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**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

, Individually and
on Behalf of All Others Similarly
Situating,

Plaintiff,

v.

STAMPS.COM, INC., KENNETH
MCBRIDE, KYLE HUEBNER, and
JEFF CARBERRY,

Defendants.

Case No.

CLASS ACTION COMPLAINT FOR
VIOLATIONS OF THE FEDERAL
SECURITIES LAWS

JURY TRIAL DEMANDED

1 Plaintiff (“Plaintiff”), individually and on behalf of all others
2 similarly situated, through their undersigned counsel, for his Complaint against
3 Defendants Stamps.com, Inc., Kenneth McBride, Kyle Heubner, and Jeff Carberry
4 (“Defendants”), allege the following based upon personal knowledge, as to
5 Plaintiff and Plaintiff’s own acts, and upon information and belief, as to all other
6 matters based on the investigation conducted by and through Plaintiff’s counsel,
7 which included, among other things, a review of Stamps.com, Inc.’s
8 (“Stamps.com” or “the Company”) press releases, filings with the U.S. Securities
9 and Exchange Commission (“SEC”), analyst reports, media reports, and other
10 publicly disclosed reports and information about the Defendants. Plaintiff believes
11 that substantial additional evidentiary support will exist for the allegations set forth
12 herein after a reasonable opportunity for discovery.
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17 **NATURE AND SUMMARY OF THE ACTION**

18 1. This is a securities class action on behalf of Plaintiff and all other
19 persons or entities, except for Defendants, who purchased, or otherwise acquired,
20 Stamps.com common stock between May 3, 2017 and February 21, 2019, inclusive
21 (the “Class Period”). This action is brought on behalf of the Class (defined below)
22 for violations of §§10(b) and 20(a) of the Securities Exchange Act of 1934 (the
23 “Exchange Act”), 15 U.S.C. §§78j(b) and 78t(a), and Rule 10b-5 promulgated
24 thereunder by the SEC, 17 C.F.R. §240.10b-5.
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1 2. Stamps.com is a provider of Internet-based mailing and shipping
2 solutions in the United States. Under the Stamps.com and Endicia brands,
3 Stamps.com customers use United States Postal Service (“USPS”) solutions to
4 mail and ship a variety of mail pieces and packages through the USPS. Customers
5 using Stamps.com solutions receive discounted postage rates compared to
6 USPS.com and USPS retail locations on certain mail pieces.
7

8
9 3. During the Class Period, Defendants repeatedly touted the Company’s
10 purported strong financial results and relationship with USPS. These statements
11 were false and misleading because they failed to disclose that: (i) the Company’s
12 financial results depended on the manipulation of a USPS program that cost USPS
13 an estimated \$235 million per year; and (ii) as a result, the Company’s business
14 was unsustainable and its financial results were highly misleading.
15

16
17 4. The truth emerged on February 21, 2019, after the market closed,
18 when Stamps.com held a conference call to discuss its financial results from the
19 4th quarter of 2018 and fiscal year 2018 as well as its business outlook and “certain
20 strategic items . . . that impact our business outlook for 2019.” On the call, the
21 Company’s Chairman and Chief Executive Officer (“CEO”), Kenneth McBride
22 (“McBride”) inexplicably stated that the Company was discontinuing its shipping
23 partnership with USPS despite the fact that USPS-related business accounts for
24 87% of the Company’s revenue. The Company further announced that, contrary to
25 previous expectations of strong growth, 2019 revenue was expected to decline
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1 5.4%. On this news, the Company's stock plummeted to a close price of \$83.65 on
2 February 21, 2019, a decline of over 57% from the previous close price of \$198.08.

3 5. On February 26, 2019, it was reported that, contrary to McBride's
4 representations, USPS itself had decided to terminate its relationship with
5 Stamps.com in the face of the Company's increasing demands and abuse of the
6 reseller program.
7

8 JURISDICTION AND VENUE

9
10 6. The claims asserted herein arise under and pursuant to §§10(b) and
11 20(a) of the Exchange Act (15 U.S.C. §§78j(b) and 78t(a)) and SEC Rule 10b-5
12 promulgated thereunder (17 C.F.R. §240.10b-5).

