ENTERPRISE PRODUCTS PARTNERS L P
Form 424B3
September 21, 2009

Table of Contents

The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities, and we are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

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Subject To Completion, Dated September 21, 2009

PRELIMINARY PROSPECTUS SUPPLEMENT
(To Prospectus Dated August 27, 2007)

7,250,000 Common Units
Enterprise Products Partners L.P.
$ per common unit

We are selling 7,250,000 common units representing limited partner interests in Enterprise Products Partners L.P. Our common units are listed on the New York Stock Exchange under the symbol EPD. The last reported sales price of our common units on the New York Stock Exchange on September 18, 2009 was $28.76 per common unit.

Investing in our common units involves risk. See Risk Factors beginning on page S-9 of this prospectus supplement and on page 2 of the accompanying prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Common Unit	Total
Public Offering Price	$	$
Underwriting Discount	$	$
Proceeds to Enterprise Products Partners L.P. (before expenses)	$	$

We have granted the underwriters a 30-day option to purchase up to 1,087,500 additional common units to cover over-allotments.

The underwriters expect to deliver the common units on or about , 2009.

Joint Book-Running Managers

Morgan Stanley	**Barclays Capital**	**Citi**	**Wells Fargo Securities**

Co-Managers

, 2009

TABLE OF CONTENTS

	Page
Prospectus Supplement	
Summary	S-1
Risk Factors	S-9
Use of Proceeds	S-13
Price Range of Common Units and Distributions	S-14
Capitalization	S-15
Management	S-17
Material Tax Consequences	S-21
Investment in Us by Employee Benefit Plans	S-22
Underwriting	S-24
Legal Matters	S-27
Experts	S-27
Information Incorporated by Reference	S-27
Forward-Looking Statements	S-28
Prospectus	
About This Prospectus	iii
Our Company	1
Risk Factors	2
Use of Proceeds	2
Ratio of Earnings to Fixed Charges	2
Description of Debt Securities	3
Description of Our Common Units	16
Cash Distribution Policy	18
Description of Our Partnership Agreement	22
Material U.S. Tax Consequences	26
Investment in Enterprise Products Partners L.P. by Employee Benefit Plans	39
Plan of Distribution	41
Where You Can Find More Information	41
Forward-Looking Statements	42
Legal Matters	43
Experts	43

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering of our common units. The second part is the accompanying prospectus, which gives more general information, some of which may not apply to this offering of common units. If the information varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement.

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus or any free writing prospectus prepared by or on behalf of us. We have not authorized anyone to provide you with additional or different information. We are not making an offer to sell these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date on the front of these documents or that any information we have incorporated by reference is accurate as of any date other than the date of the document incorporated by reference. Our business, financial condition, results of operations and prospects may have changed since these dates.

Table of Contents

SUMMARY

This summary highlights information from this prospectus supplement and the accompanying prospectus to help you understand our business and the common units. It does not contain all of the information that is important to you. You should read carefully the entire prospectus supplement, the accompanying prospectus, the documents incorporated by reference and the other documents to which we refer for a more complete understanding of this offering and our business. You should read Risk Factors beginning on page S-9 of this prospectus supplement and page 2 of the accompanying prospectus for more information about important risks that you should consider before making a decision to purchase common units in this offering.

The information presented in this prospectus supplement assumes that the underwriters do not exercise their option to purchase additional common units, unless otherwise indicated. Our, we, us and Enterprise as used in this prospectus supplement and the accompanying prospectus refer to Enterprise Products Partners L.P., its wholly owned subsidiaries and its investments in unconsolidated affiliates, including Duncan Energy Partners L.P. (NYSE: DEP) (Duncan Energy Partners), a publicly traded, consolidated subsidiary of Enterprise. References to EPO are intended to mean the consolidated business and operations of our primary operating subsidiary, Enterprise Products Operating LLC (successor to Enterprise Products Operating L.P.).

Enterprise Products Partners L.P.

We are a North American midstream energy company that provides a wide range of services to producers and consumers of natural gas, natural gas liquids, or NGLs, crude oil and certain petrochemicals. We are an industry leader in the development of pipeline and other midstream infrastructure in the continental United States and Gulf of Mexico. Our midstream asset network links producers of natural gas, NGLs and crude oil from some of the largest supply basins in the United States, Canada and the Gulf of Mexico with domestic consumers and international markets. We operate an integrated midstream asset network within the United States that includes: natural gas gathering, treating, processing, transportation and storage; NGL fractionation (or separation), transportation, storage, and import and export terminaling; crude oil transportation; offshore production platform services; and petrochemical transportation and services. NGL products (ethane, propane, normal butane, isobutane and natural gasoline) are used as raw materials by the petrochemical industry, as feedstocks by refiners in the production of motor gasoline and as fuel by industrial and residential users.

For the year ended December 31, 2008 and six months ended June 30, 2009, we had consolidated revenues of $21.9 billion and $6.9 billion, operating income of $1.4 billion and $700.5 million and net income attributable to Enterprise of $954.0 million and $411.9 million, respectively.

Our Business Segments

We have four reportable business segments: (i) NGL Pipelines & Services; (ii) Onshore Natural Gas Pipelines & Services; (iii) Offshore Pipelines & Services; and (iv) Petrochemical Services. Our business segments are generally organized and managed along our asset base according to the type of services rendered (or technology employed) and products produced and/or sold.

NGL Pipelines & Services. Our NGL Pipelines & Services business segment includes our (i) natural gas processing business and related NGL marketing activities, (ii) NGL pipelines aggregating approximately 13,758 miles and related storage facilities, including our Mid-America Pipeline System, (iii) NGL and related product storage facilities and (iv) NGL fractionation facilities located in Texas and Louisiana. This segment also includes our import and export

terminal operations.

Onshore Natural Gas Pipelines & Services. Our Onshore Natural Gas Pipelines & Services business segment includes approximately 17,758 miles of onshore natural gas pipeline systems that provide for the gathering and transmission of natural gas in Alabama, Colorado, Louisiana, Mississippi, New Mexico, Texas and Wyoming. In addition, we own two salt dome natural gas storage facilities located in Mississippi and lease

natural gas storage facilities located in Texas and Louisiana. This segment also includes our natural gas marketing activities.

Offshore Pipelines & Services. Our Offshore Pipelines & Services business segment includes (i) approximately 1,555 miles of offshore natural gas pipelines strategically located to serve production areas including some of the most active drilling and development regions in the Gulf of Mexico, (ii) approximately 914 miles of offshore Gulf of Mexico crude oil pipeline systems and (iii) six multi-purpose offshore hub platforms located in the Gulf of Mexico with crude oil or natural gas processing capabilities.

Petrochemical Services. Our Petrochemical Services business segment includes five propylene fractionation facilities, an isomerization complex and an octane additive production facility. This segment also includes approximately 683 miles of petrochemical pipeline systems.

We provide the foregoing services directly and through our subsidiaries and unconsolidated affiliates.

Our Strategy

Our business strategies are to:

- capitalize on expected increases in natural gas, NGL and crude oil production resulting from development activities in the Rocky Mountain region and U.S. Gulf Coast regions, including the Gulf of Mexico;
- capitalize on expected demand growth for natural gas, NGLs, crude oil and refined products;
- maintain a diversified portfolio of midstream energy assets and expand this asset base through growth capital projects and accretive acquisitions of complementary midstream energy assets;
- share capital costs and risks through joint ventures or alliances with strategic partners, including those that will provide the raw materials for these growth projects or purchase the projects end products; and
- increase fee-based cash flows by investing in pipelines and other fee-based businesses.

Competitive Strengths

We believe we have the following competitive strengths:

Large-Scale, Integrated Network of Diversified Assets in Strategic Locations. We operate an integrated natural gas and NGL transportation, fractionation, processing, storage and import/export network within the United States. Our operations are strategically located to serve the major supply basins for NGL-rich natural gas, the major NGL storage hubs in North America and international markets. We believe that our location in these markets provides access to natural gas, NGL and petrochemical supply volumes, anticipated demand growth and business expansion opportunities.

Fee-Based Businesses and Diversified Asset Mix. The majority of our cash flow is derived from fee-based businesses that are not directly affected by volatility in energy commodity prices. We have a diversified asset portfolio that provides operating income from a broad range of geographic areas and lines of business.

Relationships with Major Oil, Natural Gas and Petrochemical Companies. We have long-term relationships with many of our suppliers and customers, and we believe that we will continue to benefit from these relationships. We

jointly own facilities with many of our customers who either provide raw materials to, or consume the end products from, our facilities. These joint venture partners include major oil, natural gas and petrochemical companies, including BP, Chevron, ConocoPhillips, Spectra Energy, Dow Chemical, El Paso Corporation, ExxonMobil, Marathon and Shell.

Strategic Platform for Continued Expansion. We have strong business positions across our midstream energy asset base in key producing and consuming regions in North America. In addition, we have approximately $2.0 billion of growth capital projects that have commenced, or are anticipated to commence, commercial operations in 2009. A significant amount of the capital associated with these projects has already

been funded. These growth projects include the expansion of our Texas Intrastate natural gas pipeline system in the prolific Barnett Shale region, our Meeker natural gas processing plant, the Exxon central treating facility in the Piceance basin of Colorado and the Shenzi crude oil pipeline in the Gulf of Mexico.

Large, Investment Grade Partnership with Demonstrated Access to Capital. We are one of the largest publicly traded energy partnerships in the United States with over $19 billion in total assets. Our senior unsecured debt is rated investment grade by Moody s Investors Service (Baa3), Standard & Poor s (BBB-) and Fitch Ratings (BBB-). We have demonstrated our access to debt and equity capital during volatile periods.

Lower Cost of Equity Capital. We believe that our general partner s maximum incentive distribution level of 25% (as compared to 50% for most publicly traded master limited partnerships) provides us with a lower cost of equity capital than many of our competitors, enabling us to compete more effectively in acquiring assets and expanding our asset base.

Experienced Management Team with Significant Ownership Interest. Historically, we have operated most of our pipelines and our largest natural gas processing and fractionation facilities. As the leading provider of midstream energy services, we have established a reputation in the industry as a reliable and cost-effective operator. The officers of our general partner average more than 27 years of industry experience. Following this offering, Dan L. Duncan, our co-founder and the Chairman of our general partner, and his affiliates, including EPCO, Inc., or EPCO, and Enterprise GP Holdings L.P. (NYSE: EPE), or Enterprise GP Holdings, collectively will own or control an approximate 34.5% limited partner interest in us.

Recent Developments

Proposed Merger of TEPPCO and TEPPCO GP with Enterprise

On June 28, 2009, we, Enterprise Products GP, LLC, our general partner (EPGP), and two of our subsidiaries entered into definitive merger agreements with TEPPCO Partners, L.P. (TEPPCO) and Texas Eastern Products Pipeline Company, LLC, which is the general partner of TEPPCO (TEPPCO GP).

TEPPCO is a publicly traded, diversified energy logistics company with operations that span much of the continental United States. TEPPCO s limited partner units are listed on the NYSE under the ticker symbol TPP. TEPPCO owns and operates an extensive network of assets that facilitate the movement, marketing, gathering and storage of various commodities and energy-related products. TEPPCO s pipeline network is comprised of approximately 12,500 miles of pipelines that gather and transport refined petroleum products, crude oil, natural gas, liquefied petroleum gases, referred to as LPGs, and natural gas liquids, referred to as NGLs, including one of the largest common carrier pipelines for refined petroleum products and LPGs in the United States. TEPPCO also owns a marine transportation business that transports petroleum products and provides marine vessel fueling and other ship-assist services. TEPPCO also owns interests in Seaway Crude Pipeline Company, Centennial Pipeline LLC, Jonah Gas Gathering Company and an undivided ownership interest in the Basin Pipeline. TEPPCO operates and reports in four business segments:

- pipeline transportation, marketing and storage of refined products, LPGs and petrochemicals;
- gathering, pipeline transportation, marketing and storage of crude oil, distribution of lubrication oils and specialty chemicals and fuel transportation services;
- gathering of natural gas, fractionation of NGLs and pipeline transportation of NGLs; and

marine transportation of petroleum products and provision of marine vessel fueling and other ship-assist services.

TEPPCO operates principally through four operating subsidiaries. TEPPCO s interstate pipeline transportation operations, including rates charged to customers, are subject to regulations prescribed by the Federal Energy Regulatory Commission.

Subject to completion of the proposed merger, the combined partnership would own almost 48,000 miles of pipelines comprised of over 22,000 miles of NGL, refined product and petrochemical pipelines, over 20,000 miles of natural gas pipelines and more than 5,000 miles of crude oil pipelines. The merged

Table of Contents

partnership s logistical assets would include approximately 200 million barrels of NGL, refined product and crude oil storage capacity; 27 billion cubic feet of natural gas storage capacity; one of the largest NGL import/export terminals in the U.S., located on the Houston Ship Channel; 60 NGL, refined product and chemical terminals spanning the U.S. from the west coast to the east coast; and crude oil import terminals on the Texas Gulf Coast. The combined partnership would own interests in 17 fractionation plants with over 600,000 barrels per day of net capacity; 25 natural gas processing plants with a net capacity of approximately 9 billion cubic feet per day; and three butane isomerization facilities with a capacity of 116,000 barrels per day. The combined partnership would also be one of the largest inland tank barge companies in the U.S. For the year ended December 31, 2008 and the six months ended June 30, 2009, TEPPCO had consolidated operating revenues of $13.5 billion and $3.4 billion, operating income of $253.4 million and $141.6 million and net income of $193.6 million and $89.4 million, respectively. For the year ended December 31, 2008 and the six months ended June 30, 2009, the combined partnership had pro forma consolidated operating revenues of $35.5 billion and $10.3 billion, pro forma operating income of $1.7 billion and $854.6 million and pro forma net income of $1.2 billion and $526.5 million, respectively.

Under the terms of the definitive agreements, TEPPCO and TEPPCO GP would become our wholly owned subsidiaries and each of TEPPCO s unitholders, except for a certain privately held affiliate of EPCO, would receive 1.24 of our common units for each TEPPCO unit. A privately held affiliate of EPCO would exchange its 11,486,711 TEPPCO units for 14,243,521 of our limited partner units, based on the 1.24 exchange rate, consisting of 9,723,090 of our common units and 4,520,431 of our Class B units. The Class B units will not be entitled to regular quarterly cash distributions for the first sixteen quarters following the closing of the merger. The Class B units would convert automatically into the same number of common units on the date immediately following the payment date for the sixteenth quarterly distribution following the closing of the merger. The Class B units will be entitled to vote together with the common units as a single class on partnership matters and, except for the payment of distributions, will have the same rights and privileges as our common units. No fractional common units would be issued in the proposed merger, and TEPPCO unitholders would, instead, receive cash in lieu of fractional common units, if any. The proposed merger will be accounted for as a reorganization of entities under common control in a manner similar to a pooling of interests. The financial and operating policies of Enterprise, TEPPCO, Enterprise GP Holdings and their respective general partners, and EPCO and its privately held subsidiaries, are under common control of Mr. Duncan.

Under the terms of the definitive agreements, Enterprise GP Holdings would receive 1,331,681 of our common units and an increase in the capital account of EPGP to maintain its 2% general partner interest in us as consideration for 100% of the membership interests of TEPPCO GP. The respective Audit, Conflicts and Governance (ACG) Committees of EPGP and Enterprise GP Holdings each voted unanimously to approve the merger and a Special Committee of the ACG Committee of TEPPCO GP voted unanimously to recommend the merger.

Following the closing of the proposed merger, based on our common units outstanding as of September 18, 2009, we expect affiliates of EPCO would own approximately 31.5% of our outstanding limited partner units, including 3.2% owned by Enterprise GP Holdings.

Completion of the proposed merger is subject to the approval of holders of at least a majority of the outstanding TEPPCO units. In addition, pursuant to the merger agreement providing for the merger of TEPPCO, the number of votes actually cast in favor of the merger agreement by TEPPCO s unitholders (excluding specified unitholders affiliated with EPCO and other specified officers and directors of TEPPCO GP, Enterprise GP Holdings and us) must exceed the number of votes actually cast against the merger agreement by such unaffiliated TEPPCO unitholders. Affiliates of EPCO, including Enterprise GP Holdings, have executed a support agreement in which they have agreed to vote their units in favor of the merger agreement and in which Enterprise GP Holdings acknowledges and agrees that it has executed a written consent as the sole member of TEPPCO GP approving the merger agreement to merge TEPPCO GP with us. The closing is also subject to customary regulatory approvals, including those under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. Subject to the receipt of regulatory and

TEPPCO unitholder approvals, completion of the proposed merger is expected to occur during the fourth quarter of 2009.

The merger agreement providing for the merger of TEPPCO contains provisions granting both TEPPCO and us the right to terminate the agreement for certain reasons, including, among others, (i) if TEPPCO s merger into our subsidiary has not occurred on or before December 31, 2009 and (ii) TEPPCO s failure to obtain unitholder approval as described above.

A special meeting of TEPPCO unitholders to vote on the proposed merger has been scheduled for October 23, 2009.

For information regarding the pro forma effects of the proposed merger, please see the unaudited pro forma condensed consolidated financial statements incorporated by reference in this prospectus supplement from Enterprise s Current Report on Form 8-K filed with the SEC on September 21, 2009.

Loan Agreement with TEPPCO

On August 5, 2009, EPO entered into a loan agreement with TEPPCO under which EPO agreed to make an unsecured revolving loan to TEPPCO in an aggregate maximum outstanding principal amount not to exceed $100.0 million. Borrowings under the loan agreement mature on the earliest to occur of (i) the consummation of our proposed merger with TEPPCO, (ii) the termination of the related merger agreement in accordance with the provisions thereof, (iii) December 31, 2009, (iv) the date upon which the maturity of the loan is otherwise accelerated upon an event of default, and (v) the date upon which EPO s commitment to make the loan is terminated by TEPPCO pursuant to the loan agreement. Borrowings under the loan agreement will bear interest at a floating rate equivalent to the one-month LIBOR Rate (as defined in the loan agreement) plus 2%. Interest is payable monthly.

The loan agreement provides that amounts borrowed are non-recourse to TEPPCO GP and TEPPCO s limited partners. The loan agreement contains customary events of default, including (i) nonpayment of principal when due or nonpayment of interest or other amounts within three business days of when due, (ii) bankruptcy or insolvency with respect to TEPPCO, (iii) a change of control, or (iv) an event of default under TEPPCO s revolving credit facility. Any amounts due by TEPPCO under the loan agreement will be unconditionally and irrevocably guaranteed by each TEPPCO subsidiary that guarantees TEPPCO s obligations under its revolving credit facility. EPO s obligation to fund any borrowings under the loan agreement is subject to specified conditions, including the condition that, on and as of the applicable date of funding, no additional amounts are available to TEPPCO pursuant to TEPPCO s revolving credit facility (either as borrowings or under any letters of credit).

The execution of the loan agreement was unanimously approved by the ACG Committees of EPGP and TEPPCO GP.

TOPS Settlement

As previously disclosed, in August 2008, a subsidiary of Enterprise, a subsidiary of TEPPCO and a subsidiary of Oiltanking Holding Americas, Inc. (Oiltanking) formed the Texas Offshore Port System (TOPS) to design, construct, own and operate a Texas offshore crude oil port and pipeline system to facilitate delivery of waterborne crude oil to refining centers along the upper Texas Gulf Coast. The total cost of the project was estimated at $1.8 billion.

In April 2009, the Enterprise and TEPPCO subsidiaries each elected to dissociate from the TOPS partnership. In response, Oiltanking filed an original petition against certain affiliates of Enterprise and TEPPCO in the District Court of Harris County, Texas, 61st Judicial District (Cause No. 2009-31367), asserting, among other things, that the dissociation was wrongful and in breach of the TOPS partnership agreement.

On September 17, 2009, the Enterprise and TEPPCO affiliate parties to the suit entered into a settlement with Oiltanking and TOPS, which resolved all disputes between the parties related to the business and affairs of the TOPS project (including the litigation described above). As a result, each of Enterprise and TEPPCO expects to recognize

approximately $33.5 million in expense during the third quarter of 2009 in connection with the settlement.

Table of Contents

Organizational Structure

The following chart depicts our organizational structure and ownership after giving effect to this offering, but does not give effect to the proposed TEPPCO merger.

The table below shows the ownership of our common units as of September 18, 2009 and after giving effect to this offering.

	Current Ownership		Ownership after the Offering	
	Units	Percentage Interest	Units	Percentage Interest
Public common units	301,631,142	62.9%	308,881,142	63.5%
EPCO common units(1)	154,033,304	32.2%	154,033,304	31.6%
Enterprise GP Holdings common units	13,952,402	2.9%	13,952,402	2.9%
General partner interest(2)		2.0%		2.0%
Total	469,616,848	100.0%	476,866,848	100.0%

(1) Includes common units in us beneficially owned by Dan L. Duncan, related family trusts and other EPCO affiliates (excluding Enterprise GP Holdings).

(2) Does not include EPGP s incentive distribution rights above the minimum quarterly distribution. With respect to the quarter ended June 30, 2009, EPGP received 14.7% of the cash we distributed to our partners on August 7, 2009.

