

STAMPS.COM INC
Form 10-K
March 15, 2010

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2009

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from to

Commission File Number: 000-26427

STAMPS.COM INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

77-0454966
(I.R.S. Employer
Identification No.)

**12959 Coral Tree Place
Los Angeles, California 90066**

(Address of Principal Executive Offices and Zip Code)

(310) 482-5800

Registrant's Telephone Number, Including Area Code:

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

Title of Each Class	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 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

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark 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.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of June 30, 2009, the aggregate market value of voting common stock held by non-affiliates of the Registrant was \$116,731,864 (based upon the closing price for shares of the Registrant's Common Stock as reported by The NASDAQ Stock Market on that date). As of February 28, 2010, there were 14,287,786 shares of the Registrant's Common Stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 2010 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.

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PART I.

This Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). You can find many (but not all) of these statements by looking for words such as approximates, believes, expects, anticipates, estimates, intends, plans, would, may or other similar expressions in this Report. Our forward-looking statements relate to future events or our future performance and include, but are not limited to, statements concerning our business strategy, future commercial revenues, market growth, capital requirements, new product introductions, expansion plans and the adequacy of our funding. Other statements contained in this Report that are not historical facts are also forward-looking statements.

We claim the protection of the safe harbor contained in the Private Securities Litigation Reform Act of 1995. We caution investors that any forward-looking statements presented in this Report, or that we may make orally or in writing from time to time, are based on beliefs and assumptions made by us and information currently available to us. Such statements are based on assumptions, and the actual outcome will be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control or ability to predict. Although we believe that our assumptions are reasonable, they are not guarantees of future performance, and some will inevitably prove to be incorrect. As a result, our actual future results 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, which are based on known results and trends at the time they are made, to anticipate future results or trends.

For discussion of some of the factors that could affect our results, see Management's Discussion and Analysis of Financial Condition and Results of Operations and 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.

Stamps.com, NetStamps, Stamps.com Internet Postage, PhotoStamps, Hidden Postage and the Stamps.com logo are our trademarks. This Report also references trademarks of other entities.

SPECIAL NOTICE REGARDING PURCHASES OF MORE THAN 5% OF OUR STOCK

We currently have federal and state net operating loss (NOL) carry-forwards of approximately \$230 million and \$150 million, respectively, with potential value of up to \$94 million in tax savings over the next 15 years. Under Internal Revenue Code Section 382 rules, if a change of ownership is triggered, our NOL asset may be impaired. A change in ownership can occur whenever there is a shift in ownership by more than 50 percentage points by one or more 5% shareholders within a three-year period. We estimate that as of December 31, 2009 we were at approximately a 26% level compared with the 50% level that would trigger impairment of our NOL asset.

Under our certificate of incorporation, any person, company or investment firm that wishes to become a 5% shareholder (as defined in our certificate of incorporation) 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. These NOL protective measures contained in our certificate of incorporation are more particularly discussed in our Definitive Proxy Statement filed with the Securities and Exchange Commission on April 2, 2008.

As of February 28, 2010, we had 14,287,786 shares outstanding, and therefore ownership of approximately 715,000 shares or more would currently constitute a 5% shareholder . **We strongly urge that any stockholder contemplating owning more than 600,000 shares contact us before doing so.**

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Item 1. Business.

Overview

Stamps.com® is the leading provider of Internet-based postage solutions. Our customers use our service to mail and ship a variety of mail pieces, including postcards, envelopes, flats and packages, using a wide range of United States Postal Service (the USPS) mail classes, including First Class Mail®, Priority Mail®, Express Mail®, Media Mail®, Parcel Post®, and others. Our customers include individuals, small businesses, home offices, medium-size businesses and large enterprises, and within these segments we target both mailers and shippers. We were the first ever USPS-licensed vendor to offer PC Postage® in a software-only business model in 1999.