13
14 7. This Court has jurisdiction over the subject matter of this action
15 pursuant to 28 U.S.C. §1331 and §27 of the Exchange Act (15 U.S.C. §78aa).
16

17 8. Venue is proper in this District pursuant to §27 of the Exchange Act
18 and 28 U.S.C. §1391(b). Stamps.com's principal executive offices are located
19 within this District.
20

21 9. In connection with the acts, conduct, and other wrongs alleged in this
22 Complaint, Defendants, directly or indirectly, used the means and instrumentalities
23 of interstate commerce, including, but not limited to, the U.S. mail, interstate
24 telephone communications, and the facilities of the national securities exchange.
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PARTIES

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2 10. As set forth in the Certification, attached hereto as Exhibit 1, Plaintiff
3 acquired Stamps.com common stock at artificially inflated prices during the Class
4 Period and was damaged upon the revelation of the alleged corrective disclosures.
5

6 11. Defendant Stamps.com is incorporated in Delaware, with principal
7 executive offices located at 1990 E. Grand Avenue, El Segundo, California 90245.
8 Stamps.com shares trade on the NASDAQ under the ticker symbol “STMP.”
9

10 12. Stamps.com is a provider of Internet-based mailing and shipping
11 solutions in the United States. Under the Stamps.com and Endicia brands,
12 Stamps.com customers use USPS solutions to mail and ship a variety of mail
13 pieces and packages through the USPS and customers using Stamps.com solutions
14 receive discounted postage rates compared to USPS.com and USPS retail locations
15 on certain mail pieces.
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18 13. Defendant McBride is, and was at all relevant times, Stamps.com’s
19 Chairman and Chief Executive Officer.
20

21 14. Defendant Kyle Huebner (“Huebner”) is Stamps.com’s President and
22 has been since August 2017. At all relevant times prior to August 2017, Huebner
23 was Stamps.com’s Co-President and Chief Financial Officer.
24

25 15. Defendant Jeff Carberry (“Carberry”) is Stamps.com’s Chief
26 Financial Officer and has been since August 2017.
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1 level of paid customers, we saw continued strong growth in our
2 shipping business areas, and we experienced strong
3 contributions from all of our subsidiaries. We remain very
4 excited about our future prospects and, combined with our first
5 quarter performance, led us to increase our guidance for 2017.”

7 22. The press release further stated:

9 First quarter 2017 total revenue was \$105.0 million, up 28%
10 compared to the first quarter of 2016. First quarter 2017
11 Mailing and Shipping revenue (which includes service, product
12 and insurance revenue but excludes Customized Postage and
13 Other revenue) was \$102.6 million, up 30% versus the first
14 quarter of 2016. First quarter 2017 Customized Postage
15 revenue was \$2.4 million, down 7% versus the first quarter of
16 2016.

19 First quarter 2017 GAAP income from operations was
20 \$34.6 million and GAAP net income was \$33.1 million. GAAP
21 net income per share was \$1.82 based on 18.2 million fully
22 diluted shares outstanding. This compares to first quarter 2016
23 GAAP income from operations of \$22.2 million and GAAP net
24 income of \$13.2 million or \$0.71 per share based on fully
25 diluted shares outstanding of 18.7 million. First quarter 2017
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1 GAAP income from operations, GAAP net income and GAAP
2 income per fully diluted share increased by 56%, 150% and
3 157% year-over-year, respectively.