Information regarding our management is set forth under Management in this prospectus supplement. Our partnership s principal offices are located at 1100 Louisiana Street, 10th Floor, Houston, Texas 77002, and our telephone number is (713) 381-6500.

Table of Contents

The Offering

Common units offered	7,250,000 common units; or 8,337,500 common units if the underwriters exercise their option to purchase up to an additional 1,087,500 common units in full.
Common units outstanding after this offering	476,866,848 common units or 477,954,348 common units if the underwriters exercise their option to purchase up to an additional 1,087,500 common units in full.
Use of proceeds	We expect to use the net proceeds from this offering, including our general partner s proportionate capital contribution and any exercise of the underwriters over-allotment option, to temporarily reduce borrowings outstanding under our multi-year revolving credit facility and for general partnership purposes. Affiliates of certain of the underwriters are lenders under our multi-year revolving credit facility and, accordingly, will receive a substantial portion of the proceeds of this offering. Please read Use of Proceeds and Underwriting.
Cash distributions	Under our partnership agreement, we must distribute all of our cash on hand as of the end of each quarter, less reserves established by our general partner. We refer to this cash as available cash, and we define its meaning in our partnership agreement. On August 7, 2009, we paid a quarterly cash distribution with respect to the second quarter of 2009 of $0.545 per common unit, or $2.18 per unit on an annualized basis, which represents a 5.8% increase over the $0.515 per unit quarterly distribution with respect to the second quarter of 2008. When quarterly cash distributions exceed $0.253 per unit in any quarter, our general partner receives a higher percentage of the cash distributed in excess of that amount, in increasing percentages up to 25% if the quarterly cash distributions exceed $0.3085 per unit. For a description of our cash distribution policy, please read Cash Distribution Policy in the accompanying prospectus.
Estimated ratio of taxable income to distributions	We estimate that if you own the common units you purchase in this offering through December 31, 2011, you will be allocated, on a cumulative basis, an amount of federal taxable income for the taxable years 2009 through 2011 that will be less than 10% of the cash distributed with respect to that period. Please read Material Tax Consequences in this prospectus supplement for the basis of this estimate.
New York Stock Exchange symbol	EPD
Risk factors	Investing in our common units involves certain risks. You should carefully consider the risk factors discussed under the heading Risk Factors beginning on page S-9 of this prospectus supplement and on

page 2 of the accompanying prospectus and other information contained or incorporated by reference in this prospectus supplement before deciding to invest in our common units.

Table of Contents

Conflicts of interest

Some of the underwriters and their affiliates have performed investment banking, commercial banking and advisory services for us and our affiliates from time to time for which they have received customary fees and expenses. The underwriters and their affiliates may, from time to time in the future, engage in transactions with and perform services for us and our affiliates in the ordinary course of business. Affiliates of Morgan Stanley & Co. Incorporated, Barclays Capital Inc., Citigroup Global Markets Inc., Wells Fargo Securities, LLC and other co-managers are lenders under our multi-year revolving credit facility. These affiliates will receive their respective share of any repayment by us of amounts outstanding under the multi-year revolving credit facility from the proceeds of this offering. Because we intend to use the net proceeds from this offering to reduce indebtedness owed by us under our multi-year revolving credit facility, each of the underwriters whose affiliates will receive at least 5% of the net proceeds is considered by the Financial Industry Regulatory Authority, or FINRA, to have a conflict of interest with us in regards to this offering. However, no qualified independent underwriter is needed for this offering because there is a bona fide public market for our common units as defined in NASD Conduct Rule 2720(f)(3).

RISK FACTORS

An investment in our common units involves certain risks. You should carefully consider the supplemental risks described below in addition to the risks described under Risk Factors in the accompanying prospectus and in our annual report on Form 10-K for the year ended December 31, 2008, and our subsequent quarterly reports on Form 10-Q, which are incorporated by reference herein, as well as the other information contained in or incorporated by reference into this prospectus supplement and the accompanying prospectus. If any of these risks were to materialize, our business, results of operations, cash flows and financial condition could be materially adversely affected. In that case, the trading price of our common units could decline, and you could lose part or all of your investment.

Risks Related to Our Business

Our future debt level may limit our future financial and operating flexibility.

As of June 30, 2009, we had approximately $8.1 billion of consolidated total senior long-term debt principal outstanding, including current maturities, and approximately $1.2 billion of junior subordinated debt principal outstanding. This amount includes approximately $466.8 million outstanding under Duncan Energy Partners revolving credit facility and term loan. As discussed further below, we may incur additional indebtedness upon the closing of the merger with TEPPCO. The amount of our future debt could have significant effects on our operations, including, among other things:

- a substantial portion of our cash flow, including that of Duncan Energy Partners, could be dedicated to the payment of principal and interest on our future debt and may not be available for other purposes, including the payment of distributions on our common units and capital expenditures;
- credit rating agencies may view our consolidated debt level negatively;
- covenants contained in our existing and future credit and debt arrangements will require us to continue to meet financial tests that may adversely affect our flexibility in planning for and reacting to changes in our business, including possible acquisition opportunities;
- our ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes may be impaired or such financing may not be available on favorable terms;
- we may be at a competitive disadvantage relative to similar companies that have less debt; and
- we may be more vulnerable to adverse economic and industry conditions as a result of our significant debt level.

Our public debt indentures currently do not limit the amount of future indebtedness that we can create, incur, assume or guarantee. Although our credit agreements restrict our ability to incur additional debt above certain levels, any debt we may incur in compliance with these restrictions may still be substantial.

Our credit agreements and each of our indentures for our public debt contain conventional financial covenants and other restrictions. For example, we are prohibited from making distributions to our partners if such distributions would cause an event of default or otherwise violate a covenant under our credit agreements. A breach of any of these

restrictions by us could permit our lenders or noteholders, as applicable, to declare all amounts outstanding under these debt agreements to be immediately due and payable and, in the case of our credit agreements, to terminate all commitments to extend further credit.

Our ability to access capital markets to raise capital on favorable terms could be affected by our debt level, the amount of our debt maturing in the next several years and current maturities, and by prevailing market conditions. Moreover, if the rating agencies were to downgrade our credit ratings, then we could experience an increase in our borrowing costs, difficulty assessing capital markets or a reduction in the market price of our common units. Such a development could adversely affect our ability to obtain financing for working capital, capital expenditures or acquisitions or to refinance existing indebtedness. If we are unable to access the capital markets on favorable terms in the future, we might be forced to seek extensions for some of

Table of Contents

our short-term securities or to refinance some of our debt obligations through bank credit, as opposed to long-term public debt securities or equity securities. The price and terms upon which we might receive such extensions or additional bank credit, if at all, could be more onerous than those contained in existing debt agreements. Any such arrangements could, in turn, increase the risk that our leverage may adversely affect our future financial and operating flexibility and thereby impact our ability to pay cash distributions at expected levels.

Risks Related to the Proposed Merger with TEPPCO

The transactions contemplated by the merger agreement may not be approved by the TEPPCO unitholders, and may not be consummated even if TEPPCO unitholders approve the merger agreement and the merger.

Completion of the proposed merger with TEPPCO is subject to the approval of holders of at least a majority of the outstanding TEPPCO units. In addition, pursuant to the merger agreement providing for the merger of TEPPCO, the number of votes actually cast in favor of the merger agreement by TEPPCO s unitholders (excluding specified unitholders affiliated with EPCO and other specified officers and directors of TEPPCO GP, Enterprise GP Holdings and us) must exceed the number of votes actually cast against the merger agreement by such unaffiliated TEPPCO unitholders. If the required approval of TEPPCO unitholders is not obtained, the merger will not be consummated. Further, the merger agreement contains conditions that, if not satisfied or waived, would result in the merger not occurring, even though TEPPCO s unitholders may have voted in favor of the merger agreement. In addition, TEPPCO and Enterprise can agree not to consummate the merger even if TEPPCO unitholders approve the merger agreement and the merger. The closing conditions to the merger may not be satisfied, and any unsatisfied conditions may not be waived, which may cause the merger not to occur.

Failure to complete the merger or delays in completing the merger could negatively impact the price of Enterprise common units and future business and operations.

If the merger is not completed for any reason, Enterprise may be subject to a number of material risks, including the following:

- the individual companies will not realize the benefits expected from the merger, including a potentially enhanced financial and competitive position;
- the price of Enterprise s common units may decline to the extent that the current market price of these securities reflects a market assumption that the merger will be completed; and
- some costs relating to the merger, such as certain investment banking fees and legal and accounting fees, must be paid even if the merger is not completed.

In addition, current and prospective employees of Enterprise and TEPPCO may experience uncertainty about their future roles with Enterprise and/or TEPPCO until after the merger is completed or if the merger is not completed. This may adversely affect the ability of Enterprise and TEPPCO to attract and retain key personnel.

The failure to obtain required regulatory approvals in a timely manner or any materially burdensome conditions contained in any regulatory approvals could delay or prevent completion of the merger and diminish the anticipated benefits of the merger.

Completion of the merger is conditioned upon the receipt of required governmental consents, approvals, orders and authorizations, including the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, or the HSR Act. On August 31, 2009, Enterprise and TEPPCO filed

the required notification forms under the HSR Act relating to the merger with the Federal Trade Commission, or FTC, and the Antitrust Division of the Department of Justice, or DOJ. Although Enterprise and TEPPCO have agreed in the merger agreement to use their reasonable best efforts to obtain the requisite regulatory approvals, there can be no assurance that these approvals will be obtained in a

timely manner. The requirement to receive these approvals before the merger could delay the completion of the merger, possibly for a significant period of time after TEPPCO s unitholders have approved the merger agreement and the merger. Any delay in the completion of the merger could diminish anticipated benefits of the merger or result in additional transaction costs, loss of revenue or other effects associated with uncertainty about the transaction. Any uncertainty over the ability of the partnerships to complete the merger could make it more difficult for them to retain key employees or to pursue business strategies. In addition, at any time before or after completion of the merger, the DOJ, the FTC or any state antitrust authorities could take action under the antitrust laws as they deem necessary or desirable in the public interest, including seeking to enjoin or rescind the merger or divestiture of material assets of Enterprise or TEPPCO, imposing other conditions on the completion of the merger or requiring changes to the terms of the merger. If Enterprise or TEPPCO becomes subject to any material conditions in order to obtain any approvals required to complete the merger, the business and results of operations of the combined company may be adversely affected.

Enterprise s growth strategy may adversely affect its results of operations if it does not successfully integrate TEPPCO.

Enterprise may be unable to successfully integrate TEPPCO or other businesses that it acquires in the future. Enterprise may incur substantial expenses or encounter delays or other problems in connection with its growth strategy that could negatively impact its financial position, results of operations and cash flows.

Moreover, the merger involves numerous risks, including but not limited to:

- difficulties in the assimilation of the operations, technologies, services and products of TEPPCO;
- experiencing operational interruptions or the loss of key employees, customers or suppliers;
- inefficiencies and complexities that can arise because of unfamiliarity with new assets and the businesses associated with them, including with their markets; and
- diversion of the attention of management and other personnel from day-to-day business to the development or acquisition of new businesses and other business opportunities.

In addition, any anticipated benefits of the merger, such as expected cost savings, may not be fully realized, if at all.

Enterprise will have substantial debt after the merger, which could have a material adverse effect on its financial health and limit its future operations.

Following the completion of the merger, Enterprise will have a substantially increased level of consolidated debt, including TEPPCO s outstanding senior notes and junior subordinated notes. In connection with the merger, Enterprise is considering alternatives to make the TEPPCO notes rank pari passu with our other senior and subordinated indebtedness, as applicable. On a pro forma basis, Enterprise s consolidated long-term debt as of June 30, 2009 would have been approximately $12.1 billion. The amount of Enterprise s future debt could have significant effects on its operations, including, among other things:

- a substantial portion of Enterprise s cash flow, including that of Duncan Energy Partners L.P., could be dedicated to the payment of principal and interest on its future debt and may not be available for other purposes, including the payment of distributions on Enterprise s common units and capital expenditures;
- credit rating agencies may view Enterprise s consolidated debt level negatively;

covenants contained in Enterprise s credit and debt agreements will require Enterprise to continue to meet financial tests that may adversely affect its flexibility in planning for and reacting to changes in its business, including possible acquisition opportunities;

Enterprise s ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes may be impaired or such financing may not be available on favorable terms;

- Enterprise may be at a competitive disadvantage relative to similar companies that have less debt; and

- Enterprise may be more vulnerable to adverse economic and industry conditions as a result of Enterprise s significant debt level.

Enterprise s public debt indentures currently do not limit the amount of future indebtedness that it can create, incur, assume or guarantee. Although the multi-year revolving credit facility of EPO will restrict Enterprise s ability to incur additional debt above certain levels, any debt Enterprise may incur in compliance with these restrictions could be substantial.

EPO s multi-year revolving credit facility and each of its indentures for public debt contain customary financial covenants and other restrictions. As a result, Enterprise will be prohibited from making distributions to its partners if such distributions would cause an event of default or otherwise violate a covenant under such agreements. In addition, under the terms of EPO s junior subordinated notes, generally, if Enterprise elects to defer interest payments thereon, Enterprise will be restricted from making distributions with respect to its equity securities. A breach of any of these restrictions by Enterprise could permit Enterprise s lenders or noteholders, as applicable, to declare all amounts outstanding under these debt agreements to be immediately due and payable and, in the case of EPO s multi-year revolving credit facility, to terminate all commitments to extend further credit.

Enterprise s ability to access capital on favorable terms could be affected by Enterprise s debt level, the timing of its debt maturities, and by prevailing market conditions. Moreover, if the rating agencies were to downgrade Enterprise s credit ratings, then Enterprise could experience an increase in its borrowing costs, difficulty assessing capital markets or a reduction in the market price of its common units. Such a development could adversely affect Enterprise s ability to obtain financing for working capital, capital expenditures or acquisitions or to refinance existing indebtedness. If Enterprise is unable to access the capital markets on favorable terms in the future, it might be forced to seek extensions for some of its short-term securities or to refinance some of Enterprise s debt obligations through bank credit, as opposed to long-term public debt securities or equity securities. The price and terms upon which Enterprise might receive such extensions or additional bank credit, if at all, could be more onerous than those contained in existing debt agreements. Any such arrangements could, in turn, increase the risk that Enterprise s leverage may adversely affect its future financial and operating flexibility and thereby impact Enterprise s ability to pay cash distributions at expected levels.

While the merger agreement is in effect, Enterprise may be limited in its ability to pursue other attractive business opportunities.

Enterprise has agreed to refrain from taking certain actions with respect to its business and financial affairs pending completion of the merger or termination of the merger agreement. These restrictions and the non-solicitation provisions could be in effect for an extended period of time if completion of the merger is delayed.

In addition to the economic costs associated with pursuing a merger, Enterprise s management is devoting substantial time and other human resources to the proposed transaction and related matters, which could limit Enterprise s ability to pursue other attractive business opportunities, including potential joint ventures, stand-alone projects and other transactions. If Enterprise is unable to pursue such other attractive business opportunities, then its growth prospects and the long-term strategic position of its business and the combined business could be adversely affected.

Table of Contents

Substantially all of the common units of Enterprise that are owned or will be owned by EPCO and certain of its affiliates before and after giving effect to the merger are pledged or will be pledged as security under the credit facility of an affiliate of EPCO. Additionally, all of the member interests in the general partner of Enterprise and all of the common units in Enterprise that are owned by Enterprise GP Holdings are pledged under its credit facility. Upon an event of default under either of these credit facilities, a change in ownership or control of Enterprise or us could ultimately result.

An affiliate of EPCO has pledged substantially all of its common units in Enterprise (as well as TEPPCO units and member interests in TEPPCO GP that will be exchanged in connection with the merger for Enterprise common units or Class B units) as security under its credit facility. This credit facility contains customary and other events of default relating to defaults of the borrower, including certain defaults by Enterprise and other affiliates of EPCO. An event of default, followed by a foreclosure on the pledged collateral, could ultimately result in a change in ownership of Enterprise. In addition, the 100% membership interest in our general partner and 13,454,498 Enterprise common units that are owned by Enterprise GP Holdings are pledged under Enterprise GP Holdings credit facility. Enterprise GP Holdings credit facility contains customary and other events of default. Upon an event of default, the lenders under Enterprise GP Holdings credit facility could foreclose on Enterprise GP Holdings assets, which could ultimately result in a change in control of our general partner and a change in the ownership of Enterprise common units held by Enterprise GP Holdings.

Table of Contents

USE OF PROCEEDS

We will receive net proceeds of approximately $ million from the sale of 7,250,000 common units in this offering (including a net capital contribution of $ million from our general partner to maintain its 2% general partner interest), after deducting underwriting discounts, commissions and estimated offering expenses payable by us. If the underwriters exercise their over-allotment option in full, we will receive net proceeds of approximately $ million, including a proportionate net capital contribution of $ million from our general partner. We will use the net proceeds of this offering, including any exercise of the underwriters over-allotment option, to temporarily reduce borrowings outstanding under our multi-year revolving credit facility and for general partnership purposes.

In general, our indebtedness under the multi-year revolving credit facility was incurred for working capital purposes, capital expenditures and other acquisitions. Amounts repaid under our multi-year revolving credit facility may be reborrowed from time to time for acquisitions, capital expenditures and other general partnership purposes. As of September 18, 2009, we had $842.0 million of borrowings outstanding under our multi-year revolving credit facility that bears interest at a variable rate, which on a weighted-average basis was approximately 0.8% per annum. Our multi-year revolving credit facility will mature in November 2012.

Affiliates of certain of the underwriters are lenders under our multi-year revolving credit facility and, accordingly, will receive a substantial portion of the proceeds of this offering. Please read Underwriting.

Table of Contents

PRICE RANGE OF COMMON UNITS AND DISTRIBUTIONS

On September 18, 2009, we had 469,616,848 common units outstanding held by approximately 1,040 holders of record. Our common units are traded on the New York Stock Exchange under the symbol EPD.

The following table sets forth, for the periods indicated, the high and low sales price ranges for our common units, as reported on the New York Stock Exchange Composite Transaction Tape, and the amount, record date and payment date of the quarterly cash distributions paid per common unit. The last reported sales price of our common units on the New York Stock Exchange on September 18, 2009 was $28.76 per common unit.

	Price Ranges		Cash Distribution History		
	High	Low	Per Unit	Record Date	Payment Date
2006					
1st Quarter	$ 26.00	$ 23.69	$ 0.4450	April 28, 2006	May 10, 2006
2nd Quarter	25.71	23.76	0.4525	July 31, 2006	August 10, 2006
3rd Quarter	27.06	25.00	0.4600	October 31, 2006	November 8, 2006
4th Quarter	29.98	26.05	0.4675	January 31, 2007	February 8, 2007
2007					
1st Quarter	$ 32.75	$ 28.06	$ 0.4750	April 30, 2007	May 10, 2007
2nd Quarter	33.35	30.22	0.4825	July 31, 2007	August 9, 2007
3rd Quarter	33.70	26.14	0.4900	October 31, 2007	November 8, 2007
4th Quarter	32.45	29.92	0.5000	January 31, 2008	February 7, 2008
2008					
1st Quarter	$ 32.63	$ 26.75	$ 0.5075	April 30, 2008	May 7, 2008
2nd Quarter	32.64	29.04	0.5150	July 31, 2008	August 7, 2008
3rd Quarter	30.07	22.58	0.5225	October 31, 2008	November 12, 2008
4th Quarter	26.30	16.00	0.5300	January 30, 2009	February 9, 2009
2009					
1st Quarter	$ 24.20	$ 17.71	$ 0.5375	April 30, 2009	May 8, 2009
2nd Quarter	26.55	21.10	0.5450	July 31, 2009	August 7, 2009
3rd Quarter (through September 18)	29.45	24.50			

Table of Contents

CAPITALIZATION

The following table sets forth our capitalization as of June 30, 2009 (dollars in millions):

- on a consolidated historical basis; and
- on an as adjusted basis to give effect to: the sale of 7,250,000 common units in this offering at the public offering price of $ per common unit; our general partner s proportionate net capital contribution of $ million; and the application of $ million of the net proceeds of $ million (before exercise of the underwriters option to purchase additional common units) to temporarily reduce debt under our multi-year revolving credit facility.

The historical data in the table on the following page are derived from and should be read in conjunction with our historical financial statements, including the accompanying notes, incorporated by reference in this prospectus supplement. You should read Enterprise s financial statements and accompanying notes that are incorporated by reference in this prospectus supplement for additional information regarding Enterprise s capital structure. The historical data below does not reflect events after June 30, 2009. In addition, the historical and as adjusted data does not include the effects of the proposed merger of TEPPCO with Enterprise.