Services and Products

We offer the following products and services to our customers

PC Postage Service. Our USPS-approved PC Postage service enables users to print electronic stamps directly onto envelopes, plain paper, or labels using only a standard personal computer, printer and Internet connection. Our service currently supports a variety of USPS and international mail classes. Customers can also add USPS Special Services such as Delivery Confirmation™, Signature Confirmation™, Registered Mail, Certified Mail, Insured Mail, Return Receipt, Collect on Delivery and Restricted Delivery to their mail pieces. After installing our software and completing the registration process, customers can purchase and print postage 24 hours a day, seven days a week. When a customer purchases postage for use through our service, the customer pays face value, and the funds are transferred directly from the customer's account to the USPS's account.

In addition to postage purchases, customers pay Stamps.com a monthly service fee ranging from \$15.99 to \$39.99 depending on the features and capabilities of the particular service. Our Pro Plan offers a basic set of Stamps.com mailing & shipping features with a single-user capability. Our Premiere plan for larger small businesses adds multiple-user functionality, automated Certified Mail forms, FedEx label printing, additional reference codes and higher allowable postage balances to our Pro Plan feature set. Our Professional Shipper plan is targeted to higher volume shippers such as fulfillment houses, retailers and e-commerce merchants and features direct integration into a customer's order databases, faster label printing speed, the ability to customize and save shipping profiles, and integrations with many of the industry's leading shipping management systems. Our Enterprise service is targeted to organizations with multiple geographic locations and features enhanced reporting that allows a central location such as a corporate headquarters greater visibility and control over postage expenditures across their network of locations.

Our customers can print postage (i) on NetStamps® labels, which can be used just like regular stamps, (ii) directly on envelopes, postcards or on other types of mail or labels, in a single-step process that saves time and provides a professional look, (iii) on plain 8.5 x 11 paper or on special labels for packages, and (iv) on integrated customs forms for international mail and packages. For added convenience, our PC Postage services incorporate address verification technology that verifies each destination address for mail sent using our service against a database of all known addresses in the United States. Our PC Postage service is also integrated with common small business and productivity software applications such as word processing, contact and address management, and accounting and financial applications. We also offer several different versions of NetStamps, such as Themed NetStamps and Photo NetStamps that allow customers to add stock or full custom designs to their mail while still providing the same NetStamps convenience of printing and using postage whenever it is needed.

PhotoStamps®. In May 2009 we successfully completed the market test of our PhotoStamps product. PhotoStamps is a patented form of postage that allows consumers to turn digital photos, designs or images into valid US postage. With this product, individuals or businesses can create customized US postage using pictures of their children, pets, vacations, celebrations, business logos and more. PhotoStamps can be used as regular postage to send letters, postcards or packages. The product is available via our separately-marketed website at www.photostamps.com. Customers upload a digital

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photograph or image file, customize the look and feel by choosing a border color to complement the photo, select the value of postage, and place the order online. Each sheet includes 20 individual PhotoStamps, and orders arrive via US Mail in a few business days. We do not include our PhotoStamps business when we refer to our PC Postage business. *Mailing & Shipping Supplies Store.* Our Mailing & Shipping Supplies Store (our Supplies Store) is available to our customers from within our PC Postage software and sells NetStamps labels, shipping labels, other mailing labels, dedicated postage printers, scales, and other mailing and shipping-focused office supplies. Our Supplies Store features a store catalog, same day shipping capabilities, messaging of our free or discounted shipping promotions, cross sell during checkout, product search capabilities, and expedited and rush shipping options.

Branded Insurance. We offer Stamps.com branded insurance to our customers so that they may insure their mail or packages in a fully integrated, online process that eliminates any trips to the post office or the need to complete any special forms. Our branded insurance is provided in partnership with Parcel Insurance Plan and is underwritten by Fireman's Fund. We also offer official USPS insurance alongside our branded insurance product.

Customer Value Proposition for our PC Postage Service

We believe that customers use our PC Postage services to save time and money. Some of the ways our customers save time include: (1) applying postage to letters or packages at home or at the office, avoiding the time that would ordinarily be spent in a trip to the post office; (2) generating mass mailings quickly and easily by printing the address and postage together in a single step process; (3) using our software as an integrated package with most small business productivity applications such as word processors, financial applications and address books; and (4) generating large volumes of shipping labels easily by integrating directly with the database or file system of eCommerce systems.

