STAMPS.COM INC
Form 10-Q
August 09, 2007

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

FORM 10-Q

(Mark One)

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the quarterly period ended June 30, 2007

OR

o 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.)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ¨ Accelerated filer þ Non-accelerated filer ¨

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

As of July 31, 2007, there were approximately 20,757,627 shares of the Registrant's Common Stock issued and outstanding.

STAMPS.COM INC.

FORM 10-Q QUARTERLY REPORT FOR THE QUARTER ENDED JUNE 30, 2007

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2007 (unaudited)	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 15,805	$ 11,740
Restricted cash	554	554
Short-term investments	42,025	45,635
Trade accounts receivable, net	2,380	2,365
Other accounts receivable	451	671
Other current assets	2,290	2,095
Total current assets	63,505	63,060
Property and equipment, net	4,539	5,084
Intangible assets, net	1,412	1,956
Long-term investments	35,760	48,145
Other assets	3,685	3,305
Total assets	$ 108,901	$ 121,550
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 9,595	$ 11,015
Total current liabilities	9,595	11,015
Commitments and contingencies		
Stockholders' equity:		
Common stock, $.001 par value Authorized shares 47,500 in 2007 and 2006 Issued shares of 24,212 in 2007 and 24,082 in 2006 Outstanding shares of 20,936 in 2007 and 22,185 in 2006	47	47
Additional paid-in capital	620,805	618,664
Accumulated deficit	(471,367)	(477,221)
Treasury stock, at cost, 3,276 shares in 2007 and 1,897 shares in 2006	(49,737)	(30,429)
Accumulated other comprehensive loss	(442)	(526)
Total stockholders' equity	99,306	110,535
Total liabilities and stockholders' equity	$ 108,901	$ 121,550

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

STAMPS.COM INC.
STATEMENTS OF INCOME
(In thousands, except per share data)
(Unaudited)

	Three Months ended June 30,				Six Months ended June 30,			
	2007		**2006**		**2007**		**2006**	
Revenues:								
Service	$	13,506	$	13,628	$	27,167	$	27,085
PhotoStamps		4,635		3,747		7,811		7,607
Product		2,457		1,980		4,815		4,373
Other		809		805		1,636		1,637
Total revenues		21,407		20,160		41,429		40,702
Cost of revenues:								
Service		2,411		2,353		4,754		4,940
PhotoStamps		3,058		2,378		5,141		4,799
Product		839		628		1,638		1,381
Other		137		169		278		339
Total cost of revenues		6,445		5,528		11,811		11,459
Gross profit		14,962		14,632		29,618		29,243
Operating expenses:								
Sales and marketing		7,926		6,446		15,757		13,270
Research and development		2,077		2,159		4,222		4,498
General and administrative		3,218		3,213		5,965		6,371
Total operating expenses		13,221		11,818		25,944		24,139
Income from operations		1,741		2,814		3,674		5,104
Other income:								
Interest income		1,174		1,399		2,387		2,478
Total other income		1,174		1,399		2,387		2,478
Income before income taxes		2,915		4,213		6,061		7,582
Provision for income taxes Basic		115		53		207		65
Net income	$	2,800	$	4,160	$	5,854	$	7,517
Net income per share (see Note 3):								
Basic Basic	$	0.13	$	0.18	$	0.27	$	0.32
Diluted	$	0.13	$	0.17	$	0.27	$	0.31
Weighted average shares outstanding								
Basic Basic		21,352		23,601		21,610		23,435
Diluted		21,742		24,561		22,034		24,474

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

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

	Six Months ended June 30, 2007	Six Months ended June 30, 2006
Operating activities:		
Net income	$ 5,854	$ 7,517
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,542	1,408
Stock-based compensation expense	1,088	1,491
Changes in operating assets and liabilities:		
Trade accounts receivable	(15)	(204)
Other accounts receivable	220	371
Other current assets	(195)	(931)
Other assets	(380)	(1,316)
Accounts payable and accrued expenses	(1,420)	405
Net cash provided by operating activities	6,694	8,741
Investing activities:		
Sale of short-term investments	24,768	22,146
Purchase of short-term investments	(21,186)	(18,211)
Sale of long-term investments	18,918	12,180
Purchase of long-term investments	(6,421)	(32,034)
Acquisition of property and equipment	(453)	(1,750)
Net cash provided by (used in) investing activities	15,626	(17,669)
Financing activities:		
Proceeds from exercise of stock options	785	6,760
Issuance of common stock under ESPP	268	238
Repurchase of common stock	(19,308)	—
Net cash (used in) provided by financing activities	(18,255)	6,998
Net increase (decrease) in cash and cash equivalents	4,065	(1,930)
Cash and cash equivalents at beginning of period	11,740	20,768
Cash and cash equivalents at end of period	$ 15,805	$ 18,838

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

1. Summary of Significant Accounting Policies

Basis of Presentation

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

In the opinion of the Company, these unaudited financial statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly the financial position of the Company as of June 30, 2007, the results of its operations for the three and six months ended June 30, 2007 and its cash flows for the six months ended June 30, 2007.

Use of Estimates and Risk Management

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

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

2. Legal Proceedings

Please refer to "Part II - Other Information - Item 1 - Legal Proceedings" of this report for a discussion of legal proceedings.

3. Net Income per Share

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

STAMPS.COM
NOTES TO FINANCIAL STATEMENTS
(ALL INFORMATION WITH RESPECT TO JUNE 30, 2007 AND 2006 IS UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Net income	$ 2,800	$ 4,160	$ 5,854	$ 7,517
Basic - weighted average common shares	21,352	23,601	21,610	23,435
Diluted effect of common stock equivalents	390	960	424	1,039
Diluted - weighted average common shares	21,742	24,561	22,034	24,474
Earnings per share:				
Basic	$ 0.13	$ 0.18	$ 0.27	$ 0.32
Diluted	$ 0.13	$ 0.17	$ 0.27	$ 0.31

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Anti-dilutive stock options shares	1,276	286	1,273	234

4. Stock-Based Employee Compensation

Effective January 1, 2006, the Company adopted the Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" (SFAS 123R), and related SEC rules included in Staff Accounting Bulletin No. 107 (SAB 107), which require the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options and employee stock purchases related to the Employee Stock Purchase Plan (employee stock purchases) based on estimated fair values.

The Company adopted SFAS 123R using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006, the first day of the Company's fiscal year 2006. The Company's Financial Statements as of and for the three and six months ended June 30, 2007 and 2006 reflect the impact of SFAS 123R. The following table illustrates the stock-based compensation expense the Company recognized under SFAS 123R for the periods indicated (in thousands):

	Three Months Ended	Six Months Ended

	June 30,		June 30,	
	2007	2006	2007	2006
Stock-based compensation expense relating to:				
Employee and director stock options	$ 627	$ 696	$ 1,041	$ 992
Employee stock purchases	—	—	47	499
Total stock-based compensation expense	$ 627	$ 696	$ 1,088	$ 1,491

SFAS 123R requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's Statement of Income. Prior to the adoption of SFAS 123R, the Company accounted for stock-based awards to employees and directors using the intrinsic value method in accordance with APB 25 as allowed under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123). Under the intrinsic value method, no stock-based compensation expense had been recognized in the Company's Statement of Income prior to January 1, 2006 because the exercise price of the Company's stock options granted to employees and directors was equal to or greater than the fair market value of the underlying stock at the date of grant.

