or eliminate deductions, credits or other tax features from which we currently benefit, or otherwise cause our effective tax rate to increase. Any increase in our effective tax rate would adversely affect our results of operations, financial condition and prospects.

TABLE OF CONTENTS

Changes in our effective tax rate may reduce our net income.

A number of factors may increase our effective tax rates, which could reduce our net income, including:

- changes in jurisdictions in which our profits are determined to be earned and taxed;
- the resolution of issues arising from tax audits;
- a lack of, or decrease in, exercises of employee stock options;
- changes in the valuation of our deferred tax assets and liabilities, and in deferred tax valuation allowances;
- adjustments to income taxes upon finalization of tax returns;
- increases in expenses not deductible for tax purposes, including impairments of goodwill;
- changes in available tax credits;
- changes in our ability to secure new or renew existing tax holidays and incentives;
- changes in U.S. federal, state, or foreign tax laws or their interpretation; and
- changes in accounting standards.

To the extent our ecommerce business expands globally, we may be subject to increased customs and regulatory risks from cross-border transactions, and fluctuations in foreign currency exchange rates.

To the extent we expand our operations to include international sales generated by customers processing transactions through our platform, our international ecommerce business will be subject to significant trade regulations, taxes, and duties in the applicable jurisdictions. Our growing exposure, as well as any changes, to these regulations could potentially impose increased documentation and delivery requirements on us, increase our costs, delay delivery times, and subject us to additional liabilities, each of which could diminish our ability to compete in international markets and adversely affect our revenues and profitability.

Sales generated from our customers' internationally focused businesses are exposed to foreign exchange rate fluctuations. A strengthening of the currency in which we price our products and services (currently U.S. Dollars) relative to the currencies in other countries where we do business impacts our ability to compete internationally as the cost of similar international products and services priced in other currencies improve relative to the cost of our U.S. Dollar-denominated products and services. Such an exchange rate driven increase in our prices would likely result in a decrease in international volumes, which would adversely affect our revenue and profitability. Alternatively, if we price our international products and services sales in local currencies, a relative strengthening of the U.S. Dollar would result in lower reported revenues from such international sales.

We have foreign exchange risk.

The results of operations of, and certain of our intercompany balances associated with, our international websites and product and service offerings are exposed to foreign exchange rate fluctuations. Upon translation, operating results may differ materially from expectations, and we may record significant gains or losses on the remeasurement of intercompany balances. As we have expanded our international operations, our exposure to exchange rate fluctuations has increased. We also hold cash equivalents and/or marketable securities in foreign currencies including British Pounds and Euros. If the U.S. Dollar strengthens compared to these currencies, cash equivalents, and marketable securities balances, when translated, may be materially less than expected and vice versa.

TABLE OF CONTENTS

We could be subject to economic, political, regulatory and other risks arising from our international operations.
Operating in international markets requires significant resources and management attention and may subject us to regulatory, economic and political risks that may be different from or incremental to those in the U.S. To the extent of our international operations, additional risks that could adversely affect our business, include:

- difficulties and costs associated with staffing and managing foreign operations;
- management distraction;
- political or social unrest and economic instability;
- compliance with U.S. laws such as the Foreign Corrupt Practices Act, export controls and economic sanctions, and local laws prohibiting corrupt payments to government officials;
- difficulties in understanding and complying with local laws, regulations and customs in foreign jurisdictions;
- regulatory requirements or government action against our services, whether in response to enforcement of actual or purported legal and regulatory requirements or otherwise, that results in disruption or non-availability of our services in the applicable jurisdiction;
- less favorable foreign intellectual property laws;
- adverse tax consequences such as those related to changes in tax laws or tax rates or their interpretations, and the related application of judgment in determining our global provision for income taxes, deferred tax assets or liabilities or other tax liabilities given the ultimate tax determination is uncertain;
- fluctuations in currency exchange rates, against which we do not use foreign exchange contracts or derivatives to hedge, and which could impact revenues and expenses of our international operations and expose us to foreign currency exchange rate risk;
- profit repatriation and other restrictions on the transfer of funds;
- differing payment processing systems as well as consumer use and acceptance of electronic payment methods, such as payment cards;
- new and different sources of competition;
- low usage and/or penetration of internet-connected consumer electronic devices;
- different and more stringent user protection, data protection, privacy and other laws, including data localization requirements;
- availability of reliable broadband connectivity and wide area networks in targeted areas for expansion; and
- integration and operational challenges as well as potential unknown liabilities in connection with companies we may acquire or control.

Our failure to manage any of these risks successfully could harm our international operations and our overall business, and results of our operations.

TABLE OF CONTENTS

Risks Related to Our Common Stock

Our stock price has been volatile, which makes it more difficult for investors to predict at what price they may be able to sell their shares, and may make us a target for securities class action litigation.

The price at which our common stock has traded has fluctuated significantly. The price may continue to be volatile due to a number of factors, including the following, some of which are beyond our control:

- variations in our operating results;
- variations between our actual operating results and the expectations of securities analysts investors and the financial community;
- sales by stockholders holding larger blocks of our stock;
- announcements of developments affecting our business, systems or expansion plans by us or others; and
- market volatility in general.

As a result of these and other factors, investors in our common stock may not be able to resell their shares at or above their original purchase price. In the past, plaintiffs have often brought securities class action litigation against companies following periods of volatility in the market price of their securities. For example, on February 28, 2019, we and certain of our officers were sued in a putative class action lawsuit alleging violations of the federal securities laws for allegedly making materially false and misleading statements. We may be the target of additional litigation of this type in the future as well. Securities litigation against us could result in substantial costs and divert our management's time and attention from other business concerns, which could harm our business.

Several provisions of the Delaware General Corporation Law, our certificate of incorporation and our bylaws could discourage, delay or prevent a merger or acquisition, which could inhibit your ability to receive an acquisition premium for your shares and adversely affect the market price of our common stock.

Several provisions of the Delaware General Corporation Law, our certificate of incorporation, and our bylaws could discourage, delay or prevent a merger or acquisition that stockholders may consider favorable, and the market price of our common stock could be reduced as a result. These provisions include:

- authorizing our board of directors to issue "blank check" preferred stock without stockholder approval;
- providing for a classified board of directors with staggered, three-year terms;
- prohibiting us from engaging in a "business combination" with an "interested stockholder" (as such terms are defined in Section 203 of the Delaware General Corporation Law) for a period of three years after the date of the transaction in which the person became an interested stockholder unless certain provisions are met;
- prohibiting cumulative voting in the election of directors;
- requiring a two-thirds vote of our outstanding shares to amend our bylaws;
- affording the ability to call special meetings of stockholders exclusively to our board of directors; and
- establishing advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings.

In addition, our certificate of incorporation contains certain net operating loss protective provisions (the "NOL Protective Measures"), which are more specifically described in our Definitive Proxy filed with the SEC on April 2, 2008. Generally, the NOL Protective Measures provide that any person, company or investment firm that wishes to become a "5% shareholder" (as defined in our certificate of incorporation) must first obtain a waiver from our board of directors. In addition, any person, company or investment firm that is already a "5% shareholder" of ours cannot make any additional purchases of our stock without a waiver from our board of directors.

TABLE OF CONTENTS

On July 22, 2010, our board of directors suspended the NOL Protective Measures by approving a waiver from the NOL Protective Measures to all persons and entities, including companies and investment firms. As a result, our stockholders are now allowed to become “5% shareholders” and existing “5% shareholders” are allowed to make additional purchases of our stock each without having to comply with the restrictions contained in the NOL Protective Measures. Our board of directors may revoke this waiver at any time if the board deems the revocation necessary to protect against a Section 382 “change of ownership” that would limit our ability to utilize future NOLs. For complete details about this waiver from the NOL Protective Measures, please see our Current Report on Form 8-K filed with the SEC on July 28, 2010.

If our board of directors were to revoke the existing waiver of our NOL Protective Measures so that the measures operated again to prevent new "5% shareholders," then the NOL Protective Measures could be deemed to have an “anti-takeover” effect because, among other things, they would restrict the ability of a person, entity or group to accumulate more than 5% of our common stock and the ability of persons, entities or groups now owning more than 5% of our common stock to acquire additional shares of our common stock without the approval of our board of directors. As a result, our board of directors might be able to prevent any future takeover attempt. Therefore, the NOL Protective Measures could discourage or prevent accumulations of substantial blocks of shares in which our stockholders might receive a substantial premium above market value and might tend to insulate management against the possibility of removal.

The USPS may object to a change of control of our common stock, which could inhibit your ability to receive an acquisition premium for your shares and adversely affect the market price of our common stock.

The USPS may raise national security or similar concerns to prevent foreign persons from acquiring (or require foreign persons to divest) significant ownership of our common stock or of our Company. The USPS also has regulations regarding the change of control of approved PC Postage providers. These concerns may prohibit or delay a merger or other takeover of our Company that stockholders may consider favorable, and the market price of our common stock could be reduced as a result. Our competitors may also seek to have the USPS block the acquisition by a foreign person of our common stock or our Company in order to prevent the combined company from becoming a more effective competitor in the market for postage solutions.

We may expand through acquisitions of, or investments in, other companies or technologies, which may result in dilution to our stockholders and consume resources that may be necessary to sustain our business.

As part of our business efforts to acquire complementary services, technologies or businesses, we may:

- issue additional equity securities that would dilute our stockholders;
- use cash that we may need in the future to operate our business; and
- incur additional debt or refinance existing debt that could have terms unfavorable to us or that we might be unable to repay.

Business acquisitions, such as the acquisitions of PSI Systems, Inc. (Endicia), MetaPack Limited (MetaPack), ShippingEasy Group, Inc. (ShippingEasy), Auctane LLC (ShipStation) and Interapptive, Inc. (ShipWorks), also involve risks of unknown liabilities and potential litigation associated with the acquired business. In addition, we may not realize the anticipated benefits of any acquisition, including securing the services of key employees. Incurring unknown liabilities or the failure to realize the anticipated benefits of an acquisition could seriously harm our business. See “Risks Related to Our Business - Our business could suffer if we are unsuccessful in making, integrating, and maintaining acquisitions and investments,” above.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

TABLE OF CONTENTS

ITEM 2. PROPERTIES.

We believe that our existing facilities are suitable and adequate for our present purposes. In addition to the leases described below, we may lease additional space that is immaterial in size and rent amount.

Stamps.com segment properties

Our corporate headquarters are located in El Segundo, California, U.S. where we own a 99,600 square foot facility. We have approximately 20,000 square feet in Sunnyvale, California, U.S. under a lease expiring in November 2023; approximately 10,000 square feet in St Louis, Missouri, U.S. under a lease expiring in October 2022; approximately 22,000 square feet and 10,000 square feet at two separate locations in Austin, Texas, U.S. under leases expiring in June 2021 and December 2021, respectively; and approximately 26,000 square feet at another location in Austin, Texas, U.S. under a lease for three separate suites expiring in January 2024, July 2026, and January 2029.

MetaPack segment properties

We have approximately 8,000 square feet in London, England under a lease expiring in January 2024; approximately 16,000 square feet in Zielona Góra, Poland under a lease expiring in June 2019; and approximately 8,000 square feet in Atlanta, Georgia, U.S. under a lease expiring in December 2019.

ITEM 3. 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.

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.

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 has scheduled a final approval hearing to be held on April 29, 2019, or on another date 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. The complaint seeks class certification, unspecified damages, attorneys' fees and costs. 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.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

TABLE OF CONTENTS

PART II.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information

Our common stock is traded on The NASDAQ Stock Market under the symbol "STMP". The following table sets forth the range of high and low closing sales prices reported on The NASDAQ Stock Market for our common stock for the following periods:

	High	Low
Fiscal Year 2017		
First Quarter	$135.15	$114.35
Second Quarter	$154.88	$103.00
Third Quarter	$214.70	$143.15
Fourth Quarter	$229.85	$167.55
Fiscal Year 2018		
First Quarter	$207.10	$175.53
Second Quarter	$284.60	$196.05
Third Quarter	$280.10	$225.20
Fourth Quarter	$222.80	$143.19

TABLE OF CONTENTS

Stock Performance Graph

The information contained in this section shall not be deemed to be “soliciting material” or “filed” with the SEC, or subject to Regulation 14A or 14C under the Exchange Act, or to the liabilities of Section 18 of the Exchange Act, and shall not be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that we specifically request that such information be treated as soliciting material or specifically incorporate it by reference into such a filing.

The following line graph compares the cumulative total return to stockholders of our common stock from December 31, 2013 to December 31, 2018 to the cumulative total return over such period of (i) NASDAQ Market Index and (ii) NASDAQ Internet Index, an equal-dollar-weighted index composed of leading companies involved in Internet commerce, service and software. The graph assumes that $100 was invested on December 31, 2013 in our common stock and in each of the other two indices and the reinvestment of all dividends, if any.

The graph is presented in accordance with SEC requirements. Stockholders are cautioned against drawing any conclusions from this data, as past results are not necessarily indicative of future performance.

	Base December 31,	Year Ended December 31,				
Company/Index	2013	2014	2015	2016	2017	2018
Stamps.com Inc.	$ 100.00	$113.99	$260.36	$272.33	$446.56	$369.69
NASDAQ Market Index	$ 100.00	$113.40	$119.89	$128.89	$165.29	$158.87
NASDAQ Internet Index	$ 100.00	$98.79	$118.34	$122.49	$171.99	$163.98

Holders

As of January 31, 2019, there were approximately 315 stockholders of record and 17,527,387 shares of our common stock outstanding.

Dividend Policy

We did not pay any dividends during 2018 or 2017.

Future declaration and payment of dividends will be in the discretion of our Board of Directors and will be dependent upon our future earnings, financial condition and capital requirements. Our Credit Agreement also imposes certain requirements in order for us to make dividend payments.