Some of the ways in which our customers can save money include: (1) an automatic check of all addresses against the USPS database, so postage is not wasted on undeliverable-as-addressed mail; (2) avoiding wasted postage by calculating the exact amount of postage that is needed depending on mail class, mail form, weight and distance to the destination; (3) tracking and controlling postage expenditures in a small office using cost codes built into our software; (4) getting a discount versus USPS retail post offices of up to 15% off Priority Mail, up to 5% off Express Mail, 5% off Priority Mail International and 8% off Express Mail International (higher volume customers may qualify for additional discounts, for example up to 28% off Priority Mail); (5) getting electronic Delivery or Signature Confirmation at 40 to 70 cents less per package than the comparable services at a retail USPS post office; and (6) paying a monthly service fee that is up to 75% less than the total cost of an entry-level postage meter, where users typically pay monthly rental fees, maintenance fees, postage purchase surcharges, cleaning fees, and fees for proprietary ink cartridges.

Some of the other benefits of using our service noted by our customers include: (1) mail produced with our service is more professional looking than stamped mail, helping a smaller business resemble a larger business; (2) our service provides the ability to send USPS packages with Hidden Postage™, which hides the actual amount paid for postage (a useful feature for e-commerce companies that may not want the recipient to see actual shipping cost information); (3) our software can help a business reduce its customer support costs by automatically generating and sending package delivery status e-mails to its customers; (4) our service provides a complete record of all mail or packages sent, allowing our customers to easily keep a record of all sent mail; and (5) our software generates a single barcoded 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.

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Marketing of PC Postage

We target our PC Postage marketing at small businesses, home offices, medium-size businesses and large enterprises, and within these segments we target both mailers and shippers. We market our PC Postage services through the following channels:

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.

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

Direct Sales. We utilize a direct sales force for higher cost Enterprise and Professional Shipper versions of our PC Postage service.

Offline Marketing Programs. We utilize various other offline advertising and marketing programs including telemarketing, traditional media advertising, retail and other programs.

Partnerships. We work with strategic partners in order to leverage their web site traffic, marketing programs, and existing customer base to distribute our PC Postage 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. Our partnerships include Microsoft, Avery Dennison, and Hewlett Packard.

Remarketing. We remarket our services 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.

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

USPS Referrals. We utilize the nationwide USPS Account Manager network to market and sell our services to customers. We market to the account managers by attending regional and national meetings and forums, and participating in local vendor calls. We also receive referrals directly from the USPS website at www.USPS.com.

Enhanced Promotion Online Advertising. We work with various companies to advertise our service in various places across the Internet. This channel typically offers an additional promotion directly to the customer by the partner in order to get the customer to try our service. We reduced our investment in the enhanced promotional channel during recent years.

Marketing of PhotoStamps

We target our PhotoStamps marketing at consumers and businesses. We market our PhotoStamps product through the following channels:

Online advertising including paid search, banner ads, permission-based emails, and other online advertising methods;

Partnerships including Apple, Google/Picasa, HP/Snapfish, Adobe and others;

Retail distribution of a boxed PhotoStamps product;

Remarketing to our existing customers; and

Traditional offline methods of consumer advertising.

In recent years, we reduced our consumer-focused marketing spend in order to lower our customer acquisition costs and thus improve our expected returns and our profitability for the PhotoStamps business.

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2010 Business Strategy

Our PC Postage Business

Our 2010 strategy for the PC Postage business includes the following major initiatives:

Increase and Optimize our Small Business Marketing. We plan to modestly increase our customer acquisition investment in our small business marketing channels in the non-enhanced promotion channels. Based on recent analysis and trends, we believe that the lifetime value of a non-enhanced promotion customer continues to be more than twice the cost of acquiring those customers. We also plan to continue increasing our investment in our direct mail channel as well as refining our acquisition through online advertising, affiliates, partners, telemarketing, traditional media, and other areas. We plan to increase our small business PC Postage customer acquisition spending in the non-enhanced promotion channels by an estimated 10% to 15% in 2010 versus 2009. Our goal in this part of our business is to maintain a reasonably strong investment in our customer base during the current economic downturn and be well positioned when the economy improves to return to higher investment levels. Although our online enhanced promotion channel tends to attract lower quality customers, we continue to see an attractive return on our investment, and we plan to continue to run this channel until we no longer find the returns to be attractive; however, based on recent trends, we currently expect to continue to reduce our marketing spend in this area in 2010 versus 2009.

