

STAMPS.COM INC
Form 10-Q
May 11, 2015

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from _____ to _____

Commission file number: 000-26427

Stamps.com Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

77-0454966

(I.R.S. Employer Identification No.)

1990 E. Grand Ave

El Segundo, CA 90245

(Address of principal executive offices, including zip code)

(310) 482-5800

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

No

As of April 30, 2015, there were 16,363,292 shares of the Registrant’s Common Stock issued and outstanding.

STAMPS.COM INC. AND SUBSIDIARIES
FORM 10-Q QUARTERLY REPORT FOR THE QUARTER ENDED MARCH 31, 2015

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

STAMPS.COM INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	March 31, 2015 (unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 66,312	\$ 40,933
Short-term investments	5,967	6,482
Accounts receivable, net	11,983	12,325
Deferred income taxes	2,143	2,143
Other current assets	5,387	6,071
Total current assets	91,792	67,954
Property and equipment, net	29,590	30,427
Goodwill	66,893	66,893
Intangible assets, net	18,715	19,570
Long-term investments	9,143	10,215
Deferred income taxes.	53,294	51,673
Other assets	9,483	7,999
Total assets	\$ 278,910	\$ 254,731
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 30,613	\$ 22,521
Deferred revenue	2,217	2,164
Contingent consideration, current	26,487	9,225
Total current liabilities	59,317	33,910
Contingent consideration, long-term	—	15,790
Total liabilities	59,317	49,700
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$.001 par value		
Authorized shares: 47,500 in 2015 and 2014		
Issued shares: 29,142 in 2015 and 28,763 in 2014		
Outstanding shares: 16,358 in 2015 and 15,997 in 2014	52	51
Additional paid-in capital	693,598	678,075
Treasury stock, at cost, 12,766 shares in 2015 and 2014	(172,410)	(172,410)
Accumulated deficit	(301,716)	(300,746)
Accumulated other comprehensive income	69	61
Total stockholders' equity	219,593	205,031
Total liabilities and stockholders' equity	\$ 278,910	\$ 254,731

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

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

(In thousands, except per share data)

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Revenues:		
Service	\$35,649	\$25,643
Product	4,743	4,613
Insurance	2,662	1,993
PhotoStamps	989	1,049
Other	9	—
Total revenues	44,052	33,298
Cost of revenues (exclusive of amortization of intangible assets, which is included in general and administrative):		
Service	6,271	4,369
Product	1,601	1,542
Insurance	923	688
PhotoStamps	830	846
Total cost of revenues	9,625	7,445
Gross profit	34,427	25,853
Operating expenses:		
Sales and marketing	14,021	11,370
Research and development	4,282	2,916
General and administrative	7,771	4,197
Contingent consideration charges	10,512	—
Total operating expenses	36,586	18,483
(Loss) income from operations	(2,159)	7,370
Interest and other income, net	69	136
(Loss) income before income taxes	(2,090)	7,506
Income tax (benefit) expense	(1,120)	172
Net (loss) income	\$(970)	\$7,334
Net (loss) income per share		
Basic	\$(0.06)	\$0.45
Diluted	\$(0.06)	\$0.44
Weighted average shares outstanding		
Basic	16,156	16,222
Diluted	16,156 ⁽¹⁾	16,664

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

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

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STAMPS.COM INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

(Unaudited)

	Three Months Ended March 31, 2015 2014	
Net (loss) income	\$(970)	\$7,334
Other comprehensive income:		
Unrealized gain (loss) on investment	8	(9)
Comprehensive (loss) income	\$(962)	\$7,325

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

Table of ContentsSTAMPS.COM INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Operating activities:		
Net (loss) income	\$(970)	\$7,334
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	1,837	804
Stock-based compensation expense	2,642	1,016
Deferred income taxes, net of additional paid-in capital	(1,455)	—
Contingent consideration	10,512	—
Changes in operating assets and liabilities:		
Accounts receivable	342	6,504
Other current assets	309	32
Other assets	(1,484)	(247)
Deferred revenue	53	(65)
Accounts payable and accrued expenses	5,312	3,096
Net cash provided by operating activities	17,098	18,474
Investing activities:		
Sale of short-term investments	1,583	768
Purchase of short-term investments	(1,081)	(1,340)
Sale of long-term investments	1,093	1,419
Purchase of long-term investments	—	(2,868)
Purchase of property and equipment	(132)	(1,106)
Net cash provided by (used in) investing activities	1,463	(3,127)
Financing activities:		
Proceeds from short term financing obligation	3,142	—
Proceeds from exercise of stock options	776	571
Issuance of common stock under ESPP	2,900	656
Net cash provided by financing activities	6,818	1,227
Net increase in cash and cash equivalents	25,379	16,574
Cash and cash equivalents at beginning of period	40,933	66,674
Cash and cash equivalents at end of period	\$66,312	\$83,248
Supplemental Information:		
Capital expenditures accrued but not paid at period end	\$19	\$34

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

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

1. Summary of Significant Accounting Policies

Basis of Presentation

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

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

Principles of Consolidation

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

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

Use of Estimates and Risk Management

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

Fair Value of Financial Instruments

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

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Certain contingent consideration may be payable by us in connection with our acquisition of ShipStation. The fair value of the contingent consideration is determined using valuation techniques that replicate the pay-off structure of the earn-out provision in the ShipStation transaction, and the value of each of these options was determined using the Black-Scholes-Merton option pricing framework. During the first quarter of 2015 we incurred approximately \$10.7 million of charges relating to our contingent consideration liability of which \$10.5 million was recorded in contingent consideration charges and \$185,000 was recorded in marketing and research and development in operating expenses. Contingent consideration liability was approximately \$26.5 million as of March 31, 2015.

Property and Equipment

We account for property and equipment at cost less accumulated depreciation and amortization. We compute depreciation using the straight-line method over the estimated useful life of the asset, generally three to five years for furniture, fixtures and equipment and ten to forty years for building and building improvements. We have a policy of capitalizing expenditures that materially increase assets' useful lives and charging ordinary maintenance and repairs to operations as incurred. When property or equipment is disposed of, the cost and related accumulated depreciation and amortization are removed, and any gain or loss is included in operations.

Goodwill

Goodwill represents the excess of the fair value of consideration given over the fair value of the tangible assets, identifiable intangible assets and liabilities assumed in a business combination. We are required to test goodwill for impairment annually and whenever events or circumstances indicate the fair value of a reporting unit may be below its carrying value. Goodwill will be reviewed for impairment annually on October 1 utilizing a qualitative assessment or a two-step process.

Trademarks, Patents and Intangible Assets

Acquired trademarks, patents and other intangibles include both amortizable and non-amortizable assets and are included in intangible assets, net in the accompanying consolidated balance sheets. Intangible assets are carried at cost less accumulated amortization. Cost associated with internally developed intangible assets is typically expensed as incurred as research and development costs. Amortization of amortizable intangible assets is calculated on a straight-line basis over the estimated useful lives of the assets, ranging from approximately 4 to 17 years.