STAMPS.COM
NOTES TO FINANCIAL STATEMENTS
(ALL INFORMATION WITH RESPECT TO JUNE 30, 2007 AND 2006 IS UNAUDITED)

Stock-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. Stock-based compensation expense recognized in the Company’s Statement of Income for the three and six months ended June 30, 2007 and 2006 included 1) compensation expense for share-based payment awards granted prior to, but not yet vested as of January 1, 2006 based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS 123 and 2) compensation expense for the share-based payment awards granted subsequent to December 31, 2005 based on the grant date fair value estimated in accordance with the provisions of SFAS 123R.

Compensation expense recognized for all employee stock options awards granted is recognized using the straight-line single method over their respective vesting periods of three or four years. As stock-based compensation expense recognized in the Statement of Income for the three and six months ended June 30, 2007 and 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In the Company’s pro forma information required under SFAS 123 for the periods prior to fiscal 2006, the Company accounted for forfeitures as they occurred.

SFAS 123R requires the cash flow resulting from tax benefits resulting from tax deduction in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. Prior to fiscal 2005 the Company had a history of net operating losses and because it is uncertain as to when and if it may realize its deferred tax assets, the Company has placed a valuation allowance against its otherwise recognizable deferred tax asset. Therefore, there are no excess tax benefits recorded in the financing cash inflow that would have been classified as an operating cash inflow if the Company had not adopted SFAS 123R. During the three and six months ended June 30, 2007, the Company received $543,000 and $1.1 million, respectively, in cash from stock options exercised and from shares issued through the Employee Stock Purchase Program. During the three and six months ended June 30, 2006, the Company received $1.7 million and $7.0 million, respectively, in cash from stock options exercised and from shares issued through the Employee Stock Purchase Program.

Upon adoption of SFAS 123R the Company continued to use the Black-Scholes option valuation model, which requires management to make certain assumptions for estimating the fair value of employee stock options granted at the date of the grant. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company’s employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimates, in management’s opinion the existing models may not necessarily provide a reliable single measure of the fair value of the Company’s employee stock options. Although the fair value of employee stock options is determined in accordance with SFAS 123R using an option valuation model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

For options granted, the Company's assumption of expected volatility for valuing options using the Black-Scholes model was based on the historical volatility of the Company's stock price for the period January 1, 2002 through the date of option grant because management believes the historical volatility since January 1, 2002 is more representative of prospective volatility. The risk-free interest rate is based on U.S. Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of grant.

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

STAMPS.COM
NOTES TO FINANCIAL STATEMENTS
(ALL INFORMATION WITH RESPECT TO JUNE 30, 2007 AND 2006 IS UNAUDITED)

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Expected dividend yield	—	—	—	—
Risk-free interest rate	4.70%	5.0%	4.69%	4.78%
Expected volatility	48%	49%	48%	49%
Expected life (in years)	5	5	5	5
Expected forfeiture rate	16%	16%	16%	14%

The following table summarizes stock option activity related to the Company's plan for the six months ended June 30, 2007:

	Number of Stock Options (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2006	2,197	$ 17.52		
Granted	1,218	$ 13.83		
Exercised	(108)	$ 7.26		
Forfeited or expired	(43)	$ 21.98		
Balance at June 30, 2007	3,264	$ 16.44	7.4	$ 5,286
Exercisable at June 30, 2007	1,772	$ 17.02	5.6	$ 5,215

The aggregate intrinsic value in the table above represents the total pretax intrinsic value, based on the company's closing stock price of $13.78 at June 29, 2007, representing the last trading day of six months ended June 30, 2007, which would have been received by award holders had all award holders exercised their awards that were in-the-money as of that date.

The weighted average grant date fair value of options granted during the six months ended June 30, 2007 and 2006 was $6.63 and $15.51, respectively. The total intrinsic value of options exercised during the six months ended June 30, 2007 and 2006 was $669,465 and $8,633,927, respectively.

The following table summarizes the status of the Company's nonvested shares as of June 30, 2007:

	Number of Stock Options (in thousands)	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2006	432	$ 11.28
Granted	1,218	$ 6.63
Vested	(115)	$ 8.94
Forfeited	(43)	$ 21.98
Nonvested at June 30, 2007	1,492	$ 7.56

As of June 30, 2007, there was approximately $9.3 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements, which is expected to be recognized over a weighted-average period of 3.4 years.

STAMPS.COM
NOTES TO FINANCIAL STATEMENTS
(ALL INFORMATION WITH RESPECT TO JUNE 30, 2007 AND 2006 IS UNAUDITED)

5. Goodwill and Intangible Assets

The Company wrote off all of its goodwill in the first quarter of 2001 due to impairment. The Company's other intangible assets, which consist of patents, trademarks and other intellectual property with a gross carrying value of $8.3 million as of June 30, 2007 and December 31, 2006 and accumulated amortization of approximately $6.9 million as of June 30, 2007 and $6.3 million as of December 31, 2006, continue to be amortized over their expected useful lives ranging from 4 to 17 years with a remaining weighted average amortization period of 1.1 years. During the fiscal year 2006 the Company assessed whether events or changes in circumstances occurred that could potentially indicate that the carrying amount of the Company's intangible assets may not be recoverable. The Company concluded that there were no such events or changes in circumstances during the year ended December 31, 2006 and determined that the fair value of the Company's intangible assets were in excess of their carrying value as of December 31, 2006.

Aggregate amortization expense on patents and trademarks was approximately $270,000 and $543,000 for the three and six months ended June 30, 2007, respectively. Aggregate amortization expense on patents and trademarks was approximately $275,000 and $550,000 for the three and six months ended June 30, 2006, respectively. Amortization expense on patents and trademarks is estimated to approximate $1.1 million for fiscal year 2007.

6. Comprehensive Income

The following table provides the data required to calculate comprehensive income (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Net income	$ 2,800	$ 4,160	$ 5,854	$ 7,517
Unrealized income (loss) on investments	(6)	(423)	84	(564)
Comprehensive income	$ 2,794	$ 3,737	$ 5,938	$ 6,953

7. Income Taxes

The Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" (FIN 48) on January 1, 2007. At the adoption and as June 30, 2007, we had no material unrecognized tax benefit and no adjustments to liabilities or operations were required. We recognize interest and penalties related to uncertain tax positions in income tax expense which was zero for the three and six months ended June 30, 2007. Tax years 2003 through 2006 are subject to examination by the federal and state taxing authorities, respectively. There are no income tax examinations currently in process.

The provision for income taxes consists solely of alternative minimum federal and state taxes. The Company's effective income tax rate differs from the statutory income tax rate primarily as a result of the establishment of a valuation allowance for the future benefits to be received from the deferred tax assets including net operating loss carryforwards and research tax credits carryforwards to offset taxable income. The Company recorded a tax provision subject to the corporate alternative minimum federal and state taxes of approximately $115,000 and $207,000 for the three and six months ended June 30, 2007, respectively. The Company recorded a tax provision subject to the corporate alternative minimum federal and state taxes of approximately $53,000 and $65,000 for the three and six months ended June 30, 2006, respectively.