4
5 First quarter 2017 GAAP income from operations included
6 \$11.4 million of non-cash stock-based compensation expense
7 and \$4.0 million of non-cash amortization of acquired
8 intangibles. First quarter 2017 GAAP net income also included
9 \$93 thousand of non-cash amortization of debt issuance costs.
10

11 Excluding the non-cash stock-based compensation expense and
12 non-cash amortization of acquired intangibles, first quarter
13 2017 non-GAAP income from operations was \$50.0 million.
14

15 Also excluding non-cash amortization of debt issuance costs,
16 first quarter 2017 non-GAAP pre-tax income was
17 \$49.3 million. First quarter 2017 non-GAAP income tax
18 expense was \$16.0 million, which was \$15.3 million higher
19 than the \$660 thousand GAAP income tax expense for the
20 quarter. The higher non-GAAP tax expense reflects the tax
21 impact on the non-GAAP pre-tax income at a non-GAAP
22 effective tax rate of 32.5%, which was materially higher than
23 the actual GAAP effective tax rate for the quarter. See the
24 section later in this press release entitled “About Non-GAAP
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1 Financial Measures” for more information on how non-GAAP
2 taxes are calculated. Taking into account the non-GAAP
3 adjustments, first quarter 2017 non-GAAP adjusted income was
4 \$33.2 million or \$1.83 per share based on 18.2 million fully
5 diluted shares outstanding.
6

7 23. During the Company’s 2Q17 earnings call on August 2, 2017, CEO
8 McBride stated:
9

10 *the partnership with the Postal Service is continuing to be*
11 *stronger and stronger* and some of the – we have multiple
12 contracts and various partnerships with the Postal Service. And
13 so in this case, we were able to get a couple of our contracts
14 renewed at improved terms.
15
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17 24. The foregoing statements were false and misleading because they
18 failed to disclose that: (i) the Company’s financial results depended on the
19 manipulation of a USPS program that cost USPS an estimated \$235 million per
20 year; and (ii) as a result, the Company’s business was unsustainable and its
21 financial results were highly misleading.
22

23 **The Truth Emerges**
24

25 25. On February 21, 2019, after the market closed, Stamps.com held a
26 conference call to discuss its financial results from the 4th quarter of 2018 and
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1 fiscal year 2018 as well as its business outlook and “certain strategic items . . . that
2 impact our business outlook for 2019.”

3 26. On the call, McBride discussed the Company’s renewal talks with
4 USPS over its revenue share agreement and claimed that Stamps.com:
5
6 will no longer be exclusive to the USPS and that’s
7 nonnegotiable. USPS has not agreed to accept these terms or
8 any other terms of our partnership proposal. So, at this point
9 we decided to discontinue our shipping partnership with the
10 USPS so that we can fully embrace partnerships with other
11 carriers who we think will be well positioned to win in a
12 shipping business in the next five years.

13
14
15 27. The Company further announced that, contrary to previous
16 expectations of strong growth, 2019 revenue was expected to decline 5.4%.

17
18 28. These revelations shocked the market. On this news, the Company’s
19 stock plummeted to a close price of \$83.65 on February 22, 2019, a decline of over
20 57% from the previous close price of \$198.08.

21
22 29. The revelation was an inexplicable announcement that the Company
23 was simply walking away from a business relationship that accounted for 87% of
24 the Company’s earnings.

25
26 30. On February 26, 2019, it was reported that, contrary to McBride’s
27 representations, USPS itself had decided to terminate its relationship with
28

1 Stamps.com in the face of Company's increasing demands and abuse of the reseller
2 program.

3 **PLAINTIFF'S CLASS ACTION ALLEGATIONS**

4
5 31. Plaintiff brings this action as a class action pursuant to Rules 23(a)
6 and (b)(3) of the Federal Rules of Civil Procedure on behalf of a Class consisting
7 of all those who purchased, or otherwise acquired, Stamps.com common stock
8 during the Class Period (the "Class") and were damaged upon the revelation of the
9 alleged corrective disclosure. Excluded from the Class are the Defendants herein;
10 Stamps.com's officers and directors, at all relevant times; members of their
11 immediate families, and their legal representatives, heirs, successors, or assigns;
12 and any entity in which Defendants have, or had, a controlling interest.