Impairment of Long-Lived Assets and Intangible Assets

Long-lived assets including intangible assets with definitive useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

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

Intangible assets are tested for impairment, when required, using a two-step process. The first step is to determine the fair value of the reporting unit, which may be calculated using a discounted cash flow methodology, and compare this value to its carrying value. If the fair value exceeds the carrying value, no further work is required, and no impairment

loss would be recognized. If the fair value is less than the carrying value, the second step is performed. The second step is an allocation of the fair value of the reporting unit to all of the reporting unit's assets and liabilities under a hypothetical purchase price allocation. Based on the ongoing evaluations performed by us, there was no impairment of intangible assets during the year ended December 31, 2014.

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Income Taxes

We account for income taxes in accordance with Financial Accounting Standards Board (“FASB”) ASC Topic No. 740, Income Taxes (“ASC 740”), which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax basis of recorded assets and liabilities. ASC 740 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some or all of the net deferred tax assets will not be realized. We record a valuation allowance to reduce our gross deferred tax assets, which are primarily comprised of U.S. Federal and State tax loss carry-forwards, to the amount that is more likely than not (a likelihood of more than 50 percent) to be realized. In order for us to realize our deferred tax assets, we must be able to generate sufficient taxable income. We evaluate the appropriateness of our deferred tax assets and related valuation allowance in accordance with ASC 740 based on all available positive and negative evidence. As of March 31, 2015 and December 31, 2014 we do not have any valuation allowance recorded to reduce our gross deferred tax assets as we believe we have met the more likely than not threshold we will realize our tax loss carry-forwards in the foreseeable future.

Deferred Revenue

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

Revenue Recognition

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

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

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

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

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

On a limited basis, we allow third parties to offer products and promotions to our customer base. These arrangements generally provide payment in the form of a flat fee or revenue sharing arrangements where we receive payment upon customers accessing third party products and services. During the first quarter of 2015 and 2014 revenue from such advertising arrangements was not significant.

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

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PhotoStamps Retail Boxes

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

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

Short- term financing obligation

We utilize short-term financing to fund certain company operation. We have \$3.1 million in short-term financing obligations, which is included in accounts payable and accrued expenses and \$3.9 million of unused credit, as of March 31, 2015.

Subsequent Events

We are not aware of any material subsequent events or transactions that have occurred that would require recognition in the financial statements or disclosure in the notes to the consolidated financial statements.

2. Acquisition

Endicia Acquisition

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

Stamps.com and Parent have certain rights to terminate the Stock Purchase Agreement including if the closing of the Transaction has not occurred on or prior to the date that is six months from the date of the Stock Purchase Agreement (“Termination Date”), provided , however , that the Termination Date will be automatically extended up to a date that is eighteen months after the date of the Stock Purchase Agreement in circumstances principally related to antitrust approval having not yet been obtained; provided , further , that under certain circumstances Parent can reduce the Termination Date to be a date that is twelve (12) months after the date of the Stock Purchase Agreement if we have not provided certain assurances as to extensions of our credit arrangements for the Transaction or other alternatives to such extensions.

In the event that the Stock Purchase Agreement is terminated under certain circumstances related to the failure to obtain antitrust regulatory approval, the Stock Purchase Agreement provides for us to pay to Parent \$10,750,000.

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

3. Commitments and Contingencies

Legal Proceedings

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

We are a party to various legal proceedings, including those noted in this section. We have established loss provisions only for matters in which losses are probable and can be reasonably estimated. Although management at present believes that the ultimate outcome of these proceedings, individually and in the aggregate, will not materially harm our financial position, results of operations, cash flows, or overall trends, legal proceedings are subject to inherent uncertainties, and unfavorable rulings or other events could occur. An unfavorable outcome for an amount in excess of management’s present beliefs may result in a material adverse impact on our business, results of operations, financial position, and overall trends.

Commitments

The following table is a schedule of our significant contractual obligations and commercial commitments, which consist only of future minimum lease payments under operating leases as of March 31, 2015 (in thousands):

Twelve Month Period Ending March 31,	Operating Lease Obligations
2016	\$ 437
2017	262
2018	267
2019	204
Thereafter	—

4. Net (Loss) Income per Share

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

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

	Three Months Ended March 31,	
	2015	2014
Net (loss) income	\$(970)	\$7,334
Basic - weighted average common shares	16,156	16,222
Diluted effect of common stock equivalents	— ⁽¹⁾	442
Diluted - weighted average common shares	16,156	16,664
(Loss) earnings per share:		
Basic	\$(0.06)	\$0.45
Diluted	\$(0.06)	\$0.44

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

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

	Three Months Ended March 31,	
	2015	2014
Anti-dilutive stock option shares	3,006	109

5. Stock-Based Employee Compensation

We estimate the fair value of share-based payment awards on the date of grant using an option-pricing model and recognize stock-based compensation expense during each period based on the value of that portion of share-based payment awards that is ultimately expected to vest during the period, reduced for estimated forfeitures. We estimate forfeitures at the time of grant based on historical data and revise, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Compensation expense recognized for all employee stock options granted is recognized using the straight-line method over their respective vesting periods of up to five years.

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

	Three Months Ended March 31,	
	2015	2014
Stock-based compensation expense relating to:		
Employee and director stock options	\$2,528	\$900
Employee stock purchases	114	116
Total stock-based compensation expense	\$2,642	\$1,016

Stock-based compensation expense relating to:		
Cost of revenues	\$ 167	\$ 101
Sales and marketing	722	193
Research and development	548	236
General and administrative	1,205	486
Total stock-based compensation expense	\$2,642	\$1,016

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We use the Black-Scholes option valuation model to estimate the fair value of share-based payment awards on the date of grant, which requires us to make a number of subjective assumptions, including stock price volatility, expected term, and risk-free interest rates. In the case of options we grant, our assumption of expected volatility is based on the historical volatility of our stock price over the term equal to the expected life of the options. We base the risk-free interest rate on U.S. Treasury zero-coupon issues with a remaining term equal to the expected life of the options assumed at the date of grant. The estimated expected life represents the weighted-average period the stock options are expected to remain outstanding, determined based on an analysis of historical exercise behavior.

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

	Three Months Ended March 31, 2015		2014
Expected dividend yield	—		—
Risk-free interest rate	1.0	%	0.7 %
Expected volatility	46.14	%	49.7 %
Expected life (in years)	3.4		3.6
Expected forfeiture rate	6.0	%	6.0 %

6. Goodwill and Intangible Assets

Goodwill represents the excess of the fair value of consideration given over the fair value of the tangible assets, identifiable intangible assets and liabilities assumed in a business combination. Goodwill was approximately \$66.9 million as of March 31, 2015 and December 31, 2014.