Securities Authorized for Issuance under Equity Compensation Plans

Equity Compensation Plan Information

The following table provides information as of December 31, 2018 with respect to shares of our common stock that may be issued under our existing stock incentive plans:

Plan Category	Number of shares of common stock to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights	Number of shares of common stock remaining available for future issuance under the equity compensation plans (excluding shares reflected in column (a))
Equity compensation plans approved by security holders	2,232,000	$123.40	2,204,000
Equity compensation plans not approved by security holders: Stock Options (1)	409,000	$216.87	0
Equity compensation plans not approved by security holders: ShippingEasy Performance Awards (2)	4,000	n/a	0
Total	2,645,000		2,204,000

(1) Reflects the Stamps.com 2016 ShippingEasy Equity Inducement Plan granted on July 1, 2016 which provided for the issuance of an aggregate of 62,000 stock options to purchase Stamps.com common stock, the February 26, 2018 Equity Inducement Award granted on February 26, 2018 which provided for the issuance of up to 60,000 stock options to purchase Stamps.com common stock, and the 2018 MetaPack Equity Inducement Plan granted on August 15, 2018 which provided for the issuance of an aggregate of 320,250 stock options to purchase Stamps.com common stock. These plans were exempt from stockholder approval requirements as an employment inducement grant plan under applicable Nasdaq Listing Rule 5635(c)(4) as inducements material to the new employees entering into employment with Stamps.com.

(2) Reflects the inducement equity awards to two executives of ShippingEasy covering an aggregate of up to approximately 87 thousand shares of common stock if earnings targets for ShippingEasy are achieved over a two and one-half year period beginning July 1, 2016. The plan was exempt from stockholder approval requirements as an employment inducement grant plan under applicable Nasdaq Listing Rule 5635(c)(4) as inducements material to the new employees entering into employment with Stamps.com.

Recent Sales of Unregistered Securities

We did not have any unregistered sales of common stock during 2018.

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)
October 1, 2018 –	73,761	$202.41	73,761	$ 56,330

October 31, 2018				
November 1, 2018 – November 30, 2018	223,619	$163.18	223,619	$ 62,072
December 1, 2018 – December 31, 2018	233,927	$158.70	233,927	$ 24,949

On April 25, 2018, the Board of Directors approved a stock repurchase plan that took effect upon expiration of the prior plan on May 11, 2018 and authorized the Company to repurchase up to $90 million of stock over the six months following its effective date. On October 24, 2018, the Board of Directors approved a new stock repurchase plan, which became effective November 11, 2018, that replaced our prior stock repurchase plan and authorized the Company to repurchase up to $90 million of stock over the six months following its effective date.

TABLE OF CONTENTS

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 2-Summary of Significant Accounting Policies-Treasury Stock-in our 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.

TABLE OF CONTENTS

ITEM 6. SELECTED FINANCIAL DATA.

We have derived the selected consolidated statements of operations data for the years ended December 31, 2018, 2017 and 2016 and the selected consolidated balance sheet data as of December 31, 2018 and 2017 from our audited consolidated financial statements and related notes included elsewhere in this Form 10-K. We have derived the selected consolidated statements of operations data for the years ended December 31, 2015 and 2014 and the selected consolidated balance sheet data as of December 31, 2016, 2015 and 2014 from our audited consolidated financial statements not included in this Form 10-K. The following data should be read in conjunction with the “Management's Discussion and Analysis of Financial Condition and Results of Operations” section and our financial statements, including the notes thereto, included elsewhere in this Report. Our historical results are not necessarily indicative of the results to be expected for any future period and the results for any interim period are not necessarily indicative of the results to be expected in the full year.

	Year Ended December 31,				
	2018 (1,2)	2017	2016 (3)	2015 (4)	2014 (5,6)
	(in thousands, except per share data)				
Statement of Operations Data:					
Mailing and Shipping revenue	$567,295	$449,372	$350,591	$206,687	$141,796
Customized Postage revenue	19,583	19,244	13,615	7,229	5,450
Other revenue	52	93	99	41	23
Total revenues	586,930	468,709	364,305	213,957	147,269
Cost and expenses:					
Cost of revenues	126,909	79,226	62,972	43,935	32,906
Sales and marketing	112,080	91,222	78,830	56,144	43,659
Research and development	56,591	46,208	35,158	20,711	13,309
General and administrative	96,951	88,550	67,125	42,399	25,147
Contingent consideration charges	—	—	—	46,088	8,438
Litigation settlement	—	—	—	10,000	—
Income (loss) from operations	194,399	163,503	120,220	(5,320)	23,810
Foreign currency exchange gain (loss), net	(992)	—	—	—	—
Interest expense	(2,595)	(3,669)	(3,552)	(397)	—
Interest income and other income, net	102	414	306	146	375
Income (loss) before income taxes	190,914	160,248	116,974	(5,571)	24,185
Income tax expense (benefit)	22,272	9,645	41,745	(1,373)	(12,697)
Net income (loss)	$168,642	$150,603	$75,229	$(4,198)	$36,882
Basic net income (loss) per share	$9.39	$8.81	$4.36	$(0.26)	$2.30
Diluted net income (loss) per share	$8.99	$8.19	$4.12	$(0.26)	$2.25
Weighted average shares outstanding used in basic per-share calculation	17,952	17,099	17,245	16,436	16,011
Weighted average shares outstanding used in diluted per-share calculation	18,762	18,387	18,251	16,436	16,417

TABLE OF CONTENTS

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(in thousands)				
Balance Sheet Data:					
Cash, cash equivalents and investments	$113,757	$153,903	$108,443	$75,208	$57,630
Working capital	78,372	156,154	87,888	4,784	31,901
Debt, net of debt issuance costs	60,643	69,034	147,354	161,620	—
Total assets	852,774	679,104	610,129	528,614	254,731
Total stockholders’ equity	613,665	497,813	372,712	238,969	205,031

(1) 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.

(2) The third and fourth quarter results of 2018 include the impact of the Company's acquisition of MetaPack.

(3) The third and fourth quarter results of 2016 through the results of 2018 include the impact of the Company’s acquisition of ShippingEasy.

(4) The fourth quarter results of 2015 through the results of 2018 include the impact of the Company’s acquisition of Endicia.

(5) The third and fourth quarter results of 2014 through the results of 2018 include the impact of the Company’s acquisition of Shipworks.

(6) The second, third, and fourth quarter results of 2014 through the results of 2018 include the impact of the Company’s acquisition of ShipStation.

TABLE OF CONTENTS

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with Item 6. “Selected Financial Data” of this Report and our financial statements and the related notes thereto included in this Report. This discussion contains forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from historical results or anticipated results including those set forth in Item 1A. “Risk Factors” of this Report. We call your attention to the discussion of forward-looking statements on page 1 of Part I of this Report, which is incorporated into, and is intended to accompany, this Item 7.

Overview

Stamps.com® is a leading provider of Internet-based mailing and shipping solutions in the United States 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."

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 $217.7 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 3 – “Acquisitions” in our Notes to Consolidated Financial Statements for further description.

ShippingEasy

On July 1, 2016, we completed our acquisition of ShippingEasy. The net purchase price including adjustments for net working capital totaled approximately $55.4 million and was funded from current cash and investment balances.

In connection with the acquisition, we issued performance based inducement equity awards to the General Manager and the then Chief Technology Officer of ShippingEasy. These inducement awards cover an aggregate of up to 87,134 common shares if earnings targets for ShippingEasy are achieved over a two and one-half year period which began July 1, 2016. The awards are subject to proration if at least 75% of the applicable target is achieved and are subject to forfeiture or acceleration based on changes in employment circumstances over the performance period.

TABLE OF CONTENTS

We also issued inducement stock option grants for an aggregate of 62,000 shares of Stamps.com common stock to 48 new employees in connection with our acquisition of ShippingEasy.

Please see Note 3 – “Acquisitions” in our Notes to Consolidated Financial Statements for further description.

Results of Operations

The results of our operations during the year ended December 31, 2018 include MetaPack's operations beginning on the August 15, 2018 acquisition date. The results of our operations during the year ended December 31, 2017 do not include the operations of MetaPack. Please see Note 3 – “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.

Years Ended December 31, 2018 and 2017

Total revenue increased 25% to $586.9 million in 2018 from $468.7 million in 2017. Mailing and shipping revenue, which includes service revenue, product revenue, and insurance revenue, was $567.3 million in 2018, an increase of 26% from $449.4 million in 2017. Customized Postage revenue increased 2% to $19.6 million in 2018 from $19.2 million in 2017.

The following table sets forth the breakdown of revenue for 2018 and 2017 and the resulting percent change (revenue in thousands):

	2018	2017	% Change
Revenues			
Service	$530,682	$411,272	29.0 %
Product	20,424	20,715	(1.4)%
Insurance	16,189	17,385	(6.9)%
Mailing and shipping revenue	567,295	449,372	26.2 %
Customized postage	19,583	19,244	1.8 %
Other	52	93	(44.1)%
Total revenues	$586,930	$468,709	25.2 %

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 ARPU as mailing and shipping revenue divided by paid customers. We define lost paid customers (Lost Paid Customers) as customers from whom we successfully collected service fees or otherwise earned revenue at least once during the previous quarter but not during the current quarter, less recaptured paid customers. We define monthly paid customer cancellation rate (Monthly Churn) as a fraction, the numerator of which is the quotient of Lost Paid Customers in a quarter divided by the sum of paid customers in the prior quarter and new paid customers in the current quarter, and the denominator of which is three months.

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

Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Annual Average
2018	740	737	732	736	736
2017	722	738	736	735	733

TABLE OF CONTENTS

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

	2018	2017	% Change
Paid customers for the year	736	733	0.5 %
ARPU	$771	$613	25.6 %
Mailing and shipping revenue	$567,295	$449,372	26.2 %

The number of paid customers was approximately flat in the years ended December 31, 2018 and 2017 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 ARPU was primarily the result of the growth in our shipping business where we have the ability to better monetize postage volume as compared to monthly flat rate subscription fees, growth in international service offerings to our domestic customers, and revenues from our acquisition of MetaPack.

Revenue by Product

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

	2018	2017
Revenues		
Service	$530,682	$411,272
Product	20,424	20,715
Insurance	16,189	17,385
Customized postage	19,583	19,244
Other	52	93
Total revenues	$586,930	$468,709
Revenue as a percentage of total revenues		
Service	90.4 %	87.8 %
Product	3.5 %	4.4 %
Insurance	2.8 %	3.7 %
Customized postage	3.3 %	4.1 %
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.

TABLE OF CONTENTS

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 29% to $530.7 million in 2018 from $411.3 million in 2017. The increase in service revenue was driven by a 28.4% increase in our average service revenue per paid customer (Service Revenue ARPU) and a 0.5% increase in our annual average paid customers.

The increase in our Service Revenue ARPU was attributable to (1) the factors that resulted in an increase in the average total mailing and shipping revenue per paid customer described above and (2) the continuing effects of the renewal in 2017 of two of our agreements with the USPS with improved economics.

The number of paid customers was approximately flat due to the factors described above.

Product revenue decreased 1% to $20.4 million in 2018 from $20.7 million in 2017. Product revenue is primarily driven by labels, such as NetStamps, which are used for mailing. As our growth in postage has been driven more by shipping than mailing over the recent years, our product revenue has not kept pace with our growth in total revenue.

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 7% to $16.2 million in 2018 from $17.4 million in 2017. 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 2% to $19.6 million in 2018 from $19.2 million in 2017. The increase was primarily attributable to increases in website orders.

TABLE OF CONTENTS

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):

	2018	2017
Cost of revenues		
Service	$101,921	$51,931
Product	6,153	6,618
Insurance	2,945	4,637
Customized postage	15,890	16,040
Total cost of revenues	$126,909	$79,226
Cost as percentage of associated revenue		
Service	19.2 %	12.6 %
Product	30.1 %	31.9 %
Insurance	18.2 %	26.7 %
Customized postage	81.1 %	83.4 %
Total cost as a percentage of total revenues	21.6 %	16.9 %

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 96% to $101.9 million in 2018 from $51.9 million in 2017. The increase was primarily attributable to (1) a $29.9 million increase in vendor costs and expenses in connection with services for which we include such costs and expenses both in revenue and in cost of service revenue; (2) higher system operating and customer service costs, which increased by $7.3 million, to support our growing business; (3) MetaPack cost of service revenue of $6.5 million; and (4) higher credit card processing fees, which increased by $5.7 million, directly related to our higher revenue. Promotional expenses were not material in 2018 or 2017.

Cost of service revenue as a percent of service revenue increased from 13% in 2017 to 19% in 2018. The increase is primarily attributable to the relative increase in service revenue from service offerings for which the vendor costs and expenses are included both in revenue and in cost of service revenue.

Cost of product revenue decreased 7% to $6.2 million in 2018 from $6.6 million in 2017. The decrease was primarily attributable to lower costs of sale for NetStamps labels.

Cost of product revenue as a percent of product revenue declined from 32% in 2017 to 30% in 2018. The decrease was primarily attributable to lower costs of sale for NetStamps labels.

Cost of insurance revenue decreased 36% to $2.9 million in 2018 from $4.6 million in 2017. The decrease was primarily attributable to the change to recognizing revenue on a net basis of accounting beginning October 1, 2018 as described in the previous section and to a renegotiated contract with one of our insurance providers.

Cost of insurance revenue as a percent of insurance revenue declined from 27% in 2017 to 18% in 2018. The decrease was primarily attributable to the change to recognizing revenue on a net basis of accounting beginning October 1, 2018 as described in the previous section and to a renegotiated contract with one of our insurance providers.

Cost of customized postage revenue decreased 1% to $15.9 million in 2018 from $16.0 million in 2017. The decrease in cost of customized postage revenue is primarily due to the increase in our customized postage revenue related to website sales which have a higher margin compared to high volume orders.

TABLE OF CONTENTS

Cost of customized postage revenue as a percent of customized postage revenue declined from 83% in 2017 to 81% in 2018. The decrease, both on an absolute basis and as a percentage of customized revenue, was primarily the result of the decrease in high volume orders which have a lower profit margin compared to website sales.