Table of Contents

	As of June 30, 2009	
	Historical	As Adjusted
	(Unaudited)	
	(Dollars in millions)	
Cash and cash equivalents	$ 65.0	$
Long-term borrowings:		
Multi-Year Revolving Credit Facility, variable rate, due November 2012(1)	$ 853.2	$
Pascagoula MBFC Loan, 8.70% fixed-rate, due March 2010	54.0	54.0
Senior Notes B, 7.50% fixed-rate, due February 2011	450.0	450.0
Senior Notes C, 6.375% fixed-rate, due February 2013	350.0	350.0
Senior Notes D, 6.875% fixed-rate, due March 2033	500.0	500.0
Senior Notes F, 4.625% fixed-rate, due October 2009	500.0	500.0
Senior Notes G, 5.60% fixed-rate, due October 2014	650.0	650.0
Senior Notes H, 6.65% fixed-rate, due October 2034	350.0	350.0
Senior Notes I, 5.00% fixed-rate, due March 2015	250.0	250.0
Senior Notes J, 5.75% fixed-rate, due March 2035	250.0	250.0
Senior Notes K, 4.950% fixed-rate, due June 2010	500.0	500.0
Senior Notes L, 6.30% fixed-rate, due September 2017	800.0	800.0
Senior Notes M, 5.65% fixed-rate, due April 2013	400.0	400.0
Senior Notes N, 6.50% fixed-rate, due January 2019	700.0	700.0
Senior Notes O, 9.75% fixed-rate, due January 2014	500.0	500.0
Senior Notes P, 4.60% fixed-rate, due August 2012	500.0	500.0
Petal GO Zone Bonds, variable rate, due August 2037	57.5	57.5
Duncan Energy Partners Revolving Credit Facility, variable rate, due February 2011(2)	184.5	184.5
Duncan Energy Partners Term Loan, variable rate, due December 2011(2)	282.3	282.3
Total principal amount of senior debt obligations	8,131.5	
Junior Notes A, fixed/variable rate, due August 2066	550.0	550.0
Junior Notes B, fixed/variable rate, due January 2068	682.7	682.7
Total principal amount of senior and junior debt obligations	9,364.2	
Other, including unamortized discounts and premiums and changes in fair value	41.5	41.5
Total long-term debt obligations, including current maturities	9,405.7	
Equity:		
Enterprise Products Partners L.P. partners equity:		
Limited Partners:		
Common units (457,313,797 units outstanding at June 30, 2009)	6,278.7	
Restricted common units (2,935,450 units outstanding at June 30, 2009)	32.1	32.1
General partner	128.6	
Accumulated other comprehensive loss	(130.9)	(130.9)
Total Enterprise Products Partners L.P. partners equity	6,308.5	

Noncontrolling interest	510.4	510.4
Total equity	6,818.9	
Total capitalization	$ 16,224.6	$

(1) As of September 18, 2009, we had $842.0 million of borrowings outstanding under our multi-year revolving credit facility.

(2) The borrowings of Duncan Energy Partners are presented as part of our consolidated debt; however, we do not have any obligation for the payment of interest or repayment of borrowings incurred by Duncan Energy Partners.

Table of Contents

MANAGEMENT

The following table sets forth the name, age and position of each of the directors and executive officers of our general partner at December 31, 2008. Each executive officer holds the same respective office shown below in the general partner of EPO. Each member of the Board of Directors serves until such member s death, resignation or removal. The executive officers are elected for one-year terms and may be removed, with or without cause, only by the Board of Directors. Our unitholders do not elect the officers or directors of Enterprise Products GP. Dan L. Duncan, through his indirect control of Enterprise Products GP, has the ability to elect, remove and replace at any time, all of the officers and directors of Enterprise Products GP.

Three of our nine directors are independent under the independence standards established by the New York Stock Exchange. The New York Stock Exchange does not require a listed limited partnership like us to have a majority of independent directors on the board of directors of our general partner. As described below, certain of our officers and directors are also officers and/or directors of (i) EPCO, (ii) EPE Holdings, LLC, or EPE Holdings, the general partner of Enterprise GP Holdings, (iii) Texas Eastern Products Pipeline Company, LLC, or TEPPCO GP, the general partner of TEPPCO, and (iv) other affiliates of EPCO. These overlapping executive officers and directors allocate their time among EPCO, Enterprise GP Holdings, TEPPCO and other affiliates of EPCO. These officers and directors face potential conflicts regarding the allocation of their time and business opportunities, which may adversely affect our business, results of operations, cash flows and financial condition.

Name	Age	Position with Enterprise GP
Dan L. Duncan(1)	76	Director and Chairman
Michael A. Creel(1)	55	Director, President and Chief Executive Officer
W. Randall Fowler(1)	52	Director, Executive Vice President and Chief Financial Officer
Richard H. Bachmann(1)	56	Director, Executive Vice President and Chief Legal Officer and Secretary
A.J. Teague(1)	64	Director, Executive Vice President and Chief Commercial Officer
Dr. Ralph S. Cunningham	68	Director
E. William Barnett(2)(3)	76	Director
Rex C. Ross(2)	65	Director
Charles M. Rampacek(2)	66	Director
William Ordemann(1)	50	Executive Vice President and Chief Operating Officer
Michael J. Knesek(1)	55	Senior Vice President, Controller and Principal Accounting Officer
Christopher Skoog(1)	46	Senior Vice President
Thomas M. Zulim(1)	51	Senior Vice President
G.R. Cardillo(1)	51	Vice President

(1) Executive officer

(2) Member of ACG Committee

(3) Chairman of ACG Committee

Dan L. Duncan. Mr. Duncan was elected Chairman and a Director of Enterprise GP in April 1998, Chairman and a Director of the general partner of EPO in December 2003, Chairman and a Director of EPE Holdings in August 2005 and Chairman and a Director of DEP GP in October 2006. Mr. Duncan served as the sole Chairman of EPCO from 1979 to December 2007. Mr. Duncan now serves as Group Co-Chairman of EPCO with his daughter, Ms. Randa Duncan Williams, who is also a Director of EPE Holdings. He also

serves as an Honorary Trustee of the Board of Trustees of the Texas Heart Institute at Saint Luke s Episcopal Hospital.

Michael A. Creel. Mr. Creel was elected President and Chief Executive Officer of Enterprise GP in August 2007. From June 2000 to August 2007, Mr. Creel served as Chief Financial Officer of Enterprise GP and an Executive Vice President of Enterprise GP from January 2001 to August 2007. Mr. Creel, a Certified Public Accountant, also served as a Senior Vice President of Enterprise GP from November 1999 to January 2001. In December 2007, Mr. Creel was elected Group Vice Chairman and Chief Financial Officer of EPCO. Prior to these elections in EPCO, Mr. Creel served as Chief Operating Officer from April 2005 to December 2007 and Chief Financial Officer from June 2000 to April 2005 for EPCO. He also serves as a Director of DEP GP and Enterprise GP since October 2006 and 2005, respectively. Mr. Creel served as President, Chief Executive Officer and a Director of EPE Holdings from August 2005 through August 2007. In October 2005, Mr. Creel was elected a Director of Edge Petroleum Corporation, a publicly traded oil and natural gas exploration and production company.

W. Randall Fowler. Mr. Fowler was elected Executive Vice President and Chief Financial Officer of Enterprise GP, EPE Holdings and DEP GP in August 2007. Mr. Fowler served as Senior Vice President and Treasurer of Enterprise GP from February 2005 to August 2007 and of DEP GP from October 2006 to August 2007. In February 2006, Mr. Fowler became a Director of Enterprise GP, EPE Holdings and of DEP. Mr. Fowler also served as Senior Vice President and Chief Financial Officer of EPE Holdings from August 2005 to August 2007.

Mr. Fowler was elected President and Chief Executive Officer of EPCO in December 2007. Prior to these elections, he served as Chief Financial Officer of EPCO from April 2005 to December 2007. Mr. Fowler, a Certified Public Accountant (inactive), joined Enterprise Products Partners as Director of Investor Relations in January 1999.

Richard H. Bachmann. Mr. Bachmann was elected an Executive Vice President, Chief Legal Officer and Secretary of Enterprise GP and a Director of Enterprise GP in February 2006. He previously served as a Director of Enterprise GP from June 2000 to January 2004. Mr. Bachmann has served as a Director of EPO s general partner since December 2003 and has served as Executive Vice President, Chief Legal Officer and Secretary of EPE Holdings since August 2005. Mr. Bachmann was elected Group Vice Chairman, Chief Legal Officer and Secretary of EPCO in December 2007. In October 2006, Mr. Bachmann was elected President, Chief Executive Officer and a Director of DEP GP. Mr. Bachmann was also elected a Director of EPE Holdings in February 2006. Since January 1999, Mr. Bachmann has served as a Director of EPCO. In November 2006, Mr. Bachmann was appointed an independent manager of Constellation Energy Partners LLC. Mr. Bachmann also serves as a member of the Audit, Compensation, Conflicts and Nominating and Governance Committees of Constellation Energy Partners LLC.

A.J. Teague. Mr. Teague was elected an Executive Vice President of Enterprise GP in November 1999 and additionally as Enterprise s Chief Commercial Officer and a Director in July 2008. Mr. Teague joined Enterprise in connection with its purchase of certain midstream energy assets from affiliates of Shell Oil Company in 1999. From 1998 to 1999, Mr. Teague served as President of Tejas Natural Gas Liquids, LLC.

Dr. Ralph S. Cunningham. Dr. Cunningham was elected a Director of Enterprise GP in February 2006 and also served as a Director of Enterprise GP from 1998 until March 2005. In addition to these duties, Dr. Cunningham served as Group Executive Vice President and Chief Operating Officer of Enterprise GP from December 2005 to August 2007 and Interim President and Interim Chief Executive Officer from June 2007 to August 2007. Dr. Cunningham was elected President and Chief Executive Officer of EPE Holdings in August 2007. He served as Chairman and a Director of TEPPCO GP from March 2005 until November 2005. Dr. Cunningham was elected a Group Vice Chairman of EPCO in December 2007 and served as a Director from 1987 to 1997. He serves as a Director of Tetra Technologies, Inc. (a publicly traded energy services and chemical company), EnCana Corporation (a Canadian publicly traded independent oil and natural gas company) and Agrium, Inc. (a Canadian publicly traded agricultural chemicals company). Dr. Cunningham retired in 1997 from CITGO Petroleum Corporation, where he had served as

President and Chief Executive Officer since 1995.

E. William Barnett. Mr. Barnett was elected a Director of Enterprise GP in March 2005. Mr. Barnett is a member of Enterprise s ACG Committee and serves as its Chairman. Mr. Barnett practiced law with Baker Botts L.L.P. from 1958 until his retirement in 2004. In 1984, he became Managing Partner of Baker Botts L.L.P. and continued in that role for fourteen years until 1998. He was Senior Counsel to the firm from 1998 until June 2004, when he retired from the firm. Mr. Barnett served as Chairman of the Board of Trustees of Rice University from 1996 to July 2005.

Mr. Barnett is a Life Trustee of The University of Texas Law School Foundation; a Director of St. Luke s Episcopal Health System; and a Director and former Chairman of the Houston Zoo, Inc. (the operating arm of the Houston Zoo). He is a Director of RRI Energy, Inc. (a publicly traded electric services company) and Westlake Chemical Corporation (a publicly traded chemical company). Mr. Barnett is Chairman of the Advisory Board of the Baker Institute for Public Policy at Rice University and a Director and former Chairman of the Greater Houston Partnership. Mr. Barnett served as a Trustee of the Baylor College of Medicine from 1993 until 2004.

Rex C. Ross. Mr. Ross was elected a Director of Enterprise GP in October 2006 and is a member of its ACG Committee. Until July 2009, Mr. Ross served as a Director of Schlumberger Technology Corporation, the holding company for all Schlumberger Limited assets and entities in the United States. Prior to his executive retirement from Schlumberger Limited in May 2004, Mr. Ross held a number of executive management positions during his 11-year career with the company, including President of Schlumberger Oilfield Services North America; President, Schlumberger GeoQuest; and President of SchlumbergerSema North & South America. Mr. Ross also serves on the Board of Directors of Gulfmark Offshore, Inc. (a publicly traded offshore marine services company) and is a member of its Governance Committee.

Charles M. Rampacek. Mr. Rampacek was elected a Director of Enterprise GP in October 2006 and is a member of its ACG Committee. Mr. Rampacek is currently a business and management consultant in the energy industry. Mr. Rampacek served as Chairman, Chief Executive Officer and President of Probex Corporation (Probex), an energy technology company that developed a proprietary used oil recovery process, from 2000 until his retirement in 2003. Prior to joining Probex, Mr. Rampacek was President and Chief Executive Officer of Lyondell-Citgo Refining L.P., a manufacturer of petroleum products, from 1996 through 2000. From 1982 to 1995, he held various executive positions with Tenneco Inc. and its energy-related subsidiaries, including President of Tenneco Gas Transportation Company, Executive Vice President of Tenneco Gas Operations and Senior Vice President of Refining and Supply. Mr. Rampacek also spent 16 years with Exxon Company USA, where he held various supervisory and management positions. Mr. Rampacek has been a Director of Flowserve Corporation since 1998 and is Chairman of its Corporate Governance and Nominating Committee and a member of its Organization and Compensation Committee.

William Ordemann. Mr. Ordemann was elected an Executive Vice President and the Chief Operating Officer of Enterprise GP in August 2007. He previously served as a Senior Vice President of Enterprise GP from September 2001 to August 2007 and was a Vice President of Enterprise GP from October 1999 to September 2001. Mr. Ordemann joined Enterprise in connection with its purchase of certain midstream energy assets from affiliates of Shell Oil Company in 1999. Prior to joining Enterprise, he was a Vice President of Shell Midstream Enterprises, LLC from January 1997 to February 1998, and Vice President of Tejas Natural Gas Liquids, LLC from February 1998 to September 1999.

Michael J. Knesek. Mr. Knesek, a Certified Public Accountant, was elected a Senior Vice President of Enterprise GP in February 2005, having served as a Vice President of Enterprise GP since August 2000. Mr. Knesek has been the Principal Accounting Officer and Controller of Enterprise GP since August 2000, EPE Holdings since August 2005 and DEP GP since October 2006. He has served as Senior Vice President of EPE Holdings since August 2005 and of DEP GP since October 2006. Mr. Knesek has been the Controller of EPCO since 1990 and currently serves as one of its Senior Vice Presidents.

Christopher R. Skoog. Mr. Skoog joined the partnership in July 2007 as Senior Vice President of Enterprise GP to develop and lead Enterprise Product Partners Natural Gas Services and Marketing group. In July 2008, he also assumed responsibility for Enterprise Product Partners non-regulated and intrastate natural gas pipeline and storage businesses. From 1995 to July 2007 he served in various executive positions at

Table of Contents

ONEOK, Inc. and ONEOK Partners L.P. He led ONEOK Energy Services from 1995 to 2005, and held senior executive positions in the partnership from 2005 to 2007.

Thomas M. Zulim. Since July 2008, Mr. Zulim has served as a Senior Vice President of Enterprise GP and EPCO, with responsibility for the partnership s unregulated natural gas liquids (NGL) business. From March 2006 to July 2008, Mr. Zulim served as Senior Vice President, Human Resources, for both Enterprise GP and EPCO, and served as Vice President, Human Resources, for both Enterprise GP and EPCO from December 2004 to March 2006. He joined EPCO in 1999 as Director of Business Management for the NGL Fractionation business. Mr. Zulim came to EPCO from Shell Oil Company where, as an attorney, he practiced labor and employment law nationally for several years before joining Shell Midstream Enterprises in 1996 as Director of Business Development for its natural gas processing and NGL fractionation businesses. Mr. Zulim resumed practicing law with EPCO s Legal group in January 2002 until December 2004.

G.R. Cardillo. Mr. Cardillo joined Enterprise in connection with its purchase of certain petrochemical storage and propylene fractionation assets from affiliates of Ultramar Diamond Shamrock Corp. and Koch Industries Inc. (Diamond Koch) in 2002. From 2000 to 2002, Mr. Cardillo served as a Vice President in charge of propylene commercial activities for Diamond Koch. Mr. Cardillo was elected a Vice President of Enterprise GP in November 2004 and of DEP Holdings in September 2006. Mr. Cardillo has been an integral part of Enterprise s Petrochemicals management team since joining Enterprise in 2002 and assumed leadership of this commercial function in June 2008.

MATERIAL TAX CONSEQUENCES

The tax consequences to you of an investment in our common units will depend in part on your own tax circumstances. For a discussion of the principal federal income tax considerations associated with our operations and the purchase, ownership and disposition of units, please read Material U.S. Tax Consequences beginning on page 26 of the accompanying prospectus. You are urged to consult your own tax advisor about the federal, state, foreign and local tax consequences particular to your circumstances.

Ratio of Taxable Income to Distributions

We estimate that if you purchase a unit in this offering and hold the unit through the record date for the distribution with respect to the quarter ending December 31, 2011, you will be allocated, on a cumulative basis, an amount of federal taxable income for that period that will be less than 10% of the amount of cash distributed to you with respect to that period. This estimate is based upon many assumptions regarding our business and operations, including assumptions with respect to capital expenditures, cash flows and anticipated cash distributions. This estimate and our assumptions are subject to, among other things, numerous business, economic, regulatory, competitive and political uncertainties beyond our control. Further, this estimate is based on current tax law and tax reporting positions that we have adopted and with which the Internal Revenue Service might disagree. Accordingly, we cannot assure you that this estimate will be correct. The actual percentage of distributions that will constitute taxable income could be higher or lower than our estimate, and any differences could materially affect the value of the units. For example, the percentage of taxable income relative to our distributions could be higher, and perhaps substantially higher, than our estimate with respect to the period described above if:

- gross income from operations exceeds the amount required to make the current level of quarterly distributions on all units, yet we only distribute the current level of quarterly distributions on all units; or

- we make a future offering of units and use the proceeds of the offering in a manner that does not produce substantial additional deductions during the period described above, such as to repay indebtedness outstanding at the time of this offering or to acquire property that is not eligible for depreciation or amortization for federal income tax purposes or that is depreciable or amortizable at a rate significantly slower than the rate applicable to our assets at the time of this offering.

Tax Rates

Under current law, the highest marginal U.S. federal income tax rate applicable to ordinary income of individuals is 35% and the highest marginal U.S. federal income tax rate applicable to long-term capital gains (generally, capital gains on certain assets held for more than 12 months) of individuals is 15%. However, absent new legislation extending the current rates, beginning January 1, 2011, the highest marginal U.S. federal income tax rate applicable to ordinary income and long-term capital gains of individuals will increase to 39.6% and 20%, respectively. Moreover, these rates are subject to change by new legislation at any time.

INVESTMENT IN US BY EMPLOYEE BENEFIT PLANS

An investment in our units by an employee benefit plan is subject to additional considerations because the investments of these plans are subject to the fiduciary responsibility and prohibited transaction provisions of ERISA, and restrictions imposed by Section 4975 of the Internal Revenue Code. For these purposes, the term employee benefit plan includes, but is not limited to, qualified pension, profit-sharing and stock bonus plans, Keogh plans, simplified employee pension plans and tax deferred annuities or IRAs established or maintained by an employer or employee organization. Among other things, consideration should be given to:

- whether the investment is prudent under Section 404(a)(l)(B) of ERISA;
- whether in making the investment, that plan will satisfy the diversification requirements of Section 404(a)(l)(C) of ERISA; and
- whether the investment will result in recognition of unrelated business taxable income (please read Material Tax Consequences Tax-Exempt Organizations and Other Investors) by the plan and, if so, the potential after-tax investment return.

In addition, the person with investment discretion with respect to the assets of an employee benefit plan, often called a fiduciary, should determine whether an investment in our units is authorized by the appropriate governing instrument and is a proper investment for the plan.

Section 406 of ERISA and Section 4975 of the Internal Revenue Code prohibit employee benefit plans, and IRAs that are not considered part of an employee benefit plan, from engaging in specified transactions involving plan assets with parties that are parties in interest under ERISA or disqualified persons under the Internal Revenue Code with respect to the plan. Therefore, a fiduciary of an employee benefit plan or an IRA accountholder that is considering an investment in our units should consider whether the entity s purchase or ownership of such units would or could result in the occurrence of such a prohibited transaction.

In addition to considering whether the purchase of units is or could result in a prohibited transaction, a fiduciary of an employee benefit plan should consider whether the plan will, by investing in our units, be deemed to own an undivided interest in our assets, with the result that our general partner also would be a fiduciary of the plan and our operations would be subject to the regulatory restrictions of ERISA, including fiduciary standard and its prohibited transaction rules, as well as the prohibited transaction rules of the Internal Revenue Code.

The Department of Labor regulations and the statutory provisions of ERISA provide guidance with respect to whether the assets of an entity in which employee benefit plans acquire equity interests would be deemed plan assets under some circumstances. Under these rules, an entity s assets would not be considered to be plan assets if, among other things:

- the equity interests acquired by employee benefit plans are publicly offered securities; i.e., the equity interests are widely held by 100 or more investors independent of the issuer and each other, freely transferable and registered under some provisions of the federal securities laws;
- the entity is an operating company; i.e., it is primarily engaged in the production or sale of a product or service other than the investment of capital either directly or through a majority owned subsidiary or subsidiaries; or

there is no significant investment by benefit plan investors, which is defined to mean that less than 25% of the value of each class of equity interest, disregarding some interests held by our general partner, its affiliates, and some other persons, are held by employee benefit plans (as defined in Section 3(3) of ERISA) subject to Part 4 of Title 1 of ERISA, any plan to which Section 4975 of the Code applies, and any entity whose underlying assets include plan assets by reason of a plan s investment in such entity.

