STAMPS.COM INC
Form 10-Q
November 09, 2005

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2005

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ____________ to ____________

Commission file number: 000-26427

Stamps.com Inc.
(Exact name of registrant as specified in its charter)

Delaware	**77-0454966**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes þ No ¨

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

As of October 31, 2005, there were approximately 23,296,579 shares of the registrant’s Common Stock issued and outstanding.

STAMPS.COM INC.

FORM 10-Q QUARTERLY REPORT FOR THE QUARTER ENDED SEPTEMBER 30, 2005

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2005 (unaudited)	December 31, 2004
Assets		
Current assets:		
Cash and cash equivalents	$ 19,242	$ 11,198
Restricted cash	554	554
Short-term investments	19,352	18,295
Trade accounts receivable, net	1,887	1,534
Other accounts receivable	42	170
Other current assets	1,546	701
Total current assets	42,623	32,452
Property and equipment, net	4,487	3,473
Intangible assets, net	3,941	4,765
Long-term investments	55,977	57,160
Other assets	2,290	2,578
Total assets	$ 109,318	$ 100,428
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 6,814	$ 5,541
Total current liabilities	6,814	5,541
Commitments and contingencies		
Stockholders' equity:		
Common stock, $.001 par value		
Authorized shares of 47,500 in 2005 and 2004		
Issued shares of 23,175 in 2005 and 22,633 in 2004		
Outstanding shares of 22,879 in 2005 and 22,463 in 2004	46	45
Additional paid-in capital	604,541	601,064
Accumulated deficit	(497,786)	(504,112)
Treasury Stock, at cost - 296 shares in 2005 and 170 shares in 2004	(3,523)	(1,411)
Accumulated other comprehensive loss	(774)	(699)
Total stockholders' equity	102,504	94,887
Total liabilities and stockholders' equity	$ 109,318	$ 100,428

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

STAMPS.COM INC.
STATEMENTS OF OPERATIONS
(in thousands, except per share data; unaudited)

	Three Months ended September 30, 2005	Three Months ended September 30, 2004	Nine Months ended September 30, 2005	Nine Months ended September 30, 2004
Revenues:				
Service	$ 10,945	$ 7,120	$ 30,484	$ 19,736
PhotoStamps	1,785	1,380	2,944	1,380
Product and other	2,543	2,173	7,865	5,298
Total revenues	15,273	10,673	41,293	26,414
Cost of revenues:				
Service	2,266	2,074	7,294	6,996
PhotoStamps	1,186	845	1,950	845
Product and other	648	563	1,983	1,558
Total cost of revenues	4,100	3,482	11,227	9,399
Gross profit	11,173	7,191	30,066	17,015
Operating expenses:				
Sales and marketing	4,959	3,337	13,098	9,068
Research and development	1,735	1,315	4,811	4,999
General and administrative	2,446	3,738	7,343	10,770
Total operating expenses	9,140	8,390	25,252	24,837
Income (loss) from operations	2,033	(1,199)	4,814	(7,822)
Other income, net:				
Other income	—	1,360	64	1,360
Interest income	588	499	1,585	1,261
Loss on disposal of assets	—	—	—	(987)
Total other income, net	588	1,859	1,649	1,634
Income (loss) before income taxes	2,621	660	6,463	(6,188)
Provision for income taxes	57	—	137	—
Net income (loss)	$ 2,564	$ 660	$ 6,326	$ (6,188)
Net income (loss) per share:				
Basic	$ 0.11	$ 0.03	$ 0.28	$ (0.28)
Diluted	$ 0.11	$ 0.03	$ 0.27	$ (0.28)
Weighted average shares outstanding				
Basic	22,794	22,413	22,665	22,328
Diluted	23,749	23,237	23,670	22,328

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

STAMPS.COM INC.
STATEMENTS OF CASH FLOWS
(in thousands, unaudited)

	Nine Months ended September 30, 2005	Nine Months ended September 30, 2004
Operating activities:		
Net income (loss)	$ 6,326	$ (6,188)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,262	2,465
Loss on disposal of capitalized assets	—	987
Compensation charge relating to the return of capital dividend	—	1,781
Changes in operating assets and liabilities:		
Trade accounts receivable, net	(353)	(365)
Other accounts receivable	128	658
Other current assets	(845)	(141)
Other assets (non-current)	288	(475)
Accounts payable and accrued expenses	1,273	1,708
Net cash provided by operating activities	9,079	430
Investing activities:		
Sale of short-term investments	9,330	52,975
Purchase of short-term investments	(10,472)	(33,331)
Sale of long-term investments	52,127	84,204
Purchase of long-term investments	(50,934)	(43,717)
Sale of restricted cash investments	—	3,168
Acquisition of property and equipment	(2,452)	(1,457)
Net cash (used in) provided by investing activities	(2,401)	61,842
Financing activities:		
Proceeds from exercise of stock options	3,096	1,293
Issuance of common stock under ESPP	382	285
Repurchase of common stock	(2,112)	—
Return of capital dividend	—	(77,695)
Net cash provided by (used in) financing activities	1,366	(76,117)
Net increase (decrease) in cash and cash equivalents	8,044	(13,845)
Cash and cash equivalents at beginning of period	11,198	24,526
Cash and cash equivalents at end of period	$ 19,242	$ 10,681

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

STAMPS.COM INC.
NOTES TO FINANCIAL STATEMENTS
(ALL INFORMATION WITH RESPECT TO SEPTEMBER 30, 2005 AND 2004 IS UNAUDITED)

1. Summary of Significant Accounting Policies

Basis of Presentation

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

In the opinion of the Company, these unaudited financial statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly the financial position of the Company as of September 30, 2005 and December 31, 2004, the results of its operations for the three and nine months ended September 30, 2005 and 2004, and its cash flows for the nine months ended September 30, 2005 and 2004.

Use of Estimates and Risk Management

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

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

Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes". Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statements and the tax basis of assets and liabilities using the enacted tax rate in effect for the years in which the differences are expected to be realized or settled. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not a tax benefit will not be realized.

Due to the Company's history of operating losses, no tax expense was recorded prior to fiscal 2005. However the Company recorded a tax provision subject to the corporate alternative minimum tax of approximately $57,000 and $137,000 for the three and nine months ended September 30, 2005, respectively. The effective rate differs from the statutory rate due to the utilization of net operating loss carryovers which had a valuation allowance recorded against them.