Goodwill is reviewed for impairment annually in October utilizing a qualitative assessment or a two-step process. We have an option to make a qualitative assessment of a reporting unit's goodwill for impairment. If we choose to perform a qualitative assessment and determine the fair value more likely than not exceeds the carrying value, no further evaluation is necessary. For reporting units where we perform the two-step process, the first step requires us to compare the fair value of each reporting unit, which we primarily determine using an income approach based on the present value of discounted cash flows, to the respective carrying value, which includes goodwill. If the fair value of the reporting unit exceeds its carrying value, the goodwill is not considered impaired. If the carrying value is higher than the fair value, there is an indication that impairment may exist and the second step is required. In step two, the implied fair value of goodwill is calculated as the excess of the fair value of a reporting unit over the fair values assigned to its assets and liabilities. If the implied fair value of goodwill is less than the carrying value of the reporting unit's goodwill, the difference is recognized as an impairment loss.

We have amortizable and non-amortizable intangible assets consisting of patents, trademarks, lease-in-place intangible assets, developed technology, non-compete agreements and customer relationships.

The following table summarizes our amortizable and non-amortizable intangible assets as of March 31, 2015 (in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents and others	\$9,378	\$ 8,656	\$ 722

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Customer Relationships	11,300	1,128	10,172
Technology	7,000	676	6,324
Non-Compete	1,100	183	917
Trademark	700	120	580
Total Intangible assets at March 31, 2015	\$29,478	\$ 10,763	\$ 18,715

We recorded amortization of intangible assets totaling approximately \$855,000 and \$49,000 for the three months ended March 31, 2015 and 2014, respectively, which is included in general and administrative expense in our accompanying consolidated statements of operations.

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As of March 31, 2015, the remaining weighted average amortization period for our amortizable intangible assets is approximately 6.2 years. Our estimated amortization expense for the next five years and thereafter is as follows (in thousands):

Twelve Month Period Ending March 31,	Estimated Amortization Expense
2016	\$ 2,931
2017	2,897
2018	2,895
2019	2,611
2020	2,460
Thereafter	4,433

7. Income Taxes

During the first quarter of 2015 our income tax benefit was approximately \$1.1 million, which is primarily attributable to our first quarter pre-tax loss and deferred income taxes. Our actual effective tax rate during the first quarter of 2015 differs from statutory federal rate as a result of several factors, including non-temporary differences and state and local income taxes. During the first quarter of 2014 our income tax expense was approximately \$172,000, which consisted of federal and state alternative minimum taxes. Our effective income tax rate during the first quarter of 2014 differs from the statutory income tax rate primarily as a result of our use of net operating losses to offset current federal and state income taxes. We evaluated the appropriateness of our deferred tax assets and related valuation allowance in accordance with ASC 740 based on all available positive and negative evidence.

On June 10, 2014 we completed our acquisition of ShipStation. On August 29, 2014 we completed our acquisition of ShipWorks. Based on these discrete events, we re-evaluated our forecast of our projected taxable income. As a result, we released a portion of our valuation allowance totaling approximately \$3.6 million and \$345,000 during the second and third quarter of 2014, respectively. After analyzing our deferred tax assets including our remaining tax loss carry-forward and completing our forecast of future income taking into consideration potential synergy of the acquisitions, we believed we met the more likely than not threshold that we will be able to utilize our remaining tax loss carry-forward in the foreseeable future. As a result we released the remaining valuation allowance of approximately \$9.6 million during the fourth quarter of 2014. As of March 31, 2015 and December 31, 2014, we do not have any valuation allowance against our net deferred tax assets.

8. Fair Value Measurements

Financial assets measured at fair value on a recurring basis are classified in one of the three following categories, which are described below:

Level 1 - Valuations based on unadjusted quoted prices for identical assets in an active market

Level 2 - Valuations based on quoted prices in markets where trading occurs infrequently or whose values are based on quoted prices of instruments with similar attributes in active markets

Level 3 - Valuations based on inputs that are unobservable and involve management judgment and our own assumptions about market participants and pricing

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The following table summarizes our financial assets measured at fair value on a recurring basis (in thousands):

Description	March 31, 2015	Fair Value Measurement at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)			Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$66,312	\$66,312	\$ —	\$	—	
Available-for-sale debt securities	15,110	—	15,110		—	
Total	\$81,422	\$66,312	\$ 15,110	\$	—	

Description	December 31, 2014	Fair Value Measurement at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)			Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 40,933	\$40,933	\$ —	\$	—	
Available-for-sale debt securities	16,697	—	16,697		—	
Total	\$ 57,630	\$40,933	\$ 16,697	\$	—	

The fair value of our available-for-sale debt securities included in the Level 2 category is based on the market values obtained from an independent pricing service that were evaluated using pricing models that vary by asset class and may incorporate available trade, bid and other market information and price quotes from well established independent pricing vendors and broker-dealers.

As of March 31, 2015 we have approximately \$26.5 million of contingent consideration relating to our acquisition of ShipStation that was required to be measured at fair value. The fair value of the contingent consideration was determined based on a probability weighted method, which incorporates management's forecasts of financial measures and the likelihood of the financial measure targets being achieved using a series of options that replicate the pay-off structure of the earn-out, and the value of each of these options was determined using the Black-Scholes-Merton option pricing framework.

The following table summarizes our contingent consideration measured at fair value on a recurring basis (in thousands):

Description	Fair Value Measurement at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Contingent consideration – current	\$26,487	\$—	— \$ 26,487

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The following table represents a reconciliation of contingent consideration obligation measured on a recurring basis using significant unobservable inputs (level 3) as of March 31, 2015 (in thousands)

	March 31, 2015
Beginning of year balance	\$25,015
Contingent consideration distribution	(9,225)
Contingent consideration charges ⁽¹⁾	10,512
Contingent consideration compensation expense ⁽¹⁾	185
End of quarter balance	\$26,487

This amount represents fair value adjustment during the first quarter of 2015 to contingent consideration recorded associated with the acquisition of ShipStation. The \$10.5 million contingent consideration charge is recorded as a (1) separate line item in our consolidated statement of income. The \$185,000 compensation expense for the adjustment of contingent consideration liability relating to certain employees is recorded in marketing and research and development in operating expense.

9. Cash Equivalents and Investments

Our cash equivalents and investments consist of money market, U.S. government obligations, asset-backed securities and public corporate debt securities at March 31, 2015 and December 31, 2014. We consider all highly liquid investments with an original or remaining maturity of three months or less at the date of purchase to be cash equivalents. All of our investments are classified as available for sale and are recorded at market value using the specific identification method. Realized gains and losses are reflected in other income, net using the specific identification method. There was no material realized gain or loss with respect to our investments during the first quarter of 2015. Unrealized gains and losses are included as a separate component of stockholders' equity. We do not intend to sell investments with an amortized cost basis exceeding fair value and it is not likely that we will be required to sell the investments before recovery of their amortized cost bases. We have 6 securities with a total fair value of \$2.7 million that have unrealized losses of approximately \$7,000 as of March 31, 2015.