Our assets should not be considered plan assets under these regulations because it is expected that the investment will satisfy the requirements in the first bullet point above.

Plan fiduciaries contemplating a purchase of units should consult with their own counsel regarding the consequences under ERISA and the Internal Revenue Code in light of the serious penalties imposed on persons who engage in prohibited transactions or other violations.

Table of Contents

UNDERWRITING

We are offering the common units described in this prospectus through the underwriters named below. Morgan Stanley & Co. Incorporated, Barclays Capital Inc., Citigroup Global Markets Inc. and Wells Fargo Securities, LLC are acting as joint book-running managers and representatives of the underwriters.

Subject to the terms and conditions stated in the underwriting agreement dated the date of this prospectus supplement, which we will file as an exhibit to a Form 8-K following the pricing of this offering, each underwriter named below has agreed to purchase from us the number of common units set forth opposite the underwriter s name.

Name of Underwriter	Number of Common Units
Morgan Stanley & Co. Incorporated	
Barclays Capital Inc.	
Citigroup Global Markets Inc.	
Wells Fargo Securities, LLC	
Total	7,250,000

The underwriting agreement provides that the underwriters obligations to purchase the common units depend on the satisfaction of the conditions contained in the underwriting agreement, and that if any of the common units are purchased by the underwriters, all of the common units must be purchased. The conditions contained in the underwriting agreement include the condition that all the representations and warranties made by us and our affiliates to the underwriters are true, that there has been no material adverse change in the condition of us or in the financial markets and that we deliver to the underwriters customary closing documents.

Over-Allotment Option

We have granted to the underwriters an option to purchase up to an aggregate of 1,087,500 additional common units at the offering price to the public less the underwriting discount set forth on the cover page of this prospectus supplement exercisable to cover over-allotments. Such option may be exercised in whole or in part at any time until 30 days after the date of this prospectus supplement. If this option is exercised, each underwriter will be committed, subject to satisfaction of the conditions specified in the underwriting agreement, to purchase a number of additional common units proportionate to the underwriter s initial commitment as indicated in the preceding table, and we will be obligated, pursuant to the option, to sell these common units to the underwriters.

Commissions and Expenses

The following table shows the underwriting fee to be paid to the underwriters by us in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters over-allotment option. This

underwriting fee is the difference between the offering price to the public and the amount the underwriters pay to us to purchase the common units. The per common unit amounts shown represent underwriting fees to be paid to the underwriters with respect to common units sold to the public.

Table of Contents

The total amounts represent the total amount of fees to be paid to the underwriters in connection with the offering.

	Paid by Us	
	No Exercise	Full Exercise
Per common unit	$	$
Total	$	$

We have been advised by the underwriters that the underwriters propose to offer the common units directly to the public at the public offering price set forth on the cover page of this prospectus supplement and to dealers (who may include the underwriters) at this price to the public less a concession not in excess of $ per common unit. After the offering, the underwriters may change the offering price and other selling terms.

We estimate that total expenses of the offering, other than underwriting discounts and commissions, will be approximately $300,000.

Indemnification

We and certain of our affiliates have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended, and to contribute to payments that may be required to be made in respect of these liabilities.

Lock-Up Agreements

We, certain of our affiliates and the directors and executive officers of our general partner have agreed that we and they will not, directly or indirectly, sell, offer, pledge or otherwise dispose of any common units or enter into any derivative transaction with similar effect as a sale of common units for a period of 45 days after the date of this prospectus supplement without the prior written consent of Morgan Stanley & Co. Incorporated, as representative of the underwriters. The restrictions described in this paragraph do not apply to:

- the issuance and sale of common units by us to the underwriters pursuant to the underwriting agreement;

- the issuance and sale of common units, phantom units, restricted units and options under our existing employee benefits plans, including sales pursuant to cashless-broker exercises of options to purchase common units in accordance with such plans as consideration for the exercise price and withholding taxes applicable to such exercises;

- the issuance and sale of common units pursuant to our distribution reinvestment plan;

- the issuance of common units and Class B units upon consummation of the proposed merger of TEPPCO and certain of its affiliates with us and certain of our affiliates or in connection with or pursuant to any awards or agreements outstanding under any incentive plans, employee unit purchase plans or other agreements of TEPPCO; or

- the filing of a universal shelf registration statement on Form S-3, which may also include common units of selling unitholders; provided, that (1) we and our affiliates remain subject to the 45-day lock-up period with respect to any common units registered under any such registration statement, (2) such registration statement

contains only a generic and undetermined plan of distribution with respect to the common units during the 45-day lock-up period, and (3) any selling unitholders registering common units under such registration statement agree in writing to be subject to the 45-day lock-up period.

Morgan Stanley & Co. Incorporated may release the units subject to lock-up agreements in whole or in part at any time with or without notice. When determining whether or not to release units from lock-up agreements, Morgan Stanley & Co. Incorporated will consider, among other factors, our unitholders reasons

for requesting the release, the number of common units for which the release is being requested and market conditions at the time.

Price Stabilization, Short Positions And Penalty Bids

In connection with this offering, the underwriters may engage in stabilizing transactions, overallotment transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the Securities Exchange Act of 1934, as amended, or the Exchange Act.

Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

Over-allotment transactions involve sales by the underwriters of the common units in excess of the number of units the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of units over-allotted by the underwriters is not greater than the number of units they may purchase in the over-allotment option. In a naked short position, the number of units involved is greater than the number of units in the over-allotment option. The underwriters may close out any short position by either exercising their over-allotment option and/or purchasing common units in the open market.

Syndicate covering transactions involve purchases of the common units in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of the common units to close out the short position, the underwriters will consider, among other things, the price of common units available for purchase in the open market as compared to the price at which they may purchase common units through the over-allotment option. If the underwriters sell more common units than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying common units in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the common units in the open market after pricing that could adversely affect investors who purchase in the offering.

Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when the common units originally sold by the syndicate member are purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, over-allotment transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of the common units or preventing or retarding a decline in the market price of the common units. As a result, the price of the common units may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the New York Stock Exchange or otherwise and, if commenced, may be discontinued at any time.

Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common units. In addition, neither we nor any of the underwriters make any representation that the underwriters will engage in these stabilizing transactions or that any transaction, if commenced, will not be discontinued without notice.

Listing

Our common units are traded on the New York Stock Exchange under the symbol EPD.

Conflicts of Interest

Some of the underwriters and their affiliates have performed investment banking, commercial banking and advisory services for us and our affiliates from time to time for which they have received customary fees and expenses. The underwriters and their affiliates may, from time to time in the future, engage in transactions with and perform services for us and our affiliates in the ordinary course of business.

Affiliates of Morgan Stanley & Co. Incorporated, Barclays Capital Inc., Citigroup Global Markets Inc., Wells Fargo Securities, LLC and other co-managers are lenders under our multi-year revolving credit facility. These affiliates will receive their respective share of any repayment by us of amounts outstanding under the multi-year revolving credit facility from the proceeds of this offering. Because we intend to use the net proceeds from this offering to reduce indebtedness owed by us under our multi-year revolving credit facility, each of the underwriters whose affiliates will receive at least 5% of the net proceeds is considered by the Financial Industry Regulatory Authority, or FINRA, to have a conflict of interest with us in regards to this offering. However, no qualified independent underwriter is needed for this offering because there is a bona fide public market for our common units as defined in NASD Conduct Rule 2720(f)(3). Because FINRA views the common units offered hereby as interests in a direct participation program, this offering is being made in compliance with Rule 2310 of the FINRA Rules.

Electronic Distribution

A prospectus in electronic format may be made available by one or more of the underwriters or their affiliates. The representatives may agree to allocate a number of common units to underwriters for sale to their online brokerage account holders. The representatives will allocate common units to underwriters that may make Internet distributions on the same basis as other allocations. In addition, common units may be sold by the underwriters to securities dealers who resell common units to online brokerage account holders.

Other than the prospectus in electronic format, the information on any underwriter s web site and any information contained in any other web site maintained by an underwriter is not part of the prospectus or the registration statement of which this prospectus forms a part, has not been approved and/or endorsed by us or any underwriter in its capacity as an underwriter and should not be relied upon by investors.

Table of Contents

LEGAL MATTERS

Andrews Kurth LLP, Houston, Texas, will pass upon the validity of the common units being offered and certain federal income tax matters related to the common units. Certain legal matters with respect to the common units will be passed upon for the underwriters by Vinson & Elkins L.L.P., Houston, Texas. Vinson & Elkins L.L.P. performs legal services for us from time to time on matters unrelated to this offering.

EXPERTS

The (i) consolidated financial statements of Enterprise Products Partners L.P. and subsidiaries incorporated in this prospectus by reference from Enterprise Products Partners L.P. s Annual Report on Form 10-K for the year ended December 31, 2008, retrospectively adjusted by our Current Report on Form 8-K filed on July 8, 2009, and (ii) the effectiveness of the Enterprise Products Partners L.P. and subsidiaries internal control over financial reporting incorporated in this prospectus by reference from the Enterprise Products Partners L.P. s Annual Report on Form 10-K for the year ended December 31, 2008 have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports which are incorporated herein by reference (which reports (1) express an unqualified opinion on the financial statements and include an explanatory paragraph concerning the retrospective adjustments related to the adoption of SFAS 160 and EITF 07-4 and (2) express an unqualified opinion on the effectiveness of internal control over financial reporting). Such consolidated financial statements have been so incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

The consolidated balance sheet of Enterprise Products GP, LLC and subsidiaries as of December 31, 2008, incorporated in this prospectus by reference from Enterprise Products Partners L.P. s Current Report on Form 8-K filed on March 12, 2009, retrospectively adjusted by Enterprise Products Partners L.P. s Current Report on Form 8-K filed on July 8, 2009, has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is incorporated herein by reference (which report expresses an unqualified opinion on the financial statements and includes an explanatory paragraph concerning the retrospective adjustments related to the adoption of SFAS 160). Such consolidated balance sheet has been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

INFORMATION INCORPORATED BY REFERENCE

We file annual, quarterly and current reports, and other information with the Commission under the Exchange Act (Commission File No. 1-4323). You may read and copy any document we file at the Commission s public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the Commission at 1-800-732-0330 for further information on the public reference room. Our filings are also available to the public at the Commission s web site at *http://www.sec.gov*. In addition, documents filed by us can be inspected at the offices of the New York Stock Exchange, Inc. 20 Broad Street, New York, New York 10002.

The Commission allows us to incorporate by reference into this prospectus supplement and the accompanying prospectus the information we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus supplement and the accompanying prospectus, and later information that we file with the Commission will automatically update and supersede this information. We incorporate by reference the document listed below and any future filings we make with the Commission under section 13(a), 13(c), 14 or 15(d) of the Exchange Act until our offering is completed (other than information furnished under Items 2.02 or 7.01 of any Form 8-K, which is not deemed filed under the Exchange Act):

Annual Report on Form 10-K for the year ended December 31, 2008 (retrospectively adjusted by our Current Report on Form 8-K as filed with the Commission on July 8, 2009 for the adoption of SFAS 160 and EITF 07-4);

Quarterly Reports on Form 10-Q for the quarters ended March 31, 2009 and June 30, 2009;

Current Reports on Form 8-K filed with the Commission on January 12, 2009, January 16, 2009, January 23, 2009, February 5, 2009, March 12, 2009 (retrospectively adjusted for our Current Report on Form 8-K as filed with the Commission on July 8, 2009 for the adoption of SFAS 160), April 2, 2009, April 21, 2009, May 11, 2009, June 5, 2009, June 10, 2009, June 29, 2009, July 8, 2009, August 10, 2009, September 4, 2009, September 18, 2009 and September 21, 2009; and

The description of our common units contained in our registration statement on Form 8-A/A filed on May 15, 2007, and including any other amendments or reports filed for the purpose of updating such description.

We will provide without charge to each person, including any beneficial owner, to whom this prospectus supplement has been delivered, a copy of any and all of our filings with the Commission. You may request a copy of these filings by writing or telephoning us at:

Enterprise Products Partners L.P.
1100 Louisiana, 10th Floor
Houston, Texas 77002
Attention: Investor Relations
Telephone: (713) 381-6500

FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and some of the documents we have incorporated herein and therein by reference contain various forward-looking statements and information that are based on our beliefs and those of our general partner, as well as assumptions made by and information currently available to us. These forward-looking statements are identified as any statement that does not relate strictly to historical or current facts. When used in this prospectus supplement, the accompanying prospectus or the documents we have incorporated herein or therein by reference, words such as anticipate, project, expect, plan, goal, forecast, intend, coul may, and similar expressions and statements regarding our plans and objectives for future operations, are intended to identify forward-looking statements. Although we and our general partner believe that such expectations reflected in such forward-looking statements are reasonable, neither we nor our general partner can give assurances that such expectations will prove to be correct.

Such statements are subject to a variety of risks, uncertainties and assumptions. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may vary materially from those anticipated, estimated, projected or expected. Among the key risk factors that may have a direct bearing on our results of operations and financial condition are:

fluctuations in oil, natural gas and NGL prices and production due to weather and other natural and economic forces;

a reduction in demand for our products by the petrochemical, refining or heating industries;

the effects of our debt level on our future financial and operating flexibility;

a decline in the volumes of NGLs delivered by our facilities;

- the failure of our credit risk management efforts to adequately protect us against customer non-payment;
- terrorist attacks aimed at our facilities; and
- our failure to successfully integrate our operations with assets or companies we acquire.

Other risks and uncertainties relating to our proposed merger which may affect actual results include:

- the failure of TEPPCO and Enterprise to complete their proposed merger;

Table of Contents

- Enterprise s failure to successfully integrate the respective business operations of Enterprise and TEPPCO upon completion of the merger or its failure to successfully integrate any future acquisitions, maintain key personnel and customer relationships and obtain favorable contract renewals;

- the failure to realize the anticipated cost savings, synergies and other benefits of the proposed merger; and

- environmental liabilities or events that are not covered by an indemnity, insurance or existing reserves.

You should not put undue reliance on any forward-looking statements. When considering forward-looking statements, please review the risk factors described under Risk Factors in this prospectus supplement, in the accompanying prospectus, in our Annual Report on Form 10-K for the year ended December 31, 2008 and in our Quarterly Reports on Form 10-Q.

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Table of Contents

PROSPECTUS

Enterprise Products Partners L.P.
Enterprise Products Operating LLC

COMMON UNITS

DEBT SECURITIES

We may offer an unlimited number and amount of the following securities under this prospectus:

- common units representing limited partner interests in Enterprise Products Partners L.P.; and
- debt securities of Enterprise Products Operating LLC (successor to Enterprise Products Operating L.P.), which will be guaranteed by its parent company, Enterprise Products Partners L.P.

This prospectus provides you with a general description of the securities we may offer. Each time we sell securities we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. You should read carefully this prospectus and any prospectus supplement before you invest. You should also read the documents we have referred you to in the Where You Can Find More Information section of this prospectus for information about us, including our financial statements.

Our common units are listed on the New York Stock Exchange under the trading symbol EPD.

Unless otherwise specified in a prospectus supplement, the senior debt securities, when issued, will be unsecured and will rank equally with our other unsecured and unsubordinated indebtedness. The subordinated debt securities, when issued, will be subordinated in right of payment to our senior debt.

Investing in our common units and debt securities involves risks. Limited partnerships are inherently different from corporations. You should review carefully Risk Factors beginning on page 2 for a discussion of important risks you should consider before investing on our securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

This prospectus may not be used to consummate sales of securities by the registrants unless accompanied by a prospectus supplement.

The date of this prospectus is August 27, 2007.

TABLE OF CONTENTS

ABOUT THIS PROSPECTUS	iii
OUR COMPANY	1
RISK FACTORS	2
USE OF PROCEEDS	2
RATIO OF EARNINGS TO FIXED CHARGES	2
DESCRIPTION OF DEBT SECURITIES	3
General	3
Guarantee	4
Certain Covenants	4
Events of Default	8
Amendments and Waivers	9
Defeasance and Discharge	11
Subordination	12
Book-Entry System	13
Limitations on Issuance of Bearer Securities	15
No Recourse Against General Partner	15
Concerning the Trustee	16
Governing Law	16
DESCRIPTION OF OUR COMMON UNITS	16
Meetings/Voting	16
Status as Limited Partner or Assignee	16
Limited Liability	17
Reports and Records	17
CASH DISTRIBUTION POLICY	18
Distributions of Available Cash	18
Operating Surplus and Capital Surplus	18
Distributions of Available Cash from Operating Surplus	19
Incentive Distributions	19
Distributions from Capital Surplus	20
Adjustment to the Minimum Quarterly Distribution and Target Distribution Levels	20
Distributions of Cash upon Liquidation	21
DESCRIPTION OF OUR PARTNERSHIP AGREEMENT	22
Purpose	22
Power of Attorney	22
Voting Rights	22
Reimbursements of Our General Partner	23
Issuance of Additional Securities	23
Amendments to Our Partnership Agreement	23
Withdrawal or Removal of Our General Partner	24
Liquidation and Distribution of Proceeds	25
Transfer of Ownership Interests in Our General Partner	25
Change of Management Provisions	25
Limited Call Right	25
Indemnification	26
Registration Rights	26

MATERIAL U.S. TAX CONSEQUENCES	26
Partnership Status	27

Limited Partner Status	28
Tax Consequences of Unit Ownership	28
Tax Treatment of Operations	33
Disposition of Common Units	33
Uniformity of Units	35
Tax-Exempt Organizations and Other Investors	36
Administrative Matters	37
State, Local, Foreign and Other Tax Considerations	39
INVESTMENT IN ENTERPRISE PRODUCTS PARTNERS L.P. BY EMPLOYEE BENEFIT PLANS	39
PLAN OF DISTRIBUTION	41
WHERE YOU CAN FIND MORE INFORMATION	41
FORWARD-LOOKING STATEMENTS	42
LEGAL MATTERS	43
EXPERTS	43

You should rely only on the information contained or incorporated by reference in this prospectus or any prospectus supplement. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should not assume that the information incorporated by reference or provided in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front of each document.

Unless the context requires otherwise or unless otherwise noted, our, we, us and Enterprise as used in this prospectu refer to Enterprise Products Partners L.P. and Enterprise Products Operating LLC and its subsidiaries and unconsolidated affiliates.

Table of Contents

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we file with the Securities and Exchange Commission (the Commission) using a shelf registration process. Under this shelf process, we may offer from time to time an unlimited number and amount of our securities. Each time we offer securities, we will provide you with a prospectus supplement that will describe, among other things, the specific amounts, types and prices of the securities being offered and the terms of the offering. Any prospectus supplement may add, update or change information contained or incorporated by reference in this prospectus. Any statement that we make in or incorporate by reference in this prospectus will be modified or superseded by any inconsistent statement made by us in a prospectus supplement. Therefore, you should read this prospectus (including any documents incorporated by reference) and any attached prospectus supplement before you invest in our securities.

OUR COMPANY

We are a North American midstream energy company that provides a wide range of services to producers and consumers of natural gas, natural gas liquids, or NGLs, crude oil and certain petrochemicals, and are an industry leader in the development of pipeline and other midstream infrastructure in the continental United States and Gulf of Mexico. Our midstream asset network links producers of natural gas, NGLs and crude oil from some of the largest supply basins in the United States, Canada and the Gulf of Mexico with domestic consumers and international markets. We operate an integrated midstream asset network within the United States that includes natural gas gathering, processing, transportation and storage; NGL fractionation (or separation), transportation, storage and import and export terminaling; crude oil transportation; and offshore production platform services. NGL products (ethane, propane, normal butane, isobutane and natural gasoline) are used as raw materials by the petrochemical industry, as feedstocks by refiners in the production of motor gasoline and as fuel by industrial and residential users.

For the year ended December 31, 2006, Enterprise had consolidated revenues of $14.0 billion, operating income of $860.1 million and net income of $601.2 million. For the six months ended June 30, 2007, Enterprise had consolidated revenues of $7.5 billion, operating income of $402.5 million and net income of $254.2 million.

Our Business Segments

We have four reportable business segments: (i) NGL Pipelines & Services; (ii) Onshore Natural Gas Pipelines & Services; (iii) Offshore Pipelines & Services; and (iv) Petrochemical Services. Our business segments are generally organized and managed along our asset base according to the type of services rendered (or technology employed) and products produced and/or sold.

NGL Pipelines & Services. Our NGL Pipelines & Services business segment includes our (i) natural gas processing business and related NGL marketing activities, (ii) NGL pipelines aggregating approximately 13,700 miles and related storage facilities including our Mid-America Pipeline System and (iii) NGL fractionation facilities located in Texas and Louisiana. This segment also includes our import and export terminal operations.