Stock-Based Employee Compensation

The Company accounts for its employee stock plan under the intrinsic value method prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations, and has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" and as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123".

STAMPS.COM INC.
NOTES TO FINANCIAL STATEMENTS (continued)
(ALL INFORMATION WITH RESPECT TO SEPTEMBER 30, 2005 AND 2004 IS UNAUDITED)

SFAS No. 123, and as amended by SFAS No. 148, permits companies to recognize, as expense over the vesting period, the fair value of all stock-based awards on the date of grant. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. Because the Company's stock-based compensation plans have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, management believes that the existing option valuation models do not necessarily provide a reliable single measure of the fair value of awards from the plan. Therefore, as permitted, the Company applies the existing accounting rules under APB No. 25 and provides pro forma net income (loss) and pro forma net income (loss) per share disclosures for stock-based awards made during the year as if the fair value method defined in SFAS No. 123, as amended, had been applied. The following table illustrates the effect on net income (loss) and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123 (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income (loss) as reported	$ 2,564	$ 660	$ 6,326	$ (6,188)
Add: Stock price based employee expense included in net loss	—	—	—	—
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(447)	(526)	(1,049)	(1,614)
Net income (loss) pro forma	$ 2,117	$ 134	$ 5,277	$ (7,802)
Basic net income (loss) per common share-as reported	$ 0.11	$ 0.03	$ 0.28	$ (0.28)
Diluted net income (loss) per common share-as reported	$ 0.11	$ 0.03	$ 0.27	$ (0.28)
Basic net income (loss) per common share-pro forma	$ 0.09	$ 0.01	$ 0.23	$ (0.35)
Diluted net income (loss) per common share-pro forma	$ 0.09	$ 0.01	$ 0.22	$ (0.35)

Under SFAS No. 123, the fair value of each option grant is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Expected dividend yield	—	—	—	—
Risk-free interest rate	3.98%	3.54%	3.90%	3.28%
Expected volatility	48%	48%	48%	48%
Expected life (in years)	5	5	5	5

For options granted during the three and nine months ended September 30, 2005 and 2004, the Company's assumption of expected volatility for valuing options using the Black-Scholes model was based on the historical volatility of the Company's stock price for the period January 1, 2002 through the date of option grant because management believes the historical volatility since January 1, 2002 is more representative of prospective volatility.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company’s employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimates, in management’s opinion the existing models do not necessarily provide a reliable single measure of the fair value of the Company’s options.

STAMPS.COM INC.
NOTES TO FINANCIAL STATEMENTS (continued)
(ALL INFORMATION WITH RESPECT TO SEPTEMBER 30, 2005 AND 2004 IS UNAUDITED)

Reclassifications

Certain prior period balances have been reclassified in order to conform to current period presentation.

2. Legal Proceedings

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

3. Net Income (Loss) per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income	$ 2,564	$ 660	$ 6,326	$ (6,188)
Basic - weighted average common shares	22,794	22,413	22,665	22,328
Diluted effect of common stock equivalents	955	824	1,005	—
Diluted - weighted average common shares	23,749	23,237	23,670	22,328
Earnings per share:				
Basic	$ 0.11	$ 0.03	$ 0.28	$ (0.28)
Diluted	$ 0.11	$ 0.03	$ 0.27	$ (0.28)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Anti-dilutive stock options shares	290	332	603	2,214

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STAMPS.COM INC.
NOTES TO FINANCIAL STATEMENTS (continued)
(ALL INFORMATION WITH RESPECT TO SEPTEMBER 30, 2005 AND 2004 IS UNAUDITED)

4. Intangible Assets

The Company accounts for goodwill and other intangible assets as specified in SFAS No. 142, “Goodwill and Other Intangible Assets”. The Company’s intangible assets, which consist of patents, trademarks and other intellectual property with a gross carrying value of $8.9 million as of September 30, 2005 and 2004 and accumulated amortization of $5.0 million and $3.9 million as of September 30, 2005 and 2004, respectively, continue to be amortized over their expected useful lives ranging from 4 to 17 years with a remaining weighted average amortization period of 2.5 years.

Aggregate amortization expense on intangible assets was approximately $275,000 for the three months ended September 30, 2005 and 2004, respectively, and $825,000 and $829,000 for the nine months ended September 30, 2005 and 2004, respectively.

5. Comprehensive Loss

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income (loss)	$ 2,564	$ 660	$ 6,326	$ (6,188)
Unrealized income (loss) on investments	(143)	34	(75)	(431)
Comprehensive income (loss)	$ 2,421	$ 694	$ 6,251	$ (6,619)

6. Recent Accounting Pronouncements

In December 2004, the FASB issued FASB Statement No. 123 (revised 2004) (“Statement 123(R)”), Share-Based Payment, which is a revision of FASB statement No. 123, Accounting for Stock-Based Compensation. Statement 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, Statement of Cash Flows. Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. Statement 123(R) must be adopted no later than July 1, 2005. However in April 2005, the SEC released their final rule amending rule 4-01(a) of Regulation S-X regarding the effective date of compliance with Statement 123(R). Based on this ruling, the adoption for compliance with Statement 123(R) was postponed to be effective on the first interim or annual reporting of the registrant’s first fiscal year beginning on or after June 15, 2005. We expect to adopt Statement 123(R) on January 1, 2006.

Statement 123(R) permits public companies to adopt its requirements using one of two methods:

§ A “modified prospective” method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of Statement 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of Statement 123 for all awards granted to employees prior to the effective date of Statement 123(R) that remain unvested on the effective date.

§ A "modified retrospective" method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under Statement 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

STAMPS.COM INC.
NOTES TO FINANCIAL STATEMENTS (continued)
(ALL INFORMATION WITH RESPECT TO SEPTEMBER 30, 2005 AND 2004 IS UNAUDITED)

The Company plans to adopt Statement 123(R) using the modified prospective method. As permitted by Statement 123, the Company currently accounts for share-based payments to employees using APB Opinion No. 25's intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of Statement 123(R)'s fair value method will have a significant impact on our result of operations, although it will have no impact on our overall financial position. Had the Company adopted Statement 123(R) in prior periods, the impact of that standard would have approximated the impact of Statement 123 as described in the disclosure of pro forma net income and earnings per share in Note 1 to our financial statements. Statement 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operation cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption.