Improved Customer Experience. We plan to continue improving our overall customer experience by optimizing our web site, registration process, software installation process, initial product experience, initial customer communications, customer welcome kits and delivery of promotional items to make the initial experience a customer has with us as good as it can be. We plan to expand our presence in social networking sites and improve our customer web portal and multi-media and content on our website. We are continuing to add new propriety SKUs to our Supplies Store, such as a new convenient line of Certified Mail envelopes and labels, to improve our overall customer experience. We also have several planned product enhancements in 2010 including improvements to our batch capability, expansion of our ecommerce integrations, enhancements to our Certified Mail capabilities, and better integration with Quickbooks for our customers.

Enhance and Market our Corporate Enterprise Solution. Customers continued to be attracted to our corporate enterprise solution versus a postage meter based on our dramatically lower cost of ownership and visibility into individual employee activity from our sophisticated front-end reporting tool with real time data, improved web-based postage management tools, and enhanced web-based financial and administrative controls for central decision makers, which are not available with a postage meter. In 2010, we plan to increase our sales team headcount by at least 25% compared to 2009 and continue investment in hiring and training top personnel to improve the efficiency and quality of our sales team. Also in 2010, we plan to continue increase our enterprise marketing and lead generation efforts in a cost effective manner. We also plan to launch version 2.0 of our Enterprise service, which will include a dramatically improved web-based enterprise reporting system with a sophisticated front end reporting tool providing real time data, improved web-based postage management tools, and enhanced web-based financial and administrative controls for central decision makers.

Enhance and Market our High Volume Shipper Solution. In 2009 we made several enhancements to our shipping technology including: (1) batch capability that allows users to print a large volume of shipping labels all at once, (2) database integration technology for seamless automatic import and export of information to and from a customer's internal order database and (3) direct integration with eCommerce platforms including eBay, PayPal, Amazon.com, Yahoo and Google, so that a user can read and write order information directly from our software into and out of these platforms. In 2010 we plan to continue investing in our shipping technology and sales and marketing efforts by (1) continuing to improve our batch capability with easier order management and order flow, (2) adding shopping cart integration for easier data export and import from the tools that customers

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like to use and (3) scaling and driving our sales effort using our sales force. Attracting high volume shippers is a strategic focus for us and is also one of the most important strategic initiatives of the USPS; as our most important partner, we are focused on helping USPS as much as we can to become successful in this area.

Our PhotoStamps Business

In 2010 we plan to continue to pursue PhotoStamps in a modest fashion during the economic downturn and to continue to look for ways to optimize the PhotoStamps business. We intend to do this by continuing our program of a more focused direct-to-website PhotoStamps 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 to drive fewer but more profitable orders to our website through our own marketing activity and through our existing distribution partnerships such as with HP/Snapfish, Costco.com and Walgreens. Partnerships can provide a cost effective way to manage acquisition cost through a revenue share, bounty, or other arrangement that aligns the interests of the partnership. We also intend to continue to pursue our PhotoStamps retail business model where customers can purchase a PhotoStamps box at a retail location and redeem the enclosed gift card at our PhotoStamps website. We do not expect to invest heavily in the PhotoStamps area long term until the economy improves, but we believe that there will be opportunities to grow the business in a better economic environment.

Competition

The market for our products is competitive. Some of our current direct competitors in the PC Postage and Customized Postage categories include:

Endicia.com/Dymo. Endicia is a group within Newell Rubbermaid's Office Products division that offers a software-based PC Postage service similar to our PC Postage service under the brand name Endicia, a custom postage offering similar to our PhotoStamps service under the brand name PictureItPostage, and a NetStamps-like service in conjunction with Dymo (an affiliated company also owned by Newell Rubbermaid) under the brand names Dymo Stamps and Dymo Printable Postage. All three of these services are directly competitive with our own services in these areas.

Dymo Stamps is different from our service in the approach it takes to the business model. Its service is offered without a monthly service fee, which is one of its primary marketing messages versus our service. To use the Dymo Stamps feature, however, customers must purchase the Dymo Stamps labels through Endicia at a price that is significantly higher per label than our price for our NetStamps labels.

