STAMPS.COM INC
Form 10-Q
November 09, 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 September 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 Avenue
El Segundo, California 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 October 31, 2015, there were 16,600,610 shares of the Registrant’s Common Stock issued and outstanding.

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

TABLE OF CONTENTS

		Page
PART I - FINANCIAL INFORMATION		1
ITEM 1.	FINANCIAL STATEMENTS	1
ITEM 2.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	20
ITEM 3.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	31
ITEM 4.	CONTROLS AND PROCEDURES	32
PART II – OTHER INFORMATION		33
ITEM 1.	LEGAL PROCEEDINGS	33
ITEM 1A.	RISK FACTORS	33
ITEM 2.	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	34
ITEM 3.	DEFAULTS UPON SENIOR SECURITIES	34
ITEM 4.	MINE SAFETY DISCLOSURES	34
ITEM 5.	OTHER INFORMATION	34
ITEM 6.	EXHIBITS	34

Table of Contents

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2015 (unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 89,559	$ 40,933
Short-term investments	9,617	6,482
Accounts receivable, net	15,295	12,325
Deferred income taxes	2,143	2,143
Other current assets	7,630	6,071
Total current assets	124,244	67,954
Property and equipment, net	29,251	30,427
Goodwill	66,893	66,893
Intangible assets, net	17,229	19,570
Long-term investments	3,060	10,215
Deferred income taxes	53,140	51,673
Other assets	8,766	7,999
Total assets	$ 302,583	$ 254,731
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 29,132	$ 22,521
Deferred revenue	2,326	2,164
Contingent consideration, current	42,512	9,225
Total current liabilities	73,970	33,910
Contingent consideration, long-term	—	15,790
Total liabilities	73,970	49,700
Commitments and contingencies		
Stockholders' equity:		
Common stock, $.001 par value		
Authorized shares: 47,500 in 2015 and 2014		
Issued shares: 29,365 in 2015 and 28,763 in 2014		
Outstanding shares: 16,599 in 2015 and 15,997 in 2014	52	51
Additional paid-in capital	705,798	678,075
Treasury stock, at cost, 12,766 shares in 2015 and 2014	(172,410)	(172,410)
Accumulated deficit	(304,873)	(300,746)
Accumulated other comprehensive income	46	61
Total stockholders' equity	228,613	205,031
Total liabilities and stockholders' equity	$ 302,583	$ 254,731

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

1

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues:				
Service	$42,470	$30,057	$118,497	$82,621
Product	4,193	3,875	13,206	12,443
Insurance	2,513	2,360	7,806	6,400
PhotoStamps	2,484	1,532	4,545	3,940
Other	9	10	27	12
Total revenues	51,669	37,834	144,081	105,416
Cost of revenues (exclusive of amortization of intangible assets, which is included in general and administrative expense):				
Service	6,809	5,123	19,775	13,941
Product	1,364	1,285	4,400	4,119
Insurance	896	843	2,746	2,248
PhotoStamps	2,120	1,293	3,831	3,297
Total cost of revenues	11,189	8,544	30,752	23,605
Gross profit	40,480	29,290	113,329	81,811
Operating expenses:				
Sales and marketing	11,341	9,516	37,898	31,549
Research and development	4,758	3,407	13,720	9,359
General and administrative	9,470	6,191	30,004	15,738
Contingent consideration charges	1,920	860	26,027	860
Litigation settlement	—	—	10,000	—
Total operating expenses	27,489	19,974	117,649	57,506
Income (loss) from operations	12,991	9,316	(4,320)	24,305
Interest and other income, net	48	71	103	296
Income (loss) before income taxes	13,039	9,387	(4,217)	24,601
Income tax expense (benefit)	5,765	(85)	(90)	(3,379)
Net income (loss)	$7,274	$9,472	$(4,127)	$27,980
Net income (loss) per share				
Basic	$0.44	$0.60	$(0.25)	$1.75
Diluted	$0.42	$0.58	$(0.25)	$1.70
Weighted average shares outstanding				
Basic	16,538	15,881	16,367	16,031
Diluted	17,517	16,258	16,367 (1)	16,433

(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.