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 percentage):

	2018		2017	
Operating expenses:				
Sales and marketing	$112,080		$91,222	
Research and development	56,591		46,208	
General and administrative	96,951		88,550	
Total operating expenses	$265,622		$225,980	
Operating expenses as a percent of total revenues:				
Sales and marketing	19.1	%	19.5	%
Research and development	9.6	%	9.9	%
General and administrative	16.5	%	18.9	%
Total operating expenses as a percentage of total revenues	45.3	%	48.2	%

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 23% to $112.1 million in 2018 from $91.2 million in 2017. The increase is primarily due to an increase in discretionary and sales volume-based partner marketing spend of $12.1 million and a net increase in headcount-related expenses including stock-based compensation of $5.9 million.

Sales and marketing expense as a percent of total revenue was 19% in both 2018 and 2017.

Research and Development

Research and development expense principally consists of compensation for personnel involved in the development of our services, depreciation of equipment and software, and expenditures for consulting services and third party software.

Research and development expense increased 22% to $56.6 million in 2018 from $46.2 million in 2017. The increase is primarily due to a net increase in headcount-related expenses including stock-based compensation of $6.5 million and a $2.5 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 approximately 10% in both 2018 and 2017.

TABLE OF CONTENTS

General and Administrative

General and administrative expense principally consists of compensation and related costs for executive and administrative personnel; fees for legal and other professional services; depreciation of equipment, software, and building used for general corporate purposes; and amortization of intangible assets.

General and administrative expense increased 9% to $97.0 million in 2018 from $88.6 million in 2017. The increase was primarily attributable to (a) $5.3 million of MetaPack general and administrative expenses, (b) professional service and settlement expenses of $3.1 million related to corporate development and litigation activities, and (c) $1.9 million of one-time insurance proceeds relating to a legal settlement recorded in 2017, partially offset by $6.0 million of executive consulting expense recorded in 2017 with no similar expense being recorded in 2018. The remaining $4.1 million increase was primarily due to other general increases in operating expenses.

General and administrative expense as a percent of total revenue was approximately 17% in 2018 and 19% in 2017. The decrease is primarily attributable to the factors described in the previous paragraph and the increase in 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 $1.0 million in 2018 was primarily due to $1.0 million of nonrecurring foreign currency exchange loss directly related to the acquisition of MetaPack.

Interest Income and Other Income

Interest income and other income primarily consists of interest income from cash, cash equivalents, and short-term and long-term investments. Interest and other income decreased to $102,000 in 2018 from $414,000 in 2017. Interest income 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 was $2.6 million in 2018 compared to $3.7 million in 2017. The decrease in interest expense is primarily attributable to the lower outstanding debt balance under our credit facility, partially offset by higher interest rates.

See Note 7 – “Debt” in our Notes to Consolidated Financial Statements for further discussion.

Provision for Income Taxes

For the years ended December 31, 2018 and 2017, income tax expense was $22.3 million and $9.6 million, respectively. The increase in income tax expense in the current year period is primarily due to reduced excess tax benefits related to the exercise of fewer employee stock options as compared to the prior period.

As of December 31, 2018 and 2017, we had net deferred tax assets of approximately $11.2 million and $43.1 million, respectively. We evaluated the appropriateness of our deferred tax assets and related valuation allowance in accordance with ASC 740, Income Taxes based on all available positive and negative evidence, including our recent earnings trend and expected future income.

TABLE OF CONTENTS

Trend Analysis

We expect our mailing and shipping revenue to decrease in 2019 compared to 2018 primarily due to the elimination of certain compensation arrangements with the USPS, 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 certain important financial compensation arrangements with the USPS. 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.” As a result, and as previously disclosed, 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 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.

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 greater 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 expense in 2019 to be lower than 2018 due to lower outstanding debt balances under our credit facility.

We expect our effective tax rate for 2019 to be higher than 2018 as we benefited from excess tax benefits related to the exercise of stock options in 2018 which we do not expect to recur at the same levels in 2019, and due to exposure to higher tax rate jurisdictions with MetaPack. There are other factors that impact taxable income compared to book income which can be difficult to predict and can change from quarter-to-quarter.

TABLE OF CONTENTS

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 on page 1 of Part I of this Report and the risks and other factors set forth in Item 1A "Risk Factors." 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.

Years Ended December 31, 2017 and 2016

Total revenue increased 29% to $468.7 million in 2017 from $364.3 million in 2016. Mailing and shipping revenue, which includes service revenue, product revenue and insurance revenue, was $449.4 million in 2017, an increase of 28% from $350.6 million in 2016. Customized Postage revenue increased 41% to $19.2 million in 2017 from $13.6 million in 2016.

The following table sets forth the breakdown of revenue for 2017 and 2016 and the resulting percent change (revenue in thousands):

	2017	2016	% Change
Revenues			
Service	$411,272	$313,057	31.4 %
Product	20,715	20,234	2.4 %
Insurance	17,385	17,300	0.5 %
Mailing and shipping revenue	449,372	350,591	28.2 %
Customized postage	19,244	13,615	41.3 %
Other	93	99	(6.1)%
Total revenues	$468,709	$364,305	28.7 %

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

Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Annual Average
2017	722	738	736	735	733
2016	649	646	648	681	656

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

	2017	2016	% Change
Paid customers for the year	733	656	12 %
ARPU	$613	$534	15 %
Mailing and shipping revenue	$449,372	$350,591	28 %

The increase in paid customers is primarily the result of increased sales and marketing spend and better performance in our marketing programs.

The increase in our ARPU was primarily the result of the growth in our shipping business where we have the ability to better monetize postage volume as compared to monthly flat rate subscription fees.

TABLE OF CONTENTS

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):

	2017		2016	
Revenues				
Service	$411,272		$313,057	
Product	20,715		20,234	
Insurance	17,385		17,300	
Customized postage	19,244		13,615	
Other	93		99	
Total revenues	$468,709		$364,305	
Revenue as a percentage of total revenues				
Service	87.8	%	85.9	%
Product	4.4	%	5.6	%
Insurance	3.7	%	4.8	%
Customized postage	4.1	%	3.7	%
Other	0.0	%	0.0	%
Total revenue	100.0	%	100.0	%

Service revenue increased 31% to $411.3 million in 2017 from $313.1 million in 2016. The increase in service revenue consisted of a 12% increase in our annual average paid customers and an 18% increase in our Service Revenue ARPU.

The increase in the number of our paid customers was attributable to the factors described above.

The increase in our Service Revenue ARPU was attributable to (1) the factors that resulted in an increase in the average total mailing and shipping revenue per paid customer described above and (2) the renewal in 2017 of two of our agreements with the USPS with improved economics.

Product revenue increased 2% to $20.7 million in 2017 from $20.2 million in 2016. Product revenue is primarily driven by labels, such as NetStamps, which are used for mailing. However, our postage growth has been driven more by shipping than mailing over recent years.

Insurance revenue was $17.4 million in 2017 and $17.3 million in 2016. The growth in insurance revenue is less than the growth in service revenue primarily due to the increase in high volume shipper customers. 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 41% to $19.2 million in 2017 from $13.6 million in 2016. The increase was primarily attributable to increases in high volume customer orders. High volume order sales are unpredictable and vary from quarter to quarter.

TABLE OF CONTENTS

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):

	2017	2016
Cost of revenues		
Service	$51,931	$39,999
Product	6,618	6,695
Insurance	4,637	5,432
Customized postage	16,040	10,846
Total cost of revenues	$79,226	$62,972
Cost as percentage of associated revenue		
Service	12.6 %	12.8 %
Product	31.9 %	33.1 %
Insurance	26.7 %	31.4 %
Customized postage	83.4 %	79.7 %
Total cost as a percentage of total revenues	16.9 %	17.3 %

Cost of service revenue increased 30% to $51.9 million in 2017 from $40.0 million in 2016. The increase was primarily attributable to higher credit card processing fees associated with our higher revenue, which increased by $7.4 million; higher customer service costs to support our growing customer base, which increased by $2.5 million; and higher system operations costs to support our growing customer base, which increased by $2.0 million. Promotional expenses were not material in 2017 or 2016. Cost of service revenue as a percent of service revenue was approximately 13% in both 2017 and 2016.

Cost of product revenue was $6.6 million in 2017 and $6.7 million in 2016. Cost of product revenue as a percent of product revenue was 32% in 2017 which was consistent with 2016.

Cost of insurance revenue decreased 15% to $4.6 million in 2017 from $5.4 million in 2016. The decrease was primarily attributable to lower cost as a result of a renegotiated contract. Cost of insurance revenue as a percent of insurance revenue declined from 31% in 2016 to 27% in 2017. The decrease is the combination of decreased costs of insurance revenue and increased insurance revenue.

Cost of customized postage revenue increased 48% to $16.0 million in 2017 from $10.8 million in 2016. The increase in cost of customized postage revenue is primarily due to the increase in our customized postage revenue. Cost of customized postage revenue as a percent of customized postage revenue increased from 80% in 2016 to 83% in 2017. The increase, both on an absolute and as a percentage of customized revenue, was primarily the result of the increase in high volume orders which have a lower profit margin compared to website sales.

TABLE OF CONTENTS

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 percentage):

	2017		2016	
Operating expenses:				
Sales and marketing	$91,222		$78,830	
Research and development	46,208		35,158	
General and administrative	88,550		67,125	
Total operating expenses	$225,980		$181,113	
Operating expenses as a percent of total revenues:				
Sales and marketing	19.5	%	21.6	%
Research and development	9.9	%	9.7	%
General and administrative	18.9	%	18.4	%
Total operating expenses as a percentage of Total revenues	48.2	%	49.7	%

Sales and Marketing

Sales and marketing expense increased 16% to $91.2 million in 2017 from $78.8 million in 2016. The increase is primarily due to an increase in discretionary marketing spending of $8.3 million and an increase in headcount-related expenses including stock-based compensation expense of $3.2 million.

Sales and marketing expense as a percent of total revenue was 20% in 2017 which was down compared to 22% in the 2016. The decline was primarily attributable to our ability to leverage our sales and marketing spend, which is expensed as incurred relative to the year-over-year growth in our average revenue per paid customer.

Research and Development

Research and development expense increased 31% to $46.2 million in 2017 from $35.2 million in 2016. The increase is primarily due to an increase in headcount-related expenses including stock-based compensation of $8.3 million, an increase in facilities expense of $0.8 million, and an increase in consulting expense of $0.6 million.

Research and development expense as a percent of total revenue was approximately 10% in both 2017 and 2016.

General and Administrative

General and administrative expense increased 32% to $88.6 million in 2017 from $67.1 million in 2016. The increase was primarily attributable to an increase in headcount-related expenses including stock-based compensation of $10.7 million, $6.0 million of executive consulting expense and an increase in indirect tax liabilities of $4.0 million.

General and administrative expense as a percent of total revenue was approximately 19% in 2017 which was consistent with 2016.

Interest and Other Income

Interest and other income increased to $414,000 in 2017 from $306,000 in 2016. The increase in interest and other income is primarily attributable to higher average cash balances in 2017 compared to 2016.

Interest Expense

Interest expense was $3.7 million in 2017 compared to $3.6 million in 2016. The increase in interest expense is primarily attributable to higher average interest rates in the 2017 compared to 2016, partially offset by lower outstanding debt balances under our credit facility.

TABLE OF CONTENTS

Provision for Income Taxes

For the years ended December 31, 2017 and 2016, income tax expense was $9.6 million and $41.7 million, respectively. The decrease in income tax expense in the current year period is primarily due to excess tax benefits related to the exercise of stock options, partially offset by the re-measurement of the Company’s deferred tax assets and liabilities as a result of the Tax Cuts and Jobs Act enacted on December 22, 2017.

As of December 31, 2017 and 2016, we had net deferred tax assets of approximately $43.1 million and $48.8 million, respectively. We evaluated the appropriateness of our deferred tax assets and related valuation allowance in accordance with ASC 740, Income Taxes based on all available positive and negative evidence, including our recent earnings trend and expected future income.

Liquidity and Capital Resources

As of December 31, 2018 and 2017, we had $113.8 million and $153.9 million, respectively, primarily in cash and cash equivalents.

Net cash provided by operating activities was approximately $276.1 million in 2018 and $197.8 million in 2017. The increase in net cash provided by operating activities was primarily attributable to the following changes in the consolidated statement of cash flows line items: (1) an increase in net income of $18.0 million, (2) a $36.2 million increase in cash flows due to a decrease in current income taxes receivable, and (3) a $25.1 million increase in cash flows due to a decrease in accounts receivable, net of accounts receivable acquired.

Net cash used in investing activities was approximately $211.4 million in 2018 and $5.3 million in 2017. The increase in net cash used in investing activities was primarily due to the acquisition of MetaPack on August 15, 2018 for $208.5 million, net of cash acquired.

Net cash used in financing activities was approximately $104.8 million in 2018 and $145.5 million in 2017. The decrease in net cash used in financing activities was primarily due to optional repayments of debt of $72.0 million in 2017, partially offset by the full repayment of MetaPack's revolving credit facility balance of approximately $12.7 million immediately following the acquisition of MetaPack in 2018 and the decrease in proceeds received from exercise of stock options of $15.8 million.

The effect of exchange rate changes on cash and cash equivalents was not material in 2018 or 2017.

The following table is a schedule of our significant contractual obligations and commercial commitments (other than debt commitments) as of December 31, 2018 (in thousands):

Twelve Month Period Ending December 31,	Operating Lease Obligations
2019	$ 5,416
2020	5,249
2021	4,641
2022	3,623
2023	3,344
Thereafter	4,286
Total	$ 26,559

On November 18, 2015, we entered into a Credit Agreement with a group of banks, which provides 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 debt issuance costs was approximately $373,000 in each of the years ended December 31, 2018 and 2017. In December 2017, we repaid all of our revolving credit facility outstanding debt of $62.0 million.

TABLE OF CONTENTS

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 December 31, 2018, our applicable margin was 1.25% and the interest rate on our outstanding loan was approximately 4.05%. 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 December 31, 2018, 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 December 31, 2018, 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 December 31, 2018, our Consolidated Total Leverage Ratio was 0.24 to 1.00, our Fixed Charge Coverage Ratio was 19.41 to 1.00 and our Liquidity was approximately $196 million. 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 December 31, 2018 are as follows (in thousands):

	Amount
2019	$ 10,828
2020	50,531
Thereafter	—
Total debt	61,359
Less: debt issuance costs	716
Total debt, net of debt issuance costs	$ 60,643

The estimated interest payments related to our debt due subsequent to December 31, 2018 are as follows (in thousands):

	Amount
2019	$ 2,362
2020	1,691
Thereafter	—
Total	$ 4,053

The above estimated interest payments assume an interest rate of 4.05%, which is our interest rate as of December 31, 2018.