Pitney Bowes, Inc. Pitney Bowes is the current market leader in the U.S. traditional postage meter business, with revenues of \$5.6 billion in 2009. Pitney Bowes launched its initial software-based PC Postage product in 2000 and currently offers a PC Postage product named ShipStream Manager designed for shipping packages for a monthly fee of \$15.99. During 2004 Pitney Bowes also began offering an Internet-based service for printing a single label for use in shipping a package that does not require a monthly subscription fee, in partnership with eBay. Pitney Bowes offers a customized postage offering (branded ZazzleStamps) through a partnership with Zazzle.com, Inc., a small, private U.S. company that specializes in custom products. During 2007 Pitney Bowes also launched its own customized postage offering under the brand name Stamp Expressions.

We also compete with traditional postage meters offered by Pitney Bowes and others in the U.S. market. We believe that our customers choose our PC Postage service over traditional postage meters primarily to save money. We also believe that our PC Postage service can offer superior capabilities to postage meters in certain areas, such as the ability to integrate tightly with small business productivity applications, and the ability to easily monitor and track

USPS packages. We believe customers choose postage meters over our solutions because of the perceived ease of use of these products versus our current approach of software that runs on a PC.

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We believe that our customers choose our PC Postage service over that of other PC Postage competitors because of our superior user interface and our larger breadth of features. For example, we are the only PC Postage service that is tightly integrated into the native capabilities of Microsoft Office for use with Office's mailing capabilities such as mail merge or envelope printing, we support more address books than any other PC Postage software, and we are the only company that offers the additional customer choice of our Themed and Photo NetStamps labels. Based on USPS data and our own estimates, we believe that as of the end of 2009 approximately 80% of all PC Postage subscription customers were our customers (excluding estimated customers paying for postage on a pure transaction-based, no-monthly-fee plan).

Based on USPS data and on our own estimates, we believe that PhotoStamps is the category leader in USPS's customized postage program. When compared to competitive offerings, we think PhotoStamps offers the best product and overall customer experience in the industry. PhotoStamps was also the first commercially available customized postage product, and we believe it has the best brand recognition among its competitors.

Other Competition. We also compete with traditional methods of accessing US postage, such as postage stamps, USPS retail locations, and USPS online services such as Click-N-Ship. All of these methods are typically available with no additional markup over the face value of postage. We believe that our customers choose our service over these methods of accessing postage because of convenience and the availability of capabilities and features that are not available through these traditional methods. We believe customers choose traditional methods over our solutions as a way to obtain postage without paying additional fees above the face value of postage. In our high volume shipping solution we also compete with alternatives to the US Postal service for package services such as FedEx and UPS.

Industry Overview

Business Market Size

Our PC Postage mailing and shipping service is currently targeted primarily at U.S. small offices, home offices, small businesses and enterprises, and within these segments we target both mailers and shippers. We believe the number of businesses that we can serve with our current products are as follows: (1) 14 million income-generating home offices; (2) 4.4 million single location small businesses of 5 employees or less (typically using our single user Pro service); (3) 1.5 million single location small businesses of 6 to 100 employees (typically using our Pro or our multi-user Premier service); (4) 2.1 million multi-location small businesses, which represent 4.7 million separate locations; (5) 117,000 medium and large businesses over 100 employees, which represent 1.3 million separate locations (typically using our Enterprise service). In total we estimate that there are 22 million businesses, which represent 26 million locations that are the primary target for our current service. In addition we believe there are 24 million non-income generating home offices such as those used for corporate after-hours work or telecommuting, and our solution is also applicable to that segment. We also have consumers that use our service.

US Mail Volume

According to the USPS Fiscal 2009 Annual Report, the total US Postal Service revenue was \$68 billion during its fiscal year ended September 30, 2009. Of this amount approximately \$48 billion (94 billion pieces) was represented by mail classes that are addressable using our current solution (First Class, Priority Mail, Express Mail, Media Mail, Parcel Post, international mail, and special services). We believe that some portion of this \$48 billion is a potential market for purchasing and printing postage using PC Postage.