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15 32. The members of the Class are so numerous that joinder of all
16 members is impracticable. Throughout the Class Period, Stamps.com common
17 stock was actively traded on the NASDAQ. While the exact number of Class
18 members is unknown to Plaintiff at this time, and can only be ascertained through
19 appropriate discovery, Plaintiff believes that there are thousands of members of the
20 proposed Class. The members of the proposed Class may be identified from
21 records maintained by Stamps.com, or its transfer agent, and may be notified of the
22 pendency of this action by mail, using customary forms of notice that are
23 commonly used in securities class actions.
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1 33. Plaintiff's claims are typical of the claims of the members of the
2 Class, as all members of the Class are similarly affected by Defendants' wrongful
3 conduct.

4
5 34. Plaintiff will fairly and adequately protect the interests of the
6 members of the Class and has retained counsel that are competent and experienced
7 in class action and securities litigation. Plaintiff has no interest, antagonism, or
8 conflict with the members of the Class.
9

10 35. Common questions of law and fact exist, as to all members of the
11 Class, and predominate over any questions solely affecting individual members of
12 the Class. Among the questions of law and fact common to the Class are:

- 13
- 14 a. whether the federal securities laws were violated by
 - 15 Defendants' acts as alleged herein;
 - 16
 - 17 b. whether statements made by Defendants to the investing public
 - 18 during the Class Period misrepresented material facts about the
 - 19 business, operations, and management of Stamps.com;
 - 20
 - 21 c. whether the Individual Defendants caused Stamps.com to issue
 - 22 false and misleading financial statements during the Class
 - 23 Period;
 - 24
 - 25 d. whether Defendants acted knowingly or recklessly in issuing
 - 26 false and misleading financial statements;
 - 27
 - 28

1 e. whether the prices of Stamps.com common stock during the
2 Class Period was artificially inflated because of Defendants'
3 conduct complained of herein; and

4
5 f. whether the members of the Class have sustained damages, and
6 if so, what is the proper measure of damages.

7
8 36. A class action is superior to all other available methods for the fair
9 and efficient adjudication of this controversy, since joinder of all members is
10 impracticable. Furthermore, as the damages suffered by individual Class members
11 may be relatively small, the expense and burden of individual litigation make it
12 impossible for members of the Class to individually redress the wrongs done to
13 them. There will be no difficulty in the management of this action as a class
14 action.
15

16
17 37. Plaintiff will rely, in part, upon the presumption of reliance
18 established by the fraud-on-the-market doctrine in that:

- 19 a. Defendants made public misrepresentations or failed to disclose
20 material facts during the Class Period;
21
22 b. the omissions and misrepresentations were material;
23
24 c. Stamps.com common stock is traded in an efficient market;
25
26 d. Stamps.com's shares were liquid and traded with moderate-to-
27 heavy volume during the Class Period;
28

- 1 e. Stamps.com traded on the NASDAQ and was covered by
2 multiple analysts;
- 3 f. the misrepresentations and omissions alleged would tend to
4 induce a reasonable investor to misjudge the value of
5 Stamps.com common stock; and
- 6
7 g. Plaintiff and members of the Class purchased, acquired, and/or
8 sold Stamps.com common stock between the time Defendants
9 failed to disclose, or misrepresented material facts, and when
10 the true facts were disclosed, without knowledge of the omitted
11 or misrepresented facts.
12
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14 38. Based upon the foregoing, Plaintiff and the members of the Class are
15 entitled to a presumption of reliance upon the integrity of the market.
16

17 39. Alternatively, Plaintiff and the members of the Class are entitled to
18 the presumption of reliance established by the Supreme Court in *Affiliated Ute*
19 *Citizens of Utah v. United States*, 406 U.S. 128 (1972), as Defendants omitted
20 material information in their Class Period statements in violation of a duty to
21 disclose such information, as detailed above.
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COUNT I

**Violations of §10(b) of the Exchange Act and
Rule 10b-5 Promulgated Thereunder
(Against All Defendants)**

40. Plaintiff repeats and re-alleges each and every allegation contained above as if fully set forth herein.

41. This count is asserted against Defendants and is based upon §10(b) of the Exchange Act, 15 U.S.C. §78j(b), and SEC Rule 10b-5 promulgated thereunder.