2

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income (loss)	$7,274	$9,472	$(4,127)	$27,980
Other comprehensive income (loss), net of tax:				
Unrealized loss on investments	(1)	(37)	(15)	(60)
Comprehensive income (loss)	$7,273	$9,435	$(4,142)	$27,920

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

Table of Contents

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

	Nine Months Ended September 30, 2015	2014
Operating activities:		
Net loss (income)	$(4,127)	$27,980
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,169	3,193
Stock-based compensation expense	9,104	2,402
Deferred income tax, net of additional paid-in capital	(872)	(3,979)
Contingent consideration	26,027	860
Changes in operating assets and liabilities:		
Accounts receivable, net	(2,970)	7,567
Other current assets	(1,934)	19
Other assets	(767)	(2,157)
Deferred revenue	162	(68)
Accounts payable and accrued expenses	5,171	3,831
Net cash provided by operating activities	34,963	39,648
Investing activities:		
Sale of short-term investments	3,918	6,402
Purchase of short-term investments	(977)	(3,938)
Sale of long-term investments	1,064	4,027
Purchase of long-term investments	—	(2,868)
Acquisition of ShipStation (net of cash acquired)	—	(48,883)
Acquisition of ShipWorks (net of cash acquired)	—	(21,080)
Purchase of property and equipment	(1,652)	(2,295)
Net cash provided by (used in) investing activities	2,353	(68,635)
Financing activities:		
Proceeds from short term financing obligation, net of repayments	1,815	—
Proceeds from exercise of stock options	7,940	1,622
Issuance of common stock under ESPP	1,555	1,238
Repurchase of common stock	—	(12,888)
Net cash provided by (used in) financing activities	11,310	(10,028)
Net increase (decrease) in cash and cash equivalents	48,626	(39,015)
Cash and cash equivalents at beginning of period	40,933	66,674
Cash and cash equivalents at end of period	$89,559	$27,659
Supplemental Information:		
Capital expenditures accrued but not paid at period end	$6	$40

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
(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 September 30, 2015, our results of operations for the three and nine months ended September 30, 2015, and our cash flows for the nine months ended September 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, and goodwill.

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.

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 stock 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 third quarter of 2015 we incurred approximately $2.1 million of charges relating to our contingent consideration liability of which $1.9 million was recorded in contingent consideration charges and $194,000 was recorded in marketing and research and development in operating expenses. We have incurred approximately $26.7 million of charges relating to our contingent consideration liability during the nine months ended September 30, 2015 of which $26.0 million was recorded in contingent consideration charges and $695,000 was recorded in marketing and research and development in operating expenses. Contingent consideration liability was approximately $42.5 million as of September 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.

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.

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, which are primarily comprised of U.S. Federal and State tax loss carry-forwards, 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 ASC 740 based on all available positive and negative evidence. As of September 30, 2015 and December 31, 2014 we do not have any valuation allowance recorded to reduce our gross deferred tax assets as we believe we have met the more likely than not threshold we will realize our tax loss carry-forwards in the foreseeable future.

Deferred Revenue

Our deferred revenue relates to service revenue and PhotoStamps retail boxes. Deferred revenue related to our service revenue generally arises due to the timing of payment versus the provision of services for certain customers billed in advance. We sell our PhotoStamps retail boxes to our customers through our website and selected third parties. Proceeds from the sale of our PhotoStamps retail boxes are initially recorded as a liability when received. We record the liability for outstanding PhotoStamps retail boxes in deferred revenue.

Revenue Recognition

We recognize revenue from product sales or services rendered, as well as commissions from advertising or sale of products by third party vendors to our customer base when the following four revenue recognition criteria are met: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the selling price is fixed or determinable, and collectability is reasonably assured.

Service revenue is primarily derived from monthly subscription and transaction fees and is recognized in the period that services are provided. Product sales, net of return allowances, are recorded when the products are shipped and title passes to customers. Sales of items, including PhotoStamps, sold to customers are made pursuant to a sales contract that provides for transfer of both title and risk of loss upon our delivery to the carrier. Return allowances for expected product returns, which reduce product revenue, are estimated using historical experience. Commissions from the advertising or sale of products by a third party vendor to our customer base are recognized when the revenue is earned and collection is deemed probable.