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.

TABLE OF CONTENTS

Critical Accounting Policies and Judgments

General

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP). The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to patents, contingencies, litigation, and goodwill and intangibles acquired relating to our acquisitions. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

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.

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.

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 6 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 United States 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 United States dollars at the exchange rate on the balance sheet date. Revenues and expenses are translated at the average exchange rate during the period.

TABLE OF CONTENTS

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.

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 our reporting unit's goodwill, the difference is recognized as an impairment loss. As of December 31, 2018, we are not aware of any indicators of impairment that would require an impairment analysis other than our annual goodwill impairment analysis. As such, we elected to perform a qualitative assessment of impairment of goodwill and concluded that it was more likely than not that the fair value of our reporting units was in excess of their respective carrying values. Accordingly, the fiscal 2018 assessment did not result in any impairments of the Company’s goodwill.

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. In fiscal 2018, the Company elected to perform a qualitative assessment for its intangible assets not subject to amortization and concluded that it was more likely than not the fair value of each of the Company’s intangible assets not subject to amortization was in excess of its respective carrying value.

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.

TABLE OF CONTENTS

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.

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.

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 revenue 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.

TABLE OF CONTENTS

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 2018, 2017, or 2016.

Segment Information

We have organized our operations into two segments: Stamps.com and MetaPack. Please see Note 13 - "Segment and Geographical Information" in our Notes to Consolidated Financial Statements for further description.

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. Prior to the adoption of ASU 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, in 2017, share-based compensation expense was recorded net of estimated forfeitures, which were based on historical forfeitures and adjusted to reflect changes in facts and circumstances, if any.

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, risk-free interest rates, and projected employee stock option exercise behaviors. In the case of options we grant, our assumption of expected volatility is based on the historical volatility of our stock price over the term equal to the expected life of the options. We base the risk-free interest rate on U.S. Treasury zero-coupon issues with a remaining term equal to the expected life of the options assumed at the date of grant. The estimated expected life represents the weighted average period the stock options are expected to remain outstanding, determined based on an analysis of historical exercise behavior.

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.

Recently Issued Accounting Pronouncements

Accounting Guidance Adopted in 2018

Definition of a Business

In January 2017, the FASB issued ASU 2017-01, guidance that changes the definition of a business for accounting purposes. Under the new guidance, an entity first determines whether substantially all of the fair value of a set of assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. If this threshold is met, the set of assets is not deemed to be a business. If this threshold is not met, the entity then evaluates whether the set of assets meets the requirement to be deemed a business, which at minimum, requires there to be an input and a substantive process that together significantly contribute to the ability to create outputs. The guidance became effective on a prospective basis for the Company on January 1, 2018. The Company's adoption of the guidance on January 1, 2018 did not have a material impact on the Company's consolidated financial statements.

TABLE OF CONTENTS

Modification of Share-Based Payments

In May 2017, the FASB issued ASU 2017-09, guidance that clarifies when changes to the terms and conditions of share-based awards must be accounted for as modifications. The guidance does not change the accounting treatment for modifications. The guidance became effective for the Company on January 1, 2018 and was adopted on a prospective basis. The adoption of the guidance did not have a material impact on the Company’s consolidated financial statements.

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, an updated standard on revenue recognition. This ASU superseded the revenue recognition requirements in Accounting Standards Codification Topic 605, Revenue Recognition, and most industry-specific guidance. ASU 2014-09 provides enhancements to the quality and consistency of how revenue is reported while also improving comparability in the financial statements of companies reporting using U.S. GAAP and International Financial Reporting Standards. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies may be required to use more judgment and make more estimates than under current authoritative guidance.

On January 1, 2018, the Company adopted the guidance under the modified retrospective method. The adoption of the guidance did not have a material impact on the Company's consolidated financial statements.

Accounting Guidance Not Yet Adopted

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. This final rule is effective for quarterly reporting for quarters which begin after November 5, 2018. The Company is in the process of evaluating the impact of the final rule on its consolidated financial statements.

Goodwill Impairment

In January 2017, the FASB issued ASU 2017-04, a standard which simplifies the accounting for goodwill impairment. The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. Goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The guidance 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.

Leases

In February 2016, the FASB issued ASU 2016-02, a new accounting standard for leases. The new standard generally requires the recognition of financing and operating lease liabilities and corresponding right-of-use assets on the balance sheet. For financing leases, a lessee recognizes amortization of the right-of-use 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. The amendments are effective for the Company in the first quarter of 2019 using a modified retrospective approach with early adoption permitted. Although the Company is in the process of evaluating the impact of adoption of the ASU on its consolidated financial statements, the Company currently believes the most significant change will be related to the recognition of right-of-use assets and lease liabilities on the Company's balance sheet for real estate operating leases.

TABLE OF CONTENTS

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

On November 18, 2015, we entered into a Credit Agreement with a group of banks, which provides 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 December 31, 2018, the debt outstanding under our Credit Agreement, gross of debt issuance costs, was $61.4 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 December 31, 2018, our applicable margin was 1.25% and the interest rate on our outstanding loan was approximately 4.05%. 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 of money market securities and had weighted average maturity of 17 days and a weighted average interest rate of 2.2% at December 31, 2018. Our cash equivalents and investments approximated $113.8 million at December 31, 2018. 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Our consolidated financial statements, schedules and supplementary data, as listed under Item 15, appear in a separate section of this Report beginning on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

TABLE OF CONTENTS

ITEM 9A. 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.

Management’s report on internal control over financial reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) and 15d-15(f). Our internal control system was designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (COSO) in Internal Control-Integrated Framework. Based on our assessment and those criteria, management, including our Chief Executive Officer and Chief Financial Officer, concluded that our internal control over financial reporting was effective as of December 31, 2018. Management’s assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of MetaPack Limited, which is included in the 2018 consolidated financial statements and constituted 29% and 36% of total and net assets, respectively, as of December 31, 2018 and 3% and 1% of revenues and net income, respectively, for the year then ended. Securities and Exchange Commission guidelines permit companies to exclude acquisitions from their assessment of internal control over financial reporting during the first year following an acquisition.

Ernst & Young LLP, the independent registered public accounting firm who also audited our consolidated financial statements, has issued an attestation report on the effectiveness of internal control over financial reporting as of December 31, 2018, which is included herein.

Changes in internal controls

On August 15, 2018, we acquired MetaPack and, as a result, we have begun 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 certain processes, systems and controls relating to the integration of MetaPack, during the year ended December 31, 2018, 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.

ITEM 9B. OTHER INFORMATION.

None.

TABLE OF CONTENTS

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Stamps.com Inc. and subsidiaries

Opinion on Internal Control Over Financial Reporting

We have audited Stamps.com Inc. and subsidiaries' internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control— Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Stamps.com, Inc. and subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

As indicated in the accompanying Management's report on internal control over financial reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Metapack Limited, which is included in the 2018 consolidated financial statements of the Company and constituted 29% and 36% of total and net assets, respectively, as of December 31, 2018 and 3% and 1% of revenues and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of Metapack Limited.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes, and our report dated March 1, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's report on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

TABLE OF CONTENTS

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP
Los Angeles, California
March 1, 2019

TABLE OF CONTENTS

PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information required under this item is incorporated by reference herein to our proxy statement for our 2019 annual meeting of stockholders, which will be filed with the SEC by not later than 120 days after our fiscal year end.

ITEM 11. EXECUTIVE COMPENSATION.

The information required under this item is incorporated by reference herein to our proxy statement for our 2019 annual meeting of stockholders, which will be filed with the SEC by not later than 120 days after our fiscal year end.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required under this item is incorporated by reference herein to our proxy statement for our 2019 annual meeting of stockholders, which will be filed with the SEC by not later than 120 days after our fiscal year end.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information required under this item is incorporated by reference herein to our proxy statement for our 2019 annual meeting of stockholders, which will be filed with the SEC by not later than 120 days after our fiscal year end.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required under this item is incorporated by reference herein to our proxy statement for our 2019 annual meeting of stockholders, which will be filed with the SEC by not later than 120 days after our fiscal year end.

TABLE OF CONTENTS

PART IV.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

(a) Documents filed as part of this report.

1. Financial Statements. Our following financial statements are included in a separate section of this Annual Report on Form 10-K commencing on the pages referenced below:

Stamps.com Inc. and Subsidiaries Financial Statements

2. Financial Statement Schedules. All of our financial statement schedules have been omitted because they are not applicable, not required, or the information is included in the financial statements or notes thereto.

3. Exhibits. The following Exhibits are incorporated herein by reference or are filed with this report as indicated below:

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of the Company and Amendments thereto.(11)
3.2	Amended and Restated Bylaws of the Company.(3)
4.1	Specimen common stock certificate.(4)
10.1	Patent Assignment from Mohan P. Ananda to the Company, dated January 20, 1998.(1)
10.2	Assignment and License Agreement between the Company and Mohan P. Ananda, dated January 20, 1998.(1)
10.3	1998 Stock Plan and Forms of Notice of Grant and Stock Option Agreement.(2) +++
10.4	1999 Stock Incentive Plan (as amended and restated on April 25, 2000).(7) +++
10.5	1999 Employee Stock Purchase Plan (as amended and restated on February 9, 2000).(6) +++
10.6	Form of Amended and Restated Indemnification Agreement between the Company and its directors and officers.(18) +++
10.7	Form of Stamps.com Inc. February 26, 2018 Equity Inducement Award. (26)
10.8	Form of Notice of Grant of Stock Option (1999 Stock Incentive Plan).(5) +++
10.9	Form of Stock Option Agreement (1999 Stock Incentive Plan).(5) +++
10.10	Form of Addendum to Stock Option Agreement—Involuntary Termination Following Corporate Transaction/Change in Control (1999 Stock Incentive Plan).(5) +++
10.11	Form of Addendum to Stock Option Agreement—Limited Stock Appreciation Right (1999 Stock Incentive Plan).(5) +++
10.12	Form of Stock Issuance Agreement (1999 Stock Incentive Plan).(5) +++
10.13	Form of Addendum to Stock Issuance Agreement—Involuntary Termination Following Corporate Transaction/Change in Control (1999 Stock Incentive Plan).(5) +++
10.14	Form Automatic Stock Option Agreement (1999 Stock Incentive Plan).(5) +++
10.15	Form Notice of Grant of Non-Employee Director—Automatic Stock Option (Initial) (1999 Stock Incentive Plan).(5) +++

Exhibit Number	Description
10.16	Form Notice of Grant of Non-Employee Director—Automatic Stock Option (Annual) (1999 Stock Incentive Plan).(5) +++
10.17	Form of Enrollment/Change Form for Employee Stock Purchase Plan.(5) +++
10.18	Form of Stock Purchase Agreement for Employee Stock Purchase Plan.(5) +++
10.19	Stock Purchase Agreement (12) +++
10.20	2010 Equity Incentive Plan.(25) +++
10.21	2014 Amendment to the Stamps.com Inc. 2010 Equity Incentive Plan.(17) +++
10.22	2016 Amendment to the Stamps.com Inc. 2010 Equity Incentive Plan.(17) +++
10.23	2018 Amendment to the Stamps.com Inc. 2010 Equity Incentive Plan.(13) +++
10.24	Form of Stock Option Agreement.(14) +++
10.25	Settlement Agreement among the Company, Kara Technology Incorporated and Salim Kara.(15)
10.26	Agreement of Purchase And Sale and Joint Escrow Instructions.(16)
10.27	Stock Purchase Agreement made and entered into as of March 22, 2015, by and among Stamps.com Inc., a Delaware corporation, PSI Systems, Inc., a California corporation, and Newell Rubbermaid Inc., a Delaware corporation. (20) +
10.28	Commitment Letter, by and among Bank of America, N.A., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Wells Fargo Bank, National Association, Wells Fargo Securities, LLC, JPMorgan Chase Bank, N.A., and J.P. Morgan Securities LLC and Stamps.com Inc., dated March 22, 2015.(20)
10.29	Settlement Agreement and Mutual Release of Claims made and entered into on August 6, 2015, by and between Stamps.com Inc., Auctane, LLC d/b/a ShipStation, Interapptive, Inc. d/b/a ShipWorks, Kenneth T. McBride, Jason Hodges, Nathan Jones, and Curtis Mitchell, on the one hand, and Rapid Enterprises, LLC d/b/a Express One and J. Colby Clark, on the other hand.(21)
10.30	Credit Agreement made and entered into as of November 18, 2015, by and among Stamps.com Inc., a Delaware corporation, Wells Fargo Bank, National Association (“Wells Fargo”), JPMorgan Chase Bank, N.A., and Bank of America, N.A., the lenders from time to time party thereto (each a “Lender” and collectively, the “Lenders”), and Wells Fargo as administrative agent for the Lenders. (22) +
10.31	Collateral Agreement made and entered into as of November 18, 2015, by and among Stamps.com Inc., a Delaware corporation, the Grantors (as defined therein), in favor of Wells Fargo Bank, National Association as administrative agent for the benefit of the Secured Parties (as defined therein).(22)
10.32	Agreement and Plan of Merger, dated as of June 16, 2016, by and among ShippingEasy Group, Inc., Stamps.com Inc., SEG Merger Sub, Inc. and Tim Jugmans. Pursuant to Item 601(b)(2) of Regulation S-K, the registrant hereby agrees to supplementally furnish to the SEC upon request any omitted schedule or exhibit to the Agreement and Plan of Merger. (23) +
10.33	Management Incentive Plan, dated as of July 1, 2016, by and among ShippingEasy, Inc., Stamps.com Inc. and the Participant Representative (as defined therein), and acknowledged and agreed to by Katie May and Barry Cox. (23) +
10.34	Consulting Agreement, dated as of July 31, 2017, between James Bortnak and Stamps.com Inc. (8)
10.35	Stamps.com Inc. 2016 ShippingEasy Equity Inducement Plan (9)
10.36	Form of Award Agreement to Stamps.com Inc. 2016 ShippingEasy Equity Inducement Plan (9)
10.37	Share Purchase Agreement, dated July 24, 2018, by and among MetaPack, Pacific Shelf, the Key Sellers and Stamps.com Inc. as guarantor. (24) +
10.38	Stamps.com Inc. 2018 MetaPack Equity Inducement Plan. (26)
10.39	Form of Non-CSOP Award Agreement to Stamps.com Inc. 2018 MetaPack Equity Inducement Plan. (26)
10.40	Form of CSOP Award Agreement to Stamps.com Inc. 2018 MetaPack Equity Inducement Plan. (26)
14	Code of Ethics.(10)
21	List of Subsidiaries.(26)
23.1	Consent of Ernst & Young LLP.(26)

TABLE OF CONTENTS

Exhibit Number	Description
24.1	Power of Attorney by Mohan P. Ananda.(26)
24.2	Power of Attorney by David C. Habiger.(26)
24.3	Power of Attorney by G. Bradford Jones.(26)
24.4	Power of Attorney by Theodore R. Samuels.(26)
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.(26)
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.(26)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.(26) (furnished, not filed)
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.(26) (furnished, not filed)

Type	XBRL Exhibit
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

(1) Incorporated herein by reference to the Company’s Registration Statement on Form S-1 filed with the Securities and Exchange Commission on April 26, 1999 (File No. 333-77025).