On at least a quarterly basis, we evaluate our available for sale securities, and record an “other-than-temporary impairment” (“OTTI”) if we believe their fair value is less than historical cost and it is probable that we will not collect all contractual cash flows. We did not record any OTTI during the three months ended March 31, 2015, after evaluating a number of factors including, but not limited to:

- How much fair value has declined below amortized cost
- The financial condition of the issuers
- Significant rating agency changes on the issuer

Our intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value

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The following table summarizes our cash, cash equivalents, restricted cash and investments as of March 31, 2015 and December 31, 2014 (in thousands):

	March 31, 2015			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash	\$61,612	—	—	\$ 61,612
Money market	4,700	—	—	4,700
Cash and cash equivalents	66,312	—	—	66,312
Short-term investments:				
Corporate notes and bonds	4,456	9	—	4,465
U.S. government and agency securities	1,500	2	—	1,502
Short-term investments	5,956	11	—	5,967
Long-term investments:				
Corporate bonds and asset backed securities	9,085	65	(7)	9,143
Long-term investments	9,085	65	(7)	9,143
Cash, cash equivalents and investments	\$81,353	76	(7)	\$ 81,422

	December 31, 2014			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash	\$37,870	—	—	\$ 37,870
Money market	3,063	—	—	3,063
Cash and cash equivalents	40,933	—	—	40,933
Short-term investments:				
Corporate bonds and asset backed securities	4,960	23	(1)	4,982
U.S. government and agency securities	1,498	2	—	1,500
Short-term investments	6,458	25	(1)	6,482
Long-term investments:				
Corporate bonds and asset backed securities	10,178	46	(9)	10,215
Long-term investments	10,178	46	(9)	10,215
Cash, cash equivalents and investments	\$57,569	71	(10)	\$ 57,630

The following table summarizes contractual maturities of our marketable fixed-income securities as of March 31, 2015 (in thousands):

	Amortized Cost	Estimated Fair Value
Due within one year	\$ 5,956	\$ 5,967
Due after one year through five years	9,057	9,102
Due after five years through ten years	28	41
Total	\$ 15,041	\$ 15,110

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

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements relate to expectations concerning matters that are not historical facts. You can find many (but not all) of these statements by looking for words such as "approximates," "believes," "expects," "seeks," "anticipates," "estimates," "intends," "plans," "would," "could," "should," "will," "may" or other similar expressions. We claim the protection of the safe harbor contained in the Private Securities Litigation Reform Act of 1995. We caution investors that any forward-looking statements presented in this report, or that we may make orally or in writing from time to time, are based on beliefs and assumptions made by, and information currently available to, us. Such statements are based on assumptions, and the actual outcome will be affected by known and unknown risks, trends and uncertainties and factors that are beyond our control or ability to predict. Although we believe that our assumptions are reasonable, they are not guarantees of future performance, and some will inevitably prove to be incorrect. As a result, our actual future results may differ from our expectations, and those differences may be material. We are not undertaking any obligation to update any forward-looking statements. Accordingly, investors should use caution in relying on past forward-looking statements, which are based on known results and trends at the time they are made, to anticipate future results or trends.

Please refer to the risk factors under "Item 1A. Risk Factors" of our Form 10-K for the year ended December 31, 2014 as well as those described elsewhere in our public filings. The risks included are not exhaustive, and additional factors could adversely affect our business and financial performance. We operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time, and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. This Report and all subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

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

Overview

Stamps.com® is a leading provider of Internet-based mailing and shipping solutions. Under the Stamps.com branded solutions, our customers use our service to mail and ship a variety of mail pieces, including postcards, envelopes, flats and packages, using a wide range of United States Postal Service ("USPS") mail classes, including First Class Mail®, Priority Mail®, Priority Mail Express®, Media Mail®, Parcel Select®, and others. Customers using our service receive discounted postage rates compared to USPS retail on certain mail pieces such as First Class letters and domestic and international Priority Mail and Priority Mail Express packages. Our customers include individuals, small businesses, home offices, medium-size businesses and large enterprises. We were the first ever USPS-licensed vendor to offer mailing and shipping in a software-only business model in 1999. In addition, we now offer multi-carrier shipping solutions under the brand names ShipStation® and ShipWorks® as a result of our recent acquisitions.

Services and Products

Mailing and Shipping Business

Our mailing and shipping solutions under the Stamps.com brand enable our customers to buy and print USPS approved postage and services with just a personal computer (“PC”), printer and Internet connection, right from their home or office.

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We offer the following mailing and shipping products and services to our customers under the Stamps.com, ShipStation and ShipWorks brands:

USPS Mailing and Shipping Services. After completing the registration process, customers can purchase and print postage 24 hours a day, seven days a week, through our software or web interface. Typically, when a customer purchases postage for use through our service, the customer pays the face value of the postage, and the funds are transferred directly from the customer's account to the USPS's account. The customer then draws down their prepaid account balance as they print postage and repurchase postage as necessary. Customers typically pay a monthly subscription fee for access to our service.

Our USPS-approved mailing and shipping service enables users to print "electronic stamps" directly onto envelopes, plain paper, or labels using only a standard personal computer, printer and Internet connection. Our service currently supports a variety of USPS mail classes. Customers can also add to their mail pieces USPS Special Services such as USPS Tracking™, Signature Confirmation™, Registered Mail, Certified Mail, Insured Mail, Return Receipt, Collect on Delivery and Restricted Delivery. Our customers can print postage (1) on NetStamps® labels, which can be used just like regular stamps, (2) directly on envelopes, postcards or on other types of mail or labels, in a single step process that saves time and provides a professional look, (3) on plain 8.5" x 11" paper or on special labels for packages, and (4) on integrated customs forms for international mail and packages.

For added convenience, our mailing and shipping services incorporate address verification technology that verifies each destination address for mail sent using our service against a database of all known addresses in the United States. Our mailing and shipping service is also integrated with common small business and productivity software applications such as word processing, contact and address management, and accounting and financial applications. We also offer several different versions of NetStamps labels, such as Themed NetStamps labels and Photo NetStamps labels, which allow customers to add stock or custom designs to their postage label.

We offer multiple mailing and shipping service plans with different features and capabilities targeted to meet different customer needs. Our Pro Plan offers a basic set of Stamps.com mailing and shipping features with single-user capability. Our Premier plan, typically targeted at larger small businesses, adds multiple-user functionality, automated Certified Mail forms, additional reference codes and higher allowable postage balances as compared to our Pro Plan feature set. Our Professional Shipper plan is typically targeted at higher volume shippers such as fulfillment houses, retailers and e-commerce merchants and features direct integration into a customer's order databases, faster label printing speed, the ability to customize and save shipping profiles, and integrations with many of the industry's leading shipping management systems. We have launched shipping integrations with several of these e-commerce focused companies. Our Enterprise plan is typically targeted at organizations with multiple geographic locations and features enhanced reporting that allows a central location, such as a corporate headquarters greater visibility and control over postage expenditures across their network of locations.