42. During the Class Period, Defendants engaged in a plan, scheme, conspiracy, and course of conduct, pursuant to which they knowingly, or recklessly, engaged in acts, transactions, practices, and courses of business, which operated as fraud and deceit upon Plaintiff and the other members of the Class; made various untrue statements of material facts, and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and employed devices, schemes, and artifices to defraud in connection with the purchase and sale of securities. Such scheme was intended to and, throughout the Class Period, did: (i) deceive the investing public, including Plaintiff and other Class members, as alleged herein; (ii) artificially inflate and maintain the market price of Stamps.com securities; and (iii) cause Plaintiff and other members of the Class to purchase, or otherwise acquire, Stamps.com common stock at artificially inflated prices. In furtherance of

1 this unlawful scheme, plan, and course of conduct, Defendants, including the
2 Individual Defendants, took the actions set forth herein.

3 43. Pursuant to the above plan, scheme, conspiracy, and course of
4 conduct, each of the Defendants participated directly, or indirectly, in the
5 preparation and/or issuance of the quarterly and annual reports, SEC filings, press
6 releases, and other statements and documents described above, including
7 statements made to securities analysts and the media, that were designed to
8 influence the market for Stamps.com securities. Such reports, filings, releases, and
9 statements were materially false and misleading in that they failed to disclose
10 material adverse information and misrepresented the truth about Stamps.com's
11 finances and business prospects.
12

13 44. By virtue of their positions at Stamps.com, the Individual Defendants
14 had actual knowledge of the materially false and misleading statements and
15 material omissions alleged herein and intended thereby to deceive Plaintiff and the
16 other members of the Class or, in the alternative, Defendants acted with reckless
17 disregard for the truth in that they failed, or refused to ascertain and disclose, such
18 facts as would reveal the materially false and misleading nature of the statements
19 made, although such facts were readily available to Defendants. Said acts and
20 omissions of Defendants were committed willfully or with reckless disregard for
21 the truth. In addition, each Defendant knew, or recklessly disregarded, that
22 material facts were being misrepresented or omitted as described above.
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1 45. Information showing that Defendants acted knowingly or with
2 reckless disregard for the truth is particularly within Defendants' knowledge and
3 control. As the senior managers and/or directors of Stamps.com, the Individual
4 Defendants had knowledge of the details of Stamps.com's internal affairs.
5

6 46. The Individual Defendants are liable both directly and indirectly for
7 the wrongs complained of herein. Because of their positions of control and
8 authority, the Individual Defendants were able to, and did, directly or indirectly,
9 control the content of the statements of Stamps.com. As officers and/or directors
10 of a publicly held company, the Individual Defendants had a duty to disseminate
11 timely, accurate, and truthful information with respect to Stamps.com's businesses,
12 operations, future financial condition, and future prospects. As a result of the
13 dissemination of the aforementioned false and misleading reports, releases, and
14 public statements, the market price of Stamps.com common stock was artificially
15 inflated throughout the Class Period. In ignorance of the adverse facts concerning
16 Stamps.com's business and financial condition, which were concealed by
17 Defendants, Plaintiff and the other members of the Class purchased, or otherwise
18 acquired, Stamps.com common stock at artificially inflated prices and relied upon
19 the price of the securities, the integrity of the market, and/or upon statements
20 disseminated by Defendants and were damaged thereby.
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26 47. During the Class Period, Stamps.com common stock traded on an
27 active and efficient market. Plaintiff and the other members of the Class, relying
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1 on the materially false and misleading statements described herein, which
2 Defendants made, issued, or caused to be disseminated, or relying upon the
3 integrity of the market, purchased or otherwise acquired shares of Stamps.com
4 common stock at prices artificially inflated by Defendants' wrongful conduct. Had
5 Plaintiff and the other members of the Class known the truth, they would not have
6 purchased or otherwise acquired said common stock, or would not have purchased
7 or otherwise acquired common stock at the inflated prices that were paid. At the
8 time of the purchases and/or acquisitions by Plaintiff and the Class, the true value
9 of Stamps.com common stock was substantially lower than the prices paid by
10 Plaintiff and the other members of the Class. The market price of Stamps.com
11 common stock declined sharply upon public disclosure of the facts alleged herein
12 to the injury of Plaintiff and Class members.