(2) Incorporated herein by reference to Amendment No. 1 to the Company’s Registration Statement on Form S-1, filed with the Securities and Exchange Commission on May 13, 1999 (File No. 333-77025).

(3) Incorporated herein by reference to the Company’s Form 10-Q filed with the Securities and Exchange Commission on November 9, 2018 (File No. 000-26427).

(4) Incorporated herein by reference to Amendment No. 4 to the Company’s Registration Statement on Form S-1, filed with the Securities and Exchange Commission on June 22, 1999 (File No. 333-77025).

(5) Incorporated herein by reference to the Company’s Registration Statement on Form S-8 filed with the Securities and Exchange Commission on June 28, 1999 (File No. 333-81733).

(6) Incorporated herein by reference to the Company’s Registration Statement on Form S-8 filed with the Securities and Exchange Commission on March 30, 2000 (File No. 333-33648).

(7) Incorporated herein by reference to the Company’s Registration Statement on Form S-8 filed with the Securities and Exchange Commission on August 1, 2000 (File No. 333-42764).

(8) Incorporated herein by reference to the Company’s Form 8-K filed with the Securities and Exchange Commission on August 2, 2017 (File No. 000-26427).

(9) Incorporated by reference to the Company's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on March 28, 2017 (File No. 333-216990)

(10) Incorporated herein by reference to the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 14, 2008 (File No. 000-26427).

TABLE OF CONTENTS

(11) Incorporated herein by reference to the Company's Form 10-Q filed with the Securities and Exchange Commission on August 8, 2008 (File No. 000-26427).
(12) Incorporated herein by reference to the Company's Form 10-K filed with the Securities and Exchange Commission on March 15, 2010 (File No. 000-26427).
(13) Incorporated herein by reference to the Company's Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on April 30, 2018 (File No. 000-26427).
(14) Incorporated herein by reference to the Company's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on July 28, 2010 (File No. 333-168360).
(15) Incorporated herein by reference to the Company's Form 10-Q filed with the Securities and Exchange Commission on November 8, 2010 (File No. 000-26427).
(16) Incorporated herein by reference to the Company's Form 10-K filed with the Securities and Exchange Commission on March 14, 2012 (File No. 000-26427).
(17) Incorporated herein by reference to the Company's Form 10-K filed with the Securities and Exchange Commission on March 1, 2017 (File No. 000-26427).
(18) Incorporated herein by reference to the Company's Form 8-K filed with the Securities and Exchange Commission on April 29, 2014 (File No. 000-26427).
(19) Incorporated herein by reference to the Company's Form 8-K filed with the Securities and Exchange Commission on June 16, 2014 (File No. 000-26427).
(20) Incorporated herein by reference to the Company's Form 10-Q filed with the Securities and Exchange Commission on May 11, 2015 (File No. 000-26427).
(21) Incorporated herein by reference to the Company's Form 10-Q filed with the Securities and Exchange Commission on November 9, 2015 (File No. 000-26427).
(22) Incorporated herein by reference to the Company's Form 8-K filed with the Securities and Exchange Commission on November 24, 2015 (File No. 000-26427).
(23) Incorporated herein by reference to the Company's Form 10-Q filed with the Securities and Exchange Commission on August 9, 2016 (File No. 000-26427).
(24) Incorporated herein by reference to the Company's Form 8-K filed with the Securities and Exchange Commission on August 21, 2018 (File No. 000-26427).
(25) Incorporated herein by reference to the Company's Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on April 28, 2010 (File No. 000-26427).
(26) Filed with, or furnished to, the Securities and Exchange Commission with this Annual Report on Form 10-K.
+Confidential treatment requested and received as to certain portions.
+++Denotes management contract or compensatory plan, contract or arrangement.

ITEM 16. FORM 10-K SUMMARY.

None.

TABLE OF CONTENTS

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Stamps.com Inc. and subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Stamps.com Inc. and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 1, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2002.

Los Angeles, California
March 1, 2019

TABLE OF CONTENTS

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

	December 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$113,757	$153,903
Accounts receivable, net	83,595	80,797
Current income taxes	8,465	22,344
Prepaid expenses	13,072	7,701
Other current assets	10,722	6,748
Total current assets	229,611	271,493
Property and equipment, net	36,337	37,507
Goodwill	381,710	239,705
Intangible assets, net	163,859	80,990
Deferred income taxes, net	29,874	43,148
Other assets	11,383	6,261
Total assets	$852,774	$679,104
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$133,626	$103,076
Deferred revenue	7,159	3,871
Current portion of debt, net of debt issuance costs	10,454	8,392
Total current liabilities	151,239	115,339
Long-term debt, net of debt issuance costs	50,189	60,642
Deferred income taxes, net	18,665	—
Other liabilities	19,016	5,310
Total liabilities	239,109	181,291
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Common stock, $.001 par value		
Authorized shares: 47,500 in 2018 and 2017		
Issued shares: 33,042 in 2018 and 32,177 in 2017		
Outstanding shares: 17,662 in 2018 and 17,573 in 2017	56	55
Additional paid-in capital	1,049,669	962,227
Treasury stock, at cost, 15,380 shares in 2018 and 14,604 in 2017	(528,529)	(387,545)
Retained earnings (accumulated deficit)	91,712	(76,930)
Accumulated other comprehensive income	757	6
Total stockholders' equity	613,665	497,813
Total liabilities and stockholders' equity	$852,774	$679,104

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

TABLE OF CONTENTS

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

	Year Ended December 31,		
	2018	2017	2016
Revenues:			
Service	$530,682	$411,272	$313,057
Product	20,424	20,715	20,234
Insurance	16,189	17,385	17,300
Customized postage	19,583	19,244	13,615
Other	52	93	99
Total revenues	586,930	468,709	364,305
Cost of revenues (exclusive of amortization of intangible assets, which is included in general and administrative expense):			
Service	101,921	51,931	39,999
Product	6,153	6,618	6,695
Insurance	2,945	4,637	5,432
Customized postage	15,890	16,040	10,846
Total cost of revenues	126,909	79,226	62,972
Gross profit	460,021	389,483	301,333
Operating expenses:			
Sales and marketing	112,080	91,222	78,830
Research and development	56,591	46,208	35,158
General and administrative	96,951	88,550	67,125
Total operating expenses	265,622	225,980	181,113
Income from operations	194,399	163,503	120,220
Foreign currency exchange gain (loss), net	(992)	—	—
Interest expense	(2,595)	(3,669)	(3,552)
Interest income and other income, net	102	414	306
Income before income taxes	190,914	160,248	116,974
Income tax expense	22,272	9,645	41,745
Net income	$168,642	$150,603	$75,229
Net income per share			
Basic	$9.39	$8.81	$4.36
Diluted	$8.99	$8.19	$4.12
Weighted average shares outstanding			
Basic	17,952	17,099	17,245
Diluted	18,762	18,387	18,251

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

TABLE OF CONTENTS

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

	Year Ended December 31,		
	2018	2017	2016
Net income	$168,642	$150,603	$75,229
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	753	—	—
Unrealized gain (loss) on investments	(2)	(5)	(7)
Comprehensive income	$169,393	$150,598	$75,222

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

TABLE OF CONTENTS

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

	Common Stock		Additional Paid-in Capital	Treasury Stock at Cost	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount					
Balance at December 31, 2015	16,697	$ 52	$716,253	$(172,410)	$(304,944)	$ 18	$238,969
Net income	—	—	—	—	75,229	—	75,229
Unrealized loss on investments	—	—	—	—	—	(7)	(7)
Stock option windfall tax benefit	—	—	26,784	—	—	—	26,784
Issuance of shares for contingent consideration	577	1	63,208	—	—	—	63,209
Stock-based compensation expense	—	—	33,949	—	—	—	33,949
Exercise of stock options	432	—	12,969	—	—	—	12,969
Shares issued under the Employee Stock Purchase Plan	35	—	2,181	—	—	—	2,181
Stock repurchase	(844)	—	—	(80,571)	—	—	(80,571)
Balance at December 31, 2016	16,897	$ 53	$855,344	$(252,981)	$(229,715)	$ 11	$372,712
Net income	—	—	—	—	150,603	—	150,603
Unrealized loss on investments	—	—	—	—	—	(5)	(5)
Cumulative effect of a change in accounting principle related to stock-based compensation	—	—	—	—	2,182	—	2,182
Issuance of shares for performance-based awards	22	—	—	—	—	—	—
Stock-based compensation expense	—	—	40,829	—	—	—	40,829
Exercise of stock options	1,612	1	63,118	—	—	—	63,119
Shares issued under the Employee Stock Purchase Plan	36	1	2,936	—	—	—	2,937
Stock repurchase, excluding tax withholding stock repurchase	(987)	—	—	(133,765)	—	—	(133,765)
Tax withholding stock repurchase	(7)	—	—	(799)	—	—	(799)
Balance at December 31, 2017	17,573	$ 55	$962,227	$(387,545)	$(76,930)	$ 6	$497,813
Net income	—	—	—	—	168,642	—	168,642
Other comprehensive income (loss)	—	—	—	—	—	751	751
Issuance of shares for performance-based awards	57	—	—	—	—	—	—
Stock-based compensation expense	—	—	36,349	—	—	—	36,349
Exercise of stock options	783	1	47,337	—	—	—	47,338
Shares issued under the Employee Stock Purchase Plan	25	—	3,756	—	—	—	3,756
Stock repurchase, excluding tax withholding stock repurchase	(755)	—	—	(136,840)	—	—	(136,840)
Tax withholding stock repurchase	(21)	—	—	(4,144)	—	—	(4,144)
Balance at December 31, 2018	17,662	$ 56	$1,049,669	$(528,529)	$91,712	$ 757	$613,665

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

F-5

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

	Year Ended December 31,		
	2018	2017	2016
Operating activities:			
Net income	$168,642	$150,603	$75,229
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	24,092	21,444	19,152
Loss on disposal of assets	—	—	22
Stock-based compensation expense	36,349	40,829	33,949
Deferred income tax expense	12,580	7,816	33,623
Stock option windfall tax benefit	—	—	(26,784)
Accretion of debt issuance costs	372	372	372
Changes in operating assets and liabilities, net of assets and liabilities acquired:			
Accounts receivable	7,015	(18,041)	(6,510)
Prepaid expenses	(5,660)	(1,200)	(3,318)
Other current assets	(886)	(168)	(1,443)
Current income taxes	13,879	(22,344)	—
Other assets	(5,124)	(2,755)	3,815
Deferred revenue	2,150	13	(195)
Accounts payable and accrued expenses	9,792	15,944	20,135
Other liabilities	12,880	5,310	—
Net cash provided by operating activities	276,081	197,823	148,047
Investing activities:			
Sale of short-term investments	—	1,502	8,484
Sale of long-term investments	—	10	95
Purchase of long-term investments	—	(4)	(15)
Acquisition of MetaPack, net of cash acquired	(208,500)	—	—
Acquisition of Endicia, net of cash acquired	—	—	(573)
Acquisition of ShippingEasy, net of cash acquired	—	—	(55,447)
Acquisition of property and equipment	(2,898)	(6,813)	(7,750)
Net cash used in investing activities	(211,398)	(5,305)	(55,206)
Financing activities:			
Proceeds from short term financing obligation, net of repayments	6,593	1,653	2,241
Principal payments on term loan	(8,764)	(6,703)	(4,639)
Payments on revolving credit facility	(12,716)	(71,990)	(10,000)
Proceeds from exercise of stock options	47,338	63,119	12,969
Issuance of common stock under Employee Stock Purchase Plan	3,756	2,937	2,181
Payments related to tax withholding for share-based compensation	(4,144)	(799)	—
Stock option windfall tax benefit	—	—	26,784
Repurchase of common stock	(136,840)	(133,764)	(80,571)
Net cash used in financing activities	(104,777)	(145,547)	(51,035)
Effect of exchange rate changes	(52)	—	—
Net (decrease) increase in cash and cash equivalents	(40,146)	46,971	41,806
Cash and cash equivalents at beginning of period	153,903	106,932	65,126
Cash and cash equivalents at end of period	$113,757	$153,903	$106,932

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

TABLE OF CONTENTS

	Year Ended December 31,		
	2018	2017	2016
Supplemental Information:			
Capital expenditures accrued but not paid at period end	$40	$30	$1,250
Tenant improvement allowance	$600	$848	$676
Income taxes (refunded) paid, net	$(10,100)	$23,480	$4,832
Interest paid	$2,701	$3,580	$2,856
Issuance of 2015 earn-out shares	$—	$—	$63,209
Non cash adjustment of purchase price allocation for Endicia acquisition	$—	$—	$372
Non cash adjustment of purchase price allocation for ShippingEasy acquisition	$—	$—	$173

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

TABLE OF CONTENTS

STAMPS.COM INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

Stamps.com® is a leading provider of Internet-based mailing and shipping solutions in the United States 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.