STAMPS.COM
NOTES TO FINANCIAL STATEMENTS
(ALL INFORMATION WITH RESPECT TO JUNE 30, 2007 AND 2006 IS UNAUDITED)

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements relate to expectations concerning matters that are not historical facts. Words such as "projects," "believes," "anticipates," "estimates," "plans," "expects," "intends," and similar words and expressions are intended to identify forward-looking statements. Although Stamps.com believes that such forward-looking statements are reasonable, we cannot assure you that such expectations will prove to be correct. Factors that could cause actual results to differ materially from such expectations are disclosed herein. All forward-looking statements attributable to Stamps.com are expressly qualified in their entirety by such language. Stamps.com does not undertake any obligation to update any forward-looking statements. You are also urged to carefully review and consider the various disclosures we have made which describe certain factors which affect our business. The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and the related notes thereto.

Stamps.com, NetStamps, PhotoStamps, Hidden Postage, Stamps.com Internet postage and the Stamps.com logo are our trademarks. This report also includes trademarks of entities other than Stamps.com.

Overview

Stamps.comÒ is the leading provider of Internet-based postage solutions. 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 (US Postal Service or USPS) mail classes including First Class Mail®, Priority Mail®, Express Mail®, Media Mail®, Parcel Post®, and others. Our customers include home businesses, small businesses, corporations and individuals. Stamps.com was the first ever USPS-licensed vendor to offer PC Postage® in a software-only business model in 1999. On August 10, 2004, we publicly launched a market test of PhotoStamps®, a new form of postage that allows consumers to turn digital photos, designs or images into valid US postage. Throughout this document when we refer to our PC Postage business, we mean excluding the PhotoStamps business.

Stamps.com Inc. was founded in September 1996 to investigate the feasibility of entering into the US Postal Service's Information-Based Indicia Program and to initiate the certification process for our PC Postage service. In January 1998, we were incorporated in Delaware as StampMaster, Inc. and we changed our name to Stamps.com Inc. in December 1998. We completed our initial public offering in June 1999. Our common stock is listed on the Nasdaq stock market under the symbol "STMP."

Our principal executive offices are located at 12959 Coral Tree Place, Los Angeles, California, 90066, and our telephone number is (310) 482-5800.

Our Services and Products

We offer or have offered the following products and services to our customers:

PC Postage Service

Our US Postal Service-approved PC Postage service enables users to print information-based indicia, or electronic stamps, directly onto envelopes, plain paper, or labels using ordinary laser or inkjet printers. Our service currently supports USPS classes including First-Class MailÒ, Priority MailÒ, Express MailÒ, Parcel PostÔ, Media MailÔ, Bound Printed Matter, and international mail. 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. Our service requires only a standard PC, printer and Internet connection. Our free software can be downloaded from the Internet or installed from a CD-ROM. After installing the 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 US Postal Service’s account. The majority of new customers currently signing up for our service pay a monthly convenience fee of $15.99. Our current customer mix includes monthly convenience fees ranging from $4.49 to $24.99 or more based on individual pricing and promotions.

Stamps.com offers its customers three primary ways to print PC Postage. First, our NetStamps® feature and Photo NetStamps® feature enable customers to print postage for any value and for most classes of mail on NetStamps or Photo NetStamps labels. Photo NetStamps allows customers to use digital photos, designs or images with NetStamps as compared to the standard designs available with normal NetStamps. After they are printed, NetStamps and Photo NetStamps can be used just like regular stamps. Second, our shipping feature allows customers to print postage for packages on plain 8.5” x 11” paper or on special labels, and to add electronic Delivery or Signature Confirmation at discounted prices versus standard USPS prices. Third, our mailing feature tab is typically used to print the postage and address directly on envelopes or on other types of mail or labels, in a single-step process that saves time and provides a professional look. Our PC Postage services also incorporate address verification technology that verifies each destination address for mail sent using our service against a database of all known addresses in the US. In addition, our PC Postage services are designed to integrate into common small business and productivity software applications such as word processing, contact and address management, and accounting and financial applications.

PhotoStamps®

On May 17, 2006, we publicly launched our third market test of PhotoStamps, a patented form of postage that allows consumers to turn digital photos, designs or images into valid US postage. With this product, people can now create customized US postage using pictures of their children, pets, vacations, celebrations and more. PhotoStamps is 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 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. PhotoStamps is currently available under authorization of the USPS for its fourth phase market test, with an authorization for one year through May 2008.

Mailing & Shipping Supplies Store

With the launch of NetStamps in July 2002, we began selling NetStamps labels directly to our customers via our Supplies Store (previously also referred to as our “Online Store”) which is available to our customers from within our PC Postage software. We have expanded our Supplies Store to sell themed NetStamps labels, shipping labels, other mailing labels, dedicated postage printers, OEM and private label inkjet and laser toner cartridges, scales, and other mailing and shipping-focused office supplies.

In September 2006 we launched a new Mailing & Shipping Supplies Store within version 6.0 of our PC Postage client software. This new store features a totally overhauled and reorganized store catalog, same day shipping capabilities, strong messaging of our free or discounted shipping promotions, strong cross sell during checkout, product search capabilities, and new expedited and rush shipping options. We plan to continue to increase the breadth of products offered in our Supplies Store.

Branded Insurance

We offer Stamps.com branded insurance to our users 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. We also offer official US Postal Service insurance alongside our branded insurance product. Our insurance is provided in partnership with Parcel Insurance Plan and is underwritten by Fireman's Fund.

Recent Developments

On July 26, 2007 we announced the resignation of Jamie Harper, Vice President of Finance and Chief Accounting Officer, to become the chief financial officer of an early stage company. Mr. Harper’s departure was not related to any disagreement with senior management or with Stamps.com’s accounting or operation policies. Chief Financial Officer Kyle Huebner will assume Mr. Harper’s duties.

Critical Accounting Policies

General. The discussion and analysis of our financial condition and results of operations are based on our Company’s financial statements which have been prepared in accordance with US generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to patents, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our financial statements.

Revenue Recognition. We recognize revenue from product sales or services rendered, as well as from licensing the use of our software and intellectual property, 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 based on monthly convenience 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, which reduce product revenue by our best estimate of expected product returns, are estimated using historical experience. Licensing revenue is recognized ratably over the contract period. 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 who purchase postage for use through our NetStamps, shipping label or mailing features, pay face value, and the funds are transferred directly from the customers to the US Postal Service. No revenue is recognized for this postage as it is purchased by our customers directly from the US Postal Service.

PhotoStamps revenue includes the price of postage and is made pursuant to a sales contract that provides for transfer of both title and risk of loss upon our delivery to the carrier.

On a limited basis, we allow third parties to offer products and promotions to the Stamps.com customer base. These arrangements generally provide payment in the form of a flat fee or revenue sharing arrangements where we receive payment upon customers accessing third party products and services. Total revenue from such advertising arrangements is currently immaterial.