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

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements relate to expectations concerning matters that are not historical facts. Words such as "projects," "believes," "anticipates," "estimates," "plans," "expects," "intends," and similar words and expressions are intended to identify forward-looking statements. Although Stamps.com believes that such forward-looking statements are reasonable, we cannot assure you that such expectations will prove to be correct. Factors that could cause actual results to differ materially from such expectations are disclosed herein including, without limitation, in the "Risk Factors" section of this report. All forward-looking statements attributable to Stamps.com are expressly qualified in their entirety by such language. Stamps.com does not undertake any obligation to update any forward-looking statements. You are also urged to carefully review and consider the various disclosures we have made which describe certain factors which affect our business, including the "Risk Factors" section of this report. The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and the related notes thereto.

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

Overview

Stamps.com Inc. ("Stamps.com", "we", "us" or "our") is the leading provider of Internet-based postage solutions. Our core service allows customers to buy and print United States Postal Service ("US Postal Service" or "USPS") approved postage using a PC, an ordinary inkjet or laser printer and an internet connection. Customers use our service to mail and ship a variety of mail pieces including postcards, envelopes, flats and packages using a wide range of mail classes. Our customers include home businesses, small businesses, corporations and individuals. Stamps.com was approved by the USPS in 1999 as the first licensed vendor to offer PC Postage in a software-only business model. On August 10, 2004, we publicly launched a market test of PhotoStamps™, a new form of postage that allows consumers to turn digital photos, designs or images into valid US postage. We completed the first market test on September 30, 2004 and launched a second market test of PhotoStamps on May 17, 2005. References in this quarterly report on Form 10-Q and in any future public statements that we make to our core business includes our Internet Postage business and not our PhotoStamps business.

Our Services

We offer the following products and services to our customers:

Internet Postage Service

Our US Postal Service approved Internet Postage service enables users to print information-based indicia, or electronic stamps, directly onto envelopes or labels using ordinary laser or inkjet printers. The service can be used for any class of mail except standard mail or periodicals including First-Class MailÒ, Priority MailÒ, Express MailÒ, Parcel PostÔ, Media MailÔ and Bound Printed Matter. Customers can also add USPS Special Services such as Delivery Confirmation™, Signature Confirmation™, Registered Mail, Certified Mail, Insured Mail, Return Receipt, Collect on Delivery and Restricted Delivery to their mail pieces. Our service requires no additional hardware; the user's existing PC, printer and Internet connection are sufficient. Our software can be downloaded from the Internet or installed from a CD-ROM free of charge. After installing the software and completing a registration process, customers can purchase and print postage 24 hours a day, seven days a week from their PCs. When a customer purchases postage for use through our service, the customer pays face value, and the funds are transferred directly from the customer to the US Postal Service. Customers currently signing up for our service pay a monthly convenience fee of $15.99. Our current customer mix includes monthly convenience fees ranging from $4.49 - $24.99 based on earlier pricing and promotion. As of September 30, 2005, our customer base consisted of approximately 382,000 customers who have downloaded our software and are presently registered for one of our service plans.

Stamps.com offers its customers three primary ways to print Internet Postage. First, NetStamps™ enables customers to print postage for any value and any mail class on NetStamps labels. NetStamps can be used just like regular stamps. Second, shipping labels allow customers to print postage for packages on plain 8.5” x 11” paper and add electronic Delivery Confirmation at discounted prices. Third, Stamps.com’s original online postage solution for mailing, which is typically printed directly on envelopes or on other types of mail or labels, in a single step process that saves time and provides a professional look. Our Internet Postage service also incorporates address verification technology that verifies each destination address for mail sent using our service against a database of all known addresses in the US. In addition, our Internet Postage service has been designed to integrate well into common small business and productivity software applications such as word processing, contact and address management, and accounting and financial applications.

We ended the third quarter of 2005 with approximately 382,000 registered customers, up from approximately 338,000 at the end of the third quarter of 2004. During the third quarter of 2005 we successfully billed approximately 293,000 unique registered customers for their monthly convenience fees, up from approximately 264,000 during the third quarter of 2004.

PhotoStamps™

On August 10, 2004, we publicly launched a limited market test of PhotoStamps™, a new form of postage that allows consumers to turn digital photos, designs or images into valid US postage. PhotoStamps can be used as regular postage to send letters, postcards or packages. The product is available via our website at www.photostamps.com, which we run separately from the website relating to our core business. Customers upload a digital photograph or image file, customize the look and feel by choosing one of ten different border colors to complement the photo, select the value of postage, and place the order online. Each sheet includes 20 individual PhotoStamps, and orders arrive via US Mail in a few business days. The first market test ended September 30, 2004. The US Postal Service reviewed the first market test for a period of approximately seven months and in April 2005; we announced that PhotoStamps would be available under authorization of the US Postal Service for a second year-long market test which began on May 17, 2005. During the first approximately 19 weeks since this current market test began we have shipped a total of 173,000 sheets, or a total of approximately 3.5 million individual PhotoStamps. While we are hopeful that the USPS will ultimately approve PhotoStamps following the end of this second test period, there are many risks relating to this offering. See "*US Postal Service regulations or fee assessments may cause disruptions or discontinuance of our business*" in the Risk Factors section below.

Online Store

With the launch of NetStamps in July 2002, we began selling NetStamps consumables directly to our customers via our online store which is available to our customers from within our Internet Postage software. The Stamps.com online store has since expanded to sell themed NetStamps labels, shipping labels, Internet Postage labels, dedicated postage printers, OEM and private label inkjet and laser toner cartridges, scales, and other mailing and shipping-focused office supplies. We plan to continue to increase the breadth of products offered in our online store, in order to enhance convenience for our customers.

Branded Insurance

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

Recent Developments

In December 2004, we updated a study to understand the status of our net operating losses ("NOL" or "NOLs"). Based on that study, we believe that we have not undergone an Internal Revenue Code ("IRC") Section 382 change of control since our secondary offering in December 1999 that would trigger an impairment of the use of our NOLs. Under the complicated IRC Section 382 rules, a change in ownership can occur whenever there is a shift in ownership by more than 50 percentage points by one or more five percent shareholders within a three year period. When a change of ownership is triggered, the NOLs may be impaired. We estimate that as of September 30, 2005, there has been an approximately 27% shift in ownership compared with the 50% level that would trigger impairment of our NOL asset. As part of our ongoing program to preserve future use of our NOL assets, *Stamps.com is requesting that all of our stockholders and prospective investors contact our company prior to allowing their ownership interest to* *reach a five percent level.*

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In January 2004, our Board of Directors declared a return of capital cash dividend of $1.75 per share to stockholders of record as of the close of business on February 9, 2004, paid on February 23, 2004. Based on 45,045,514 common shares outstanding, less treasury stock of approximately 648,000 shares, on the date of record, the total cash dividend was approximately $78 million.