2. Summary of Significant Accounting Policies

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 July 2016, we completed our acquisition of 100% of the outstanding shares of ShippingEasy. In August 2018, we completed our acquisition of 100% of the outstanding shares of MetaPack. Please see Note 3 – “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.

Accounts Receivable

Our accounts receivable relate to mailing and shipping services, postage purchasing and invoicing, customized postage sales, and branded insurance provided to customers prior to billing and other receivables. Accounts receivable are recorded at the invoiced amount, net of allowances for uncollectible accounts of approximately $6.6 million and $4.0 million as of December 31, 2018 and 2017, respectively.

We evaluate the collectability of our accounts receivable based on a combination of factors. If we become aware of a customer's inability to meet its financial obligations, an allowance is recorded to reduce the net receivable to the amount reasonably believed to be collectible from the customer. For all other customers, we recognize allowances for doubtful accounts based on the length of time the receivables are past due, the current business environment and our historical experience. If the financial condition of our customers deteriorates, resulting in their inability to make payments, additional provisions are recorded in that period. Accounts receivable are written off against the allowance for uncollectible accounts when we determine amounts are no longer collectible. There were no material write offs against the allowance for uncollectible accounts during fiscal 2018 and 2017, respectively.

Increases in allowance for doubtful accounts totaled approximately $2.6 million and $2.8 million for 2018 and 2017, respectively.

Advertising and Trade Show Costs

We expense the costs of producing advertisements as incurred, and expense the costs of communicating and placing the advertising in the period in which the advertising space or airtime is used. For the years ended December 31, 2018, 2017 and 2016, advertising and trade show costs were $17.9 million, $14.8 million and $12.1 million, respectively.

Business Combinations

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

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.

Cash Equivalents and Investments

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.

Our cash equivalents consisted of money market funds at December 31, 2018 and 2017. Cash equivalents are carried at cost, which approximates fair value.

There were no material investments at December 31, 2018 or 2017. Realized gains and losses are reflected in interest and other income, net while unrealized gains and losses are included as a separate component of stockholders' equity.

Concentration of Risk

Our cash, cash equivalents and investments are subject to market risk, primarily interest rate and credit risk. Such guidelines include security type, credit quality and maturity and are intended to limit market risk by restricting our investments. From time to time, our investments held with financial institutions may exceed Federal Deposit Insurance Corporation insurance limits. Interest rate fluctuations and changes in credit ratings impact the carrying value of our portfolio.

Our outstanding borrowings under our Credit Agreement are subject to market risk, primarily interest rate risk. Interest rate fluctuations impact the interest expense incurred on borrowings under the Credit Agreement, as the interest rate is based on the London Interbank Offered Rate.

During 2018, 2017 and 2016, we did not recognize revenue from any one customer that represented 10% or more of revenues.

Cost of Revenue

Cost of service revenue principally consists of the cost of customer service, system operating costs, credit card processing fees, postage and delivery for certain mailing and shipping services, 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. Cost of customized postage revenue principally consists of the face value of postage, image review costs and printing and fulfillment costs.

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 $2.9 million of revenue recognized in the year ended December 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 6 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 United States 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 United States dollars at the exchange rate on the balance sheet date. Revenues and expenses are translated at the average exchange rate during the period.

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, indirect tax liabilities, depreciation of equipment and software used for general corporate purposes and amortization of intangible assets.

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.

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 December 31, 2018, we are not aware of any indicators of impairment that would require an impairment analysis other than our annual goodwill impairment analysis. As such, we elected to perform a qualitative assessment of impairment of goodwill and concluded that it was more likely than not that the fair value of our reporting units were in excess of their respective carrying values. Accordingly, the fiscal 2018 assessment did not result in any impairments of the Company’s goodwill.

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. In fiscal 2018, the Company elected to perform a qualitative assessment for its intangible assets not subject to amortization and concluded that it was more likely than not the fair value of each of the Company’s intangible assets not subject to amortization was in excess of its respective carrying value.

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.

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.

Internet Advertising

We recognize Internet advertising expense based on the specifics of the individual agreements. Third parties refer prospects to our web site and we typically pay them upon the successful billing of a customer. We record these expenses on a monthly basis as prospects are successfully converted to customers. Under Internet search advertising, we record expenses based on actual “click activity” on our displayed advertisements following targeted key word searches.

Inventories

Inventories consist of finished products sold through our supplies stores and are accounted for using the lower of cost (first-in, first-out method) or net realizable value. Inventories reported as a component of other current assets on the consolidated balance sheets were $3.8 million and $3.2 million at December 31, 2018 and 2017, respectively.

Net Income per Share

Net income per share represents net income attributable to common stockholders divided by the weighted average number of common shares outstanding during a reported period. The diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock, including stock options (commonly and hereafter referred to as “common stock equivalents”), were exercised or converted into common stock. Diluted net income per share is calculated by dividing net income during a reported period by the sum of the weighted average number of common shares outstanding plus common stock equivalents for the period.

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

	Year Ended December 31,		
	2018	2017	2016
Net income	$168,642	$150,603	$75,229
Basic - weighted average common shares	17,952	17,099	17,245
Dilutive effect of common stock equivalents	810	1,288	1,006
Diluted - weighted average common shares	18,762	18,387	18,251
Earnings per share:			
Basic	$9.39	$8.81	$4.36
Diluted	$8.99	$8.19	$4.12

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

	Year Ended December 31,		
	2018	2017	2016
Anti-dilutive stock options	285	22	211

Research and Development Costs

Research and development expense principally consists of compensation and related expenses for personnel involved in the development of our services, depreciation of equipment and software and expenditures for consulting services and third party software.

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.

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 2018, 2017, or 2016.

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. Ongoing marketing programs include the following: traditional advertising, partnerships, customer referral programs, customer re-marketing efforts, telemarketing, direct sales, direct mail, and online advertising.

Segment Information

We have organized our operations into two segments: Stamps.com and MetaPack. Please see Note 13 - “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 as described in Note – 7 “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 December 31, 2018, we had $23.8 million in short-term financing obligations and $96.7 million of unused credit. As of December 31, 2017, we had $17.2 million in short-term financing obligations and $103.4 million of unused credit.

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. Prior to the adoption of ASU 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, in 2017, share-based compensation expense was recorded net of estimated forfeitures, which were based on historical forfeitures and adjusted to reflect changes in facts and circumstances, if any.

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, risk-free interest rates, and projected employee stock option exercise behaviors. In the case of options we grant, our assumption of expected volatility is based on the historical volatility of our stock price over the term equal to the expected life of the options. We base the risk-free interest rate on U.S. Treasury zero-coupon issues with a remaining term equal to the expected life of the options assumed at the date of grant. The estimated expected life represents the weighted average period the stock options are expected to remain outstanding, determined based on an analysis of historical exercise behavior.

F-14

TABLE OF CONTENTS
STAMPS.COM INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Starting in the third quarter of fiscal 2016, our stock-based compensation expense included performance-based inducement equity awards relating to the ShippingEasy acquisition as described in Note 3 - "Acquisitions." 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 3 - "Acquisitions."

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

	2018	2017	2016
Stock-based compensation expense relating to:			
Stock options	$34,773	$39,781	$32,891
Employee stock purchases	1,576	1,048	1,058
Total stock-based compensation expense	$36,349	$40,829	$33,949
Stock-based compensation expense relating to:			
Cost of revenues	2,955	1,773	1,828
Sales and marketing	6,892	7,289	7,194
Research and development	8,120	9,035	6,633
General and administrative	18,382	22,732	18,294
Total stock-based compensation expense	$36,349	$40,829	$33,949

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

	2018	2017	2016
Expected dividend yield	—	—	—
Risk-free interest rate	2.6 %	1.6 %	1.0 %
Expected volatility	50.2%	47.3%	47.7%
Expected life (in years)	3.3	3.4	3.4
Expected forfeiture rate	—	—	6.0 %

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 2018, 2017, and 2016, we repurchased approximately 755,000, 988,000, and 844,000 shares for $136.8 million, $133.8 million, and $80.6 million respectively. Also, in the first quarter of 2018 and the first quarter of 2017, we withheld 21,076 and 6,670 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 as described in Note 3 - "Acquisitions."

TABLE OF CONTENTS

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

Website Development Costs

We develop and maintain our websites. Costs associated with the operation of our websites consist primarily of software and hardware purchased from third parties and administrative costs relating to the maintenance and development of the respective website. Costs related to the purchase of software and hardware are capitalized based on our property and equipment capitalization policy. These capitalized costs are amortized based on their estimated useful life. Administrative costs related to the maintenance and development of our Company websites are expensed as incurred.

Accounting Guidance Adopted in 2018

Definition of a Business

In January 2017, the FASB issued ASU 2017-01, guidance that changes the definition of a business for accounting purposes. Under the new guidance, an entity first determines whether substantially all of the fair value of a set of assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. If this threshold is met, the set of assets is not deemed to be a business. If this threshold is not met, the entity then evaluates whether the set of assets meets the requirement to be deemed a business, which at minimum, requires there to be an input and a substantive process that together significantly contribute to the ability to create outputs. The guidance became effective on a prospective basis for the Company on January 1, 2018. The Company's adoption of the guidance on January 1, 2018 did not have a material impact on the Company’s consolidated financial statements.

Modification of Share-Based Payments

In May 2017, the FASB issued ASU 2017-09, guidance that clarifies when changes to the terms and conditions of share-based awards must be accounted for as modifications. The guidance does not change the accounting treatment for modifications. The guidance became effective for the Company on January 1, 2018 and was adopted on a prospective basis. The adoption of the guidance did not have a material impact on the Company’s consolidated financial statements.

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, an updated standard on revenue recognition. This ASU superseded the revenue recognition requirements in Accounting Standards Codification Topic 605, Revenue Recognition, and most industry-specific guidance. ASU 2014-09 provides enhancements to the quality and consistency of how revenue is reported while also improving comparability in the financial statements of companies reporting using U.S. GAAP and International Financial Reporting Standards. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies may be required to use more judgment and make more estimates than under current authoritative guidance.

On January 1, 2018, the Company adopted the guidance under the modified retrospective method. The adoption of the guidance did not have a material impact on the Company's consolidated financial statements.

Accounting Guidance Not Yet Adopted

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. This final rule is effective for quarterly reporting for quarters which begin after November 5, 2018. The Company is in the process of evaluating the impact of the final rule on its consolidated financial statements.

Goodwill Impairment

In January 2017, the FASB issued ASU 2017-04, a standard which simplifies the accounting for goodwill impairment. The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. Goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The guidance 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.

Leases

In February 2016, the FASB issued ASU 2016-02, a new accounting standard for leases. The new standard generally requires the recognition of financing and operating lease liabilities and corresponding right-of-use assets on the balance sheet. For financing leases, a lessee recognizes amortization of the right-of-use 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. The amendments are effective for the Company in the first quarter of 2019 using a modified retrospective approach with early adoption permitted. Although the Company is in the process of evaluating the impact of adoption of the ASU on its consolidated financial statements, the Company currently believes the most significant change will be related to the recognition of right-of-use assets and lease liabilities on the Company's balance sheet for real estate operating leases.

3. 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.

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.

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

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	$217,686			

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.

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 4 - “Goodwill and Intangible Assets” in our Notes to Consolidated Financial Statements).

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

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

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

During the quarter ended December 31, 2018, and subsequent to the initial purchase accounting, the Company identified additional information that existed as of the date of the acquisition and performed further analysis of the fair values of the deferred income tax liability and the deferred revenue liability and therefore adjusted the values of these liabilities. The Company recorded measurement period adjustments, which included an increase of $4.2 million and $891,000 to the fair value of the deferred income tax liability and deferred revenue liability, respectively. The net effect of these changes, in addition to other immaterial adjustments, resulted in a corresponding increase to goodwill of $5.7 million. These adjustments are reflected in the table above.

MetaPack Pro Forma Financial Information (unaudited)

The pro forma financial information presented is for illustrative purposes only and is not necessarily indicative of the results of operations that would have been realized if the acquisition had been completed on the date assumed, nor is it indicative of future operating results. The pro forma financial information does not include any adjustments for anticipated operating efficiencies or cost savings. The pro forma results include material adjustments related to (a) purchase accounting, primarily amortization of intangible assets, (b) share-based compensation expense for inducement awards issued to continuing employees of MetaPack, and (c) the elimination of nonrecurring expenses that were directly related to the transaction, including transaction costs, foreign currency exchange loss, and one-time bonuses and related tax payments.

The following table presents the pro forma financial information (in thousands, except per share amounts) and assumes the acquisition of MetaPack occurred on January 1, 2017:

	Year Ended December 31,	
	2018	2017
Revenue	$619,969	$513,378
Net income	162,868	142,111
Basic earnings per share	$9.07	$8.31
Diluted earnings per share	$8.68	$7.73

ShippingEasy Acquisition (unaudited)

On July 1, 2016, we completed our acquisition of ShippingEasy Group, Inc. (ShippingEasy). The net purchase price including adjustments for net working capital totaled approximately $55.4 million and was funded from current cash and investment balances.

In connection with the acquisition, we agreed to issue performance-based inducement equity awards to the General Manager and the then Chief Technology Officer of ShippingEasy. These inducement awards cover an aggregate of up to 87,134 common shares if earnings targets for ShippingEasy are achieved over a two and one-half year period which began July 1, 2016. The awards are subject to proration if at least 75% of the applicable target is achieved and are subject to forfeiture or acceleration based on changes in employment circumstances over the performance period.