Customers typically pay face value for postage purchased for use through our mailing and shipping software, and the funds are transferred directly from the customers to the United States Postal Services (“USPS”). We do not recognize revenue for this postage, as it is purchased by our customers directly from the USPS.

PhotoStamps revenue, which includes the face value of postage, from the sale of PhotoStamps sheets and rolls is made pursuant to a sales contract that provides for transfer of both title and risk of loss upon our delivery to the carrier.

Sales of PhotoStamps retail boxes are initially recorded as deferred revenue. PhotoStamps revenue related to the sale of these PhotoStamps retail boxes is subsequently recognized when either: 1) the PhotoStamps retail box is redeemed, or 2) the likelihood of the PhotoStamps retail box being redeemed is deemed remote (“breakage”) and there is no legal obligation to remit the value of the unredeemed PhotoStamps retail boxes.

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. During the third quarter of 2015 and 2014 revenue from such advertising arrangements was not significant.

We provide our customers with the opportunity to purchase parcel insurance directly through our solutions. Insurance revenue represents the gross amount charged to the customer for purchasing insurance and the related cost represents the amount paid to our insurance brokers. We recognize revenue on insurance purchases upon the ship date of the insured package.

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

PhotoStamps Retail Boxes

We sell PhotoStamps retail boxes that are redeemable for PhotoStamps on our website. The PhotoStamps retail boxes are sold through various third party retail partners. Our PhotoStamps retail boxes are not subject to administrative fees on unredeemed boxes and have no expiration date. PhotoStamps retail box sales are recorded as deferred revenue. We concluded that sufficient company-specific historical evidence existed to determine the period of time after which the likelihood of the PhotoStamps retail boxes being redeemed was remote. Based on our analysis of the redemption data, we estimate that period of time to be 60 months after the sale of our PhotoStamps retail boxes.

We recognize breakage revenue related to our PhotoStamps retail boxes utilizing the redemption recognition method. Under the redemption recognition method, we recognize breakage revenue from unredeemed retail boxes in proportion to the revenue recognized from the retail boxes that have been redeemed. Revenue from our PhotoStamps retail boxes is included in PhotoStamps revenue. During third quarter of 2015 and 2014 PhotoStamps retail box breakage revenue was not significant.

Recent Accounting Pronouncement

In May 2014 FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09") an updated standard on revenue recognition. This ASU will supersede 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 we may be required to use more judgment and make more estimates than under current authoritative guidance. ASU 2014-09 will be effective in the first quarter of fiscal year 2018 and may be applied on a full retrospective or modified retrospective approach. We are currently evaluating the impact the adoption of this standard will have on our consolidated financial statements.

Short- Term Financing Obligation

We utilize short-term financing to fund certain company operations. As of September 30, 2015 we had $1.8 million in short-term financing obligations, which was included in accounts payable and accrued expenses and $10.6 million of unused credit.

Subsequent Events

We are not aware of any material subsequent events or transactions that have occurred that would require recognition in the financial statements or disclosure in the notes to the consolidated financial statements except as described in Note 2 – “Acquisition.”

2. Acquisition

Endicia Acquisition Update

On March 22, 2015 we entered into a Stock Purchase Agreement ("Stock Purchase Agreement") with PSI Systems, Inc., a California corporation d/b/a Endicia ("Endicia"), and Newell Rubbermaid Inc., a Delaware corporation ("Newell"). Endicia, based in Palo Alto, California, is a leading provider of high volume shipping technologies and solutions for shipping with the USPS. The Stock Purchase Agreement provides for our purchase of all of the issued and outstanding shares of common stock of Endicia from a wholly-owned indirect subsidiary of Newell ("Transaction") for an aggregate purchase price of $215 million in cash. The purchase price is subject to adjustment for changes in Endicia's net working capital as of the date of the closing of the Transaction and certain transaction expenses and closing cash adjustments. The Transaction is not subject to a shareholder approval requirement.