Customers typically pay us a monthly service fee ranging from \$15.99 to \$39.99 depending on the service plan. In certain circumstances, customers may be on a plan where they do not owe us any monthly service fees. We have an arrangement with the USPS under which if a customer or integration partner prints a certain amount of domestic or international Priority Mail or Priority Mail Express postage, the USPS compensates us directly and the customer can qualify to have their service fees waived or refunded. In addition, we also have plans with service fees less than \$15.99 which offer more limited functionality and are targeted at retaining customers who print a lower volume of postage.

Multi Carrier Shipping Services. We offer multi carrier shipping solutions through our ShipStation and ShipWorks brands as a result of our acquisitions. The ShipStation and ShipWorks platforms offer leading solutions for medium and high volume shippers such as warehouses, fulfillment houses, e-commerce shippers, large retailers, and other types of high volume shippers that may need more than just the USPS for their business.

Mailing and Shipping Integrations. As part of our mailing and shipping services, we offer back-end integration solutions where we provide the electronic postage for transactions to partners who manage the front-end process. Our software integrates directly into the most popular e-commerce platforms, allowing web store managers to completely automate their order fulfillment process by processing, managing, and shipping orders from virtually any e-commerce source through a single interface without manual data entry. Managers can retrieve order data and print complete shipping labels for all USPS mail classes, including First Class International®.

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We have an integration partnership with Amazon.com that makes our domestic and international shipping labels available to Amazon.com Marketplace users. The service allows customers to automatically pay for postage using their Marketplace Payments account, to set a default ship-from address so they do not have to type or write it for each shipment, and to automatically populate the ship-to address on the label. Domestic and international mail classes are supported and Marketplace users may request carrier pickup from the USPS. A transaction fee per shipping label printed is charged to merchants who are not Stamps.com subscription customers. In October 2012, Amazon.com launched their own internally developed Marketplace USPS shipping solution system that resulted in a reduction in postage printed through our solution. Amazon's shipping solution is utilized by merchants for certain mail classes while our shipping solution is utilized by merchants for the other mail classes. In addition, we continue to provide the integrated Amazon.com Marketplace solution to Stamps.com subscription customers.

We have an integration partnership with the USPS where we provide electronic postage for shipping transactions generated by Click-N-Ship®, a web-based service available at USPS.com that allows USPS customers to purchase and print shipping labels for domestic and international Priority Mail and Priority Mail Express packages at no additional mark-up over the cost of postage.

In addition, ShipStation and ShipWorks offer integrations with shopping carts and online marketplaces as part of their multi-carrier shipping solutions.

Mailing & Shipping Supplies Store. Our Mailing & Shipping Supplies Store (our “Supplies Store”) is available to our customers from within our mailing and shipping software and sells NetStamps labels, shipping labels, other mailing labels, dedicated postage printers, scales, and other mailing and shipping-focused office supplies. Our Supplies Store features a store catalog, messaging regarding our free or discounted shipping promotions, cross-selling product recommendations during the checkout process, product search capabilities, and same-day shipping of orders with expedited shipping options.

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

PhotoStamps

PhotoStamps is a patented form of postage that allows consumers to turn digital photos, designs or images into valid USPS-approved postage. With this product, individuals or businesses can create customized USPS approved postage using pictures of their children, pets, vacations, celebrations, business logos and more. PhotoStamps can be used as regular postage to send letters, postcards or packages. The product is available via our separately-marketed website at www.photostamps.com. Customers upload a digital 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 U.S. Mail in a few business days.

Acquisition

On March 22, 2015, we entered into a definitive agreement to acquire Endicia, a wholly owned subsidiary of Newell Rubbermaid, for an aggregate purchase price of \$215 million in cash. Endicia is based in Palo Alto, California and is a leading provider of high volume shipping services, technologies and solutions for use with the USPS and other postal partners. This transaction is expected to close five business days after the completion of the customary closing conditions including regulatory approval. We are currently in the regulatory review process and the timing of that process is uncertain. We intend to fund the transaction with cash on hand and committed financing of up to \$165

million, which we have secured from three leading banks.

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Mailing and Shipping Business References

When we refer to our “Mailing and shipping business”, we are referring to our Mailing and Shipping Services and Integrations, Mailing & Shipping Supplies Store, Branded Insurance offering and Multi Carrier Services. We do not include our PhotoStamps business when we refer to our mailing and shipping business.

When we refer to our "Core mailing and shipping business", we are referring to the portion of our mailing and shipping business targeting our small business, enterprise and high volume shipping customers acquired through our Core mailing and shipping marketing channels which include partnerships, online advertising, direct mail, direct sales, traditional media advertising and others.

When we refer to our "Non-Core mailing and shipping business", we are referring to the portion of our mailing and shipping business that targets a more consumer oriented customer through the online enhanced promotion marketing channel. In the online enhanced promotion marketing channel, we work with various companies to advertise our service in a variety of sites on the Internet. These companies typically offer an additional promotion (beyond what we typically offer) directly to the customer in order to get the customer to try our service and we find that this channel attracts more consumer oriented customers.

When we refer to our “Mailing and shipping revenue”, we are referring to our service, product and insurance revenue generated by all of our mailing and shipping customers.

When we refer to our “Core mailing and shipping revenue”, we are referring to the portion of the service, product and insurance revenue that was generated by customers who were acquired through our Core mailing and shipping marketing channels.

When we refer to our “Non-Core mailing and shipping revenue”, we are referring to the portion of the service, product and insurance revenue that was generated by customers who were acquired through our online enhanced promotion marketing channel. Within our mailing and shipping business, we believe it is useful to discuss our Core mailing and shipping business separately from our Non-Core mailing and shipping business because each business targets and typically serves different customer segments and utilizes different marketing channels to acquire those customers. As a result of these differences, the Core and Non-Core mailing and shipping businesses typically experience different customer and financial metrics results and trends which are best discussed separately from each other.

Results of Operations

Total revenue in the first quarter of 2015 was \$44.1 million, an increase of 32% from \$33.3 million in the first quarter of 2014. Mailing and shipping revenue, which includes service revenue, product revenue and insurance revenue, in the first quarter of 2015 was \$43.1 million, an increase of 34% from \$32.2 million in the first quarter of 2014. PhotoStamps revenue was approximately \$989,000 in the first quarter of 2015, a decrease of 6% from \$1 million in the first quarter of 2014.