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

Advertising Costs. We expense the costs of producing advertisements as incurred, and expense the costs of communicating and placing the advertising in the period in which the advertising space or airtime is used.

Internet Advertising. We recognize expense based on the specifics of the individual agreements. Under partner and affiliate agreements, third parties refer prospects to our web site and we pay the third parties when the customer completes the customer registration process, completes the first purchase or in some cases, upon the first successful billing of a customer. We record these expenses on a monthly basis as prospects are successfully converted to customers.

Intangibles. We make an assessment of the estimated useful lives of our patents and other amortizable intangibles. These estimates are made using various assumptions that are subjective in nature and could change as economic and competitive conditions change. If events were to occur that would cause our assumptions to change, the amounts recorded as amortization would be adjusted.

Contingencies and Litigation. We are involved in various litigation matters as a claimant and as a defendant. We record any amounts recovered in these matters when collection is certain. We record liabilities for claims against us when the losses are probable and estimable. Any amounts recorded would be based on reviews by outside counsel, in-house counsel and management. Actual results may differ from estimates.

Promotional Expense. New core service customers are generally offered promotional items that are redeemed using coupons that are qualified for redemption after a customer is successfully billed beyond an initial trial period. This includes free postage and a free digital scale and is expensed in the period in which a customer qualifies using estimated redemption rates based on historical data. Promotional expense which is included in cost of service is incurred as customers qualify and thereby may not correlate directly with changes in revenue as the revenue associated with the acquired customer is earned over the customer's lifetime.

Recent Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of FAS 115” (Statement 159). Statement 159 allows entities to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. If a company elects the fair value option for an eligible item, changes in that item’s fair value in subsequent reporting periods must be recognized in current earnings. Statement 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the potential impact of Statement 159 on our financial statements. We do not expect the impact will be material.

Section 382 Update

Under Internal Revenue Code Section 382, 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. When a change of ownership is triggered, our net operating loss ("NOL" or "NOLs") asset may be impaired. We estimate that, as of June 30, 2007 we were approximately at 30% compared with the 50% level that would trigger impairment of our NOL asset. As part of our ongoing program to preserve future use of our NOL assets, *Stamps.com requests that all of our current stockholders and prospective investors contact us prior to allowing their ownership interest to reach a five-percent level.*

Results of Operations

Total revenue for the second quarter of 2007 was approximately $21.4 million, an increase of 6% compared to the second quarter of 2006. PC Postage service fee revenue declined from $13.6 million in the second quarter 2006 to $13.5 million in the second quarter 2007. Both PhotoStamps and product revenues increased 24% year over year in the second quarter 2007 with revenues of $4.6 million and $2.5 million, respectively. Total postage printed using our service during the second quarter 2007 was up 18% compared to the second quarter 2006. During the second quarter 2007, we added to our PC Postage business approximately 57,000 new paid customers who where successfully billed for the first time and we lost approximately 55,000 existing paid customers, resulting in an increase during the quarter to net paid customers of 2,000. During the first quarter 2007, we added to our PC Postage business approximately 55,000 new paid customers who where successfully billed for the first time and we lost approximately 50,000 existing paid customers, resulting in an increase during the quarter to net paid customers of approximately 5,000.

The following table sets forth our results of operation as a percentage of total revenue for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Total Revenues				
Service	63%	68%	66%	66%
PhotoStamps	22%	19%	19%	19%
Products	11%	9%	11%	11%
Other	4%	4%	4%	4%
Total revenues	100%	100%	100%	100%
Cost of revenues				
Service	11%	11%	11%	12%
PhotoStamps	14%	12%	12%	12%
Products	4%	3%	4%	3%
Other	1%	1%	1%	1%
Total cost of revenues	30%	27%	28%	28%
Gross profit	70%	73%	72%	72%
Operating expenses:				
Sales and marketing	37%	32%	38%	32%
Research and development	10%	11%	10%	11%
General and administrative	15%	16%	15%	16%
Total operating expenses	62%	59%	63%	59%
Income from operations	8%	14%	9%	13%
Other income (expense), net	5%	7%	6%	6%
Income before income taxes	13%	21%	15%	19%
Provision for income taxes	1%	0%	0%	0%
Net income	12%	21%	15%	19%

Revenue. Revenue is derived primarily from four sources: (1) service fees charged to customers for use of our PC Postage service; (2) PhotoStamps revenue from the sale of PhotoStamps; (3) product sales consisting of Supplies Store revenue from the direct sale of consumables and supplies; and (4) other revenue consisting of advertising revenue from controlled access advertising to our existing customer base, insurance revenue from our branded insurance offering, and licensing revenue. Total revenue increased from $20.2 million in the second quarter 2006 to $21.4 million in the second quarter 2007, an increase of 6%. Total revenue increased from $40.7 million during the six months ended June 30, 2006 to $41.4 million during the six months ended June 30, 2007, an increase of 2%.

Service fee revenue decreased from $13.6 million in the second quarter 2006 to $13.5 million in the second quarter 2007 while service fee revenue increased from $27.1 million during the six months ended June 30, 2006 to $27.2 million during the six months ended June 30, 2007. Service fee revenue was constant during the quarter and six months ended June 30, 2006 and 2007 as a result of the stability in the number of successfully billed customers during these periods. We successfully billed approximately 324,000 customers during the first quarter 2006 and 2007 and successfully billed approximately 327,000 and 326,000 customers during the second quarter 2006 and 2007, respectively. As a percentage of total revenue, service fee revenue decreased five percentage points to 63% in the second quarter 2007 as compared to 68% in second quarter 2006. As a percentage of total revenue, service free revenue remained at 66% during each of the six months ended June 30, 2007 and 2006. The decrease in service fee revenue as a percentage of total revenue during the second quarter 2007 is primarily attributable to the increase in revenue from our PhotoStamps and Supplies Store products.

PhotoStamps revenue increased from $3.7 million in the second quarter 2006 to $4.6 million in the second quarter 2007, an increase of 24%. As a percentage of total revenue, PhotoStamps revenue increased three percentage points to 22% in the second quarter 2007 as compared to 19% in the second quarter 2006. The increase, both on an absolute basis and as a percentage of total revenue is primarily attributable to business-related PhotoStamps sales. Total PhotoStamps sheets shipped during the second quarter 2007 was approximately 291,000 as compared to 210,000 in the second quarter 2006. PhotoStamps revenue increased from $7.6 million during the six months ended June 30, 2006 to $7.8 million during the six months ended June 30, 2007, an increase of 3%. As a percentage of total revenue, PhotoStamps revenue during the six months ended June 30, 2007 and 2006 was 19%. In addition, average revenue per PhotoStamps sheet declined due to a higher mix of business PhotoStamps orders, which carry a lower per sheet price. PhotoStamps revenue may grow both on an absolute basis and as a percentage of total revenue in future periods if our level of marketing activity for PhotoStamps increases. PhotoStamps marketing activity during the second quarter 2007 was comparable to the second quarter 2006.