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17 48. By reason of the conduct alleged herein, Defendants have knowingly
18 or recklessly, directly or indirectly, violated §10(b) of the Exchange Act and Rule
19 10b-5 promulgated thereunder.

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21 49. As a direct and proximate result of Defendants' wrongful conduct,
22 Plaintiff and the other members of the Class suffered damages in connection with
23 their respective purchases, acquisitions, and sales of Stamps.com common stock
24 during the Class Period, and were harmed upon the disclosure that the Company
25 had been disseminating misrepresented financial statements to the investing public.
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COUNT II

**Violations of §20 of the Exchange Act
(Against the Individual Defendants)**

50. Plaintiff repeats and re-alleges each and every allegation contained above as if fully set forth herein.

51. During the Class Period, the Individual Defendants participated in the operation and management of Stamps.com and conducted and participated, directly and indirectly, in the conduct of Stamps.com's business affairs. Because of their senior positions, they knew the adverse non-public information alleged herein.

52. As officers and/or directors of a publicly owned company, the Individual Defendants had a duty to disseminate accurate and truthful information with respect to Stamps.com's financial condition and operations, and to promptly correct any public statements issued by Stamps.com that became materially false or misleading.

53. Because of their positions of control and authority as senior officers, the Individual Defendants were able to, and did, control the contents of the various reports, press releases, and public filings that Stamps.com disseminated in the marketplace during the Class Period concerning Stamps.com's financial results and business relationships. Throughout the Class Period, the Individual Defendants exercised their power and authority to cause Stamps.com to engage in the wrongful acts complained of herein. The Individual Defendants, therefore, were "controlling persons" of Stamps.com within the meaning of §20(a) of the Exchange Act. In this

1 capacity, they participated in the unlawful conduct alleged herein that artificially
2 inflated the market price of Stamps.com common stock.

3 54. Each of the Individual Defendants, therefore, acted as a controlling
4 person of Stamps.com. By reason of their senior management positions and/or
5 being directors of Stamps.com, each of the Individual Defendants had the power to
6 direct the actions of the Company and exercised the same power to cause
7 Stamps.com to engage in the unlawful acts and conduct complained of herein.
8
9 Each of the Individual Defendants exercised control over the general operations of
10 Stamps.com and possessed the power to control the specific activities that
11 comprise the primary violations about which Plaintiff and the other members of the
12 Class complain.
13
14

15 55. By reason of the above conduct, the Individual Defendants are liable,
16 pursuant to §20(a) of the Exchange Act, for the violations committed by
17 Stamps.com.
18

19
20 **PRAYER FOR RELIEF**

21 WHEREFORE, Plaintiff demands judgment against Defendants as follows:

- 22 A. Declaring that the instant action may be maintained as a class action,
23 under Fed. R. Civ. P. 23, and certifying Plaintiff as Class
24 Representative;
25
26 B. Awarding Plaintiff and the other members of the Class compensatory
27 damages;
28

1 C. Awarding Plaintiff and the other members of the Class pre-judgment
2 and post-judgment interest, as well as reasonable attorneys' fees,
3 expert witness fees, and other costs and disbursements; and
4

5 D. Awarding Plaintiff and the other members of the Class such other and
6 further relief as the Court may deem just and proper.

7 **JURY TRIAL DEMANDED**

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9 Plaintiff hereby demands a trial by jury.

10 Dated: February 28, 2019

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