As a result of the cash distribution relating to the return of capital cash dividend and pursuant to FASB Interpretation No. 44, the exercise price of all our active employee stock options prior to the ex-dividend date was reduced. This re-pricing resulted in a loss of value for some of our employee stock options. As a result, we recognized a charge of approximately $3.1 million during the first quarter of 2004 related to compensation paid to our employees for the lost value in employee stock options. This expense was allocated among cost of sales, sales and marketing, research and development and general and administrative categories, based on individual employee costs and positions.

In April 2004, following stockholder approval, our Board of Directors authorized a reverse stock split of our common stock with a ratio of one-for-two (1:2), effective for all shares beginning on May 12, 2004. As a result, every two shares of our common stock were combined into one share. The par value of our common stock remained unchanged at $0.001 per share, and the number of authorized shares of common stock and preferred stock was reduced proportionately, by the reverse split ratio, from 95,000,000 and 5,000,000, respectively, to 47,500,000 and 2,500,000, respectively. We paid cash in lieu of fractional shares.

In July 2004, we entered into an agreement with eBay Inc. ("eBay") to settle litigation we filed against eBay in June 2003. Under this agreement, eBay paid us a one-time settlement of approximately $1.4 million recognized in the statement of operations for the year ending December 31, 2004 as other income. In addition, we also recognized the related litigation expenses in the amount of $1.4 million as a component of general and administrative expenses for the year ending December 31, 2004. Furthermore, eBay agreed to a three year licensing agreement for the use of software and intellectual property owned by Stamps.com.

In July 2004, we received authorization from the US Postal Service to proceed with the first market test of our new form of postage called PhotoStamps™. We concluded the market test of PhotoStamps™ on September 30, 2004 with more than 138,000 total sheets, or 2.75 million individual PhotoStamps, ordered during that seven and one half week period. In April 2005, we announced that PhotoStamps would be available under authorization of the US Postal Service for a second market test which began on May 17, 2005 and which is expected to last one year. In the first approximately nineteen weeks of the test, from May 17 through September 30, we shipped approximately 173 thousand sheets of PhotoStamps, or approximately 3.5 million individual PhotoStamps.

In June 2005, we released version 5.0 of our PC Postage software featuring a redesigned user interface with simpler navigation and richer web content.

In July 2005, we introduced Stamps.com Enterprise and Premier Plan. Stamps.com Enterprise allows businesses to easily view and manage their corporate-wide mailing and shipping expenses by aggregating data from multiple accounts and across multiple geographies, and making that information available from a web-based interface. The Premier Plan includes all of the features available in Pro and adds several new capabilities and new functionality including faster print speeds, higher meter/account balances, more costs codes for tracking, added support for USPS certified mail, and the ability to print FedEx shipping labels directly from the Premier interface.

In September 2005, Richard Stables, our VP of IT, resigned from the Company in order to pursue other endeavors. Immediately following that event, Michael Biswas, VP of Operations, assumed the leadership role for the IT team.

Critical Accounting Policies

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

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

Revenue Recognition. We recognize revenue from product sales or services rendered 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 collectibility is reasonably assured.

Service revenue is based on monthly convenience fees. Service revenue 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. Retail items, including PhotoStamps™, sold to customers are made pursuant to a sales contract that provides for transfer of both title and risk of loss upon our delivery to the carrier. Return allowances, which reduce product revenue by our best estimate of expected product returns, are estimated using historical experience. Licensing revenue is recognized ratably over the contract period. Commissions from the advertising or sale of products by a third party vendor to our customer base are recognized when the revenue is earned and collection is deemed probable.

Customers who purchase postage for use through our NetStamps™, shipping label or traditional postage features, pay face value, and the funds are transferred directly from the customers to the US Postal Service. No revenue is recognized for this postage as it is purchased by our customers directly from the US Postal Service.

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

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

We provide our customers the opportunity to purchase parcel insurance directly through the Stamps.com software. The insurance information is communicated directly to Parcel Insurance Plan for processing. The insurance is underwritten by Fireman's Fund. We recognize revenue from our insurance offerings based on the shipment date of the item insured.

Licensing revenue for the use of our software and intellectual property is recognized 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 collectibility is reasonably assured.

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

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

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

Contingencies and Litigation. We are involved in various litigation matters as a claimant and as a defendant. We record any amounts recovered in these matters when collection is certain. We record liabilities for claims against us when the losses are probable and estimatable. Any amounts recorded would be based on reviews by outside counsel, in-house counsel and management. Actual results may differ from estimates. Refer to “Part II - Other Information - Item 1 - Legal Proceedings" of this report for a discussion of legal proceedings.

Results of Operations

During the third quarter of 2005, we experienced growth in our core business revenue with a total of $13.5 million of total quarterly revenue versus $9.3 million in the comparable period in 2004. Total postage printed using our core service during the third quarter of 2005 was up 23% compared to the third quarter of 2004. Gross customer acquisition in the core business was approximately 56,000 during the third quarter of 2005, down from approximately 60,000 during the third quarter of 2004. The decrease in customer acquisition is mainly attributable to online marketing; in particular the shift in technology such as pop-up blockers and newer browser technology which have made it more difficult to acquire customers online as well as increased competition for online advertising inventory. In May 2005 we began the second market test of our new form of postage called PhotoStamps. During the third quarter of 2005, we shipped approximately 105,000 sheets of PhotoStamps. As a result, we recognized revenue relating to PhotoStamps of approximately $1.8 million during the third quarter of 2005, up from approximately $1.4 million during the third quarter of 2004.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Total Revenues				
Service	72%	67%	74%	75%
PhotoStamps	11%	13%	7%	5%
Product and other	17%	20%	19%	20%
Total revenues	100%	100%	100%	100%
Cost of revenues				
Service	15%	19%	17%	26%
PhotoStamps	8%	8%	5%	3%
Product and other	4%	5%	5%	6%
Total cost of revenues	27%	32%	27%	35%
Gross profit	73%	68%	73%	65%
Operating expenses:				
Sales and marketing	33%	31%	32%	34%
Research and development	11%	12%	11%	19%
General and administrative	16%	35%	18%	41%
Total operating expenses	60%	78%	61%	94%
Income (loss) from operations	13%	(10)%	12%	(29)%
Other income (expense), net	4%	18%	4%	6%
Income (loss) before income taxes	17%	8%	16%	(23)%