Based on the USPS Fiscal 2008 Household Diary study, consumer-to-consumer personal correspondence mail volume is approximately 5.6 billion pieces per year (1.0 billion personal letters, 2.3 billion holiday greeting cards, 1.4 billion non-holiday greeting cards, and 0.9 billion other). We also estimate that an additional 8.3 billion pieces per year are sent between businesses and consumers as first class primary business advertising mail, and an additional 6.4 billion pieces per year are sent from businesses to consumers as First Class correspondence mail. We believe that consumer-to-consumer and business-to-consumer advertising mail are two potential markets for use of PhotoStamps.

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The PC Postage Certification and Regulatory Approval Process

Our technology must meet strict U.S. government security standards. Our PC Postage products (including any follow-on technology) must complete extensive USPS testing and evaluation in the areas of operational reliability, financial integrity and security to become certified for commercial distribution, and each additional implementation of a particular product or function requires additional evaluation and approval by the USPS prior to commercial distribution. The USPS certification process to become an USPS approved PC Postage vendor is a standardized, ten-stage process that took the existing approved vendors years to complete. Each stage requires USPS review and authorization to proceed to the next stage of the certification process. The USPS has no published timeline or estimated time to complete each of the ten stages of the program. The most significant stage requires a vendor to complete three phases of beta testing. In 1999 we were approved and launched the first software-only PC Postage service. In May 2009 we successfully completed the market test of our PhotoStamps product.

We continue to ask the USPS for new PC Postage benefits such as additional discounts on the face value of postage or commissions on postage. There are many factors that go into the evaluation of our requests, and we have no guarantee that USPS will grant any of our requests. Our customers currently receive a discounted rate relative to prices available at retail post offices for Priority Mail, Express Mail, Priority Mail International and Express Mail International and for electronic confirmation services such as Delivery Confirmation or Signature Confirmation.

Our Technology

Our servers are located in a high-security data center and operate with proprietary security software. These servers create the data used to generate information-based indicia. They also process postage purchases using secure technology that meets USPS security requirements. Our service currently uses a Windows-based client application that supports a variety of label and envelope options and a wide range of printers. In addition, our application employs 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 system implements hardware to meet 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 and are scalable as needed.

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.

See 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.

Section 382 Update

We currently have federal and state NOL carry-forwards of approximately \$230 million and \$150 million, respectively, with potential value of up to \$94 million in tax savings over the next 15 years. Under Internal Revenue

Code Section 382 rules, if a change of ownership is triggered, our NOL asset may be impaired. A change in ownership can occur whenever there is a shift in ownership by more than 50 percentage points by one or more 5% shareholders within a three-year period. We estimate that as of December 31, 2009 we were at approximately a 26% level compared with the 50% level that would trigger impairment of our NOL asset.

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Under our certificate of incorporation, any person, company or investment firm that wishes to become a 5% shareholder (as defined in our certificate of incorporation) 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. These NOL protective measures contained in our certificate of incorporation are more particularly discussed in our Definitive Proxy Statement filed with the Securities and Exchange Commission on April 2, 2008.

As of February 28, 2010, we had 14,287,786 shares outstanding, and therefore ownership of approximately 715,000 shares or more would currently constitute a 5% shareholder . **We strongly urge that any stockholder contemplating owning more than 600,000 shares contact us before doing so.**

Employees

As of December 31, 2009, we had approximately 210 employees not including temporary or contract workers. 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.

Segments, Geographical and Revenue Information

We operate in a single market segment, Internet Mailing and Shipping Services and therefore have only one reportable segment. All of our operations and revenue are within the United States. During 2009, 2008 and 2007, we did not recognize revenue from any one customer that represented 10% or more of revenues. See Management's Discussion and Analysis of Financial Condition and Results of Operations, Results of Operations for years ended December 31, 2009 and 2008 for the percentage of total revenue contributed by categories of similar products or services that accounted for 10 percent or more of consolidated revenue. Our product and insurance revenues are subject to seasonal variations with the fourth and first calendar quarters being typically seasonally stronger and the third calendar quarter being typically seasonally slower. Our service revenue does not typically have seasonal variation due to our flat rate monthly subscription pricing. Our PhotoStamps revenue is typically stronger in the fourth calendar quarter due to the holidays.

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 un