Concurrent with the signing of the Stock Purchase Agreement, we entered into a financing commitment letter (“Commitment Letter”) with Wells Fargo Bank, National Association (“Wells Fargo Bank”), Wells Fargo Securities, LLC, Bank of America, N.A. (“Bank of America”), Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Chase Bank, N.A. (“JPMorgan” and, collectively with Wells Fargo Bank and Bank of America, the “Lead Lenders”), and J.P. Morgan Securities LLC. The Commitment Letter provides, on the terms and subject to the conditions set forth in the Commitment Letter, for a secured term loan facility in an aggregate principal amount of $82.5 million (“Term Loan”) and a secured revolving credit facility in an aggregate principal amount of $82.5 million (the “Revolving Credit Facility,” and together with the Term Loan, the “Credit Facilities”). The proceeds of the Term Loan will be used to finance a portion of the Purchase Price and for the payment of fees and expenses incurred in connection with the entering into the Stock Purchase Agreement and the Credit Facilities. The Revolving Credit Facility will be used to finance a portion of the Purchase Price and for our ongoing working capital and other general corporate purposes. We expect the financing under the Commitment Letter, together with cash balances, to be sufficient to provide the financing necessary to pay the Purchase Price. The financing commitments of the Lead Lenders are subject to certain limited conditions set forth in the Commitment Letter.

The closing of the Transaction is subject to various customary conditions, including antitrust regulatory clearance which was received on November 2, 2015. During the second quarter, Stamps.com and Newell each received a Request for Additional Information, or a "second request," from the United States Department of Justice (DOJ) in connection with the DOJ's review of Stamps.com's proposed acquisition of PSI Systems, Inc. (d/b/a Endicia) from Newell under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. During the third quarter, Stamps.com and Newell each responded to the second request. On November 2, 2015, the parties received written notice from the DOJ that it had closed its investigation. As a result, the Transaction, and the related Credit Facilities described above, are expected to close on November 18, 2015.

ShipStation Acquisition

On June 10, 2014, we acquired 100% of the outstanding equity of Auctane LLC, which operates 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. ShipStation is a leading web-based shipping software solution that allows online retailers and e-commerce merchants to organize, process, fulfill and ship their orders quickly and easily. ShipStation supports automatic order importing from over 50 shopping carts and marketplaces, including eBay, Amazon, Shopify, Bigcommerce, Volusion, Squarespace and others. 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.

We have accounted for the acquisition under the acquisition method of accounting in accordance with the provisions of FASB ASC Topic No. 805 Business Combinations (“ASC 805”). The total purchase price for ShipStation was approximately $66.2 million and was comprised of the following (in thousands, except shares):

	Fair Value
Cash consideration	$50,000
Fair value of performance linked earn-out of up to 768,900 shares of Stamps.com common stock (contingent consideration)	16,242
Total purchase price	$66,242

The performance linked earn-out payment of Stamps.com shares (or contingent consideration) to former equity members of Auctane LLC is based on the achievement of certain financial measures within a future time period. There are two periods in which the earn-out payment will be calculated. The first earn-out period was based on the achievement of certain financial measures during the six months ended December 31, 2014. The second earn-out period is based on the achievement of certain financial measure during the twelve months ended December 31, 2015. The range of Stamps.com shares available for the performance linked earn-out for both periods is between 576,675 to 768,900 shares provided a minimum threshold for the financial measures is achieved. The fair value of the contingent consideration was determined based on a probability weighted method, which incorporates management's forecasts of financial measures and the likelihood of the financial measure targets being achieved using a series of options that replicate the pay-off structure of the earn-out, and the value of each of these options was determined using the Black-Scholes-Merton option pricing framework.