Provision for income taxes	0%	—	0%	—
Net income (loss)	17%	8%	16%	(23)%

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Revenue. Revenue was derived primarily from three sources: (1) service fees charged to customers for use of our Internet Postage service; (2) PhotoStamps revenue from the direct sale of PhotoStamps; and (3) product sales and other revenue, consisting of online store revenue from the direct sale of consumables and supplies, advertising revenue from controlled access advertising to our existing customer base, insurance revenue from our parcel insurance offering, and licensing revenue. Total revenue increased $4.6 million, or 43%, to $15.3 million in the third quarter of 2005 from $10.7 million in the third quarter of 2004. Total revenue increased $14.9 million, or 56%, to $41.3 million in the nine months ended September 30, 2005 from $26.4 million in the same period of 2004.

Service fee revenue increased $3.8 million, or 54%, to $10.9 million in the third quarter of 2005 from $7.1 million in the third quarter of 2004. Service fee revenue increased $10.7 million, or 54%, to $30.4 million in the nine months ended September 30, 2005 from $19.7 million in the same period of 2004. As a percentage of total revenue, service fee revenue increased five percentage points to 72% in the third quarter of 2005 as compared to 67% in the same period of 2004. As a percentage of total revenue, service fee revenue was 74% and 75% during the nine months ended September 30, 2005 and 2004, respectively.

The increase in service fee revenue is primarily due to the growth of our customer base and the migration of our existing customers from the older Simple Plan price point of $4.49 per month to the Power Plan at $15.99 per month resulting in higher service fee revenue per customer. As of September 30, 2005, Power Plan customers accounted for 74% of total registered customers as compared to 45% at the end of September 30, 2004. We expect our service fee revenue to continue to increase in future periods as we complete the migration of our Simple Plan customers to the Power Plan and as we continue to add to our customer base.

PhotoStamps revenue increased $405,000, or 29%, to $1.8 million in the third quarter of 2005 from $1.4 million in the third quarter of 2004. PhotoStamps revenue increased $1.6 million, or 113%, to $3.0 million in the nine months ended September 30, 2005 from $1.4 million in the same period of 2004. As a percentage of total revenue, PhotoStamps revenue was 11% and 13% during the quarter ended September 30, 2005 and 2004, respectively. As a percentage of total revenue, PhotoStamps revenue was 7% and 5% during the nine months ended September 30, 2005 and 2004, respectively. The increase in PhotoStamps revenue is mainly attributable to the increase in consumer orders as we continued to increase our marketing efforts. We expect PhotoStamps revenue to grow in future periods as we expand our sales of PhotoStamps during the remainder of the test period.

Product sales and other revenue increased $370,000, or 17%, to $2.5 million in the third quarter of 2005 from $2.1 million in the third quarter of 2004. Product sales and other revenue increased $2.6 million, or 48%, to $7.9 million in the nine months ended September 30, 2005 from $5.3 million in the same period of 2004. The increase during the nine months ended September 30, 2005 is primarily due to the expansion of our consumable and supplies sales through our online store and a new licensing revenue stream which was approximately $450,000 during the third quarter of 2005. We expanded the number of available products from approximately 75 stock keeping units (“SKUs”) as of September 30, 2004 to approximately 100 SKUs at the end of September 30, 2005; online store supplies include specialty NetStamps labels, shipping labels, Internet Postage labels, dedicated postage printers, digital scales, and printer cartridges, among other items. We expect overall product sales and other revenue to continue to increase in future periods as we continue to focus our marketing efforts on customer acquisition and continue to expand the breadth of SKUs offered in the online store.

Cost of Revenue. Cost of revenue principally consists of the cost of customer service, certain promotional expenses, system operating costs, credit card processing fees, the face value cost of postage for PhotoStamps, parcel insurance offering costs, customer misprints and products sold through our online store and the related costs of shipping and handling. Cost of revenue increased $618,000, or 18%, to $4.1 million in the third quarter of 2005 from $3.5 million in the third quarter of 2004. Cost of revenue increased $1.8 million, or 19%, to $11.2 million in the nine months ended September 30, 2005 from $9.4 million in the same period of 2004. As a percentage of total revenue, cost of revenue was 27% and 32% for the third quarter 2005 and 2004, respectively. As a percentage of total revenue, cost of revenue decreased 8 percentage points to 27% during the nine months ended September 30, 2005 as compared to 35% for the same period of 2004. This decrease is primarily due to the decline in promotional expense as a percentage of revenue. Promotional costs are primarily incurred as customers are acquired and thereby may not correlate with short term changes in revenue.

Cost of service revenue increased $192,000, or 9%, to $2.3 million in the third quarter of 2005 from $2.1 million in the third quarter of 2004. Cost of service revenue increased $298,000, or 4%, to $7.3 million during the nine months ended September 30, 2005 from $7.0 million in the same period of 2004. As a percentage of total revenue, cost of service revenue was 15% and 19% during the quarter ended September 30, 2005 and 2004, respectively. As a percentage of total revenue, cost of service revenue decreased 9 percentage points to 17% during the nine months ended September 30, 2005 as compared to 26% for the same period in 2004.

The increase in cost of service revenue is primarily due to the increase in credit card processing fees and operation system costs as a result of our larger customer base offset by the decrease in promotional expense leading to a decrease of cost of service revenue as a percentage of total revenue. Promotional expense declined by approximately $297,000 in the third quarter of 2005 as compared to the same period in 2004, a decrease of 40%. Promotional expense declined by approximately $560,000 during the nine months ended September 30, 2005 as compared to the same period in 2004, a decrease of 23%. The decrease in promotional expense is attributable to the decrease in the redemption rate of our promotional offerings. Promotional costs are primarily incurred as customers are acquired and thereby may not correlate directly with changes in revenue. In addition, during the first quarter of fiscal 2004, we incurred a charge of approximately $185,000 relating to cash and stock distributed to customer service employees as compensation for a loss in value of employee stock options as a result of our return of capital cash dividend of $1.75 per share in February 2004. We did not incur a similar charge in 2005 and we do not anticipate a similar charge in the future.