The following table sets forth the breakdown of revenue for the first quarters of 2015 and 2014 and the resulting percentage change (revenue in thousands):

	Three months ended March 31,			
	2015	2014	Change	%
Service revenue	\$35,649	\$25,643	39	%
Product revenue	4,743	4,613	3	%

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Insurance revenue	2,662	1,993	34	%
Mailing and shipping revenue	43,054	32,249	34	%
PhotoStamps revenue	989	1,049	(6	%)
Other revenue	9	—	—	%
Total revenue	\$44,052	\$33,298	32	%

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The following table sets forth the breakdown of mailing and shipping revenue, which includes Core mailing and shipping revenue and Non-Core mailing and shipping revenue and the resulting percent change for the periods indicated (revenue in thousands):

	Three months ended March 31,				
	2015	2014		%	
Core mailing and shipping revenue	\$42,564	\$31,676	34	%	
Non-Core mailing and shipping revenue	490	573	(15)	%	
Mailing and shipping revenue	\$43,054	\$32,249	34	%	

The increase in Core mailing and shipping revenue was driven by both an increase in average revenue per paid customer and an increase in paid customers. Paid customers in the first quarter of 2015 were approximately 545,000, an increase of 11% from 492,000 for the first quarter of 2014. The average monthly revenue per paid customer in the first quarter of 2015 was \$26.02, an increase of 21% compared from \$21.45 in the first quarter of 2014. We define paid customers for the quarter as ones from whom we successfully collected service fees at least once during that quarter.

The following table sets forth the growth in paid customers and average quarterly revenue per paid customer for our Core mailing and shipping business:

	Three months ended March 31,				
	2015	2014		%	
Paid customers for the quarter (000s)	545	492	11	%	
Average quarterly revenue per paid customer	\$78.05	\$64.35	21	%	
Core mailing and shipping revenue (000s)	\$42,564	\$31,676	34	%	

The increase in paid customers is primarily driven by (1) a higher number of Stamps.com new paid customers compared to the prior year as a result of our increased spending in Core mailing and shipping marketing channels, (2) the addition of new paid customers from ShipStation and ShipWorks as a result of our acquisitions in 2014, and (3) lower customer churn rates compared to the prior year.

For our Core mailing and shipping business, our average quarterly and monthly Core mailing and shipping revenue per paid customer in the first quarter of 2015 was \$78.05 and \$26.02 respectively, which increased by 21% compared to \$64.35 and \$21.45, respectively in the first quarter of 2014.

The increase in average revenue per paid customer ("ARPU") was primarily the result of the addition of new paid customers from our acquisitions of ShipStation and ShipWorks where the ARPU for those newly acquired paid customers is higher as compared to the ARPU from the existing Stamps.com small business customers as well as growth in Stamps.com's high volume shipping business.

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Revenue by Product

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

	Three Months Ended March 31,			
	2015		2014	
Total Revenues				
Service	\$35,649		\$25,643	
Product	4,743		4,613	
Insurance	2,662		1,993	
PhotoStamps	989		1,049	
Other	9		-	
Total revenues	\$44,052		\$33,298	
Revenue as a percentage of total revenues				
Service	81	%	77	%
Product	11	%	14	%
Insurance	6	%	6	%
PhotoStamps	2	%	3	%
Other	0	%	0	%
Total revenues	100	%	100	%

Our revenue is derived primarily from five sources: (1) service and transaction revenues related to our mailing and shipping services; (2) product revenue from the direct sale of consumables and supplies through our Supplies Store; (3) package insurance revenue from our branded insurance offerings; (4) PhotoStamps revenue from the sale of PhotoStamps postage labels; and (5) other revenue, consisting of advertising revenue derived from advertising programs with our existing customers.

Service revenue increased 39% to \$35.6 million in the first quarter of 2015 from \$25.6 million in the first quarter of 2014. The 39% increase in service revenue consisted of a 40% increase in service revenue from our Core mailing and shipping business while the service revenue from our Non-Core mailing and shipping business decreased 15%. The 40% increase in our Core mailing and shipping service revenue consisted of an 11% increase in paid customers and a 27% increase in average service revenue per customer.

Product revenue increased 3% to \$4.7 million in the first quarter of 2015 from \$4.6 million in the first quarter of 2014. The increase is primarily attributable to an increase in sales of labels and label printers as we continue to grow our customer base. Postage printed typically helps drive sales of consumables supplies such as labels. Total USPS postage printed by customers through our solutions during the first quarter of 2015 was \$554 million, a 41% increase from the \$392 million printed during the first quarter of 2014.

Insurance revenue increased 34% to \$2.7 million in the first quarter of 2015 from \$2.0 million in the first quarter of 2014. The increase in insurance revenue was primarily attributable to increased package insurance purchases as a result of our growth in packages shipped. Growth in packages shipped was attributable to both growth through Stamps.com's mailing and shipping solutions as well as our recent acquisitions whose solutions target shipping customers who are more likely than mailing customers to purchase insurance.

PhotoStamps revenue decreased by 6% to \$989,000 in the first quarter of 2015 from \$1.0 million in the first quarter of 2014. The decrease in revenue is primarily attributable to a decrease in website orders partially offset by an increase

in high volume business orders. The decrease in website orders is attributable to our decreased emphasis on the PhotoStamps business compared to our Mailing and shipping business.

Total PhotoStamps sheets shipped during the first quarter of 2015 was approximately 53,000, an 11% decrease compared to 60,000 in the first quarter of 2014. Average revenue per sheet shipped in the first quarter of 2015 was \$18.64, a 6% increase compared to \$17.52 in the first quarter of 2014. The decrease in sheets shipped was primarily attributable to the decreased in PhotoStamps orders through our website, offset by a slight increase in PhotoStamps high-volume business orders. The increase in average revenue per sheet shipped is primarily attributable to a price increase on our PhotoStamps offering.

Other revenue consists of commissions from the advertising or sale of products by third party vendors to our customer base was approximately \$9,000 and \$0 in the first quarter of 2015 and 2014, respectively. Commission revenue from the advertising or sale of products by third party vendors is currently not material to our consolidated financial statements.

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Cost of Revenues

The following table shows cost of revenues and cost of revenues as a percentage of its associated revenue for the periods indicated (in thousands except percentage):

	Three Months Ended March 31,	
	2015	2014
Cost of Revenues		
Service	\$6,271	\$4,369
Product	1,601	1,542
Insurance	923	688
PhotoStamps	830	846
Total cost of revenues	\$9,625	\$7,445
Cost as percentage of associated revenues		
Service cost	17.6 %	17.0 %
Product cost	33.8 %	33.4 %
Insurance cost	34.7 %	34.5 %
PhotoStamps cost	83.9 %	80.6 %
Total cost as a percentage of total revenues	21.8 %	22.4 %

Cost of service revenue principally consists of the cost of customer service, certain promotional expenses, system operating costs, credit card processing fees and customer misprints that do not qualify for reimbursement from the USPS. Cost of product revenue principally consists of the cost of products sold through our Mailing & Shipping Supplies Store and the related costs of shipping and handling. The cost of insurance revenue principally consists of parcel insurance offering costs. Cost of PhotoStamps revenue principally consists of the face value of postage, customer service, image review costs, and printing and fulfillment costs.

Cost of service revenue increased 44% to \$6.3 million in the first quarter of 2015 from \$4.4 million in the first quarter of 2014. The increase in cost of service revenue is primarily attributable to higher customer service cost to support our growing customer base, higher promotional expense and higher variable costs associated with our growth in revenue. 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 while the revenue associated with the acquired customer is earned over the customer's lifetime. As a result, promotional expense for newly acquired customers may exceed the revenue earned from those customers in that period. Promotional expense increased 19% to \$1.1 million in the first quarter of 2015 from \$892,000 in the first quarter of 2014. The increase in promotion expense in 2015 is primarily due to higher customer acquisition in the first quarter of 2015.