Product revenue increased from $2.0 million in the second quarter 2006 to $2.5 million in the second quarter 2007, an increase of 24%. Product revenue increased from $4.4 million during the six months ended June 30, 2006 to $4.8 million during the six months ended June 30, 2007, an increase of 10%. The increase is primarily due to the expansion of our consumable and supplies sales through our Supplies Store as a result of our continued effort to market these offerings to our existing and new customers. In addition, we experienced increased sales in our consumable supplies as a result of the increase in postal rate by the USPS during the second quarter 2007. As a percentage of total revenue, product revenue increased two percentage points to 11% in the second quarter 2007 as compared to 9% in the second quarter 2006. This increase is primarily due to the increase in product revenue as a result of the increase in product orders shipped to our existing customers. As a percentage of total revenue, product revenue remained at 11% during the six months ended June 30, 2007 and 2006. We expect product revenue to continue to increase on an absolute basis as we add additional products to our Supplies Store, and as we continue to market these products to our customers.

Other revenue was $805,000 and $809,000 in the second quarter 2006 and 2007, respectively. Other revenue was $1.6 million in each of the six months ended June 30, 2006 and 2007. As a percentage of total revenue, other revenue was 4% during the three and six months ended June 30, 2006 and 2007. Included in other revenue is our branded insurance program which was approximately $355,000 and $730,000 for the three and six months ended June 30, 2007, respectively, or approximately 2% of total revenue. We expect other revenue to decrease both on an absolute basis and as a percentage of total revenue in future periods as we focus our marketing efforts on service fee and PhotoStamps revenue.

Cost of Revenue. Cost of revenue principally consists of the cost of customer service, certain promotional expenses, system operating costs, credit card processing fees, the cost of postage for PhotoStamps, image review, printing and fulfillment costs for PhotoStamps, parcel insurance offering costs, customer misprints and products sold through our Supplies Store and the related costs of shipping and handling. Cost of revenue increased from $5.5 million in the second quarter 2006 to $6.4 million in the second quarter 2007, an increase of 17%. Cost of revenue increased from $11.5 million during the six months ended June 30, 2006 to $11.8 million during the six months ended June 30, 2007, an increase of 3%. As a percentage of total revenue, cost of revenue was 27% and 30% during the second quarter June 30, 2006 and 2007, respectively. As a percentage of total revenue, cost of revenue was 28% during each of the six months ended June 30, 2006 and 2007.

Cost of service revenue was $2.4 million in each of the second quarter of 2006 and 2007. Cost of service revenue decreased from $4.9 million during the six months ended June 30, 2006 to $4.8 million during the six months ended June 30, 2007, a decrease of 4%. As a percentage of total revenue, cost of service revenue remained at 11% during the second quarter 2006 and 2007, and decreased by one percentage point to 11% during six months ended June 30, 2007 as compared to the six months ended June 30, 2006. The decrease, both on an absolute basis and as a percentage of total revenue is mainly attributable to the decrease in the redemption rate of promotional items.

Included in cost of service revenue are promotional expenses. This includes free postage and a free digital scale offered to new customers, and was approximately $384,000 and $570,000 in the second quarter 2007 and 2006, respectively, and $791,000 and $1.3 million during the six months ended June 30, 2007 and 2006, respectively. Promotional expense, which represents a material portion of total cost of service revenue, is expensed in the period in which a customer qualifies for the promotion. However, the revenue associated with the acquired customer is earned over the customer's lifetime. Therefore, promotional expense for newly acquired customers may be higher than the revenue earned from those customers in that period.

Cost of PhotoStamps revenue increased from $2.4 million in the second quarter 2006 to $3.1 million in the second quarter 2007, an increase of 29%. Cost of PhotoStamps revenue increased from $4.8 million during the six months ended June 30, 2006 to $5.1 million during the six months ended June 30, 2007, an increase of 7%. As a percentage of total revenue, cost of PhotoStamps increased two percentage points to 14% in the second quarter 2007 as compared to the second quarter 2006 and remained at 12% during six months ended June 30, 2006 and 2007. The increase, both on an absolute basis and as a percentage of total revenue, is primarily due to the increase in customer orders as a result of marketing efforts. Additionally, the gross margin from PhotoStamps is significantly lower than that of our other sources of revenue because we include the stated value of US Postal Service postage as part of our cost of PhotoStamps revenue. As a result, future increases in PhotoStamps sales would further increase the overall cost of Photostamps revenue as a percentage of total revenue. Cost of PhotoStamps revenue may grow both on an absolute basis and as a percentage of total revenue in future periods.

Cost of product revenue increased from $628,000 in the second quarter 2006 to $839,000 in the second quarter 2007, an increase of 34%. Cost of product revenue increased from $1.4 million during the six months ended June 30, 2006 to $1.6 million during the six months ended June 30, 2007, an increase of 19%. The increase is primarily attributable to the increase in our shipping and handling cost. As a percentage of total revenue, cost of product revenue increased by one percentage point to 4% during each of the three and six months ended June 30, 2007, as compared to the three and six months ended June 30, 2006. We expect the cost of product sales to increase in future periods, which is consistent with our expectation that product sales may also increase in future periods.

Cost of other revenue was $169,000 and $137,000 in the second quarter 2006 and 2007, respectively. Cost of other revenue was $339,000 and $278,000 during the six months ended June 30, 2006 and 2007, respectively. As a percentage of total revenue, cost of other revenue remained at 1% during each of the three and six months ended June 30, 2006 and 2007.

Sales and Marketing. Sales and marketing expense principally consists of costs associated with strategic partnership relationships, advertising, and compensation and related expenses for personnel engaged in sales, marketing, and business development activities. Sales and marketing expense increased from $6.4 million in the second quarter 2006 to $7.9 million in the second quarter 2007, an increase of 23%. Sales and marketing expense increased from $13.3 million during the six months ended June 30, 2006 to $15.8 million during the six months ended June 30, 2007, an increase of 19%. As a percentage of total revenue, sales and marketing expense increased five percentage points to 37% in the second quarter 2007 as compared to the second quarter 2006 and increased six percentage points to 38% during six months ended June 30, 2007 as compared to the six months ended June 30, 2006. The increase during the six months ended June 30, 2007, both on an absolute basis and as a percentage of total revenue is primarily due to the increase in various marketing program expenditures relating to the acquisition of customers for our PC Postage business partially offset by a decrease in marketing expenditures related to PhotoStamps. During the second quarter 2007, PhotoStamps marketing expenditure was comparable to the second quarter 2006. Ongoing marketing programs include the following: traditional advertising, partnerships, customer referral programs, customer re-marketing efforts, telemarketing, direct mail, and online advertising. We currently expect sales and marketing expenses to increase significantly in fiscal 2007 as compared to fiscal 2006 as we plan to increase our direct mail activity.

Research and Development. Research and development expense principally consists of compensation for personnel involved in the development of our services, depreciation of equipment and software and expenditures for consulting services and third party software. Research and development expense decreased from $2.2 million in the second quarter of 2006 to $2.1 million in the second quarter 2007, a decrease of 4%. Research and development expense decreased from $4.5 million during the six months ended June 30, 2006 to $4.2 million during the six months ended June 30, 2007, a decrease of 6%. This decrease is primarily due to the decrease in SFAS 123R stock-based compensation and temporary labor expenses. As a percentage of total revenue, research and development expense decreased by one percentage point to 10% during each of the three and six months ended June 30, 2007 as compared to the three and six months ended June 30, 2006. We currently expect research and development expenses to increase in fiscal 2007 as compared to fiscal 2006 as we plan to hire additional employees in this area.