Promotional expense includes free postage and a free digital scale offered to new customers. Such promotional expense was approximately $437,000 and $735,000 in the third quarter of 2005 and 2004, respectively; and $1.9 million and $2.5 million in the nine months ended September 30, 2005 and 2004, respectively. Promotional expense, which represents a material portion of total cost of service revenue, is expensed in the period in which a customer is acquired. However, the revenue associated with the acquired customer is earned over the customer's lifetime. Therefore, promotional expense for newly acquired customers may be higher than the revenue earned from those customers in that period. We expect the cost of service revenue to increase in future periods as we acquire a greater number of customers resulting in larger promotional and support expense.

Cost of PhotoStamps revenue increased $341,000, or 40%, to $1.2 million in the third quarter of 2005 from $845,000 in the third quarter of 2004. Cost of PhotoStamps revenue increased $1.1 million, or 131%, to $2.0 million in the nine months ended September 30, 2005 from $845,000 in the same period of 2004. As a percentage of total revenue, cost of PhotoStamps revenue was 8% during the quarter ended September 30, 2005 and 2004, respectively. As a percentage of total revenue, cost of PhotoStamps revenue was 5% and 3% during the nine months ended September 30, 2005 and 2004, respectively. Cost of PhotoStamps revenue includes the face value of the postage, credit card processing fees, customer support costs, and cost associated with the printing and fulfillment of the product. We expect the cost of PhotoStamps revenue to increase as we grow PhotoStamps revenue.

Cost of product sales and other revenue increased $85,000, or 15%, to $648,000 in the third quarter of 2005 from $563,000 in the third quarter of 2004. Cost of product sales and other revenue increased $425,000, or 27%, to $2.0 million in the nine months ended September 30, 2005 from $1.6 million in the same period of 2004. As a percentage of total revenue, cost of product sales and other revenue was 4% and 5% during the quarter ended September 30, 2005 and 2004, respectively. As a percentage of total revenue, cost of product sales and other revenue was 5% and 6% during the nine months ended September 30, 2005 and 2004, respectively. The increase in cost of product sales and other revenue is primarily due to the increased revenue from sale of products offered through our online store, and due to the amortization cost of the patents related to licensing revenue. We expect the cost of product sales and other revenue to continue to increase in future periods which is consistent with the aforementioned expectation that product sales and other revenue will also increase in future periods.

Sales and Marketing. Sales and marketing expense principally consists of costs associated with strategic partnership relationships, advertising, and compensation and related expenses for personnel engaged in marketing and business development activities. Sales and marketing expense increased $1.6 million, or 49%, to $4.9 million in the third quarter of 2005 from $3.3 million in the third quarter of 2004. Sales and marketing expense increased $4.0 million, or 44%, to $13.1 million in the nine months ended September 30, 2005 from $9.1 million in the same period of 2004. The increase in sales and marketing expense is primarily due to the increase in various marketing program expenditures relating to the acquisition of customers for our core business and for PhotoStamps. Ongoing marketing programs include the following: web partnerships; software and hardware-based partnerships; retail partnerships; customer referral programs; customer remarketing efforts; telemarketing; direct mail; and online advertising. During the first quarter of fiscal 2004, we incurred a charge of approximately $328,000 relating to cash and stock distributed to employees to compensate them for the loss in value of employee stock options held by sales and marketing personnel as a result of our return of capital cash dividend of $1.75 per share in February 2004. We did not incur a similar charge in 2005 and we do not anticipate a similar charge in the future. We currently expect sales and marketing expenses to increase on an absolute basis as we market our PhotoStamps product and as we continue our core business customer acquisition efforts during 2005.

Research and Development. Research and development expense principally consists of compensation for personnel involved in the development of our services and expenditures for consulting services and third party software. Research and development expense increased $420,000, or 32%, to $1.7 million in the third quarter of 2005 from $1.3 million in the third quarter of 2004. This increase is primarily due to the increase in salary and consulting expense for the quarter ended September 30, 2005. Research and development expense decreased $188,000, or 4%, to $4.8 million in the nine months ended September 30, 2005 from $5.0 million in the same period of 2004. This decrease is primarily due to the decrease in compensation charge relating to the return of capital dividend in fiscal year 2004. During the first quarter of fiscal 2004, we incurred a charge of approximately $900,000 relating to cash and stock distributed to employees to compensate them for the loss in value of employee stock options held by research and development personnel as a result of our return of capital cash dividend of $1.75 per share in February 2004. We did not incur a similar charge in 2005 and we do not anticipate a similar charge in the future. As a percentage of total revenue, research and development expense was 11% to 12% in the third quarter of 2005 and 2004, respectively. As a percentage of total revenue, research and development expense decreased 8 percentage points to 11% during the nine months ended September 30, 2005 as compared to 19% in the same period of 2004. This decrease is primarily due to the decrease in compensation charge relating to the return of capital dividend in fiscal year 2004. We currently expect research and development expense to increase slightly as we continue to focus on product enhancement and development.

General and Administrative. General and administrative expense principally consist of compensation and related costs for executive and administrative personnel, fees for legal and other professional services, depreciation of equipment and software used for general corporate purposes and amortization of intangible assets and deferred compensation. General and administrative expense decreased $1.3 million, or 35%, to $2.4 million in the third quarter of 2005 from $3.7 million in the third quarter of 2004. General and administrative expense decreased $3.4 million, or 32%, to $7.3 million in the nine months ended September 30, 2005 from $10.7 million in the same period of 2004. As a percentage of total revenue, general and administrative expense decreased 19 percentage points to 16% in the third quarter of 2005 from 35% in the third quarter of 2004. As a percentage of total revenue, general and administrative expense decreased 23 percentage points to 18% in the nine months ended September 30, 2005 from 41% in the same period of 2004. The decrease in general and administrative expense during the three and nine months ended September 30, 2005, both on an absolute basis and as a percentage of revenue, is primarily due to the decrease in legal expense related to the eBay settlement in July 2004 and to a compensation charge relating to the return of capital dividend during the first quarter of fiscal 2004. We currently expect general and administrative expenses to remain at this level in the fourth quarter of fiscal 2005.