Cost of product revenue increased 4% to \$1.6 million in the first quarter of 2015 from \$1.5 million in the first quarter of 2014, which is consistent with the percentage increase in product revenue.

Cost of insurance revenue increased 34% to \$923,000 in the first quarter of 2015 from \$688,000 in the first quarter of 2014, which is consistent with the percentage increase in insurance revenue.

Cost of PhotoStamps revenue decreased 2% to \$830,000 in the first quarter of 2015 from \$846,000 in the first quarter of 2014, which is consistent with the decrease in PhotoStamps revenue.

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Operating Expenses

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

	Three Months Ended March 31,			
	2015	2014		
Operating expenses:				
Sales and marketing	\$14,021	\$11,370		
Research and development	4,282	2,916		
General and administrative	7,771	4,197		
Contingent consideration charges	10,512	—		
Total operating expenses	\$36,586	\$18,483		
Operating expenses as a percent of total revenue:				
Sales and marketing	31.8	%	34.1	%
Research and development	9.7	%	8.8	%
General and administrative	17.6	%	12.6	%
Contingent consideration charges	23.9	%	—	
Total operating expenses	83.1	%	55.5	%

Sales and Marketing

Sales and marketing expense principally consists of spending to acquire new customers and compensation and related expenses for personnel engaged in sales, marketing, and business development activities. Sales and marketing expense increased 23% to \$14.0 million in the first quarter of 2015 from \$11.4 million in the first quarter of 2014. The increase is primarily due to the addition of sales and marketing expense from our ShipStation and ShipWorks acquisitions, increased in stock-based compensation expense, and increased marketing spending as we continued to focus on acquiring customers in our Core mailing and shipping business while spending in our Non-Core mailing and shipping and PhotoStamps businesses both decreased compared to 2014. Ongoing marketing programs include the following: customer referral programs, customer re-marketing efforts, direct mail, online advertising, partnerships, telemarketing, and traditional advertising.

Research and Development

Research and development expense principally consists of compensation for personnel involved in the development of our services, depreciation of equipment and software and expenditures for consulting services and third party software. Research and development expense increased 47% to \$4.3 million in the first quarter of 2015 from \$2.9 million in the first quarter of 2014. The increase is primarily due to the addition of research and development expense from our ShipStation and ShipWorks acquisitions as well as an increase in headcount-related expenses including stock-based compensation expense to support our expanded product offerings and technology infrastructure investments.

General and Administrative

General and administrative expense principally consists of compensation and related costs for executive and administrative personnel, fees for legal and other professional services, depreciation of equipment, software and building used for general corporate purposes and amortization of intangible assets. General and administrative expense increased 85% to \$7.8 million in the first quarter of 2015 from \$4.2 million in the first quarter of 2014. The

increase is primarily attributable to (1) an increase in headcount related expenses including stock-based compensation expense, (2) increased corporate legal expenses not related to our acquisition to support the growth in our business (3) increased expenses related to the signing of the definitive agreement to acquire Endicia and (4) the inclusion of acquisition related corporate development expenses and the amortization of acquired intangibles that we did not have in the first quarter of 2014.

Contingent consideration charges

Contingent consideration charges are attributable to the change in the fair value of our contingent consideration liability related to the acquisition of ShipStation. Contingent consideration charges were \$10.5 million during the first quarter of 2015. We did not have this charge in the first quarter of 2014 (See Note 8—Fair Value Measurements in our Notes to Consolidated Financial Statement for the reconciliation of our contingent consideration liability).

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Interest and Other Income, Net

Interest and other income, net primarily consists of interest income from cash equivalents, short-term and long-term investments and rental income from our corporate headquarters in El Segundo, California. Interest and other income, net decreased 49% to approximately \$69,000 in the first quarter of 2015 from approximately \$136,000 in the first quarter of 2014. The decrease in interest and other income, net is primarily due (1) lower yields on our investment balances including certain investments in our portfolio that matured and were replaced with lower yield investments and (2) lower cash and investment balances as a result of the use of cash for the acquisitions of ShipStation and ShipWorks in 2014.

Provision for Income Taxes

During the first quarter of 2015 our income tax benefit was approximately \$1.1 million, which is primarily attributable to our first quarter pre-tax loss and deferred income taxes. Our actual effective tax rate during the first quarter of 2015 differs from statutory federal rate as a result of several factors, including non-temporary differences and state and local income taxes. During the first quarter of 2014 our income tax expense was approximately \$172,000, which consisted of federal and state alternative minimum taxes. Our effective income tax rate during the first quarter of 2014 differs from the statutory income tax rate primarily as a result of our use of net operating losses to offset current federal and state income taxes.

On June 10, 2014 we completed our acquisition of ShipStation. On August 29, 2014 we completed our acquisition of ShipWorks. Based on these discrete events, we re-evaluated our forecast of our projected taxable income. As a result, we released a portion of our valuation allowance totaling approximately \$3.6 million and \$345,000 during the second and third quarter of 2014, respectively. After analyzing our deferred tax assets including our remaining tax loss carry-forward and completing our forecast of future income taking into consideration potential synergy of the acquisitions, we believed we met the more likely than not threshold that we will be able to utilize our remaining tax loss carry-forward in the foreseeable future. As a result we released the remaining valuation allowance of approximately \$9.6 million during the fourth quarter of 2014. As of March 31, 2015 and December 31, 2014, we do not have any valuation allowance against our net deferred tax assets.

Liquidity and Capital Resources

As of March 31, 2015 and December 31, 2014 we had approximately \$81 million and \$58 million, respectively, in cash, cash equivalents and short-term and long-term investments. We invest available funds in short-term and long-term securities, including money market funds, corporate bonds, asset backed securities, and US government and agency bonds, and do not engage in hedging or speculative activities.

Net cash provided by operating activities was \$17.1 million and \$18.5 million during the three months ended March 31, 2015 and 2014, respectively. The decrease in net cash provided by operating activities was primarily attributable to changes in our operating assets and liabilities.

Net cash provided in investing activities was \$1.5 million during the three month ended March 31, 2015 and net cash used in investing activities was \$3.1 million during the three months ended March 31, 2014. The increase in net cash provided by investing activities was primarily due to the maturity of long-term investments.

Net cash provided by financing activities was \$6.8 million and \$1.2 million during the three months ended March 31, 2015 and 2014, respectively. The increase in net cash provided by financing activities is primarily due to the increase of our employee stock purchase program and short-term financing of postage activities.

We believe our available cash and marketable securities, together with the cash flow from operations, will be sufficient to fund our business for at least the next twelve months.

There have been no material changes to our contractual obligations and commercial commitments included in Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2014.