Onshore Natural Gas Pipelines & Services. Our Onshore Natural Gas Pipelines & Services business segment includes approximately 18,889 miles of onshore natural gas pipeline systems that provide for the gathering and transmission of natural gas in Alabama, Colorado, Louisiana, Mississippi, New Mexico, Texas and Wyoming. In addition, we own two salt dome natural gas storage facilities located in Mississippi and lease natural gas storage facilities located in Texas and Louisiana.

Offshore Pipelines & Services. Our Offshore Pipelines & Services business segment includes (i) approximately 1,586 miles of offshore natural gas pipelines strategically located to serve production areas including some of the most active drilling and development regions in the Gulf of Mexico, (ii) approximately 863 miles of offshore Gulf of Mexico crude oil pipeline systems and (iii) six multi-purpose offshore hub platforms located in the Gulf of Mexico with crude oil or natural gas processing capabilities.

Petrochemical Services. Our Petrochemical Services business segment includes four propylene fractionation facilities, an isomerization complex and an octane additive production facility. This segment also includes approximately 679 miles of petrochemical pipeline systems.

We provide the foregoing services directly and through our subsidiaries and unconsolidated affiliates.

Our principal offices, including those of Enterprise, are located at 1100 Louisiana Street, 10th Floor, Houston, Texas 77002, and our and Enterprise s telephone number is (713) 381-6500.

Table of Contents

RISK FACTORS

Limited partner interests are inherently different from the capital stock of a corporation, although many of the business risks to which we are subject are similar to those that would be faced by a corporation engaged in a similar business. Before you invest in our securities, you should carefully consider the risk factors included in our most-recent annual report on Form 10-K and our quarterly reports on Form 10-Q that are incorporated herein by reference and those that may be included in the applicable prospectus supplement, together with all of the other information included in this prospectus, any prospectus supplement and the documents we incorporate by reference in evaluating an investment in our securities.

If any of the risks discussed in the foregoing documents were actually to occur, our business, financial condition, results of operations, or cash flow could be materially adversely affected. In that case, our ability to make distributions to our unitholders or pay interest on, or the principal of, any debt securities, may be reduced, the trading price of our securities could decline and you could lose all or part of your investment.

USE OF PROCEEDS

We will use the net proceeds from any sale of securities described in this prospectus for future business acquisitions and other general corporate purposes, such as working capital, investments in subsidiaries, the retirement of existing debt and/or the repurchase of common units or other securities. The prospectus supplement will describe the actual use of the net proceeds from the sale of securities. The exact amounts to be used and when the net proceeds will be applied to corporate purposes will depend on a number of factors, including our funding requirements and the availability of alternative funding sources.

RATIO OF EARNINGS TO FIXED CHARGES

Enterprise s ratio of earnings to fixed charges for each of the periods indicated is as follows:

Year Ended December 31,					Six Months Ended June 30,
2002	**2003**	**2004**	**2005**	**2006**	**2007**
2.07x	2.02 x	2.69 x	2.69 x	2.94 x	2.42x

For purposes of computing the ratio of earnings to fixed charges, earnings is the aggregate of the following items:

pre-tax income or loss from continuing operations before adjustment for minority interests in consolidated subsidiaries or income or loss from equity investees;

plus fixed charges;

plus distributed income of equity investees;

less capitalized interest; and

less minority interest in pre-tax income of subsidiaries that have not incurred fixed charges.

The term fixed charges means the sum of the following:

interest expensed and capitalized, including amortized premiums, discounts and capitalized expenses related to indebtedness; and

an estimate of the interest within rental expenses.

DESCRIPTION OF DEBT SECURITIES

In this Description of Debt Securities references to the Issuer mean only Enterprise Products Operating LLC (successor to Enterprise Products Operating L.P.) and not its subsidiaries. References to the Guarantor mean only Enterprise Products Partners L.P. and not its subsidiaries. References to we and us mean the Issuer and the Guarantor collectively.

The debt securities will be issued under an Indenture dated as of October 4, 2004 as amended by supplemental indenture (the Indenture), among the Issuer, the Guarantor, and Wells Fargo Bank, National Association, as trustee (the Trustee). The terms of the debt securities will include those expressly set forth in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended (the Trust Indenture Act). Capitalized terms used in this Description of Debt Securities have the meanings specified in the Indenture.

This Description of Debt Securities is intended to be a useful overview of the material provisions of the debt securities and the Indenture. Since this Description of Debt Securities is only a summary, you should refer to the Indenture for a complete description of our obligations and your rights.

General

The Indenture does not limit the amount of debt securities that may be issued thereunder. Debt securities may be issued under the Indenture from time to time in separate series, each up to the aggregate amount authorized for such series. The debt securities will be general obligations of the Issuer and the Guarantor and may be subordinated to Senior Indebtedness of the Issuer and the Guarantor. See Subordination.

A prospectus supplement and a supplemental indenture (or a resolution of our Board of Directors and accompanying officers certificate) relating to any series of debt securities being offered will include specific terms relating to the offering. These terms will include some or all of the following:

- the form and title of the debt securities;
- the total principal amount of the debt securities;
- the portion of the principal amount which will be payable if the maturity of the debt securities is accelerated;
- the currency or currency unit in which the debt securities will be paid, if not U.S. dollars;
- any right we may have to defer payments of interest by extending the dates payments are due whether interest on those deferred amounts will be payable as well;
- the dates on which the principal of the debt securities will be payable;
- the interest rate which the debt securities will bear and the interest payment dates for the debt securities;
- any optional redemption provisions;
- any sinking fund or other provisions that would obligate us to repurchase or otherwise redeem the debt securities;

any changes to or additional Events of Default or covenants;

whether the debt securities are to be issued as Registered Securities or Bearer Securities or both; and any special provisions for Bearer Securities;

the subordination, if any, of the debt securities and any changes to the subordination provisions of the Indenture; and

any other terms of the debt securities.

The prospectus supplement will also describe any material United States federal income tax consequences or other special considerations applicable to the applicable series of debt securities, including those applicable to:

- Bearer Securities;
- debt securities with respect to which payments of principal, premium or interest are determined with reference to an index or formula, including changes in prices of particular securities, currencies or commodities;
- debt securities with respect to which principal, premium or interest is payable in a foreign or composite currency;
- debt securities that are issued at a discount below their stated principal amount, bearing no interest or interest at a rate that at the time of issuance is below market rates; and
- variable rate debt securities that are exchangeable for fixed rate debt securities.

At our option, we may make interest payments, by check mailed to the registered holders thereof or, if so stated in the applicable prospectus supplement, at the option of a holder by wire transfer to an account designated by the holder. Except as otherwise provided in the applicable prospectus supplement, no payment on a Bearer Security will be made by mail to an address in the United States or by wire transfer to an account in the United States.

Registered Securities may be transferred or exchanged, and they may be presented for payment, at the office of the Trustee or the Trustee s agent in New York City indicated in the applicable prospectus supplement, subject to the limitations provided in the Indenture, without the payment of any service charge, other than any applicable tax or governmental charge. Bearer Securities will be transferable only by delivery. Provisions with respect to the exchange of Bearer Securities will be described in the applicable prospectus supplement.

Any funds we pay to a paying agent for the payment of amounts due on any debt securities that remain unclaimed for two years will be returned to us, and the holders of the debt securities must thereafter look only to us for payment thereof.

Guarantee

The Guarantor will unconditionally guarantee to each holder and the Trustee the full and prompt payment of principal of, premium, if any, and interest on the debt securities, when and as the same become due and payable, whether at maturity, upon redemption or repurchase, by declaration of acceleration or otherwise.

Certain Covenants

Except as set forth below or as may be provided in a prospectus supplement and supplemental indenture, neither the Issuer nor the Guarantor is restricted by the Indenture from incurring any type of indebtedness or other obligation, from paying dividends or making distributions on its partnership interests or capital stock or purchasing or redeeming its partnership interests or capital stock. The Indenture does not require the maintenance of any financial ratios or specified levels of net worth or liquidity. In addition, the Indenture does not contain any provisions that would require the Issuer to repurchase or redeem or otherwise modify the terms of any of the debt securities upon a change in control or other events involving the Issuer which may adversely affect the creditworthiness of the debt securities.

Limitations on Liens. The Indenture provides that the Guarantor will not, nor will it permit any Subsidiary to, create, assume, incur or suffer to exist any mortgage, lien, security interest, pledge, charge or other encumbrance (liens) other

than Permitted Liens (as defined below) upon any Principal Property (as defined below) or upon any shares of capital stock of any Subsidiary owning or leasing, either directly or through ownership in another Subsidiary, any Principal Property (a Restricted Subsidiary), whether owned or leased on the date of the Indenture or thereafter acquired, to secure any indebtedness for borrowed money

4

(debt) of the Guarantor or the Issuer or any other person (other than the debt securities), without in any such case making effective provision whereby all of the debt securities outstanding shall be secured equally and ratably with, or prior to, such debt so long as such debt shall be so secured.

In the Indenture, the term *Consolidated Net Tangible Assets* means, at any date of determination, the total amount of assets of the Guarantor and its consolidated subsidiaries after deducting therefrom:

(1) all current liabilities (excluding (A) any current liabilities that by their terms are extendable or renewable at the option of the obligor thereon to a time more than 12 months after the time as of which the amount thereof is being computed, and (B) current maturities of long-term debt); and

(2) the value (net of any applicable reserves) of all goodwill, trade names, trademarks, patents and other like intangible assets, all as set forth, or on a pro forma basis would be set forth, on the consolidated balance sheet of the Guarantor and its consolidated subsidiaries for the Guarantor s most recently completed fiscal quarter, prepared in accordance with generally accepted accounting principles.

Permitted Liens means:

(1) liens upon rights-of-way for pipeline purposes;

(2) any statutory or governmental lien or lien arising by operation of law, or any mechanics , repairmen s, materialmen s, suppliers , carriers , landlords , warehousemen s or similar lien incurred in the ordinary course of business which is not yet due or which is being contested in good faith by appropriate proceedings and any undetermined lien which is incidental to construction, development, improvement or repair; or any right reserved to, or vested in, any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or by any provision of law, to purchase or recapture or to designate a purchaser of, any property;

(3) liens for taxes and assessments which are (a) for the then current year, (b) not at the time delinquent, or (c) delinquent but the validity or amount of which is being contested at the time by the Guarantor or any Subsidiary in good faith by appropriate proceedings;

(4) liens of, or to secure performance of, leases, other than capital leases; or any lien securing industrial development, pollution control or similar revenue bonds;

(5) any lien upon property or assets acquired or sold by the Guarantor or any Subsidiary resulting from the exercise of any rights arising out of defaults on receivables;

(6) any lien in favor of the Guarantor or any Subsidiary; or any lien upon any property or assets of the Guarantor or any Subsidiary in existence on the date of the execution and delivery of the Indenture;

(7) any lien in favor of the United States of America or any state thereof, or any department, agency or instrumentality or political subdivision of the United States of America or any state thereof, to secure partial, progress, advance, or other payments pursuant to any contract or statute, or any debt incurred by the Guarantor or any Subsidiary for the purpose of financing all or any part of the purchase price of, or the cost of constructing, developing, repairing or improving, the property or assets subject to such lien;

(8) any lien incurred in the ordinary course of business in connection with workmen s compensation, unemployment insurance, temporary disability, social security, retiree health or similar laws or regulations or to secure obligations imposed by statute or governmental regulations;

(9) liens in favor of any person to secure obligations under provisions of any letters of credit, bank guarantees, bonds or surety obligations required or requested by any governmental authority in connection with any contract or statute; or any lien upon or deposits of any assets to secure performance of bids, trade contracts, leases or statutory obligations;

(10) any lien upon any property or assets created at the time of acquisition of such property or assets by the Guarantor or any Subsidiary or within one year after such time to secure all or a portion of the purchase price for such property or assets or debt incurred to finance such purchase price, whether such debt was incurred prior to, at the time of or within one year after the date of such acquisition; or

any lien upon any property or assets to secure all or part of the cost of construction, development, repair or improvements thereon or to secure debt incurred prior to, at the time of, or within one year after completion of such construction, development, repair or improvements or the commencement of full operations thereof (whichever is later), to provide funds for any such purpose;

(11) any lien upon any property or assets existing thereon at the time of the acquisition thereof by the Guarantor or any Subsidiary and any lien upon any property or assets of a person existing thereon at the time such person becomes a Subsidiary by acquisition, merger or otherwise; provided that, in each case, such lien only encumbers the property or assets so acquired or owned by such person at the time such person becomes a Subsidiary;

(12) liens imposed by law or order as a result of any proceeding before any court or regulatory body that is being contested in good faith, and liens which secure a judgment or other court-ordered award or settlement as to which the Guarantor or the applicable Subsidiary has not exhausted its appellate rights;

(13) any extension, renewal, refinancing, refunding or replacement (or successive extensions, renewals, refinancing, refunding or replacements) of liens, in whole or in part, referred to in clauses (1) through (12) above; provided, however, that any such extension, renewal, refinancing, refunding or replacement lien shall be limited to the property or assets covered by the lien extended, renewed, refinanced, refunded or replaced and that the obligations secured by any such extension, renewal, refinancing, refunding or replacement lien shall be in an amount not greater than the amount of the obligations secured by the lien extended, renewed, refinanced, refunded or replaced and any expenses of the Guarantor and its Subsidiaries (including any premium) incurred in connection with such extension, renewal, refinancing, refunding or replacement; or

(14) any lien resulting from the deposit of moneys or evidence of indebtedness in trust for the purpose of defeasing debt of the Guarantor or any Subsidiary.

Principal Property means, whether owned or leased on the date of the Indenture or thereafter acquired:

(1) any pipeline assets of the Guarantor or any Subsidiary, including any related facilities employed in the transportation, distribution, storage or marketing of refined petroleum products, natural gas liquids, and petrochemicals, that are located in the United States of America or any territory or political subdivision thereof; and

(2) any processing or manufacturing plant or terminal owned or leased by the Guarantor or any Subsidiary that is located in the United States or any territory or political subdivision thereof,

except, in the case of either of the foregoing clauses (1) or (2):

(a) any such assets consisting of inventories, furniture, office fixtures and equipment (including data processing equipment), vehicles and equipment used on, or useful with, vehicles; and

(b) any such assets, plant or terminal which, in the opinion of the board of directors of the general partner of the Issuer, is not material in relation to the activities of the Issuer or of the Guarantor and its Subsidiaries taken as a whole.

Subsidiary means:

(1) the Issuer; or

(2) any corporation, association or other business entity of which more than 50% of the total voting power of the equity interests entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof or any partnership of which more than 50% of the partners equity interests (considering all partners equity interests as a single class) is, in each case, at the time owned or controlled, directly or indirectly, by the Guarantor, the Issuer or one or more of the other Subsidiaries of the Guarantor or the Issuer or combination thereof.

Notwithstanding the preceding, under the Indenture, the Guarantor may, and may permit any Subsidiary to, create, assume, incur, or suffer to exist any lien (other than a Permitted Lien) upon any Principal Property

or capital stock of a Restricted Subsidiary to secure debt of the Guarantor, the Issuer or any other person (other than the debt securities), without securing the debt securities, provided that the aggregate principal amount of all debt then outstanding secured by such lien and all similar liens, together with all Attributable Indebtedness from Sale-Leaseback Transactions (excluding Sale-Leaseback Transactions permitted by clauses (1) through (4), inclusive, of the first paragraph of the restriction on sale-leasebacks covenant described below) does not exceed 10% of Consolidated Net Tangible Assets.

Restriction on Sale-Leasebacks. The Indenture provides that the Guarantor will not, and will not permit any Subsidiary to, engage in the sale or transfer by the Guarantor or any Subsidiary of any Principal Property to a person (other than the Issuer or a Subsidiary) and the taking back by the Guarantor or any Subsidiary, as the case may be, of a lease of such Principal Property (a Sale-Leaseback Transaction), unless:

(1) such Sale-Leaseback Transaction occurs within one year from the date of completion of the acquisition of the Principal Property subject thereto or the date of the completion of construction, development or substantial repair or improvement, or commencement of full operations on such Principal Property, whichever is later;

(2) the Sale-Leaseback Transaction involves a lease for a period, including renewals, of not more than three years;

(3) the Guarantor or such Subsidiary would be entitled to incur debt secured by a lien on the Principal Property subject thereto in a principal amount equal to or exceeding the Attributable Indebtedness from such Sale-Leaseback Transaction without equally and ratably securing the debt securities; or

(4) the Guarantor or such Subsidiary, within a one-year period after such Sale-Leaseback Transaction, applies or causes to be applied an amount not less than the Attributable Indebtedness from such Sale-Leaseback Transaction to (a) the prepayment, repayment, redemption, reduction or retirement of any debt of the Guarantor or any Subsidiary that is not subordinated to the debt securities, or (b) the expenditure or expenditures for Principal Property used or to be used in the ordinary course of business of the Guarantor or its Subsidiaries.

Attributable Indebtedness, when used with respect to any Sale-Leaseback Transaction, means, as at the time of determination, the present value (discounted at the rate set forth or implicit in the terms of the lease included in such transaction) of the total obligations of the lessee for rental payments (other than amounts required to be paid on account of property taxes, maintenance, repairs, insurance, assessments, utilities, operating and labor costs and other items that do not constitute payments for property rights) during the remaining term of the lease included in such Sale-Leaseback Transaction (including any period for which such lease has been extended). In the case of any lease that is terminable by the lessee upon the payment of a penalty or other termination payment, such amount shall be the lesser of the amount determined assuming termination upon the first date such lease may be terminated (in which case the amount shall also include the amount of the penalty or termination payment, but no rent shall be considered as required to be paid under such lease subsequent to the first date upon which it may be so terminated) or the amount determined assuming no such termination.

Notwithstanding the preceding, under the Indenture the Guarantor may, and may permit any Subsidiary to, effect any Sale-Leaseback Transaction that is not excepted by clauses (1) through (4), inclusive, of the first paragraph under Restrictions on Sale-Leasebacks, provided that the Attributable Indebtedness from such Sale-Leaseback Transaction, together with the aggregate principal amount of all other such Attributable Indebtedness deemed to be outstanding in respect of all Sale-Leaseback Transactions and all outstanding debt (other than the debt securities) secured by liens (other than Permitted Liens) upon Principal Properties or upon capital stock of any Restricted Subsidiary, do not exceed 10% of Consolidated Net Tangible Assets.

Merger, Consolidation or Sale of Assets. The Indenture provides that each of the Guarantor and the Issuer may, without the consent of the holders of any of the debt securities, consolidate with or sell, lease,

convey all or substantially all of its assets to, or merge with or into, any partnership, limited liability company or corporation if:

(1) the entity surviving any such consolidation or merger or to which such assets shall have been transferred (the successor) is either the Guarantor or the Issuer, as applicable, or the successor is a domestic partnership, limited liability company or corporation and expressly assumes all the Guarantor s or the Issuer s, as the case may be, obligations and liabilities under the Indenture and the debt securities (in the case of the Issuer) and the Guarantee (in the case of the Guarantor);

(2) immediately after giving effect to the transaction no Default or Event of Default has occurred and is continuing; and

(3) the Issuer and the Guarantor have delivered to the Trustee an officers certificate and an opinion of counsel, each stating that such consolidation, merger or transfer complies with the Indenture.

The successor will be substituted for the Guarantor or the Issuer, as the case may be, in the Indenture with the same effect as if it had been an original party to the Indenture. Thereafter, the successor may exercise the rights and powers of the Guarantor or the Issuer, as the case may be, under the Indenture, in its name or in its own name. If the Guarantor or the Issuer sells or transfers all or substantially all of its assets, it will be released from all liabilities and obligations under the Indenture and under the debt securities (in the case of the Issuer) and the Guarantee (in the case of the Guarantor) except that no such release will occur in the case of a lease of all or substantially all of its assets.

Events of Default

Each of the following will be an Event of Default under the Indenture with respect to a series of debt securities:

(1) default in any payment of interest on any debt securities of that series when due, continued for 30 days;

(2) default in the payment of principal of or premium, if any, on any debt securities of that series when due at its stated maturity, upon optional redemption, upon declaration or otherwise;

(3) failure by the Guarantor or the Issuer to comply for 60 days after notice with its other agreements contained in the Indenture;

(4) certain events of bankruptcy, insolvency or reorganization of the Issuer or the Guarantor (the bankruptcy provisions); or

(5) the Guarantee ceases to be in full force and effect or is declared null and void in a judicial proceeding or the Guarantor denies or disaffirms its obligations under the Indenture or the Guarantee.

However, a default under clause (3) of this paragraph will not constitute an Event of Default until the Trustee or the holders of at least 25% in principal amount of the outstanding debt securities of that series notify the Issuer and the Guarantor of the default such default is not cured within the time specified in clause (3) of this paragraph after receipt of such notice.