Other Income, Net. Other income, net consists of interest income from cash equivalents and short-term and long-term investments and income relating to a legal settlement in the amount of $64,000. Other income, net decreased $1.3 million, or 68%, to $588,000 in the third quarter of 2005 from $1.9 million in the third quarter of 2004. As a percentage of total revenue, other income, net decreased 14 percentage points to 4% in the third quarter of 2005 from 18% in the third quarter of 2004. The decrease in other income, net during the third quarter 2005, both on an absolute basis and as a percentage of total revenue is primarily due to the recognition of legal settlement income related to the eBay litigation of approximately $1.4 million in the third quarter of 2004. Other income, net was approximately $1.6 million in the nine months ended September 30, 2005 and 2004, respectively. As a percentage of total revenue, other income, net was 4% and 6% during the nine months ended September 30, 2005 and 2004, respectively.

Liquidity and Capital Resources

As of September 30, 2005 we had approximately $95.1 million in cash, restricted cash and short-term and long-term investments. We invest available funds in short and long-term money market funds, commercial paper, corporate notes and municipal securities and do not engage in hedging or speculative activities.

In November 2003, we entered into a facility lease agreement commencing on March 2004 for our new corporate headquarters with aggregate lease payments of approximately $4.0 million through March 2010.

The following table is a schedule of our contractual obligations and commercial commitments which is comprised of the future minimum lease payments under operating leases at September 30, 2005 (in thousands):

		Operating
Three months ending December 31, 2005	$	153
Years ended December 31,:		
2006		632
2007		694
2008		751
2009		794
Thereafter		134
	$	3,158

During the third quarter ended September, 30 2005, we repurchased approximately 126,000 shares of common stock for $2.1 million. We will consider repurchasing stock throughout our current repurchase program. by evaluating such factors as the price of the stock, the daily trading volume and the availability of large blocks of stock and any additional constraints because of material inside information we may possess.

Net cash provided by operating activities was $9.1 million and 430,000 during the nine months ended September 30, 2005. The increase in net cash provided by operating activities resulted primarily from the increase in revenue and expanding gross margin.

Net cash used in investing activities was $2.4 million during the nine months ended September 30, 2005. Net cash provided by investing activities was $61.8 million during the same period of 2004. The decrease in net cash provided by investing activities resulted primarily from the sale of investments to fund the return of capital cash dividend in February 2004.

Net cash provided by financing activities was $1.4 million during the nine months ended September 30, 2005. Net cash used in financing activities was $76.1 million during the same period of 2004. The decrease in net cash used in financing activities resulted primarily from the return of capital cash dividend paid in February 2004.

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

RISK FACTORS

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

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

Risks Related to Our Business

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

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

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

We have a history of losses and we may incur losses in the future which may reduce the trading price of our common stock.

We have experienced significant net losses since our inception and we may experience net losses in the future. Though we realized net income of $2.6 million for the quarter ended September 30, 2005, we incurred net losses of $4.7 million for the year ended December 31, 2004. Although we achieved profitability during the first three quarters of fiscal year 2005 and the last two fiscal quarters of 2004, we cannot be certain that we will be able to sustain or increase such profitability in the future.

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

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

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

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

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

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

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

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

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

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

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

Any delays or failures in developing our services and products, including upgrades of current services and products, may have a harmful impact on our results of operations. The need to extend our core technologies into new features and services and to anticipate or respond to technological changes could affect our ability to develop these services and features. Delays in features or upgrade introductions could cause a decline in our revenue, earnings or stock price. We cannot determine the ultimate effect these delays or the introduction of new features or upgrades will have on our revenue or results of operations.

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

Substantial litigation regarding intellectual property rights exists in our industry. Third parties may currently have, or may eventually be issued, patents upon which our products or technology infringe. Any of these third parties might make a claim of infringement against us. We may become increasingly aware of, or we may increasingly receive correspondence claiming, potential infringement of other parties' intellectual property rights. We are currently a defendant in two such cases filed in the fourth quarter of 2004. We could incur significant costs and diversion of management time and resources to defend claims against us regardless of their validity. Any associated costs and distractions could have a material adverse effect on our business, financial condition and results of operations. In addition, litigation in which we are accused of infringement might cause product development delays, require us to develop non-infringing technology or require us to enter into royalty or license agreements, which might not be available on acceptable terms, or at all. If a successful claim of infringement were made against us and we could not develop non-infringing technology or license the infringed or similar technology on a timely and cost-effective basis, our business could be significantly harmed or fail. Any loss resulting from intellectual property litigation could severely limit our operations, cause us to pay license fees, or prevent us from doing business.

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

We rely on a combination of patent, trade secret, copyright and trademark laws and contractual restrictions, such as confidentiality agreements and licenses, to establish and protect our rights in our products, services, know-how and information. We have 51 issued US patents, 72 pending US patent applications, 12 international patents and 20 pending international patent applications. We also have a number of registered and unregistered trademarks. We plan to apply for more patents in the future. We may not receive patents for any of our patent applications. Even if patents are issued to us, claims issued in these patents may not protect our technology. In addition, a court might hold any of our patents, trademarks or service marks invalid or unenforceable. Even if our patents are upheld or are not challenged, third parties may develop alternative technologies or products without infringing our patents. If our patents fail to protect our technology or our trademarks and service marks are successfully challenged, our competitive position could be harmed. We also generally enter into confidentiality agreements with our employees, consultants and other third parties to control and limit access and disclosure of our confidential information. These contractual arrangements or other steps taken to protect our intellectual property may not prove to be sufficient to prevent misappropriation of technology or deter independent third party development of similar technologies. Additionally, the laws of foreign countries may not protect our services or intellectual property rights to the same extent as do the laws of the United States.

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

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

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

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

Risks Related to Our Industry

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

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

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

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

The US Postal Service could decide to amend, renegotiate or terminate our credit card cost sharing agreement. Our credit card cost sharing agreement is an important agreement that governs the allocation of credit card fees paid by the US Postal Service and us for the postage purchased by our customers. If the US Postal Service decides to amend, renegotiate or terminate our credit card cost sharing agreement, our revenues and operating results may suffer.

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

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

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

Bowes, postage stamps and permit mail.

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

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

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

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

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

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

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

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

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

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

Risks Related to Our Stock

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

Under the complicated rules of IRC Section 382, a change in ownership can occur whenever there is a shift in ownership by more than 50% by one or more five-percent shareholders within a three-year period. If a change of ownership is triggered, our NOLs may be impaired, which could harm stockholder value.