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Updated Expectations for 2015

As of the date of the filing of this Quarterly Report, we expect the following trends for 2015:

· We expect total revenue to be in a range of between \$165 million to \$185 million.

We expect growth in 2015 Core mailing and shipping revenue to be up in the mid-teens to mid-twenties percent range as compared to 2014. Our ability to grow our Core mailing and shipping revenue is dependent on our ability to increase our small business customer acquisition spending on marketing programs resulting in the addition of new customers. To the extent we are not able to achieve our target increase in spending, as outlined below, this would negatively impact our 2015 Core mailing and shipping revenue growth expectations.

We expect Non-Core mailing and shipping revenue to continue to be down in 2015 compared to 2014 as we expect to continue to minimize investments in these areas of our business.

We expect PhotoStamps revenue to be down in 2015 compared to 2014 as we expect to continue to minimize investments in these areas of our business and it may be challenging to repeat the same level of high volume business orders in 2015 as we achieved in 2014.

We are targeting small business customer acquisition spending on our Core mailing and shipping marketing channels to be up 10% - 20% in 2015 compared to 2014. We will continue to monitor our customer metrics and the state of the economy and adjust our level of spending accordingly.

Customer acquisition spending is expensed in the period incurred while the revenue and profits associated with the acquired customer is earned over the customer's lifetime. As a result, increased customer acquisition spending in future periods could result in a reduction in operating profit and cash flow compared to past periods.

We expect research and development expenses to be higher in 2015 as compared to 2014, primarily related to an expected increase in headcount costs to support the growth in our products and services.

We expect general and administrative expenses to be higher in 2015 as compared to 2014, primarily related to an expected increase in costs to build and support the infrastructure necessary to grow the business.

· We expect capital expenditures for the business to be approximately \$3.0 - \$3.5 million.

As discussed above, our expectations are subject to substantial uncertainty and our results are subject to macro-economic factors and other factors which could cause these trends to be worse than our current expectation or which could cause actual results to be materially different than our current expectations. These expectations are “forward looking statements”, are made only as of the date of this Report and are subject to the qualification and limitations on the forward-looking statements discussion on page 16 of Part I of this Report. Our business has grown through acquisition during 2014, however the expectations above do not assume any future acquisitions or dispositions, any of which could have a significant impact on our current expectations. As described in our forward-looking statements discussion, we do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances after the date of this Report.

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Critical Accounting Policies

Management's discussion and analysis of our financial condition and results of operations is based on our unaudited financial statements. The preparation of these financial statements is based on the selection of accounting policies and the application of significant accounting estimates, some of which require management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and notes. Except as noted below, for more information regarding our critical accounting estimates and policies, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Judgments" of our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the SEC on March 16, 2015.

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

We currently have federal and state net operating loss ("NOL") carry-forwards. Under Internal Revenue Code Section 382 rules, if a "change of ownership" is triggered, our NOL asset may be impaired. A change in ownership can occur whenever there is a shift in ownership by more than 50 percentage points by one or more "5% shareholders" within a three-year period.

Under our certificate of incorporation, any person, company or investment firm that wishes to become a "5% shareholder" (as defined in our certificate of incorporation) must first obtain a waiver from our board of directors. In addition, any person, company or investment firm that is already a "5% shareholder" of ours cannot make any additional purchases of our stock without a waiver from our board of directors. The NOL protective provisions contained in our certificate of incorporation (the "NOL Protective Measures") are more specifically described in our Definitive Proxy filed with the Securities and Exchange Commission on April 2, 2008.

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

As of April 30, 2015, we had 16,363,292 million shares outstanding, and therefore ownership of approximately 818,000,000 shares or more would currently constitute a "5% shareholder". We strongly urge that any stockholder contemplating becoming a 5% or more shareholder contact us before doing so.

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. None of the instruments in our investment portfolio are held for trading purposes. Our cash equivalents and investments consist of money market, U.S. government obligations, asset-backed securities and public corporate debt securities with weighted average maturities of 310 days at March 31, 2015. Our cash equivalents and investments approximated \$81 million and had a weighted average interest rate of 0.7%. Interest rate fluctuations impact the carrying value of the portfolio. The fair value of our portfolio of marketable securities would not be significantly affected by either a 10% increase or decrease in the rates of interest due primarily to the short-term nature of the portfolio. We do not believe that the future market risks related to the above securities will have a material adverse impact on our financial position, results of operations or liquidity.

As we do not have any operations outside of the United States, we are not exposed to foreign currency risks.

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ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures We maintain disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act).

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

Changes in Internal Controls

During the quarter ended March 31, 2015, 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.

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PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 3 – “Commitments and Contingencies – Legal Proceedings” of our Notes to Consolidated Financial Statements, which is incorporated herein by reference.

ITEM 1A. RISK FACTORS

We are not aware of any material changes to the risk factors included in Item 1A “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the SEC on March 16, 2015.

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

Issuer Purchases of Equity Securities

We did not purchase any of our common stock during the first quarter of 2015.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs (in 000's)
January 1, 2015 – January 31, 2015	—	—	—	\$ 37,150
February 1, 2015 – February 28, 2015	—	—	—	\$ 37,150
March 1, 2015 – March 31, 2015	—	—	—	\$ 37,150

On October 29, 2014, our Board of Directors approved a new share repurchase program that replaces all prior repurchase programs and authorizes the Company to repurchase up to 1.0 million shares of stock during the next twelve months.

We will consider repurchasing stock in the future by evaluating such factors as the price of the stock, the daily trading volume and the availability of large blocks of stock and any additional constraints related to material inside information we may possess. Our repurchase of any of our shares will be subject to limitations that may be imposed on such repurchases by applicable securities laws and regulations and the rules of The NASDAQ Stock Market. Repurchases may be made in the open market, or in privately negotiated transactions from time to time at our discretion. We have no commitment to make any repurchases.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

2.1 **Stock Purchase Agreement made and entered into as of March 22, 2015, by and among Stamps.com Inc., a Delaware corporation, PSI Systems, Inc., a California corporation, and Newell Rubbermaid Inc., a Delaware corporation. Pursuant to Item 601(b)(2) of Regulation S-K, the registrant hereby agrees to supplementally furnish to the SEC upon request any omitted schedule or exhibit to the Stock Purchase Agreement.

10.1 Commitment Letter, by and among Bank of America, N.A., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Wells Fargo Bank, National Association, Wells Fargo Securities, LLC, JPMorgan Chase Bank, N.A., and J.P. Morgan Securities LLC and Stamps.com Inc., dated March 22, 2015.

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. *

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

*Furnished, not filed.

** Confidential treatment has been requested with respect to certain portions of this exhibit, which portions have been filed separately with the Securities and Exchange Commission.

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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)

May 11, 2015 By:/s/ KEN MCBRIDE

Ken McBride

Chairman and Chief Executive Officer

May 11, 2015 By:/s/ KYLE HUEBNER

Kyle Huebner

Co-President and Chief Financial Officer