

STAMPS.COM INC
Form 10-Q
August 07, 2015

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

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 Ave
El Segundo, CA 90245
(Address of principal executive offices, including zip code)

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

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

Indicate by check mark whether the registrant has submitted electronically 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 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 (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of July 31, 2015, there were 16,489,489 shares of the Registrant’s Common Stock issued and outstanding.

STAMPS.COM INC. AND SUBSIDIARIES
FORM 10-Q QUARTERLY REPORT FOR THE QUARTER ENDED JUNE 30, 2015

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

STAMPS.COM INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	June 30, 2015	December 31, 2014
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 77,825	\$40,933
Short-term investments	6,280	6,482
Accounts receivable, net	14,654	12,325
Deferred income taxes	2,143	2,143
Other current assets	6,356	6,071
Total current assets	107,258	67,954
Property and equipment, net	29,745	30,427
Goodwill	66,893	66,893
Intangible assets, net	17,953	19,570
Long-term investments	6,465	10,215
Deferred income taxes.	58,129	51,673
Other assets	8,770	7,999
Total assets	\$ 295,213	\$ 254,731
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 38,097	\$22,521
Deferred revenue	2,241	2,164
Contingent consideration, current	40,398	9,225
Total current liabilities	80,736	33,910
Contingent consideration, long-term	—	15,790
Total liabilities	80,736	49,700
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$.001 par value		
Authorized shares: 47,500 in 2015 and 2014		
Issued shares: 29,217 in 2015 and 28,763 in 2014		
Outstanding shares: 16,451 in 2015 and 15,997 in 2014	52	51
Additional paid-in capital	698,935	678,075
Treasury stock, at cost, 12,766 shares in 2015 and 2014	(172,410)	(172,410)
Accumulated deficit	(312,147)	(300,746)
Accumulated other comprehensive income	47	61
Total stockholders' equity	214,477	205,031
Total liabilities and stockholders' equity	\$ 295,213	\$ 254,731

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

Table of ContentsSTAMPS.COM INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues:				
Service	\$40,378	\$26,921	\$76,027	\$52,564
Product	4,270	3,955	9,013	8,568
Insurance	2,631	2,047	5,293	4,040
PhotoStamps	1,072	1,359	2,061	2,408
Other	9	2	18	2
Total revenues	48,360	34,284	92,412	67,582
Cost of revenues (exclusive of amortization of intangible assets, which is included in general and administrative):				
Service	6,695	4,449	12,966	8,818
Product	1,435	1,292	3,036	2,834
Insurance	927	717	1,850	1,405
PhotoStamps	881	1,158	1,711	2,004
Total cost of revenues	9,938	7,616	19,563	15,061
Gross profit	38,422	26,668	72,849	52,521
Operating expenses:				
Sales and marketing	12,536	10,663	26,557	22,033
Research and development	4,680	3,036	8,962	5,952
General and administrative	12,763	5,350	20,534	9,547
Contingent consideration charges	13,595	—	24,107	—
Litigation settlement	10,000	—	10,000	—
Total operating expenses	53,574	19,049	90,160	37,532
(Loss) income from operations	(15,152)	7,619	(17,311)	14,989
Interest and other (loss) income, net	(14)	89	55	225
(Loss) income before income taxes	(15,166)	7,708	(17,256)	15,214
Income tax benefit	(4,735)	(3,466)	(5,855)	(3,294)
Net (loss) income	\$(10,431)	\$11,174	\$(11,401)	\$18,508
Net (loss) income per share				
Basic	\$(0.64)	\$0.70	\$(0.70)	\$1.15
Diluted	\$(0.64)	\$0.68	\$(0.70)	\$1.12
Weighted average shares outstanding				
Basic	16,402	15,993	16,280	16,107
Diluted	16,402 ⁽¹⁾	16,378	16,280 ⁽¹⁾	16,521

(1) Common equivalent shares are excluded from the diluted (loss) earnings per share calculation as their effect is anti-dilutive

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

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STAMPS.COM INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

(Unaudited)

	Three Months		Six Months Ended	
	Ended		June 30,	
	June 30,	2014	2015	2014
	2015			
Net (loss) income	\$(10,431)	\$11,174	\$(11,401)	\$18,508
Other comprehensive income:				
Unrealized loss on investments	(22)	(14)	(14)	(23)
Comprehensive (loss) income	\$(10,453)	\$11,160	\$(11,415)	\$18,485