An Event of Default for a particular series of debt securities will not necessarily constitute an Event of Default for any other series of debt securities that may be issued under the Indenture. If an Event of Default (other than an Event of Default described in clause (4) above) occurs and is continuing, the Trustee by notice to the Issuer, or the holders of at least 25% in principal amount of the outstanding debt securities of that series by notice to the Issuer and the Trustee,

may, and the Trustee at the request of such holders shall, declare the principal of, premium, if any, and accrued and unpaid interest, if any, on all the debt securities of that series to be due and payable. Upon such a declaration, such principal, premium and accrued and unpaid interest will be due and payable immediately. If an Event of Default described in clause (4) above occurs and is continuing, the principal of, premium, if any, and accrued and unpaid interest on all the debt securities will become and be immediately due and payable without any declaration or other act on the part of the Trustee or any holders. However, the effect of such provision may be limited by applicable law. The holders of a majority in principal

amount of the outstanding debt securities of a series may rescind any such acceleration with respect to the debt securities of that series and its consequences if rescission would not conflict with any judgment or decree of a court of competent jurisdiction and all existing Events of Default with respect to that series, other than the nonpayment of the principal of, premium, if any, and interest on the debt securities of that series that have become due solely by such declaration of acceleration, have been cured or waived.

Subject to the provisions of the Indenture relating to the duties of the Trustee, if an Event of Default with respect to a series of debt securities occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any of the holders of debt securities of that series, unless such holders have offered to the Trustee reasonable indemnity or security against any loss, liability or expense. Except to enforce the right to receive payment of principal, premium, if any, or interest when due, no holder of debt securities of any series may pursue any remedy with respect to the Indenture or the debt securities of that series unless:

(1) such holder has previously given the Trustee notice that an Event of Default with respect to the debt securities of that series is continuing;

(2) holders of at least 25% in principal amount of the outstanding debt securities of that series have requested the Trustee to pursue the remedy;

(3) such holders have offered the Trustee reasonable security or indemnity against any loss, liability or expense;

(4) the Trustee has not complied with such request within 60 days after the receipt of the request and the offer of security or indemnity; and

(5) the holders of a majority in principal amount of the outstanding debt securities of that series have not given the Trustee a direction that, in the opinion of the Trustee, is inconsistent with such request within such 60-day period.

Subject to certain restrictions, the holders of a majority in principal amount of the outstanding debt securities of each series have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee with respect to that series of debt securities. The Trustee, however, may refuse to follow any direction that conflicts with law or the Indenture or that the Trustee determines is unduly prejudicial to the rights of any other holder of debt securities of that series or that would involve the Trustee in personal liability.

The Indenture provides that if a Default (that is, an event that is, or after notice or the passage of time would be, an Event of Default) with respect to the debt securities of a particular series occurs and is continuing and is known to the Trustee, the Trustee must mail to each holder of debt securities of that series notice of the Default within 90 days after it occurs. Except in the case of a Default in the payment of principal of, premium, if any, or interest on the debt securities of that series, the Trustee may withhold notice, but only if and so long as the Trustee in good faith determines that withholding notice is in the interests of the holders of debt securities of that series. In addition, the Issuer is required to deliver to the Trustee, within 120 days after the end of each fiscal year, an officers certificate as to compliance with all covenants in the Indenture and indicating whether the signers thereof know of any Default or Event of Default that occurred during the previous year. The Issuer also is required to deliver to the Trustee, within 30 days after the occurrence thereof, an officers certificate specifying any Default or Event of Default, its status and what action the Issuer is taking or proposes to take in respect thereof.

Amendments and Waivers

Amendments of the Indenture may be made by the Issuer, the Guarantor and the Trustee with the consent of the holders of a majority in principal amount of all debt securities of each series affected thereby then outstanding under the Indenture (including consents obtained in connection with a tender offer or exchange

Table of Contents

offer for the debt securities). However, without the consent of each holder of outstanding debt securities affected thereby, no amendment may, among other things:

(1) reduce the percentage in principal amount of debt securities whose holders must consent to an amendment;

(2) reduce the stated rate of or extend the stated time for payment of interest on any debt securities;

(3) reduce the principal of or extend the stated maturity of any debt securities;

(4) reduce the premium payable upon the redemption of any debt securities or change the time at which any debt securities may be redeemed;

(5) make any debt securities payable in money other than that stated in the debt securities;

(6) impair the right of any holder to receive payment of, premium, if any, principal of and interest on such holder s debt securities on or after the due dates therefor or to institute suit for the enforcement of any payment on or with respect to such holder s debt securities;

(7) make any chIN-LEFT: 14.4pt; FONT-SIZE: 10pt">Other

1

7

(86
%)
Total revenues

127,819

115,661

11
%

Core PC Postage revenue in 2013 was $120.2 million, an increase of 12% from $107.0 million in 2012. Non-Core PC Postage revenue in 2013 was $2.9 million, a decrease of 5% from $3.0 million in 2012.

The following table sets forth the breakdown of PC Postage revenue, which includes Core PC Postage revenue and Non-Core PC Postage revenue for 2013 and 2012 and the resulting percent change (revenue in $000s):

	2013	2012	% Change	
Core PC Postage Revenue	$120,232	$106,979	12	%
Non-Core PC Postage Revenue	2,876	3,024	(5	%)
PC Postage Revenue	123,108	110,003	12	%

The increase in Core PC Postage revenue was primarily attributable to an increase in paid customers. Annual average paid customers increased 11% to 466,000 in 2013 from 421,000 in 2012. The decrease in Non-Core PC Postage revenue was primarily attributable to lower marketing spend in the online enhanced promotion channel.

We define paid customers for the quarter as ones from whom we successfully collected service fees at least once during that quarter, and we define average paid customers for the year as the average of the paid customers for each of the four quarters during the year.

The following table sets forth the number of paid customers (000s) in the period for our Core PC Postage business:

Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Annual Average
2013	465	467	464	468	466
2012	413	418	419	435	421

The following table sets forth the growth in paid customers and average annual revenue per paid customer for our Core PC Postage business:

	2013	2012	% Change
Average paid customers for the year (000s)	466	421	11 %
Average annual revenue per paid customer	$258	$254	2 %
Core PC Postage Revenue (000s)	$120,232	$106,979	12 %

Table of Contents

The increase in paid customers is primarily driven by an increased number of new customers acquired, which was driven by our increased spend in Core PC Postage marketing channels, while our lost customer churn rates remained at levels that were consistent with the prior year.

For our Core PC Postage Business, our average annual and monthly Core PC Postage revenue per paid customer in 2013 was $258 and $21.51 respectively, which increased by 2% compared to $254 and $21.18, respectively in 2012. The increase in average revenue per paid customer was primarily attributable to higher service revenue per paid customer from our high volume shipping and enterprise customers and higher store revenue per paid customer from increased sales of NetStamps labels; partially offset by a reduction in revenue per paid customer from our Amazon partnership.

Revenue by Product

The following table shows our components of revenue and their respective percentages of total revenue for the periods indicated (in 000s except percentage):

	2013	2012
Revenues		
Service	$99,013	$88,173
Product	16,580	14,710
Insurance	7,515	7,120
PhotoStamps	4,710	5,651
Other	1	7
Total revenues	$127,819	$115,661
Revenue as a percentage of total revenues		
Service	77%	76%
Product	13%	13%
Insurance	6%	6%
PhotoStamps	4%	5%
Other	0%	0%
Total revenues	100%	100%

Our revenue is derived primarily from five sources: (1) service revenue from subscription, transaction and other fees related to our PC Postage services and integrations; (2) product revenue from the direct sale of consumables and supplies through our Supplies Store; (3) insurance revenue from the sale of package insurance to our customers; (4) PhotoStamps revenue from selling sheets of PhotoStamps postage; and (5) other revenue, consisting primarily of advertising revenue derived from advertising programs with our existing customers.

Service revenue increased 12% to $99.0 million in 2013 from $88.2 million in 2012. The 12% increase in service revenue in 2013 consisted of a 13% increase in service revenue from our Core PC Postage business while the service revenue from our Non-Core PC Postage business decreased 5%. The 12% increase in our Core PC Postage service revenue consisted of an 11% increase in our annual average paid customers and a 2% increase in our annual average revenue per paid customer.

Product revenue increased 13% to $16.6 million in 2013 from $14.7 million in 2012. The increase was primarily attributable to the following: (1) increase in NetStamps label sales; (2) growth in our paid customer base; (3) the postal rate increase in January 2013, which generated incremental label sales for the period of time around the rate increase; (4) marketing our Supplies Store to our existing customer base; and (5) growth in postage printed, which helps drive sales of consumable supplies such as labels. Total postage printed by customers using our service in 2013 was $1.6 billion, a 36% increase from the $1.1 billion printed in 2012.

Insurance revenue increased 6% to $7.5 million in 2013 from $7.1 million in 2012. This increase was primarily attributable to increased insurance purchases by our high volume shippers, partially offset by a reduction in insurance revenue through our Amazon partnership.

We continued to reduce our PhotoStamps sales and marketing spending in 2013 compared with 2012, and plan to continue to reduce our sales and marketing spending on PhotoStamps in future periods to maintain or improve profitability in that business, although we believe that there may be potential opportunities to grow the business in a better economic environment. As a result of this decision PhotoStamps revenue decreased 17% to $4.7 million in 2013 from $5.7 million in 2012. Total PhotoStamps sheets shipped in 2013 decreased 20% to 255 thousand compared to 2012 and average revenue per PhotoStamps sheet shipped increased 4% to $18.50 in 2013 compared to 2012. The decrease in sheets shipped was primarily attributable to our lower marketing spend and the increase in average revenue per sheet shipped was primarily attributable to less discounting on custom negotiated pricing.

Table of Contents

Cost of Revenue

The following table shows cost of revenues and cost of revenues as a percentage of its associated revenue for the periods indicated (in 000s except percentage):

	2013	2012
Cost of Revenues		
Service	$15,422	$15,720
Product	5,694	5,435
Insurance	2,685	2,334
PhotoStamps	3,699	4,267
Total cost of revenues	$27,500	$27,756
Cost as percentage of associated revenue		
Service	16 %	18 %
Product	34 %	37 %
Insurance	36 %	33 %
PhotoStamps	79 %	76 %
Total cost as a percentage of total revenues	22 %	24 %

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

Cost of service revenue decreased 2% to $15.4 million in 2013 from $15.7 million in 2012. The decrease in cost of service revenue is primarily attributable to lower promotional expense as a result of a decrease in our coupon redemption rate, partially offset by higher system operating costs, credit card processing fees and customer service costs reflecting the growth in our business and our associated investments to support that growth. Promotional expense, which represents a material portion of total cost of service revenue, is expensed in the period in which a customer qualifies for the promotion, while the revenue associated with the acquired customer is earned over the customer's lifetime. As a result, promotional expense for newly acquired customers may exceed the revenue earned from those customers in that period. Promotional expense decreased 32% to $2.4 million in 2013 from $3.5 million in 2012. The decrease in promotion expense is primarily attributable to fewer customers acquired and to lower coupon redemption rates.

Cost of product revenue increased 5% to $5.7 million in 2013 from $5.4 million in 2012. The increase in product costs was driven by increased product revenue. Cost of product revenue as a percentage of product revenue decreased from 37% in 2012 to 34% in 2013. The decrease was primarily attributable to decreased fulfillment costs and to an increase in NetStamps labels revenue which have a lower cost of revenue as compared to other products sold in our Supplies Store.

Cost of insurance revenue increased 15% to $2.7 million in 2013 from $2.3 million in 2012. The increase is primarily attributable to increased insurance revenue resulting from increased activity by our high volume shipping customers. Cost of insurance revenue as a percentage of insurance revenue increased from 33% in 2012 to 36% in 2013. The increase was primarily attributable to the increased level and mix of discounted insurance rates for shippers.

Cost of PhotoStamps revenue decreased 13% to $3.7 million in 2013 from $4.3 million in 2012. Cost of PhotoStamps revenue as a percentage of PhotoStamps revenue increased from 76% in 2012 to 79% in 2013. The increase was

primarily attributable to the decrease in PhotoStamps revenue resulting in less fixed cost leverage and an increase in the face value of the cost of postage by the USPS which we did not pass on to customers in the form of higher pricing.
27

Table of Contents

Operating Expenses

The following table outlines the components of our operating expense and their respective percentages of total revenue for the periods indicated (in 000s except percentage):

	2013		2012	
Operating Expenses:				
Sales and marketing	$39,449		$38,755	
Research and development	10,958		10,243	
General and administrative	15,794		14,750	
Total operating expenses	$66,201		$63,748	
Operating expenses as a percentage of total revenue:				
Sales and marketing	31	%	34	%
Research and development	9	%	9	%
General and administrative	12	%	13	%
Total operating expenses	52	%	55	%

Sales and Marketing

Sales and marketing expense principally consists of spending to acquire new customers and compensation and related expenses for personnel engaged in sales, marketing, and business development activities. Sales and marketing expense increased 2% to $39.5 million in 2013 from $38.8 million in 2012. The increase is primarily due to increased marketing spending to acquire customers in our Core PC Postage business while spending in our Non-Core PC Postage and PhotoStamps business both decreased compared to 2012. Ongoing marketing programs include the following: customer referral programs, customer re-marketing efforts, direct mail, online advertising, partnerships, telemarketing, and traditional advertising. Sales and marketing expenses as a percent of total revenue decreased from 34% in 2012 to 31% in 2013 as revenue grew at a faster pace than sales and marketing expenses. The decrease is primarily attributable to sales and marketing spend not increasing as much as originally planned due to a more competitive environment in the traditional advertising and online marketing areas in 2013 as compared to 2012.

Research and Development

Research and development expense principally consists of compensation for personnel involved in the development of our services, depreciation of equipment and software and expenditures for consulting services and third party software. Research and development expense increased 7% to $11.0 million in 2013 from $10.2 million in 2012. The increase is primarily due to an increase in headcount-related expenses to support our expanded offerings. Research and development expense as a percentage of revenue was consistent at 9% in both 2012 and 2013.

General and Administrative

General and administrative expense principally consists of compensation and related costs for executive and administrative personnel, fees for legal and other professional services, depreciation of equipment and software used for general corporate purposes and amortization of intangible assets. General and administrative expense increased 7% to $15.8 million in 2013 from $14.8 million in 2012. The increase is primarily due to increase in headcount and related expenses and infrastructure investments to support the growth in the business. General and administrative expense as a percentage of revenue decreased slightly from 13% in 2012 to 12% in 2013. The decrease was primarily attributable to fixed cost leverage associated with our revenue growth.

Interest and Other Income, Net

Interest and other income, net primarily consists of interest income from cash equivalents, short-term and long-term investments and rental income from our corporate headquarters in El Segundo, California. Interest and other income, net decreased 11% to $480,000 in 2013 from $541,000 in 2012. The decrease is primarily due to lower yields on our investment balances including certain investments in our portfolio that matured and were replaced with lower yield investments.

Table of Contents

Provision for Income Taxes

During 2013, our income tax benefit consisted of a reduction of a portion of our valuation allowance on our deferred tax asset (as described below) and federal and state alternative minimum taxes. Our effective income tax rate differs from the statutory income tax rate primarily as a result of the reduction of a portion of our valuation allowance.

The income tax benefit in 2013 was $9.6 million which was lower than the $13.9 million income tax benefit in 2012. The decrease was primarily attributable to a lower reduction of a portion of our valuation allowance in 2013 as compared to the reduction of a portion of our valuation allowance release in 2012.

We evaluated the appropriateness of our deferred tax assets and related valuation allowance in accordance with Accounting Standards Codification ("ASC") 740 based on all available positive and negative evidence. On March 6, 2012, we entered into a binding agreement with PSI Systems, Inc. ("PSI") to resolve all outstanding patent litigation among the parties. Because the PSI litigation settlement occurred during the first quarter of 2012, we eliminated what had previously been negative evidence at that time. The litigation settlement then became positive evidence because (1) it eliminated the hard-to-predict fluctuations in litigation expenditures, which we expected to be material in future forecasts, (2) it eliminated the potential for a material negative financial judgment against us and (3) it eliminated the possibility of an injunction against us. We believed the other positive and negative evidence we evaluated was consistent (e.g., no material change had occurred) relative to our evaluation of this evidence in prior periods. Based on this discrete event, we extended our forecast of projected taxable income from two years to three years for the portion of our deferred tax asset for which it was more likely than not that a tax benefit would be realized under ASC 740 as of March 31, 2012. As a result, we released a portion of our valuation allowance totaling $11.9 million during the first quarter of 2012.

During the fourth quarter of 2012, we re-evaluated positive and negative evidence relating to our gross deferred tax assets and valuation allowance noting that there was no additional discrete event subsequent to the first quarter of 2012. During the fourth quarter of 2012, we updated our three year forecast of projected taxable income. Based on the updated forecast and a change in the California state tax laws, we recorded another release of a portion of our valuation allowance in the fourth quarter of 2012 totaling approximately $2.5 million.

During the fourth quarter of 2013, we re-evaluated positive and negative evidence relating to our gross deferred tax assets and valuation allowance noting that there was no discrete event that occurred during 2013 year. During the fourth quarter of 2012, we updated our three year forecast of projected taxable income. Based on the updated forecast we recorded another release of a portion of our valuation allowance in the fourth quarter of 2013 totaling approximately $9.7 million.

As of December 31, 2013, we have recorded approximately $40 million of net deferred tax assets on the balance sheet, and we continued to maintain a valuation allowance for the remainder of our gross deferred tax assets.

During 2013, we recorded current tax provision for corporate alternative minimum federal and state taxes of approximately $158,000. During 2012, we recorded current tax provision for corporate alternative minimum federal and state taxes of approximately $565,000. The decrease in current tax provision in 2013 compared to 2012 is primarily due to lower taxable income in 2013 as a result of a change in California state tax laws and additional temporary differences.

Expectations for 2014

We expect the following trends for 2014:

- We expect fiscal 2014 revenue to be in the range between $125 million and $140 million.

- We expect growth in 2014 Core PC Postage revenue to be up 5% to 10% compared to 2013. Our ability to grow our Core PC Postage revenue is dependent on our ability to increase our small business customer acquisition spending on marketing programs resulting in the addition of new customers and so to the extent we are not able to achieve our target increase in spending, as outlined below, this would negatively impact our 2014 Core PC Postage revenue growth expectations.

29

Table of Contents

- We expect Non-Core PC Postage revenue and PhotoStamps revenue will continue to be down in 2014 compared to 2013 as we expect to continue to minimize investments in these areas of our business.

- We are targeting small business customer acquisition spending on our Core PC Postage marketing channels to be up 5% - 10% in 2014 compared to 2013. We will continue to monitor our customer metrics and the state of the economy and adjust our level of spending accordingly.

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

- We expect research and development expenses to be higher in 2014 as compared to 2013, primarily related to an expected increase in headcount costs to support the growth in our products and services.

- We expect general and administrative expenses to be higher in 2014 as compared to 2013, primarily related to an expected increase in costs to build and support the infrastructure necessary to grow the business.

- We expect capital expenditures for the business to be approximately $2.5 million.

As discussed above, our expectations are subject to substantial uncertainty and our results are subject to macro economic factors and other factors which could cause these trends to be worse than our current expectation or which could cause actual results to be materially different than our current expectations. These expectations are “forward looking statements”, are made only as of the date of this Report and are subject to the qualification and limitations on the forward-looking statements discussion on page 1 of Part I of this Report and the risks and other factors set forth in Item 1A “Risk Factors”. As described in our forward-looking statements discussion, we do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances after the date of this Report.

Years Ended December 31, 2012 and 2011

Total revenue increased 14% to $115.7 million in 2012 from $101.6 million in 2011. PC Postage revenue, including service revenue, product revenue and insurance revenue, in 2012 was $110.0 million, an increase of 18% compared to $93.3 million in 2011. Core PC Postage revenue increased 19% to $107.0 million in 2012 from $90.2 million in 2011. Non-Core PC Postage revenue decreased 5% to $3.0 million in 2012 from $3.2 million in 2011. PhotoStamps revenue decreased 32% to $5.7 million in 2012 from $8.3 million in 2011. Other revenue increased 9% to $7,000 in 2012 from $6,000 in 2011.

The following table sets forth the breakdown of revenue for 2012 and 2011 and the resulting percent change (revenue in $000s):

	2012	2011	% Change
Revenues			
Service	$88,173	$75,535	17 %
Product	14,710	13,465	9 %
Insurance	7,120	4,321	65 %
PC Postage Revenue	110,003	93,321	18 %
PhotoStamps Revenue	5,651	8,258	(32 %)
Other	7	6	9 %
Total revenues	115,661	101,585	14 %

30

Table of Contents

The following table sets forth the breakdown of PC Postage revenue, which includes Core PC Postage revenue and Non-Core PC Postage revenue for 2012 and 2011 and the resulting percent change (revenue in $000s):

	2012	2011	% Change
Core PC Postage Revenue	$106,979	$90,150	19 %
Non-Core PC Postage Revenue	3,024	3,171	(5 %)
PC Postage Revenue	110,003	93,321	18 %

The increase in Core PC Postage revenue was driven by both an increase in average revenue per paid customer and an increase in paid customers. Average revenue per paid customer increased 5% to $21.18 in 2012 from $20.20 in 2011. Annual average paid customers increased 13% to 421,000 in 2012 from 372,000 in 2011.