TABLE OF CONTENTS

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

In fiscal 2016, we determined the achievement of 100% of the earnings target for the six months ended December 31, 2016 was met, therefore, we recognized approximately $1.9 million of stock-based compensation expense, representing 21,783 shares, for these inducement equity awards during the six months ended December 31, 2016. The equity award for the first phase was issued in the first quarter of 2017 with 15,113 shares distributed and 6,670 shares withheld to satisfy income tax obligations. In fiscal 2017, we determined the achievement of 100% of the earnings target for the twelve months ended December 31, 2017 was met, therefore, we recognized approximately $4.9 million of stock-based compensation expense, representing 56,638 shares, for these inducement equity awards during the year ended December 31, 2017. The equity award for the second phase was issued in the first quarter of 2018 with 35,562 shares distributed and 21,076 shares withheld to satisfy income tax obligations. In fiscal 2018, we determined the achievement of the earnings target for the twelve months ended December 31, 2018 was probable. Stock-based compensation expense related to these inducement equity awards was not material during the year ended December 31, 2018.

We also issued inducement stock option grants for an aggregate of approximately 62,000 shares of Stamps.com common stock to 48 new employees in connection with our acquisition of ShippingEasy.

ShippingEasy Pro Forma Financial Information (unaudited)

The following table presents the pro-forma financial information (in thousands, except per share amounts) and assumes that the July 1, 2016 acquisition of ShippingEasy occurred on January 1, 2015:

	Year Ended December 31, 2016
Revenues	$ 370,560
Income from operations	121,537
Net income	75,810
Basic earnings per share	$ 4.40
Diluted earnings per share	$ 4.15

4. 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.

There were no changes in the carrying amount of goodwill during the year ended December 31, 2017. Changes in the carrying amount of goodwill for the year ended December 31, 2018 were as follows (in thousands):

	2018		
	Stamps.com Segment	MetaPack Segment	Total
Goodwill balance at December 31, 2017	$ 239,705	$ —	$ 239,705
Acquisition of MetaPack (see Note 3 - "Acquisitions")	—	141,468	141,468
Foreign currency translation	—	537	537
Goodwill balance at December 31, 2018	$ 239,705	$ 142,005	$ 381,710

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 $226.5 million at December 31, 2018 and $125.4 million at December 31, 2017. Non-amortizable assets of $11.4 million as of both December 31, 2018 and December 31, 2017 consist primarily of the trade name relating to the Endicia acquisition.

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	$215,149	$ 62,679	$152,470	9.4

The following table summarizes our amortizable intangible assets as of December 31, 2017 (in thousands, except years):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Remaining weighted average amortization period (years)
Patents and Others	$8,889	$ 8,820	$69	1.5
Customer Relationships	60,816	22,170	38,646	3.9
Technology	40,048	11,297	28,751	5.9
Non-Compete	2,211	1,280	931	2.0
Trademark	2,004	800	1,204	4.6
Total amortizable intangible assets at December 31, 2017	$113,968	$ 44,367	$69,601	4.6

We recorded amortization of intangible assets totaling approximately $18.3 million, $16.0 million, and $14.6 million for the years ended December 31, 2018, 2017, and 2016, respectively. Amortization of intangible assets is included in general and administrative expense in the accompanying consolidated statements of operations.
Our estimated amortization expense for the next five years and thereafter is as follows (in thousands):

Year Ended December 31,	Estimated Amortization Expense
2019	$ 22,143
2020	21,975
2021	19,574
2022	10,389
2023	9,597
Thereafter	68,792
Total	$ 152,470

5. Cash and Cash Equivalents

Our cash equivalents consisted of money market funds at December 31, 2018 and 2017. 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 December 31, 2018 and 2017, we had no material investments.

The following tables summarize our cash and cash equivalents as of December 31, 2018 and 2017 (in thousands):

	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

	December 31, 2017			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash	$147,386	—	—	$147,386
Money market	6,517	—	—	6,517
Cash and cash equivalents	$153,903	—	—	$153,903

6. 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 December 31, 2018 and 2017 (in thousands):

		Fair Value Measurement at Reporting Date Using		
Description	December 31, 2018	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	—	—

		Fair Value Measurement at Reporting Date Using		
Description	December 31, 2017	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	$ 153,903	$ 153,903	—	—
Total	$ 153,903	$ 153,903	$	——

7. Debt

On November 18, 2015, we entered into a Credit Agreement with a group of banks, which provides 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 debt issuance costs was approximately $373,000 in each of the years ended December 31, 2018 and 2017.

As of December 31, 2018 our outstanding debt under the Credit Agreement, gross of debt issuance costs, was approximately $61.4 million under our term loan. In December 2017, we repaid all of our revolving credit facility outstanding debt of $62.0 million. Because we have a letter of credit totaling approximately $60,000 relating to a facility lease, we have approximately $82.4 million of available and unused borrowings under the revolving credit facility as of December 31, 2018.

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 December 31, 2018, our applicable margin was 1.25% and the interest rate on our outstanding loan was approximately 4.05%. 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 December 31, 2018, 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 December 31, 2018, 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 December 31, 2018, our Consolidated Total Leverage Ratio was 0.24 to 1.00, our Fixed Charge Coverage Ratio was 19.41 to 1.00 and our Liquidity was approximately $196 million. 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 December 31, 2018 are as follows (in thousands):

	Amount
2019	$10,828
2020	50,531
Thereafter	—
Total debt	61,359
Less: debt issuance costs	716
Total debt, net of debt issuance costs	$60,643

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

8. Accounts Payable and Accrued Expenses

The following table summarizes our accounts payable and accrued expenses as of December 31, 2018 and 2017 (in thousands):

	2018	2017
Payroll and related accrual	$25,003	$18,842
Cost of revenue, inventory and materials accrual	9,288	979
Construction and facility expense accrual	221	167
Professional fees accrual	4,135	7,994
Sales and marketing related accrual	6,852	6,029
Operating expenses related accrual	47,270	37,004
Short-term financing obligations	23,800	17,207
Indirect tax accrual	5,489	7,675
Other accruals	11,568	7,179
Accounts payable and accrued expenses	$133,626	$103,076

9. Property and Equipment

Property and equipment is summarized as follows (in thousands):

	2018	2017
Land	$7,156	$7,156
Building	4,886	4,886
Building improvements	20,018	19,941
Leasehold improvements	4,054	2,965
Furniture and equipment	4,197	3,211
Computers and software	31,566	24,925
	71,877	63,084
Less accumulated depreciation and amortization	(35,540)	(25,577)
Property and equipment, net	$36,337	$37,507

During 2018, 2017 and 2016, depreciation and amortization expense related to property and equipment was approximately $5.8 million, $5.4 million and $4.6 million, respectively.

10. Income Taxes

The income tax expense consists of (in thousands):

	2018	2017	2016
Current:			
Federal	$3,333	$(5)	$2,400
State	5,561	1,834	5,722
Foreign	790	—	—
	9,684	1,829	8,122
Deferred:			
Federal	15,396	9,029	37,377
State	(2,250)	(1,213)	(3,754)
Foreign	(558)	—	—
	12,588	7,816	33,623
Income tax expense	$22,272	$9,645	$41,745

Income tax expense differs from the amounts computed by applying the U.S. federal statutory tax rate as a result of the following (in thousands):

	2018	2017	2016
Income tax at U.S. federal statutory tax rate	$40,092	$56,087	$40,941
State income tax, net of federal benefit	3,488	1,825	4,127
Foreign rate differential	226	—	—
Stock-based compensation	(19,631)	(57,358)	2,757
Nondeductible items	1,119	1,181	485
Research and development	(4,622)	(6,418)	(1,963)
Uncertain tax positions	2,699	850	(2,048)
Change in tax rate – other	(508)	614	(781)
Change in tax rate – U.S tax reform	—	13,017	—
Change in valuation allowance	692	410	—
Other, net	(1,283)	(563)	(1,773)
Income tax expense	$22,272	$9,645	$41,745

The difference between the statutory federal income tax rate and the Company's effective tax rate in 2018, 2017, and 2016 is primarily attributable to the effect of state income taxes, impact of tax reform, research and development tax credits, share-based compensation and other non-deductible permanent items.

The tax effect of temporary differences that give rise to a significant portion of the deferred tax assets and liabilities at December 31, 2018 and 2017 are presented below (in thousands):

	2018	2017
Deferred tax assets:		
Net operating loss carryforward	$2,893	$3,709
Tax credit carryforwards	11,691	21,680
Intangibles	—	5,534
Stock compensation	7,388	7,159
Accruals	9,276	7,970
Gross deferred tax assets	31,248	46,052
Less: Valuation allowance	(1,189)	(410)
Deferred tax assets, net of valuation allowance	30,059	45,642
Deferred tax liabilities:		
Fixed assets	(585)	(591)
Intangibles	(17,034)	—
Federal benefit of state tax deferred tax assets	(1,231)	(1,903)
Gross deferred tax liabilities	(18,850)	(2,494)
Deferred tax assets, net	$11,209	$43,148

As of December 31, 2018, we have approximately $11.2 million of net deferred tax assets. We recognize valuation allowances on deferred tax assets if, based on the weight of the evidence, we believe that it is more likely than not that some or all of the deferred tax assets will not be realized. We have recorded a valuation allowance of $1.2 million and $410,000 as of December 31, 2018 and 2017, respectively, against certain state research and development credits and foreign net operating loss carry-forwards.

As of December 31, 2018, we have federal net operating loss carry-forwards of approximately $1.1 million and state net operating loss carry-forwards of $8.5 million, expiring at various times starting in 2023 with certain losses carried over indefinitely. In addition, as of December 31, 2018, we have foreign net operating loss carry-forwards of $12.8

million that can be carried over indefinitely.

TABLE OF CONTENTS
STAMPS.COM INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

We have available tax credit carry-forwards of approximately $3.8 million and $7.9 million, net of unrecognized tax benefit for federal and state income tax purposes, respectively at December 31, 2018, which can be carried forward to offset future taxable liabilities. The federal tax credits begin to expire in 2037 and under California law, the California tax credits do not have an expiration date.

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits for the years ended December 31, 2018, 2017 and 2016 (in thousands):

	Unrecognized Tax Benefits
Balance at December 31, 2015	$ (6,034)
Addition for tax positions of prior years	(810)
Reduction for tax positions of prior years	2,596
Addition for tax position of the current year	(2,156)
Settlement	251
Balance at December 31, 2016	$ (6,153)
Additions for tax positions of prior years	(293)
Reduction for tax positions of prior years	300
Additions for tax position of the current year	(3,504)
Balance at December 31, 2017	$ (9,650)
Additions for tax positions of prior years	(1,396)
Reduction for tax positions of prior years	275
Additions for tax position of the current year	(2,418)
Balance at December 31, 2018	$ (13,189)

Included in the balance of unrecognized tax benefits as of December 31, 2018, 2017, and 2016 were $13.2 million, $9.7 million, and $6.2 million, respectively, of tax benefits that, if recognized, would affect the effective tax rate.

Our policy is to recognize interest and penalties related to unrecognized tax benefits as a component of income tax expense. During 2018, we recognized income tax expense on interest and penalties of $655,000 in connection with our unrecognized tax benefits. There was no material interest or penalty expense during the years ended December 31, 2017 and 2016. The Company does not expect any material changes in the amount of unrecognized tax benefits within the next twelve months.

We are subject to taxation in the United States, various state jurisdictions, and various foreign jurisdictions. We are subject to income tax examination by U.S. and state tax authorities for the calendar year ended December 31, 2015 and forward. However, to the extent allowed by law, the taxing authorities may have the right to examine prior periods where net operating losses and credits were generated and carried forward, and make adjustments up to the amount of the net operating losses and credits utilized in open tax years.

As of December 31, 2018, taxes were not provided for an immaterial amount of cumulative earnings of the foreign subsidiaries as we have invested or expect to invest the undistributed earnings indefinitely. If these earnings are repatriated to the United States, or if we determine that the earnings will be remitted in the foreseeable future, the unremitted earnings could be subject to withholding taxes and certain state taxes. Due to the complexities in the laws of foreign jurisdictions and assumptions that would have to be made, it is not practical to estimate the amount of foreign withholding or state taxes associated with such unremitted earnings.

The Tax Cuts and Jobs Act (Tax Reform Act), was enacted on December 22, 2017, which significantly changes the U.S. corporate income tax system by, among other things, effecting a Federal corporate rate reduction from 35% to 21%, includes limitations on certain deductions including executive compensation arrangements, reduces the maximum deduction of net operating loss with no carry-back but indefinite carry-forward provision, and repeals the corporate alternative minimum tax. Additionally, the Tax Reform Act created a tax on certain foreign sourced earnings known as the global intangible low-tax income (GILTI) tax for tax year 2018. The SEC staff has indicated that a company should make and disclose certain policy elections related to the accounting for GILTI. We have elected to account for the tax effect of GILTI as a current-period expense when incurred and will not establish deferred taxes.

In connection with the Tax Reform Act, the SEC issued Staff Accounting Bulletin No. 118 (SAB 118), which allows registrants to record provisional amounts to the extent a reasonable estimate can be made. Additional tax effects and adjustments to previously recorded provisional amounts can be recorded upon obtaining, preparing, or analyzing additional information within one year from the enactment date of the Tax Reform Act. During 2018, we completed our accounting for the tax effects of the enactment of the Tax Reform Act. We concluded that the reduction to our net deferred tax assets of $13 million, and corresponding increase to income tax expense recorded in 2017 was a reasonable estimate of the impact of the Tax Reform Act on our deferred tax balances, and that no further adjustments were necessary during the measurement period.

11. Employee Stock Plans

Stock Incentive Plans

Our 1999 Stock Incentive Plan (the “1999 Plan”), which became effective in June 1999, was the successor to the 1998 Stock Plan (the “1998 Plan”). Upon approval of the 1999 Plan, all outstanding options under the 1998 Plan were transferred to the 1999 Plan, and no further option grants were made under the 1998 Plan. All outstanding options under the 1998 Plan continue to be governed by the terms and conditions of the existing option agreements for those grants, unless our compensation committee decides to extend one or more features of the 1999 Plan to those options.