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended June 30,	
	2015	2014
Operating activities:		
Net (loss) income	\$(11,401)	\$18,508
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	3,529	1,735
Stock-based compensation expense	6,043	1,942
Deferred income taxes, net of additional paid-in capital	(6,205)	(3,634)
Contingent consideration	24,107	—
Changes in operating assets and liabilities:		
Accounts receivable, net	(2,329)	8,567
Other current assets	(660)	(250)
Other assets	(771)	(2,328)
Deferred revenue	77	(124)
Accounts payable and accrued expenses	14,054	2,513
Net cash provided by operating activities	26,444	26,929
Investing activities:		
Sale of short-term investments	3,869	4,271
Purchase of short-term investments	(1,006)	(3,902)
Sale of long-term investments	1,075	4,024
Purchase of long-term investments	—	(2,868)
Acquisition of ShipStation (net of cash acquired)	—	(48,883)
Purchase of property and equipment	(1,230)	(1,323)
Net cash provided by (used in) investing activities	2,708	(48,681)
Financing activities:		
Proceeds from short term financing obligation, net repayment	1,897	—
Proceeds from exercise of stock options	5,067	1,122
Issuance of common stock under ESPP	776	656
Repurchase of common stock	—	(12,888)
Net cash provided by (used in) financing activities	7,740	(11,110)
Net increase (decrease) in cash and cash equivalents	36,892	(32,862)
Cash and cash equivalents at beginning of period	40,933	66,674
Cash and cash equivalents at end of period	\$77,825	\$33,812
Supplemental Information:		
Capital expenditures accrued but not paid at period end	6	15

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

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

1. Summary of Significant Accounting Policies

Basis of Presentation

We prepared the consolidated financial statements included herein pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with United States (“U.S.”) generally accepted accounting principles (“GAAP”) have been condensed or omitted pursuant to such rules and regulations. We believe that the disclosures are adequate to make the information presented not misleading. We recommend that these financial statements be read in conjunction with the audited financial statements and the notes thereto included in our latest annual report on Form 10-K for the fiscal year ended December 31, 2014, filed with the SEC on March 16, 2015.

In our opinion, these unaudited financial statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly our financial position as of June 30, 2015, our results of operations for the three and six months ended June 30, 2015 and our cash flows for the six months ended June 30, 2015. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

Principles of Consolidation

The consolidated financial statements include the accounts of Stamps.com Inc., Auctane LLC, Interapptive, Inc. and PhotoStamps Inc. In June 2014, we completed our acquisition of 100% of the outstanding equity of Auctane LLC, the Texas limited liability company that operates ShipStation (“Auctane LLC” or “ShipStation”) in a cash and contingent stock transaction. ShipStation, based in Austin, Texas, offers monthly subscription based e-commerce shipping software primarily under the brands ShipStation and Auctane. In August 2014, we completed our acquisition of 100% of the outstanding equity of Interapptive, Inc., the Missouri corporation that operates ShipWorks (“Interapptive, Inc.” or “ShipWorks”) in a cash transaction. ShipWorks, based in St. Louis, Missouri, offers monthly subscription based e-commerce shipping software.

Because 100% of the voting control of Auctane LLC and Interapptive, Inc. is held by us, we have consolidated ShipStation and ShipWorks from the date we obtained control in the accompanying consolidated financial statements. Similarly, due to our 100% control, PhotoStamps Inc. is also consolidated in the accompanying consolidated financial statements from the date of its inception. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates, and such differences may be material to the financial statements. Examples include estimates of loss contingencies, promotional coupon redemptions, the number of PhotoStamps retail boxes that will not be redeemed, deferred income taxes, the estimates and assumptions used to calculate the allocation of the purchase price related to our acquisitions, including related contingent consideration, and estimates regarding the useful lives of our building, patents and other amortizable intangible assets.

Fair Value of Financial Instruments

Carrying amounts of certain of our financial instruments, including cash, cash equivalents, accounts receivable and accounts payable, approximate fair value due to their short maturities. The fair values of investments are determined using quoted market prices for those securities or similar financial instruments.

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

Certain contingent consideration may be payable by us in connection with our acquisition of ShipStation. The fair value of the contingent consideration is determined using valuation techniques that replicate the pay-off structure of the earn-out provision in the ShipStation transaction, and the value of each of these options was determined using the Black-Scholes-Merton option pricing framework. During the second quarter of 2015 we incurred approximately \$13.9 million of charges relating to our contingent consideration liability of which \$13.6 million was recorded in contingent consideration charges and \$316,000 was recorded in marketing and research and development in operating expenses. We have incurred approximately \$24.6 million of charges relating to our contingent consideration liability during the six months ended June 30, 2015 of which \$24.1 million was recorded in contingent consideration charges and \$501,000 was recorded in marketing and research and development in operating expenses. Contingent consideration liability was approximately \$40.4 million as of June 30, 2015.

Property and Equipment

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. 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 operations.

Goodwill

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. Goodwill will be reviewed for impairment annually on October 1 utilizing a qualitative assessment or a two-step process.

Trademarks, Patents and Intangible Assets

Acquired trademarks, patents and other intangibles 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 over the estimated useful lives of the assets, ranging from approximately 4 to 17 years.

Impairment of Long-Lived Assets and 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.

Intangible assets that have indefinite useful lives are not amortized but, instead, tested at least annually for impairment while intangible assets that have finite useful lives continue to be amortized over their respective useful lives. Intangible assets with finite lives are reviewed for impairment when events and circumstances indicate that the intangible asset might be impaired.

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(UNAUDITED)

Income Taxes

We account for income taxes in accordance with Financial Accounting Standards Board (“FASB”) ASC Topic No. 740, Income Taxes (“ASC 740”), 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. ASC 740 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, wh