We define paid customers for the quarter as ones from whom we successfully collected service fees at least once during that quarter, and we define average paid customers for the year as the average of the paid customers for each of the four quarters during the year.

The following table sets forth the number of paid customers (000s) in the period for our Core PC Postage business:

Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Annual Average
2012	413	418	419	435	421
2011	360	368	374	385	372

The following table sets forth the growth in paid customers and average annual revenue per paid customer for our Core PC Postage business:

Core PC Postage Business	2012	2011	% Change
Average paid customers for the year (000s)	421	372	13 %
Average annual revenue per paid customer	$254	$242	5 %
Core PC Postage Revenue ($000s)	$106,979	$90,150	19 %

The increase in paid customers is primarily driven by an increased number of new customers acquired, which was driven by our increased spend in Core PC Postage marketing channels, while our lost customer churn rates remained at levels that were consistent with the prior year.

For our Core PC Postage Business, our average annual and monthly Core PC Postage revenue per paid customer in 2012 was $254 and $21.18 respectively, which increased by 5% compared to $242 and $20.20, respectively in 2011. The increase in average revenue per paid customer was primarily attributable to (1) higher service revenue from our high volume shipping and enterprise customer segments and (2) an increase in insurance revenue per paid customer driven by our focus on shipping and new insurance features.

31

Table of Contents

Revenue by Product

The following table shows our revenue and revenue as a percentage of total revenue for the periods indicated (in $000s except percentage):

	2012		2011	
Revenues				
Service	$88,173		$75,535	
Product	14,710		13,465	
Insurance	7,120		4,321	
PhotoStamps	5,651		8,258	
Other	7		6	
Total revenues	$115,661		$101,585	
Revenue as a percentage of total revenues				
Service	76	%	74	%
Product	13	%	13	%
Insurance	6	%	4	%
PhotoStamps	5	%	8	%
Other	0	%	0	%
Total revenues	100	%	100	%

Our revenue is derived primarily from five sources: (1) service and transaction fees related to our PC Postage service; (2) product revenue from the direct sale of consumables and supplies through our Supplies Store; (3) insurance revenue from our branded insurance offering; (4) PhotoStamps revenue from our PhotoStamps business; and (5) other revenue, consisting of advertising revenue derived from advertising programs with our existing customers.

Service revenue increased 17% to $88.2 million in 2012 from $75.5 million in 2011. The 17% increase in service revenue in 2012 consisted of an 18% increase in service revenue from our Core PC Postage business and a 5% decrease in service revenue from our Non-Core PC Postage business. The increase in our Core PC Postage service revenue is primarily attributable to the following (1) a 13% increase in paid customers driven by increased marketing spend to acquire new Core PC Postage customers and (2) a 4% increase in average service revenue per paid customer driven by higher service revenue per paid customer from our high volume shipping and enterprise customer segments. The decrease in our Non-Core PC Postage service revenue is primarily attributable to continued low levels of marketing spend resulting in a decline in Non-Core PC Postage paid customers.

Product revenue increased 9% to $14.7 million in 2012 from $13.5 million in 2011. The increase is primarily attributable to the following: (1) growth in our paid customer base; (2) the postal rate increase in January 2012 which generated incremental label sales for the period of time around the rate increase; (3) marketing our Supplies Store to our existing customer base; and (4) growth in postage printed, which helps drive sales of consumable supplies such as labels. Total postage printed by customers using our service in 2012 was $1.1 billion, a 71% increase from the $672 million printed in 2011.

Insurance revenue increased 65% to $7.1 million in 2012 from $4.3 million in 2011. This increase is primarily attributable to: (1) the expansion of our existing package insurance offering to cover packages being shipped to international destinations; (2) insurance purchases resulting from our partnership with Amazon.com; and (3) increased insurance purchases by high volume shippers. Postage printed by our high volume shipping customers was up 66% in 2012 compared to 2011.

PhotoStamps revenue decreased 32% to $5.7 million in 2012 from $8.3 million in 2011. The decrease is primarily attributable to: (1) we continued to reduce our PhotoStamps sales and marketing spending in 2012 compared with 2011 to maintain or improve profitability in that business and (2) during the second quarter of 2011, we first applied breakage accounting to our PhotoStamps boxes sold through retail channels which resulted in an incremental $2.2 million of PhotoStamps revenue in 2011 which did not repeat in 2012. Please see Note 2 “Summary of Significant

Accounting Policies—PhotoStamps Retail Boxes" in our Notes to Consolidated Financial Statements for further discussion. PhotoStamps sheets shipped decreased 5% to 319,000 in 2012 from 335,000 in 2011 primarily as a result of the reduced marketing spending. Average revenue per PhotoStamps sheet shipped decreased 3% to $17.71 in 2012 from $18.21 in 2011 as a result of an increase in high volume business orders which are typically sold at discounted price compared to consumer website orders.

Other revenue consisting of commissions from the advertising or sale of products by third party vendors to our customer increased 9% to $7,000 in 2012 from $6,000 in 2011. Commission revenue from the advertising or sale of products by third party vendors is currently not material to our consolidated financial statements.

Table of Contents

Cost of Revenue

The following table shows cost of revenues and cost of revenues as a percentage of its associated revenue for the periods indicated (in $000s except percentage):

	2012	2011
Cost of Revenues		
Service	$15,720	$14,720
Product	5,435	4,910
Insurance	2,334	1,506
PhotoStamps	4,267	5,076
Total cost of revenues	$27,756	$26,212
Cost as percentage of associated revenue		
Service	18 %	19 %
Product	37 %	36 %
Insurance	33 %	35 %
PhotoStamps	76 %	61 %
Total cost as a percentage of total revenues	24 %	26 %

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

Cost of service revenue increased 7% to $15.7 million in 2012 from $14.7 million in 2011. The increase in cost of service revenue is primarily attributable to higher customer service costs to support our growing customer base. Promotional expense, which represents a material portion of total cost of service revenue, is expensed in the period in which a customer qualifies for the promotion, while the revenue associated with the acquired customer is earned over the customer's lifetime. As a result, promotional expense for newly acquired customers may exceed the revenue earned from those customers in that period. Promotional expense decreased 2% to $3.5 million in 2012 from $3.6 million in 2011. The decrease in promotion expense is primarily attributable to lower coupon redemption rates. As a result, cost of service revenue as a percentage of service revenue decreased slightly from 19% in 2011 to 18% in 2012.

Cost of product revenue increased 11% to $5.4 million in 2012 from $4.9 million in 2011. The increase in product costs was driven by increased product revenue. Cost of product revenue as a percentage of product revenue increased slightly from 36% in 2011 to 37% in 2012 as a result of higher fulfillment costs that were not passed on to customers.

Cost of insurance revenue increased 55% to $2.3 million in 2012 from $1.5 million in 2011. The increase is primarily attributable to increased insurance revenue resulting from increased activity by our high volume shipping customers. Cost of insurance revenue as a percentage of insurance revenue decreased slightly from 35% in 2011 to 33% in 2012 as a result of changes and mix shifts in insurance pricing and discounting to the end customers.

Cost of PhotoStamps revenue decreased 16% to $4.3 million in 2012 from $5.1 million in 2011. The decrease is primarily attributable to the decrease in PhotoStamps revenue and the decrease in cost of PhotoStamps revenue related to initial application of PhotoStamps retail box breakage in 2011 that did not repeat in 2012. Cost of PhotoStamps revenue increased from 61% in 2011 to 76% in 2012. This increase was primarily attributable to the initial application of PhotoStamps retail box breakage accounting in 2011 which was at a higher gross margin compared to the rest of the PhotoStamps business. As the initial application of PhotoStamps retail box breakage accounting did not

repeat in 2012, Cost of PhotoStamps revenue as a percent of PhotoStamps revenue increased to levels more consistent with years prior to 2011.

33

Table of Contents

Operating Expenses

The following table is our operating expense and operating expense as a percentage of total revenue for the periods indicated (in $000s except percentage):

	2012		2011	
Operating Expenses:				
Sales and marketing	$38,755		$34,569	
Research and development	10,243		9,395	
General and administrative	14,750		14,181	
Total operating expenses	$63,748		$58,145	
Operating expenses as a percentage of total revenue:				
Sales and marketing	34	%	34	%
Research and development	9	%	9	%
General and administrative	13	%	14	%
Total operating expenses	55	%	57	%

Sales and Marketing

Sales and marketing expense principally consists of spending to acquire new customers and compensation and related expenses for personnel engaged in sales, marketing, and business development activities. Sales and marketing expense increased 12% to $38.8 million in 2012 from $34.6 million in 2011. The increase is primarily due to increased marketing expenditures to acquire customers in our Core PC Postage business. Ongoing marketing programs include the following: traditional advertising, partnerships, customer referral programs, customer re-marketing efforts, telemarketing, direct mail, and online advertising. Sales and marketing expenses as a percent of total revenue was consistent at 34% for both 2011 and 2012.

Research and Development

Research and development expense principally consists of compensation for personnel involved in the development of our services, depreciation of equipment and software, and expenditures for consulting services and third party software. Research and development expense increased 9% to $10.2 million in 2012 from $9.4 million in 2011. The increase is primarily due to headcount-related expenses as we continued to invest in the development and enhancement of our PC Postage solution. Research and development expenses as a percent of total revenue was consistent at 9% for both 2011 and 2012.

General and Administrative

General and administrative expense principally consists of compensation and related costs for executive and administrative personnel, fees for legal and other professional services, depreciation of equipment and software used for general corporate purposes and amortization of intangible assets. General and administrative expense increased 4% to $14.8 million in 2012 from $14.2 million in 2011. The increase is primarily due to the one-time relocation expense we incurred associated with the move to our new corporate headquarters and headcount related expenses. General and administrative expenses as a percent of total revenue decreased slightly from 14% in 2011 to 13% in 2012 as a result of lower litigation expenses in 2012 following the settlement of our patent infringement lawsuit with Endicia in the first quarter of 2012.

Interest and Other Income, Net

Interest and other income, net primarily consists of interest income from cash equivalents, short-term and long-term investments and rental income from our corporate headquarters in El Segundo, California. Interest and other income, net decreased 4% to $541,000 in 2012 from $562,000 in 2011. The decrease is primarily due to lower yields on our investment balances including certain investments in our portfolio that matured and were replaced with lower yield investments.

Provision for Income Taxes

Income tax benefit increased 64% to $13.9 million in 2012 from $8.5 million in 2011. During 2012, our income tax benefit consisted of a reduction of a portion of our valuation allowance on our deferred tax asset (as described below) and federal and state alternative minimum taxes. Our effective income tax rate differs from the statutory income tax rate primarily as a result of the reduction of a portion of our valuation allowance.

We evaluated the appropriateness of our deferred tax assets and related valuation allowance in accordance with Accounting Standards Codification ("ASC") 740 based on all available positive and negative evidence. On March 6, 2012, we entered into a binding agreement with PSI Systems, Inc. ("PSI") to resolve all outstanding patent litigation among the parties. Because the PSI litigation settlement occurred during the first quarter of 2012, we eliminated what had previously been negative evidence at that time. The litigation settlement then became positive evidence because (1) it eliminated the hard-to-predict fluctuations in litigation expenditures, which we expected to be material in future forecasts, (2) it eliminated the potential for a material negative financial judgment against us and (3) it eliminated the possibility of an injunction against us. We believed the other positive and negative evidence we evaluated was consistent (e.g., no material change had occurred) relative to our evaluation of this evidence in prior periods. Based on this discrete event, we extended our forecast of projected taxable income from two years to three years for the portion of our deferred tax asset for which it was more likely than not that a tax benefit would be realized under ASC 740 as of March 31, 2012. As a result, we released a portion of our valuation allowance totaling $11.9 million during the first quarter of 2012.

During the fourth quarter of 2012, we re-evaluated positive and negative evidence relating to our gross deferred tax assets and valuation allowance noting that there was no additional discrete event subsequent to the first quarter of 2012. During the fourth quarter of 2012, we updated our three year forecast of projected taxable income. Based on the updated forecast and a change in the California state tax laws, we recorded another release of a portion of our valuation allowance in the fourth quarter of 2012 totaling approximately $2.5 million. As of December 31, 2012, we recorded approximately $31 million of net deferred tax assets, and we continued to maintain a valuation allowance for the remainder of our gross deferred tax assets.

During 2012, we recorded current tax provision for corporate alternative minimum federal and state taxes of approximately $565,000. During 2011, we were in a taxable loss position for tax reporting purposes and as a result we did not incur any current tax provision.

Liquidity and Capital Resources

As of December 31, 2013 and 2012, we had $87 million and $47 million in cash, short-term and long-term investments, respectively. We invest available funds in short-term and long-term money market funds, commercial paper, asset-backed securities, corporate notes and bonds and municipal securities and do not engage in hedging or speculative activities.

On January 23, 2012, we completed the purchase of two adjacent buildings in El Segundo, California that now serve as our corporate headquarters for an aggregate purchase price of $13.4 million. We substantially completed the renovation and construction project on the property in 2012. We moved into our new corporate headquarters during the third quarter of 2012. We occupy a portion of the 99,600 square foot space, with the remaining portion of the space continuing to be leased to the existing tenants. The purchase of the property and renovations were funded out of our cash flow from operations and existing cash and investments.

Net cash provided by operating activities was approximately $36 million and $27 million in 2013 and 2012, respectively. The increase in net cash provided by operating activities was primarily attributable to the growth in our revenue and net income and the resulting changes in our operating assets and liabilities.

Net cash used in investing activities was approximately $9 million and $28 million in 2013 and 2012, respectively. The decrease in net cash used in investing activities was primarily due to the purchase and renovation of our new corporate headquarters in 2012, which we did not incur in 2013.

Net cash provided by financing activities was approximately $10 million in 2013. Net cash used in financing activities was approximately $24 million in 2012. The decrease in net cash used in financing activities is primarily due

to the decrease of stock purchased through our stock repurchase program, partially offset by proceeds from employee stock options exercises.

As of December 31, 2013, we do not have any significant contractual obligations or commercial commitments.

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

Section 382 Update

We currently have federal and state NOL carry-forwards of approximately $200 million and $95 million, respectively. Under Internal Revenue Code Section 382 rules, if a "change of ownership" is triggered, our NOL asset may be impaired. A change in ownership can occur whenever there is a shift in ownership by more than 50 percentage points by one or more "5% shareholders" within a three-year period. We estimate that as of December 31, 2013 we were at approximately a 19% level compared with the 50% level that would trigger impairment of our NOL asset.

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

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

As of February 28, 2014, we had 16,246,601 shares outstanding, and therefore ownership of approximately 812,000 shares or more would currently constitute a "5% shareholder". We strongly urge that any stockholder contemplating becoming a 5% or more shareholder contact us before doing so.

Critical Accounting Policies and Judgments

General

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

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

Revenue Recognition

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

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

Table of Contents

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

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

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

On a limited basis, we allow third parties to offer products and promotions to our customer base. These arrangements generally provide payment in the form of a flat fee or revenue sharing arrangements where we receive payment upon customers accessing third party products and services. Total revenue from such advertising arrangements was not significant during 2013 and 2012.

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

PhotoStamps Retail Boxes

We sell PhotoStamps retail boxes that are redeemable for PhotoStamps on our website. The PhotoStamps retail boxes are sold through various third party retail partners. Our PhotoStamps retail boxes are not subject to administrative fees on unredeemed boxes and have no expiration date. PhotoStamps retail box sales are recorded as deferred revenue. Prior to the second quarter of 2011, revenue was recognized only on boxes that were actually redeemed on our website.

During the second quarter of 2011, we concluded that sufficient company-specific historical evidence existed to determine the period of time after which the likelihood of the PhotoStamps retail boxes being redeemed was remote. Based on our analysis of the redemption data, we estimate that period of time to be 60 months after the sale of our PhotoStamps retail boxes.

Beginning in the second quarter of 2011, we began recognizing breakage revenue related to our PhotoStamps retail boxes utilizing the redemption recognition method. Under the redemption recognition method, we recognize breakage revenue from unredeemed retail boxes in proportion to the revenue recognized from the retail boxes that have been redeemed. Revenue from our PhotoStamps retail boxes is included in PhotoStamps revenue. We continue to recognize retail box breakage revenue from PhotoStamps retail boxes using the redemption recognition method. During 2013 and 2012 PhotoStamps retail box breakage revenue was approximately $115,000 and $260,000, respectively.

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.

Table of Contents

Contingencies and Litigation

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

Promotional Expense

New PC Postage customers are typically offered promotional items that are redeemed using coupons that are qualified for redemption after a customer is successfully billed beyond an initial trial period. We account for our promotional expense in accordance with Accounting Standard Codification ("ASC") 605-50-25, "Recognition – Vendor's Accounting for Consideration Given to a Customer", by recognizing a liability for promotional expense based on estimated amounts that will be claimed by customers unless the liability for promotional expense cannot be reasonable and reliably estimated. This includes free postage and a free digital scale and is expensed in the period in which a customer qualifies using estimated redemption rates based on historical data. We periodically review our historical redemption rates and adjust, if necessary, our estimated redemption rates for future periods. Promotional expense, which is included in cost of service, is incurred as customers qualify and thereby may not correlate directly with changes in revenue, as the revenue associated with the acquired customer is earned over the customer's lifetime.

Income Taxes

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

Based on our evaluation of these factors, we reduced our valuation allowances in 2013 and 2012. The portion credited to the income statement was approximately $9.7 million and $14.4 million, respectively. As of December 31, 2013, our recorded net deferred tax asset represents approximately three years of forecasted taxable income as we currently do not believe forecasted taxable income projections beyond three years can be supported at a more likely than not level. In the event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets valuation allowance would be charged to earnings in the period in which we make such a determination. Likewise, if we later determine that it is more likely than not that additional deferred tax assets would be realized, we would reverse the applicable portion of the previously provided valuation allowance.

Property and Equipment

We account for property and equipment at cost less accumulated depreciation and amortization. We compute depreciation using the straight-line method over the estimated useful life of the asset, generally three to five years for furniture, fixtures and equipment and ten to forty years for building and building improvements. We have a policy of capitalizing expenditures that materially increase assets' useful lives and charging ordinary maintenance and repairs to

operations as incurred. When property or equipment is disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts, and any gain or loss is included in operations.

On January 23, 2012, we completed the purchase of our new corporate headquarters in El Segundo, California, for an aggregate purchase price of $13.4 million of which approximately $7.2 million was allocated to land value and $5.5 million was allocated to building value. The purchase was accounted for as a business combination. The building is being depreciated on a straight-line basis over the estimated useful life of 40 years; the land is an asset that does not get depreciated. As a result of the purchase we also acquired existing leases of building tenants, and $700,000 of the initial purchase price was allocated to lease-in-place intangible assets and is being amortized over the remaining actual lease terms, which are as long as 5.5 years.

Table of Contents

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio. We have not used derivative financial instruments in our investment portfolio. None of the instruments in our investment portfolio are held for trading purposes. Our cash equivalents and investments consist of money market, U.S. government obligations, asset-backed securities and public corporate debt securities with weighted average maturities of 315 days at December 31, 2013. Our cash equivalents and investments approximated $87 million and had a weighted average interest rate of 0.4%. Interest rate fluctuations impact the carrying value of the portfolio. The fair value of our portfolio of marketable securities would not be significantly affected by either a 10% increase or decrease in the rates of interest due primarily to the short-term nature of the portfolio. We do not believe that the future market risks related to the above securities will have a material adverse impact on our financial position, results of operations or liquidity.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Our consolidated financial statements, schedules and supplementary data, as listed under Item 15, appear in a separate section of this Report beginning on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of disclosure controls and procedures

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

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

Management’s report on internal control over financial reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) and 15d-15(f). Our internal control system was designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework) (COSO) in Internal Control-Integrated Framework. Based on our assessment and those criteria, management, including our Chief Executive Officer and Chief Financial Officer, concluded that our internal control over financial reporting was effective as of December 31, 2013.

Ernst & Young, LLP, the independent registered public accounting firm who also audited our consolidated financial statements, has issued an attestation report on the effectiveness of internal control over financial reporting as of December 31, 2013, which is included herein.

Table of Contents

Changes in internal controls

During the quarter ended December 31, 2013, there has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
Stamps.com Inc. and Subsidiary

We have audited Stamps.com Inc. and Subsidiary's internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework) (the COSO criteria). Stamps.com Inc. and Subsidiary's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Stamps.com Inc. and Subsidiary maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets of Stamps.com Inc. and Subsidiary as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013 of Stamps.com Inc. and Subsidiary and our report dated March 17, 2014 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Los Angeles, California
March 17, 2014

41

Table of Contents

PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information required under this item is incorporated by reference herein to our proxy statement for our 2014 annual meeting of stockholders, which will be filed with the SEC by not later than 120 days after our fiscal year end.

ITEM 11. EXECUTIVE COMPENSATION.