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

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

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

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

Our stock price is volatile.

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

· variations in our operating results,

· variations between our actual operating results and the expectations of securities analysts,

· investors and the financial community,

· announcements of developments affecting our business, systems or expansion plans by us or others,

· and market volatility in general.

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

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

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

1933.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio. We have not used derivative financial instruments in our investment portfolio. Our cash equivalents and investments are comprised of Money Market, U.S. government obligations and public corporate debt securities with weighted average maturities of 329 days as of September 30, 2005. Our cash equivalents and investments, net of restricted cash, approximated $94.6 million and had a related weighted average interest rate of approximately 3.9%. Interest rate fluctuations impact the carrying value of the portfolio. We do not believe that the future market risks related to the above securities will have a material adverse impact on our financial position, results of operations or liquidity.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. Based on the foregoing, our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer concluded that our disclosure controls and procedures were effective and adequate to ensure material information and other information requiring disclosure is identified and communicated on a timely basis.

Changes in Internal Controls

There have been no changes in our internal controls over financial reporting or in other factors during the period covered by this quarterly report that could affect these controls subsequent to the date of their evaluation.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On October 25, 2004, VCode Holdings, Inc. and VData LLC filed suit against Adidas Salomon AG in the United States District Court for the District of Minnesota, alleging infringement of U.S. Patent No. 5,612,524 ("the '524 patent"), which allegedly covers use of data matrices. The complaint sought an injunction, unspecified damages, and attorneys' fees. On or about December 30, 2004, the plaintiffs filed a First Amended Complaint against us, as well as Adidas Salomon AG, Adidas America, Inc., Advanced Micro Devices, Inc., Boston Scientific Corp. and Hitachi Global Storage Technologies (Thailand), Ltd., alleging infringement of the '524 patent. On July 25, 2005, the Court granted the plaintiffs' motion to file a Second Amended Complaint adding Hitachi Global Storage Technologies, Inc. as a defendant. Adidas Salomon AG, Adidas America, Inc. and Advanced Micro Devices, Inc. and Boston Scientific Corp. have each settled for undisclosed terms. The court has scheduled the trial of this case to commence on September 1, 2006. We dispute the plaintiffs' claims and intend to defend the lawsuit vigorously.

On October 22, 2004 Kara Technology Incorporated filed suit against us in the United States District Court for the Southern District of New York, alleging, among other claims, that Stamps.com infringed certain Kara Technology patents and that Stamps.com misappropriated trade secrets owned by Kara Technology, most particularly with respect to our NetStamps feature. Kara Technology seeks an injunction, unspecified damages, and attorneys' fees. On February 9, 2005, the court granted our motion to transfer this suit to the United States District Court for the Central District of California. The court has scheduled a "Markman" hearing to construe the terms of the Kara Technology patents for January 30, 2006, and has scheduled a trial commencement date of May 23, 2006. We dispute Kara Technology's claims and intend to defend the lawsuit vigorously.

In May and June 2001, we were named, together with certain of our current and former board members and/or officers, as a defendant in 11 purported class-action lawsuits, filed in the United States District Court for the Southern District of New York. The lawsuits allege violations of the Securities Act of 1933 and the Securities Exchange Act of 1934 in connection with our initial public offering and secondary offering of our common stock. The lawsuits also name as defendants the principal underwriters in connection with our initial and secondary public offerings, including Goldman, Sachs & Co. (in some of the lawsuits sued as The Goldman Sachs Group Inc.) and BancBoston Robertson Stephens, Inc. The lawsuits allege that the underwriters engaged in improper commission practices and stock price manipulations in connection with the sale of our common stock. The lawsuits also allege that we and/or certain of our officers or directors knew of or recklessly disregarded these practices by the underwriter defendants, and failed to disclose them in our public filings. Plaintiffs seek damages and statutory compensation, including prejudgment and post-judgment interest, costs and expenses (including attorneys' fees), and rescissory damages. In April 2002, plaintiffs filed a consolidated amended class action complaint against us and certain of our current and former board members and/or officers. The consolidated amended class action complaint includes similar allegations to those described above and seeks similar relief. In July 2002, we moved to dismiss the consolidated amended class action complaint. In October 2002, pursuant to a stipulation and tolling agreement with plaintiffs, our current and former board members and/or officers were dismissed without prejudice. In February 2003, the court denied our motion to dismiss the consolidated amended class action complaint. In June 2003, we approved a proposed Memorandum of Understanding among the plaintiffs, issuers and insurers as to terms for a settlement of the litigation against us which was further documented in a Stipulation and Agreement of Settlement filed with the court. The proposed settlement terms would not require Stamps.com to make any payments. The proposed settlement was preliminarily approved by the court in February 2005, but remains subject to a fairness hearing and final approval by the court which has not yet occurred.

In addition to the class action lawsuits against us, over 1,000 similar lawsuits have also been brought against over 250 companies which issued stock to the public in 1998, 1999, and 2000, and their underwriters. These lawsuits (including those naming us) followed publicized reports that the Securities and Exchange Commission was investigating the practice of certain underwriters in connection with initial public offerings. All of these lawsuits have been consolidated for pretrial purposes before United States District Court Judge Shira Scheindlin of the Southern District of New York. We have placed our underwriters on notice of our rights to indemnification, pursuant to our agreements with the underwriters. We have also provided notice to our directors and officers insurers, and believe that we have insurance applicable to the lawsuits. We also believe that the claims against us and our officers and directors are without merit, and intend to defend the lawsuits vigorously.

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

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

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid Per Share (1)	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
July 1, 2005 - July 31, 2005	10,000	$16.98	10,000	$19,830,200.00
August 1, 2005 - August 31, 2005	____________	____________	____________	____________
September 1, 2005 - September 30, 2005	115,920	$16.76	115,920	$17,887,539.65
Total	125,920	$16.78	125,920	

(1) The calculation of the average price paid per share does not give effect to any fees, commissions or other costs associated with the repurchase of such shares.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

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

31.3 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.

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

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)

November 9, 2005	By: /s/ KEN MCBRIDE Ken McBride Chief Executive Officer
November 9, 2005	By: /s/ KYLE HUEBNER Kyle Huebner Chief Financial Officer
November 9, 2005	By: /s/ JAMES A. HARPER James A. Harper Chief Accounting Officer