General and Administrative. General and administrative expense principally consists of compensation and related costs for executive and administrative personnel, fees for legal and other professional services, depreciation of equipment and software used for general corporate purposes and amortization of intangible assets. General and administrative expense was $3.2 million in each of the second quarter 2006 and 2007. General and administrative expense decreased from $6.4 million during the six months ended June 30, 2006 to $6.0 million during the six months ended June 30, 2007, a decrease of 6%. The decrease in general and administrative expense is primarily due to the decrease in legal expense. As a percentage of total revenue, general and administrative expense decreased one percentage point to 15% in the second quarter 2007 and during the six months ended June 30, 2007 as compared to the second quarter 2006 and the six months ended June 30, 2006. We currently expect general and administrative expenses to increase in fiscal 2007 as compared to fiscal 2006 as we expect an increase in legal spending as a result of increased activity in existing litigation.

Other Income, Net. Other income, net consists of interest income from cash equivalents and short-term and long-term investments. Other income, net decreased from $1.4 million in the second quarter 2006 to $1.2 million in the second quarter 2007, a decrease of 16%. Other income, net decreased from $2.5 million during the six months ended June 30, 2006 to $2.4 million during the six months ended June 30, 2007, a decrease of 4%. As a percentage of total revenue, other income, net decreased two percentage points to 5% in the second quarter 2007 as compared to the second quarter 2006 and remained at 6% during six months ended June 30, 2007 and 2006, respectively. The decrease, both on an absolute basis and as a percentage of total revenue is primarily attributable to lower investment balances as we continue to buy back shares of our common stock under our current stock repurchase program.

Liquidity and Capital Resources

As of June 30, 2007 and December 31, 2006 we had approximately $94 million and $106 million, respectively, in cash, restricted cash and short-term and long-term investments. We invest available funds in short and long-term money market funds, commercial paper, corporate notes and municipal securities and do not engage in hedging or speculative activities.

In November 2003, we entered into a facility lease agreement commencing in March 2004 for our new corporate headquarters with aggregate lease payments of approximately $4 million through February 2010.

The following table is a schedule of our contractual obligations and commercial commitments which is comprised of the future minimum lease payments under operating leases at June 30, 2007 (in thousands):

		Operating
Six months ending December 31, 2007	$	357
Years ending December 31:		
2008		751
2009		794
2010		134
2011		-
	$	2,036

During the first and second quarters of 2007 we repurchased approximately 1.4 million shares of common stock for approximately $19.3 million. We will consider repurchasing stock throughout our current repurchase program by evaluating such factors as the price of the stock, the daily trading volume and the availability of large blocks and any additional constraints because of material inside information we may possess.

Net cash provided by operating activities was $6.7 million and $8.7 million during the six months ended June 30, 2007 and 2006, respectively. The decrease in net cash provided by operating activities resulted primarily from the payment of marketing expenses which principally consist of costs associated with direct mail and online marketing.

Net cash provided by investing activities was $15.6 million during the six months ended June 30, 2007. Net cash used in investing activities was $17.7 million during the six months ended June 30, 2006. The decrease in net cash used in investing activities resulted primarily from the sale of investments to fund the repurchase of stock, as noted above.

Net cash used in financing activities was $18.3 million during the six months ended June 30, 2007. Net cash provided by financing activities was $7.0 million during the six months ended June 30, 2006. The decrease in net cash provided by financing activities resulted primarily from the repurchase of our stock, as noted above.

We believe our available cash and marketable securities, together with the cash flow from operations will be sufficient to fund our business for the foreseeable future.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio. We have not used derivative financial instruments in our investment portfolio. Our cash equivalents and investments are comprised of money market, U.S. government obligations and public corporate debt securities with weighted average maturities of 300 days at June 30, 2007. Our cash equivalents and investments, net of restricted cash, approximated $93.6 million and had a related weighted average interest rate of approximately 5.3%. Interest rate fluctuations impact the carrying value of the portfolio. We do not believe that the future market risks related to the above securities will have a material adverse impact on our financial position, results of operations or liquidity.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management evaluated, with the participation of the Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Controls

During the second quarter ended June 30, 2007, there has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On October 22, 2004, Kara Technology Incorporated filed suit against us in the United States District Court for the Southern District of New York, alleging, among other claims, that Stamps.com infringed certain Kara Technology patents and that Stamps.com misappropriated trade secrets owned by Kara Technology, most particularly with respect to our NetStamps feature. Kara Technology seeks an injunction, unspecified damages, and attorneys' fees. On February 9, 2005, the court granted our motion to transfer this suit to the United States District Court for the Central District of California. On August 23, 2006, the court granted our summary judgment motions on the trade secret and other non-patent claims. The court held a "Markman" hearing to construe the terms of the Kara Technology patents on May 31, 2007, but has not yet ruled. The Court has scheduled a trial commencement date of November 13, 2007. We dispute Kara Technology's claims and intend to defend the lawsuit vigorously.

On November 22, 2006, we filed a lawsuit against Endicia, Inc. and PSI Systems, Inc. in the United States District Court for the Central District of California for infringement of eleven Stamps.com patents covering, among other things, Internet postage technology. On January 8, 2007, Endicia, Inc. and PSI Systems, Inc. filed counterclaims asking for declaratory judgment that all eleven patents are invalid, unenforceable and not infringed. The Court has scheduled a trial commencement date of March 25, 2008. We dispute the counterclaims and intend to prosecute the lawsuit vigorously.

In May and June 2001, we were named, together with certain of our current and former board members and/or officers, as a defendant in 11 purported class-action lawsuits, filed in the U.S. District Court for the Southern District of New York. The lawsuits allege violations of the Securities Act of 1933 and the Securities Exchange Act of 1934 in connection with our initial public offering and secondary offering of our common stock. The lawsuits also name as defendants the principal underwriters in connection with our public offerings, and allege that the underwriters engaged in improper commission practices and stock price manipulations in connection with the sale of our common stock. The lawsuits allege that we and/or certain of our officers or directors knew of or recklessly disregarded these practices by the underwriter defendants, and failed to disclose them in our public filings. Plaintiffs seek damages and statutory compensation, including interest, costs and expenses (including attorneys' fees). Over 1,000 similar lawsuits have been brought against over 250 companies which issued stock to the public in 1998-2000, and their underwriters. All of these lawsuits have been consolidated for pretrial purposes before U.S. District Court Judge Shira Scheindlin.

In June 2003, we approved a proposed Memorandum of Understanding among the plaintiffs, issuers and insurers as to terms for a settlement of the litigation against us, which was further documented in a Stipulation and Agreement of Settlement filed with the court. The proposed settlement, which would not require Stamps.com to make any payments, was preliminarily approved by the court in February 2005 and was the subject of a fairness hearing in April 2006.