In June 2009, our 1999 Plan expired and no further options grants were made under the 1999 Plan. Our 2010 Equity Incentive Plan (the “2010 Plan”) was approved by our stockholders in June 2010. Under the 2010 Plan, we were initially authorized to issue 3,500,000 shares of common stock and stock units, although “full value” awards (such as restricted stock and restricted stock units) will be counted against the 2010 Plan’s overall limits as two shares (rather than one), while options and stock appreciation rights will be counted as one share. On September 9, 2014, our Board of Directors approved an amendment (the “2014 Amendment”) to our 2010 Plan, which was approved by our shareholders on June 17, 2015. Pursuant to the 2014 Amendment, the maximum aggregate number of shares of common stock and stock units available for the grant of awards under the 2010 Plan was increased by an additional 2,100,000 shares. On April 28, 2016, our Board of Directors adopted an amendment (the “2016 Amendment”) to increase the maximum aggregate number of shares of common stock and stock units available for grants by an additional 1,200,000 shares, which was approved by our shareholders on June 13, 2016. On April 25, 2018, our Board of Directors adopted an amendment (the “2018 Amendment”) to our 2010 Plan, which was approved by our shareholders on June 11, 2018. The 2018 Amendment: (i) increased the maximum aggregate number of shares of common stock and stock units available for the grant of awards under the 2010 Plan by 2,200,000 shares; (ii) extended the term of the 2010 Plan through April 25, 2028; (iii) added a requirement that, except in the case of substitute awards which may be granted in connection with certain business combinations, any awards granted after the effective date of the 2018 Amendment (except for 5% of the shares reserved under the 2010 Plan) shall be granted with a minimum vesting period of at least 12 months, subject to the Compensation Committee's discretionary authority to accelerate such awards in the event of the participant's retirement, death or disability, or upon a change in control of the company; and (iv) prohibits the payment of dividends on awards that are unvested or subject to restrictions. At December 31, 2018, the number of shares of common stock remaining available for future issuance under the equity compensation plans was 2,204,000 excluding the number of shares of common stock to be issued upon exercise of outstanding options, warrants and rights. Except for the 2014, 2016, and 2018 Amendments to the 2010 Plan described above, the 2010 Plan otherwise remains materially unchanged.

On April 9, 2015, pursuant to the 2014 Amendment, our compensation committee approved additional performance-based stock option grants for certain employees. These additional option awards granted under the 2014 Amendment vest monthly in equal parts over a 36-month period that commenced on the closing of our acquisition of Endicia, except for the awards for a former employee which were fully expensed on an accelerated basis in the third quarter of 2017 based on specific events and circumstances of the employee’s status change to a consultant in the third quarter of 2017. The number of options issued was approximately 175,000. For these awards subject to performance conditions, the fair value per award was fixed at the grant date on June 17, 2015, the date the 2014 Amendment was approved by the shareholders. For the years ended December 31, 2018, 2017 and 2016, the total stock-based compensation expense for these performance-based awards was approximately $878,000, $2.4 million and $1.3 million, respectively.

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

A summary of stock option activity is as follows:

	Options (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2015	3,106	$ 37.75	8.3 years	$ 223,214
Granted	816	$ 91.36		
Forfeited or expired	(198)	$ 72.72		
Exercised	(432)	$ 30.04		
Outstanding at December 31, 2016	3,292	$ 49.95	7.9 years	$ 213,066
Granted	1,167	$ 133.19		
Forfeited or expired	(102)	$ 94.68		
Exercised	(1,612)	$ 39.15		
Outstanding at December 31, 2017	2,745	$ 89.99	8.2 years	$ 269,018
Granted	851	$ 221.58		
Forfeited or expired	(171)	$ 139.99		
Exercised	(784)	$ 60.45		
Outstanding at December 31, 2018	2,641	$ 137.88	8.1 years	$ 104,348
Exercisable at December 31, 2018	1,063	$ 90.36	7.0 years	$ 74,016

The aggregate intrinsic value in the table above represents the total pretax intrinsic value, based on our closing stock price of $155.64 at December 31, 2018, the last trading day of 2018, which would have been received by award holders had all award holders exercised their awards that were in-the-money as of that date.

The weighted average fair value of stock options granted for 2018, 2017 and 2016 using the Black-Scholes valuation method are as follows:

	2018	2017	2016
Weighted average fair value of stock options with an exercise price equal to the market price on the grant date	$84.55	$47.17	$32.27
Weighted average fair value of stock options with an exercise price greater than the market price on the grant date	—	—	—
Total	$84.55	$47.17	$32.27

Weighted average exercise prices for stock options exercised in 2018 are as follows:

	2018
Weighted average exercise price of stock options with an exercise price equal to the market price on the grant date	$60.45
Weighted average exercise price of stock options with an exercise price greater than the market price on the grant date	—
Total weighted average exercise price	$60.45

The weighted average grant date fair value of options vested during 2018, 2017 and 2016 was $43.30, $32.52 and $30.68, respectively. The total intrinsic value of options exercised during 2018, 2017 and 2016 was approximately $125.3 million, $240.0 million and $36.5 million, respectively.

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

The following table summarizes the status of our non-vested stock options as of December 31, 2018:

	Non-vested Number of Stock Options (in thousands)	Weighted Average Grant Date Fair Value per Option
Non-vested at December 31, 2017	1,592	$ 41.72
Granted	851	$ 84.55
Vested	(694)	$ 43.30
Forfeited / Cancelled	(171)	$ 51.00
Non-vested at December 31, 2018	1,578	$ 63.13

As of December 31, 2018, there was $91.3 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements, which is expected to be recognized over a weighted average period of approximately 3 years.

Equity Inducement Plans

In connection with the ShippingEasy acquisition, we issued performance-based inducement equity awards to two executives of ShippingEasy covering an aggregate of up to approximately 87,000 shares of common stock if earnings targets for ShippingEasy are achieved over a two and one-half year period which began July 1, 2016. The awards are subject to proration if at least 75% of the applicable target is achieved and are subject to forfeiture or acceleration based on changes in employment circumstances over the performance period.

In addition, in connection with the ShippingEasy acquisition we made inducement stock option grants for an aggregate of 62,000 shares of Stamps.com common stock to 48 employees. Each option vested 25% on the one year anniversary of the grant date and the remaining 75% vest in approximately equal monthly increments over the succeeding thirty-six months provided that the option holder is still employed by the Company on the vesting dates. The stock options have a ten year term and an exercise price equal to the closing price of Stamps.com common stock on the grant date of July 1, 2016.

We also granted inducement stock options to purchase 60,000 shares of Stamps.com common stock to a newly hired executive officer. Such 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 the Company on the vesting dates. The stock options have a ten year term and an exercise price equal to the closing price of Stamps.com common stock on the grant date of February 26, 2018.

Further, in connection with the MetaPack acquisition we made inducement stock option grants for an aggregate of 320,250 shares of Stamps.com common stock to 72 employees. 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 the Company on the vesting dates. The stock options have a ten year term and an exercise price equal to the closing price of Stamps.com common stock on the grant date of August 15, 2018.

The inducement plans were exempt from stockholder approval requirements as an employment inducement grant plan under applicable Nasdaq Listing Rule 5635(c)(4) as inducements material to the new employees entering into employment with Stamps.com.

Employee Stock Purchase Plan

In June 1999, our Board of Directors adopted an Employee Stock Purchase Plan (ESPP), which allows our eligible employees to purchase shares of common stock, at semi-annual intervals, with their accumulated payroll deductions.

Eligible participants may contribute up to 15% of cash earnings through payroll deductions, and the accumulated deductions will be applied to the purchase of shares on each semi-annual purchase date. The purchase price per share is equal to 85% of the fair market value per share on the participant's entry date into the offering period or, if lower, 85% of the fair market value per share on the semi-annual purchase date.

Upon adoption of the ESPP, 150,000 shares of common stock were reserved for issuance. This reserve automatically increases on the first trading day in January each year, by an amount equal to 1% of the total number of outstanding shares of our common stock on the last trading day in December in the prior year. In no event will any annual increase exceed 260,786 shares.

In July 2009, our Board of Directors amended our ESPP to extend it for a period of ten years beyond its original expiration date of July 31, 2009. Under this amendment, the total shares available for issuance may not increase. As of December 31, 2018 and 2017, we had approximately 1.5 million shares and 1.5 million shares available for issuance under our ESPP, respectively. Total shares of common stock issued pursuant to the ESPP during 2018, 2017 and 2016 were approximately 25,000, 36,000, and 35,000, respectively.

Savings Plan

We have a savings plan for all eligible employees which qualifies under Section 401(k) of the Internal Revenue Code. Participating employees may contribute any percentage of their pretax salary, but not more than statutory dollar limits. We match participant contributions up to certain limitations. We expensed approximately $1.7 million, $1.4 million and $1.1 million in 2018, 2017 and 2016, respectively, related to this plan.

In Europe where applicable, we have savings plans for all eligible employees which conform to country-specific regulations. Participating employees may contribute any percentage of their salary, but not more than statutory dollar limits. We match participant contributions up to certain limitations. Matching contributions to these plans were not material in 2018.

12. 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 has scheduled a final approval hearing to be held on April 29, 2019, or on another date 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. The complaint seeks class certification, unspecified damages, attorneys' fees and costs. 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 December 31, 2018 or 2017.

TABLE OF CONTENTS

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

The Company leases facilities pursuant to noncancelable operating lease agreements expiring through 2029. Rent expense is recognized on a straight-line basis over the lease term. Lease incentives are amortized over the lease term on a straight-line basis. Leasehold improvements are capitalized and amortized over the shorter of the useful life of the asset or the remaining term of the lease. Rent expense was approximately $4.2 million, $3.8 million, and $3.0 million for the years ended December 31, 2018, 2017 and 2016, respectively.

The following table is a schedule of our significant contractual obligations and commercial commitments (other than debt commitments, which are summarized in Note 7 - "Debt"), which consist of minimum operating lease payments, as of December 31, 2018 (in thousands):

Twelve Month Period Ending December 31,	Operating Lease Obligations
2019	$ 5,416
2020	5,249
2021	4,641
2022	3,623
2023	3,344
Thereafter	4,286
Total	$ 26,559

13. 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 3), in the third quarter of 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.

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

	Year Ended December 31,	
	2018	2017
Segment revenues		
Stamps.com	$566,580	$468,709
MetaPack	20,350	—
Total revenues	$586,930	$468,709
Segment income from operations		
Stamps.com	$192,722	$163,503
MetaPack	1,677	—
Total income from operations	$194,399	$163,503
Company's total segment income from operations	$194,399	$163,503
Foreign currency exchange loss, net	(992)	—
Interest expense	(2,595)	(3,669)
Interest income and other income, net	102	414
Income before income taxes	$190,914	$160,248

TABLE OF CONTENTS

Geographic Data

No sales to an individual customer or country other than the US accounted for more than 10% of revenue for the years ended December 31, 2018, 2017, or 2016.

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

	Year Ended December 31,	
	2018	2017
Revenues		
United States	$564,731	$468,709
International	22,199	—
Total revenues	$586,930	$468,709

14. Subsequent Events

We are not aware of any material subsequent events or transactions that have occurred that would require recognition in the consolidated financial statements or disclosure in the notes to the consolidated financial statements, except as described below and in Note 12 – “Commitments and Contingencies” in our Notes to Consolidated Financial Statements.

As previously disclosed in Item 1A "Risk Factors" in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, filed with the SEC on August 8, 2018, during the second quarter of 2018, the USPS provided notice requiring the renegotiation of certain important financial compensation arrangements. On December 31, 2018, the aforementioned arrangements with the USPS ended while negotiations were ongoing. Negotiations on a continuation of our compensation arrangements continued into February 2019, however, as of the date of the filing of this Report, we do not expect these arrangements to be renegotiated or renewed. As a result, our 2019 revenue and operating results may be materially affected. See Item 1A "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" in our Annual Report on Form 10-K for the year ended December 31, 2018.

15. Quarterly Information (Unaudited)

	Quarter Ended			
	March	June	September[1]	December [1,2]
	(in thousands except per share data)			
Fiscal Year 2018:				
Revenues	$133,565	$139,627	$ 143,507	$170,231
Gross profit	108,038	110,185	110,383	131,415
Income from operations	49,201	46,869	44,292	54,037
Net income	47,044	45,524	33,413	42,661
Net income per share:				
Basic	$2.67	$2.53	$ 1.84	$2.37
Diluted	$2.54	$2.41	$ 1.75	$2.30
Weighted average shares outstanding:				
Basic	17,644	18,015	18,161	17,983
Diluted	18,511	18,906	19,046	18,578
Fiscal Year 2017:				
Revenues	$105,040	$116,140	$ 115,062	$132,467
Gross profit	87,302	97,051	93,528	111,602
Income from operations	34,648	41,692	35,660	51,503
Net income	33,138	31,040	46,225	40,200
Net income per share:				
Basic	$1.96	$1.83	$ 2.71	$2.30
Diluted	$1.82	$1.71	$ 2.49	$2.15
Weighted average shares outstanding:				
Basic	16,902	16,930	17,073	17,484
Diluted	18,170	18,125	18,548	18,699

Quarterly and year-to-date computations of per share amounts are made independently. Therefore, the sum of per share amounts for the quarters may not agree with per share amounts for the year shown elsewhere in our Annual Report on Form 10-K.

(1) The third and fourth quarter results of 2018 include the impact of the Company’s acquisition of MetaPack, which was completed on August 15, 2018.

(2) 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.

TABLE OF CONTENTS

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of El Segundo, State of California, on the 1st day of March 2019.

STAMPS.COM INC.

By: /s/ KENNETH MCBRIDE

Kenneth McBride

Chief Executive Officer and Chairman of the Board of Directors

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ KENNETH MCBRIDE Kenneth McBride	Chairman and Chief Executive Officer (Principal Executive Officer)	March 1, 2019
/s/ JEFF CARBERRY Jeff Carberry	Chief Financial Officer (Principal Financial and Accounting Officer)	March 1, 2019
* Mohan P. Ananda	Director	March 1, 2019
* David Habiger	Director	March 1, 2019
* G. Bradford Jones	Director	March 1, 2019
* Theodore R. Samuels	Director	March 1, 2019

*By Kenneth McBride as Attorney-in-fact.