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

Under the acquisition method of accounting under ASC 805, the total estimated 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 allocation of the purchase price. The following table is the allocation of the purchase price (in thousands, except years):

	Fair Value	Fair Value	Useful Life	Weighted Average Estimated Useful Life (In Years)
Cash and cash equivalents	$1,117			
Trade accounts receivable	254			
Other assets	39			
Property and equipment	187			
Goodwill	50,544			
Identifiable intangible assets:				
Trademark		$500	4	
Developed technology		5,300	8	
Non-compete agreement		400	4	
Customer relationship		9,000	8	
Total identifiable intangible assets	15,200			8
Accrued expenses and other liabilities	(835)			
Deferred revenue	(264)			
Total purchase price	$66,242			

ShipWorks Acquisition

On August 29, 2014, we acquired 100% of the outstanding equity of Interapptive Inc, which operates ShipWorks, in a cash transaction. ShipWorks, based in St. Louis, Missouri, offers monthly subscription based e-commerce shipping software that provides simple, powerful and easy to use solutions for online sellers. ShipWorks solutions integrate with over 50 popular online sales and marketplaces systems including eBay, PayPal, Amazon, Yahoo! and others. ShipWorks offers multi-carrier shipping options and features including sending email notifications to buyers, updating online order status, generating reports and many more.

We have accounted for the acquisition under the acquisition method of accounting in accordance ASC 805. The total purchase price for ShipWorks was approximately $22.1 million and was comprised of the following (in thousands, except shares):

	Fair Value
Cash consideration	$21,952
Deferred consideration	181
Total purchase price	$22,133

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

Under the acquisition method of accounting under ASC 805, the total estimated 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 allocation of the purchase price. The following table is the allocation of the purchase price (in thousands, except years):

	Fair Value	Fair Value	Useful Life	Weighted Average Estimated Useful Life (In Years)
Cash and cash equivalents	$803			
Trade accounts receivable	353			
Other assets	21			
Property and equipment	1,091			
Goodwill	16,349			
Identifiable intangible assets:				
Trademark		$200	6	
Developed technology		1,700	7	
Non-compete agreement		700	4	
Customer relationship		2,300	6	
Total identifiable intangible assets	4,900			6
Accrued expenses and other liabilities	(1,119)			
Deferred revenue	(265)			
Total purchase price	$22,133			

Pro-Forma Financial Information

The pro-forma 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 indicated, nor is it indicative of future operating results. The pro-forma financial information does not include any adjustments for operating efficiencies or cost savings.

	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2014
Revenue	$ 38,653	$ 112,604
Income from operations	9,750	24,682
Net income	9,558	24,282
Basic earnings per share	$ 0.60	$ 1.51
Diluted earnings per share	$ 0.59	$ 1.48

3. Commitments and Contingencies

Legal Proceedings

On August 14, 2014, Rapid Enterprises, LLC, D/B/A Express One, filed suit against ShipStation and some of its executives in the Third Judicial District Court for Salt Lake County, Utah, alleging, among other claims, that ShipStation breached its contract with Express One by violating an exclusivity provision. Express One sought an injunction, damages, attorneys' fees and court costs. On December 12, 2014, Express One added additional claims and Stamps.com and our Chief Executive Officer as named defendants.

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

On August 6, 2015, Stamps.com and Express One entered into a settlement agreement that resolved all disputes between the parties. Stamps.com agreed to pay Express One $10,000,000 in exchange for Express One's dismissal and permanent withdrawal of Express One's tort claims. In addition, the parties agreed to continue and expand their business relationship going forward.

Express One is a sales and support business partner for the United States Postal Service that provides discounted shipping rates and technology solutions to lower volume USPS shippers. Through our partnership with Express One, Stamps.com and our subsidiaries are able to provide Express One's shipping discounts to our lower volume customers, and Express One is able to utilize our systems and software to better serve its customers.

The $10,000,000 settlement liability was included in accrued expenses as of June 30, 2015 and was subsequently paid during the third quarter of 2015.

We are a party to various legal proceedings, including those noted in this section. We have established loss provisions only for matters in which losses are probable and can be reasonably estimated. Although management at present believes that the ultimate outcome of these 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 beliefs may result in a material adverse impact on our business, results of operations, financial position, and overall trends.

Commitments

The following table is a schedule of our significant contractual obligations and commercial commitments, which consist only of future minimum lease payments under operating leases as of September 30, 2015 (in thousands):

Twelve Month Period Ending September 30,	Operating Lease Obligations
2016	$ 308
2017	265
2018	270
2019	69
Total	$ 912

4. Net Income (loss) 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.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income (loss)	$ 7,274			