In October 2004, however, the court issued an order regarding class certification in certain related matters. In December 2006, the U.S. Court of Appeals for the Second Circuit vacated that order, and determined that the related matters could not be certified as a class as currently defined. That appellate decision rendered uncertain whether our proposed settlement could be finally approved and consummated, and, in June 2007, the proposed settlement was terminated. As a result, it is expected that plaintiffs will file an amended complaint and propose an alternative class definition. If such a class definition does not receive final approval and/or a later settlement is not consummated for any reason, we intend to defend the lawsuits vigorously because we believe that the claims against us and our officers and directors are without merit.

We are not currently involved in any other material legal proceedings, nor are we aware of any other material legal proceedings pending against us.

ITEM 1A. RISK FACTORS

You should carefully consider the following risks and the other information in this Report and our other filings with the SEC before you decide to invest in our company or to maintain or increase your investment. The risks and uncertainties described below are not the only ones facing Stamps.com. Additional risks and uncertainties may also adversely impact and impair our business. If any of the following risks actually occur, our business, results of operations or financial condition would likely suffer. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.

This Report contains forward-looking statements based on the current expectations, assumptions, estimates and projections about Stamps.com and the Internet. These forward-looking statements involve risks and uncertainties. Our actual results could differ materially from those discussed in these forward-looking statements as a result of many factors, including those described in this section and elsewhere in this Report. Stamps.com does not undertake to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

Risks Related to Our Business

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

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

- The costs of our marketing programs to establish and promote the Stamps.com brands;
- The demand for our services and products;
- Our ability to develop and maintain strategic distribution relationships;
- The number, timing and significance of new products or services introduced by us and by our competitors;
- Our ability to develop, market and introduce new and enhanced products and services on a timely basis;
- The level of service and price competition;
- Our operating expenses;
- US Postal Service regulation and policies relating to PC Postage and PhotoStamps; and
- General economic factors.

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

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

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

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

The success of our business will depend upon the continued acceptance by customers of our service.

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

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

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

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

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

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

Any delays or failures in developing our services and products, including upgrades of current services and products, may have a harmful impact on our results of operations. The need to extend our core technologies into new features and services and to anticipate or respond to technological changes could affect our ability to develop these services and features. Delays in features or upgrade introductions could cause a decline in our revenue, earnings or stock price.

We cannot determine the ultimate effect these delays or the introduction of new features or upgrades will have on our revenue or results of operations.

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

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

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

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

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

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

A failure to protect our own intellectual property could harm our competitive position.

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 68 issued US patents, 82 pending US patent applications, 9 international patents and 19 pending international patent applications. We also have a number of registered and unregistered trademarks. We plan to apply for more patents in the future. We may not receive patents for any of our patent applications. Even if patents are issued to us, claims issued in these patents may not protect our technology. In addition, a court might hold any of our patents, trademarks or service marks invalid or unenforceable. Even if our patents are upheld or are not challenged, third parties may develop alternative technologies or products without infringing our patents. If our patents fail to protect our technology or our trademarks and service marks are successfully challenged, our competitive position could be harmed. We also generally enter into confidentiality agreements with our employees, consultants and other third parties to control and limit access and disclosure of our confidential information. These contractual arrangements or other steps taken to protect our intellectual property may not prove to be sufficient to prevent misappropriation of technology or deter independent third party development of similar technologies. Additionally, the laws of foreign countries may not protect our services or intellectual property rights to the same extent as do the laws of the United States.

System and online security failures could harm our business and operating results.

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

Our systems and operations are vulnerable to damage or interruption from a number of sources, including fire, flood, power loss, telecommunications failure, break-ins, earthquakes and similar events. Our Internet host provider does not guarantee that our Internet access will be uninterrupted, error-free or secure. Our servers are also vulnerable to computer viruses, physical, electrical or electronic break-ins and similar disruptions. We have experienced minor system interruptions in the past and may experience them again in the future. Any substantial interruptions in the future could result in the loss of data and could completely impair our ability to generate revenues from our service. We do not presently have a full disaster recovery plan in effect to cover the loss of facilities and equipment. In addition, we do not have a fail-over site that mirrors our infrastructure to allow us to operate from a second location. We have business interruption insurance; however, we cannot be certain that our coverage will be sufficient to compensate us for losses that may occur as a result of business interruptions.

A significant barrier to electronic commerce and communications is the secure transmission of confidential information over public networks. Anyone who is able to circumvent our security measures could misappropriate confidential information or cause interruptions in our operations. We may be required to expend significant capital and other resources to protect against potential security breaches or to alleviate problems caused by any breach. We rely on specialized technology from within our own infrastructure to provide the security necessary for secure transmission of postage and other confidential information. Advances in computer capabilities, new discoveries in security technology, or other events or developments may result in a compromise or breach of the algorithms we use to protect customer transaction data. Should someone circumvent our security measures, our reputation, business, financial condition and results of operations could be seriously harmed. Security breaches could also expose us to a risk of loss or litigation and possible liability for failing to secure confidential customer information. As a result, we may be required to expend a significant amount of financial and other resources to protect against security breaches or to alleviate any problems that they may cause.

Risks Related to Our Industry

US Postal Service regulations or fee assessments may cause disruptions or discontinuance of our business.

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

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

The US Postal Service could decide to suspend or cancel the current market test of PhotoStamps, and may do so in the event that there is sufficient cause to believe that the market test presents unacceptable risk to US Postal Service revenues, degrades the ability of the US Postal Service to process or deliver mail produced by the test participants, exposes the US Postal Service or its customers to legal liability, or causes public or political embarrassment or harm to the US Postal Service in any way. If the US Postal Service decides to suspend or cancel the market test of PhotoStamps, our revenues and operating results will likely suffer.

Additionally, the US Postal Service could decide to amend, renegotiate or terminate our credit card cost sharing agreement, which is a key agreement that governs the allocation of credit card fees paid by the US Postal Service and us for the postage purchased by our customers. If the US Postal Service decides to amend, renegotiate or terminate our credit card cost sharing agreement, our revenues and operating results will likely suffer.

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

If we are unable to compete successfully, particularly against large, traditional providers of postage products such as Pitney Bowes, our revenues and operating results will suffer.

The PC Postage segment of the market for postage is relatively new and is competitive. At present, Pitney Bowes and Endicia.com are authorized PC Postage providers with commercially available software and Zazzle.com and FujiFilm offer a competitive product to PhotoStamps using Pitney Bowes technology. If any more providers become authorized, or if Pitney Bowes or Endicia.com provide enhanced offerings, our operations could be adversely impacted. We also compete with other forms of postage, including traditional postage meters provided by companies such as Pitney Bowes, postage stamps and permit mail.

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

We could face competitive pressures from new technologies or the expansion of existing technologies approved for use by the US Postal Service. We may also face competition from a number of indirect competitors that specialize in electronic commerce and other companies with substantial customer bases in the computer and other technical fields. Additionally, companies that control access to transactions through a network or Web browsers could also promote our competitors or charge us a substantial fee for inclusion. In addition, changes in postal regulations could adversely affect our service and significantly impact our competitive position. We may be unable to compete successfully against current and future competitors, and the competitive pressures we face could seriously harm our business.

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

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

The evolving nature of the Internet or the postage markets could render our existing technology and systems obsolete. Our success will depend, in part, on our ability to license or acquire leading technologies useful in our business; enhance our existing services; develop new services or features and technology that address the increasingly sophisticated and varied needs of our current and prospective users; and respond to technological advances and emerging industry and regulatory standards and practices in a cost-effective and timely manner.

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

Our operating results could be impaired if we or the Internet become subject to additional government regulation and legal uncertainties.

Due to the increasing popularity and use of the Internet, it is possible that a number of laws and regulations may be adopted with respect to the Internet, relating to user privacy, pricing, content, copyrights, distribution, characteristics and quality of products and services, and export controls.

The adoption of any additional laws or regulations may hinder the expansion of the Internet. A decline in the growth of the Internet could decrease demand for our products and services and increase our cost of doing business. Moreover, the applicability of existing laws to the Internet is uncertain with regard to many issues, including property ownership, export of specialized technology, sales tax, libel and personal privacy. Our business, financial condition and results of operations could be seriously harmed by any new legislation or regulation. The application of laws and regulations from jurisdictions whose laws do not currently apply to our business, or the application of existing laws and regulations to the Internet and other online services could also harm our business.

We have employees and offer our services in multiple states, and we may in the future expand internationally. These jurisdictions may claim that we are required to qualify to do business as a foreign corporation in each state or foreign country. Our failure to qualify as a foreign corporation in a jurisdiction where we are required to do so could subject us to taxes and penalties. Other states and foreign countries may also attempt to regulate our services or prosecute us for violations of their laws. Further, we might unintentionally violate the laws of foreign jurisdictions and those laws may be modified and new laws may be enacted in the future.

Risks Related to Our Stock

Changes in stock option accounting rules will have an adverse affect on our operating results.

We use options to acquire our common stock to attract, incentivize and retain our employees in a competitive marketplace. Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," allowed companies the choice of either using a fair value method of accounting for options that would result in expense recognition for all options granted, or using an intrinsic value method, as prescribed by Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees", with a pro forma disclosure of the impact on net income (loss) of using the fair value option expense recognition method. Prior to our adoption of SFAS No. 123 (revised 2004), "Share Based Payment," or Statement 123R, on January 1, 2006, we had elected to apply APB No. 25 and accordingly we generally did not recognize any expense with respect to employee options to acquire our common stock in periods ended on or prior to December 31, 2005 as long as such options were granted at exercise prices equal to the fair value of our common stock on the date of grant.

Statement 123R requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. This cost will be measured based on the fair value of the equity instruments issued. We adopted Statement 123R on January 1, 2006, which is the first day of our 2006 fiscal year. We expect the adoption of Statement 123R to have an adverse effect on our operating results, as we continue to use options to attract, incentivize and retain our employees.

The tax value of our net operating losses could be impaired if we trigger a change of control pursuant to Section 382 of the Internal Revenue Code.

Under Internal Revenue Code Section 382 rules, a change in ownership can occur whenever there is a shift in ownership by more than 50 percentage points by one or more five-percent shareholders within a three-year period. When a change of ownership is triggered, the NOLs may be impaired. We estimate that, as of June 30, 2007 we were approximately at 30% compared with the 50% level that would trigger impairment of our NOL asset. As part of our ongoing program to preserve future use of our NOL assets, *Stamps.com requests that all of our investors contact us prior to allowing their ownership interest to reach a five-percent level.*

Our charter documents could deter a takeover effort, which could inhibit your ability to receive an acquisition premium for your shares.

The provisions of our certificate of incorporation, bylaws and Delaware law could make it difficult for a third party to acquire us, even if it would be beneficial to our stockholders. In addition, we are subject to the provisions of Section 203 of the Delaware General Corporation Law, which could prohibit or delay a merger or other takeover of our Company, and discourage attempts to acquire us.

The US Postal Service may object to a change of control of our common stock.

The US Postal Service may raise national security or similar concerns to prevent foreign persons from acquiring significant ownership of our common stock or of Stamps.com. The US Postal Service also has regulations regarding the change of control of approved PC Postage providers. These concerns may prohibit or delay a merger or other takeover of our Company. Our competitors may also seek to have the US Postal Service block the acquisition by a foreign person of our common stock or our Company in order to prevent the combined company from becoming a more effective competitor in the market for PC Postage.

Our stock price is volatile

The price at which our common stock has traded since our initial public offering in June 1999 has fluctuated significantly. The price may continue to be volatile due to a number of factors, including the following, some of which are beyond our control:

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

As a result of these and other factors, investors in our common stock may not be able to resell their shares at or above their original purchase price. In the past, securities class action litigation often has been instituted against companies following periods of volatility in the market price of their securities. This type of litigation, if directed at us, could result in substantial costs and a diversion of management's attention and resources.

Shares of our common stock held by existing stockholders may be sold into the public market, which could cause the price of our common stock to decline.

If our stockholders sell into the public market substantial amounts of our common stock purchased in private financings prior to our initial public offering, or purchased upon the exercise of stock options or warrants, or if there is a perception that these sales could occur, the market price of our common stock could decline. All of these shares are available for immediate sale, subject to the volume and other restrictions under Rule 144 of the Securities Act of 1933.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

We did not have any unregistered sales of common stock during the first quarter ended June 30, 2007.

Issuer Purchases of Equity Securities

Period	Total Number of shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs
January 1, 2007 - January 31, 2007	368,357	$14.41	368,357	$ 7,997,000
February 1, 2007 - February 28, 2007	—	—	—	$ 27,997,000
March 1, 2007 - March 31, 2007	1,800	$14.00	1,800	$ 27,972,000
April 1, 2007 - April 30, 2007	265,226	$13.49	265,226	$ 24,393,000
May 1, 2007 - May 31, 2007	605,154	$13.87	605,154	$ 15,998,000

June 1, 2007 - June 30, 2007	140,312	$14.25	140,312	$ 13,998,000

26

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Our annual meeting of stockholders was held on June 6, 2007. At that meeting, two proposals were submitted to a vote of our stockholders: (1) to elect two directors (Mohan Ananda and Kevin Douglas) to serve for a three-year term ending in the year 2010 or until their successors are duly elected and qualified; and (2) to ratify the appointment of Ernst & Young LLP as our independent auditors for the fiscal year ending December 31, 2007.

At the close of business on the record date for the meeting (which was April 14, 2007), there were 24,166,933 shares of common stock outstanding and entitled to be voted at the meeting. Holders of 22,215,311 shares of common stock (representing a like number of votes) were present at the meeting, either in person or by proxy. The following table sets forth the results of the voting:

Proposal	For	Withheld
Election of two directors:		
Mohan Ananda	18,304,894	3,910,417
Kevin Douglas	21,839,692	375,619

Proposal	For	Against	Abstain
Appointment of Ernst & Young LLP (auditors)	22,144,943	60,694	9,674

Each of the proposals set forth above received more than the required number of votes for approval and were therefore duly and validly approved by the stockholders.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

27

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	STAMPS.COM INC. (Registrant)	
August 9, 2007	By:	/s/ KEN MCBRIDE **Ken McBride** **Chief Executive Officer**
August 9, 2007	By:	/s/ KYLE HUEBNER **Kyle Huebner** **Chief Financial Officer**