The information required under this item is incorporated by reference herein to our proxy statement for our 2014 annual meeting of stockholders, which will be filed with the SEC by not later than 120 days after our fiscal year end.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required under this item is incorporated by reference herein to our proxy statement for our 2014 annual meeting of stockholders, which will be filed with the SEC by not later than 120 days after our fiscal year end.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information required under this item is incorporated by reference herein to our proxy statement for our 2014 annual meeting of stockholders, which will be filed with the SEC by not later than 120 days after our fiscal year end.

ITEM 14. PRINCIPALACCOUNTING FEES AND SERVICES.

The information required under this item is incorporated by reference herein to our proxy statement for our 2014 annual meeting of stockholders, which will be filed with the SEC by not later than 120 days after our fiscal year end.

42

Table of Contents
PART IV.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

(a) Documents filed as part of this report.

1. Financial Statements. Our following financial statements are included in a separate section of this Annual Report on Form 10-K commencing on the pages referenced below:

Stamps.com Inc. and Subsidiary Financial Statements

	Page
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets at December 31, 2013 and 2012	F-2
Consolidated Statements of Income for the years ended December 31, 2013, 2012 and 2011	F-3
Consolidated Statements of Comprehensive Income for the years ended December 31, 2013, 2012 and 2011	F-4
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2013, 2012 and 2011	F-5
Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011	F-6
Notes to Financial Statements	F-7

2. Financial Statement Schedules. All of our financial statement schedules have been omitted because they are not applicable, not required, or the information is included in the financial statements or notes thereto.

3. Exhibits. The following Exhibits are incorporated herein by reference or are filed with this report as indicated below:

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of the Company.(11)
3.2	Bylaws of the Company.(3)
3.3	Resolution Amending Bylaws of Stamps.com Inc. (13)
4.1	Specimen common stock certificate.(4)
10.1	Patent Assignment from Mohan P. Ananda to the Company, dated January 20, 1998.(1)
10.2	Assignment and License Agreement between the Company and Mohan P. Ananda, dated January 20, 1998.(1)
10.3	1998 Stock Plan and Forms of Notice of Grant and Stock Option Agreement.(2) +++
10.4	1999 Stock Incentive Plan (as amended and restated on April 25, 2000).(7) +++
10.5	1999 Employee Stock Purchase Plan (as amended and restated on February 9, 2000).(6) +++
10.6	Form of Indemnification Agreement between the Company and its directors and officers.(1) +++
10.7+	

	Patent License and Settlement Agreement dated December 19, 2003 by and between Stamps.com Inc. and Pitney Bowes Inc. (8)
10.8++	Agreement dated July 14, 2004 by and between Stamps.com Inc., eBay Inc. and PayPal, Inc. (9)

43

Table of Contents

Exhibit Number	Description
10.9	Form of Notice of Grant of Stock Option (1999 Stock Incentive Plan).(5) +++
10.10	Form of Stock Option Agreement (1999 Stock Incentive Plan).(5) +++
10.11	Form of Addendum to Stock Option Agreement—Involuntary Termination Following Corporate Transaction/Change in Control (1999 Stock Incentive Plan).(5) +++
10.12	Form of Addendum to Stock Option Agreement—Limited Stock Appreciation Right (1999 Stock Incentive Plan).(5) +++
10.13	Form of Stock Issuance Agreement (1999 Stock Incentive Plan).(5) +++
10.14	Form of Addendum to Stock Issuance Agreement—Involuntary Termination Following Corporate Transaction/Change in Control (1999 Stock Incentive Plan).(5) +++
10.15	Form Automatic Stock Option Agreement (1999 Stock Incentive Plan).(5) +++
10.16	Form Notice of Grant of Non-Employee Director—Automatic Stock Option (Initial) (1999 Stock Incentive Plan).(5) +++
10.17	Form Notice of Grant of Non-Employee Director—Automatic Stock Option (Annual) (1999 Stock Incentive Plan).(5) +++
10.18	Form of Enrollment/Change Form for Employee Stock Purchase Plan.(5) +++
10.19	Form of Stock Purchase Agreement for Employee Stock Purchase Plan.(5) +++
10.20	Stock Purchase Agreement (12) +++
10.21	2010 Equity Incentive Plan.(13) +++
10.22	Form of Stock Option Agreement.(14) +++
10.23	Settlement Agreement among the Company, Kara Technology Incorporated and Salim Kara.(15)
10.24	Agreement of Purchase And Sale and Joint Escrow Instructions.(16)
14	Code of Ethics.(10)
21	List of Subsidiaries: PhotoStamps Inc., a California corporation
23.1	Consent of Ernst & Young LLP.(17)
24.1	Power of Attorney by G. Bradford Jones.(17)
24.2	Power of Attorney by Mohan Ananda.(17)

24.3	Power of Attorney by Lloyd I. Miller.(17)
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.(17)
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.(17)

Table of Contents

Exhibit Number	Description
32.1	Certification of Chief Executive Office pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.(17) (furnished, not filed)
32.2	Certification of Chief Financial Office pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.(17) (furnished, not filed)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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(1) Incorporated herein by reference to the Company's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on April 26, 1999 (File No. 333-77025).

(2) Incorporated herein by reference to Amendment No. 1 to the Company's Registration Statement on Form S-1, filed with the Securities and Exchange Commission on May 13, 1999 (File No. 333-77025).

(3) Incorporated herein by reference to Amendment No. 2 to the Company's Registration Statement on Form S-1, filed with the Securities and Exchange Commission on June 7, 1999 (File No. 333-77025).

(4) Incorporated herein by reference to Amendment No. 4 to the Company's Registration Statement on Form S-1, filed with the Securities and Exchange Commission on June 22, 1999 (File No. 333-77025).

(5) Incorporated herein by reference to the Company's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on June 28, 1999 (File No. 333-81733).

(6) Incorporated herein by reference to the Company's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on March 30, 2000 (File No. 333-33648).

(7) Incorporated herein by reference to the Company's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on August 1, 2000 (File No. 333-42764).

(8) Incorporated herein by reference to the Company's Form 8-K filed with the Securities and Exchange Commission on December 22, 2003 (File No. 000-26427).

(9) Incorporated herein by reference to the Company's Form 8-K filed with the Securities and Exchange Commission on July 16, 2004 (File No. 000-26427).

(10)

Incorporated herein by reference to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 14, 2008 (File No. 000-26427).

(11) Incorporated herein by reference to the Company's Form 10-Q filed with the Securities and Exchange Commission on August 8, 2008 (File No. 000-26427).

(12) Incorporated herein by reference to the Company's Form 10-K filed with the Securities and Exchange Commission on March 15, 2010 (File No. 000-26427).

(13) Incorporated herein by reference to the Company's Form 8-K filed with the Securities and Exchange Commission on April 23, 2010 (File No. 000-26427).

(14) Incorporated herein by reference to the Company's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on July 28, 2010 (File No. 333-168360).

(15) Incorporated herein by reference to the Company's Form 10-Q filed with the Securities and Exchange Commission on November 8, 2010 (File No. 000-26427).

(16) Incorporated herein by reference to the Company's Form 10-K filed with the Securities and Exchange Commission on March 14, 2012 (File No. 000-26427).

(17) Filed with the Securities and Exchange Commission with this Annual Report on Form 10-K.

+ Confidential treatment requested and received as to certain portions.

++ Confidential treatment has been requested for certain confidential portions of this exhibit pursuant to Rule 24b-2 under the Exchange Act. In accordance with Rule 24b-2, these confidential portions have been omitted from this exhibit and filed separately with the Securities and Exchange Commission.

+++ Denotes management contract or compensatory plan, contract or arrangement.

45

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
Stamps.com Inc. and Subsidiary

We have audited the accompanying consolidated balance sheets of Stamps.com Inc. and Subsidiary as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Stamps.com Inc. and Subsidiary at December 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Stamps.com Inc. and Subsidiary's internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework) and our report dated March 17, 2014 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Los Angeles, California
March 17, 2014

Table of Contents

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

	December 31, 2013	2012
Assets		
Current assets:		
Cash and cash equivalents	$66,674	$29,576
Short-term investments	6,524	6,323
Accounts receivable, net	17,504	14,432
Other current assets	6,541	5,602
Total current assets	97,243	55,933
Property and equipment, net	29,763	28,631
Intangible assets, net	1,047	1,262
Long-term investments	14,012	10,720
Deferred income taxes	40,262	30,549
Other assets	4,791	3,757
Total assets	$187,118	$130,852
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$13,928	$16,366
Deferred revenue	1,425	1,532
Total current liabilities	15,353	17,898
Commitments and contingencies		
Stockholders' equity:		
Common stock, $.001 par value		
Authorized shares: 47,500 in 2013 and 2012		
Issued shares: 28,518 in 2013 and 27,472 in 2012		
Outstanding shares: 16,187 in 2013 and 15,319 in 2012	51	50
Additional paid-in capital	668,724	649,694
Treasury stock, at cost, 12,331 shares in 2013 and 12,153 shares in 2012	(159,522)	(155,260)
Accumulated deficit	(337,628)	(381,781)
Accumulated other comprehensive income	140	251
Total stockholders' equity	171,765	112,954
Total liabilities and stockholders' equity	$187,118	$130,852

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

F-2

Table of Contents

STAMPS.COM INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)

	Year Ended December 31,		
	2013	2012	2011
Revenues:			
Service	$99,013	$88,173	$75,535
Product	16,580	14,710	13,465
Insurance	7,515	7,120	4,321
PhotoStamps	4,710	5,651	8,258
Other	1	7	6
Total revenues	127,819	115,661	101,585
Cost of revenues:			
Service	15,422	15,720	14,720
Product	5,694	5,435	4,910
Insurance	2,685	2,334	1,506
PhotoStamps	3,699	4,267	5,076
Total cost of revenues	27,500	27,756	26,212
Gross profit	100,319	87,905	75,373
Operating expenses:			
Sales and marketing	39,449	38,755	34,569
Research and development	10,958	10,243	9,395
General and administrative	15,794	14,750	14,181
Total operating expenses	66,201	63,748	58,145
Income from operations	34,118	24,157	17,228
Interest income and other income, net	480	541	562
Income before taxes	34,598	24,698	17,790
Benefit for income taxes	(9,555)	(13,859)	(8,475)
Net income	$44,153	$38,557	$26,265
Net income per share:			
Basic	$2.81	$2.40	$1.78
Diluted	$2.71	$2.30	$1.73
Weighted average shares outstanding:			
Basic	15,691	16,079	14,767
Diluted	16,298	16,793	15,168

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

Table of Contents

STAMPS.COM INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Year Ended December 31,		
	2013	2012	2011
Net income	$44,153	$38,557	$26,265
Other comprehensive income:			
Unrealized loss on investments	(111)	(34)	(138)
Comprehensive income	$44,042	$38,523	$26,127

F-4

Table of Contents
STAMPS.COM INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Common Stock						
	Shares	Amount	Additional Paid-in Capital	Treasury Stock at Cost	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total
Balance at December 31, 2010	14,490	$ 47	$ 608,522	$ (118,151)	$ (446,603)	$ 423	$ 44,238
Net income	—	—	—	—	26,265	—	26,265
Unrealized loss on investments	—	—	—	—	—	(138)	(138)
Stock-based compensation expense	—	—	3,419	—	—	—	3,419
Exercise of stock options	2,043	2	25,036	—	—	—	25,038
Shares issued under the ESPP	56	—	506	—	—	—	506
Stock repurchase	(426)	—	—	(5,321)	—	—	(5,321)
Balance at December 31, 2011	16,163	$ 49	$ 637,483	$ (123,472)	$ (420,338)	$ 285	$ 94,007
Net income	—	—	—	—	38,557	—	38,557
Unrealized loss on investments	—	—	—	—	—	(34)	(34)
Stock-based compensation expense	—	—	3,991	—	—	—	3,991
Exercise of stock options	560	1	7,305	—	—	—	7,306
Shares issued under the ESPP	56	—	915	—	—	—	915
Stock repurchase	(1,460)	—	—	(31,788)	—	—	(31,788)
Balance at December 31, 2012	15,319	$ 50	$ 649,694	$ (155,260)	$ (381,781)	$ 251	$ 112,954
Net income	—	—	—	—	44,153	—	44,153
Unrealized loss on investments	—	—	—	—	—	(111)	(111)
Stock-based compensation expense	—	—	4,492	—	—	—	4,492
Exercise of stock options	991	1	13,424	—	—	—	13,425
Shares issued under the ESPP	56	—	1,114	—	—	—	1,114
Stock repurchase	(179)	—	—	(4,262)	—	—	(4,262)
Balance at December 31, 2013	16,187	$ 51	$ 668,724	$ (159,522)	$ (337,628)	$ 140	$ 171,765

The accompanying notes are an integral part of these consolidated financial statements.
F-5

Table of Contents

STAMPS.COM INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2013	2012	2011
Operating activities:			
Net income	$44,153	$38,557	$26,265
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,538	1,649	885
Stock-based compensation expense	4,492	3,991	3,419
Deferred income taxes	(9,713)	(14,424)	(8,475)
Changes in operating assets and liabilities:			
Accounts receivable	(3,072)	(3,966)	(5,598)
Other current assets	(834)	110	(1,461)
Other assets	(1,034)	(209)	(517)
Deferred revenue	(107)	(366)	(2,295)
Accounts payable and accrued expenses	(667)	1,948	3,064
Net cash provided by operating activities	35,756	27,290	15,287
Investing activities:			
Sale of short-term investments	6,159	1,621	10,831
Purchase of short-term investments	(6,454)	(6,473)	(8)
Sale of long-term investments	6,949	8,254	3,473
Purchase of long-term investments	(10,258)	(5,703)	(1,982)
Release (purchase) of restricted cash	—	500	(500)
Acquisition of property, equipment and intangibles	(5,282)	(26,481)	(1,308)
Net cash (used in) provided by investing activities	(8,886)	(28,282)	10,506
Financing activities:			
Proceeds from exercise of stock options	13,425	7,306	25,038
Issuance of common stock under ESPP	1,114	915	506
Repurchase of common stock	(4,311)	(31,740)	(5,321)
Net cash provided by (used in) financing activities	10,228	(23,519)	20,223
Net increase (decrease) in cash and cash equivalents	37,098	(24,511)	46,016
Cash and cash equivalents at beginning of period	29,576	54,087	8,071
Cash and cash equivalents at end of period	$66,674	$29,576	$54,087
Supplemental cash flow information:			
Income taxes paid during the period	$362	$221	$124
Capital expenditure accrued but not paid at period end	$572	$2,294	—
Treasury stock accrued but not paid at period end	—	$49	—

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

F-6

Table of Contents

STAMPS.COM INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

Stamps.com Inc. and Subsidiary ("the Company" or "we") are the leading provider of Internet-based postage solutions. Our customers use our service to mail and ship a variety of mail pieces, including postcards, envelopes, flats and packages, using a wide range of United States Postal Service (the "USPS") mail classes, including First Class Mail®, Priority Mail®, Priority Mail Express®, Media Mail®, Parcel Select®, and others. Customers using our service receive discounted postage rates compared to USPS retail rates on certain mail pieces such as First Class letters and domestic and international Priority Mail and Priority Mail Express packages. Our customers include individuals, small businesses, home offices, medium-size businesses and large enterprises, and within these segments we target both mailers and shippers. We were the first ever USPS-licensed vendor to offer PC Postage® in a software-only business model in 1999.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Stamps.com Inc. and PhotoStamps Inc. In October 2009, we formed PhotoStamps Inc., a wholly-owned subsidiary, for the purpose of managing our retail gift card operations. Because 100% of the voting control is held by us, we have consolidated PhotoStamps Inc. in the accompanying consolidated financial statements. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates and Risk Management

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

Contingencies and Litigation

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

Cash Equivalents and Investments

We consider all highly liquid investments with an original or remaining maturity of three months or less at the date of purchase to be cash equivalents.

Our cash equivalents and investments consisted of money market funds, U.S. government obligations, asset-backed securities and public corporate debt securities at December 31, 2013 and 2012. All investments are classified as available for sale and are recorded at market value using the specific identification method. Realized gains and losses are reflected in interest and other income, net while unrealized gains and losses are included as a separate component

of stockholders' equity.

Accounts Receivable

Our accounts receivable relate to PC Postage services, PhotoStamps sales, branded insurance provided to customers prior to billing and other receivables. Accounts receivable are recorded at the invoiced amount, net of allowances for uncollectible accounts of approximately $283,000 and $239,000 as of December 31, 2013 and 2012, respectively, and were $17.5 million and $14.4 million as of December 31, 2013 and 2012, respectively.

We evaluate the collectability of our accounts receivable based on a combination of factors. If we become aware of a customer's inability to meet its financial obligations, an allowance is recorded to reduce the net receivable to the amount reasonably believed to be collectible from the customer. For all other customers, we recognize allowances for doubtful accounts based on the length of time the receivables are past due, the current business environment and our historical experience. If the financial condition of our customers deteriorates, resulting in their inability to make payments, additional provisions are recorded in that period. Accounts receivable are written off against the allowance for uncollectible accounts when we determine amounts are no longer collectible.

Fair Value of Financial Instruments

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

Concentration of Risk

Our cash, cash equivalents and investments are subject to market risk, primarily interest rate and credit risk. Our investments are managed by a limited number of outside professional managers within investment guidelines set by us. Such guidelines include security type, credit quality and maturity and are intended to limit market risk by restricting our investments. From time to time, our investments held with financial institutions may exceed Federal Deposit Insurance Corporation insurance limits. Interest rate fluctuations and changes in credit ratings impact the carrying value of our portfolio.

During 2013, 2012 and 2011, we did not recognize revenue from any one customer that represented 10% or more of revenues.

We do not have any customers representing 10% or more of total accounts receivable as of December 31, 2013 and 2012, respectively. We have accounts receivable from one partner that represented approximately 55% and 40% of the total accounts receivable balance as of December 31, 2013 and 2012, respectively.

Inventories

Inventories consist of finished products sold through our supplies store and are accounted for using the lower of cost (first-in, first-out method) or market. Inventories reported as a component of other current assets in 2013 and 2012 were $3.2 million and $3.4 million, respectively.

Property and Equipment

We account for property and equipment at cost less accumulated depreciation and amortization. We compute depreciation using the straight-line method over the estimated useful life of the asset, generally three to five years for

furniture, fixtures and equipment and ten to forty years for building and building improvements. We have a policy of capitalizing expenditures that materially increase assets' useful lives and charging ordinary maintenance and repairs to operations as incurred. When property or equipment is disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts, and any gain or loss is included in operations.

STAMPS.COM INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

On January 23, 2012, we completed the purchase of our new corporate headquarters in El Segundo, California, for an aggregate purchase price of $13.4 million of which approximately $7.2 million was allocated to land value and $5.5 million was allocated to building value. The purchase was accounted for as a business combination. The building is being depreciated on a straight-line basis over the estimated useful life of 40 years; the land is an asset that does not get depreciated. As a result of the purchase we also acquired existing leases of building tenants, and $700,000 of the initial purchase price was allocated to lease-in-place intangible assets and is being amortized over the remaining actual lease terms which are as long as 5.5 years.

Trademarks, Patents and Intangible Assets

Acquired trademarks, patents and other intangibles are included in intangible assets, net in the accompanying consolidated balance sheets and are carried at cost less accumulated amortization. Cost associated with internally developed intangible assets is typically expensed as incurred as research and development costs.

Amortization is calculated on a straight-line basis over the estimated useful lives of the assets, ranging from approximately 5 to 17 years. During 2013, 2012 and 2011, amortization expense, including the amortization of trademarks, patents and lease-in-place intangible asset, was approximately $215,000, $269,000 and $47,000, respectively.

Impairment of Long-Lived Assets and Intangible Assets

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

Intangible assets that have indefinite useful lives are not amortized but, instead, tested at least annually for impairment while intangible assets that have finite useful lives continue to be amortized over their respective useful lives.

Intangible assets are tested for impairment using a two-step process. The first step is to determine the fair value of the reporting unit, which may be calculated using a discounted cash flow methodology, and compare this value to its carrying value. If the fair value exceeds the carrying value, no further work is required, and no impairment loss would be recognized. If the fair value is less than the carrying value, the second step is performed. The second step is an allocation of the fair value of the reporting unit to all of the reporting unit's assets and liabilities under a hypothetical purchase price allocation. Based on the annual evaluations performed by us, there was no impairment of intangible assets during the years ended December 31, 2013, 2012 or 2011.

Deferred Revenue

The majority of our deferred revenue relates to PhotoStamps retail boxes. We sell our PhotoStamps retail boxes to our customers through our website and selected third parties. Proceeds from the sale of our PhotoStamps retail boxes are initially recorded as a liability when received. We record the liability for outstanding PhotoStamps retail boxes in deferred revenue.

Table of Contents
STAMPS.COM INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Revenue Recognition

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

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

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

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

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

On a limited basis, we allow third parties to offer products and promotions to our customer base. These arrangements generally provide payment in the form of a flat fee or revenue sharing arrangements where we receive payment upon customers accessing third party products and services. Total revenue from such advertising arrangements was not significant during 2013 and 2012.

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

PhotoStamps Retail Boxes

We sell PhotoStamps retail boxes that are redeemable for PhotoStamps on our website. The PhotoStamps retail boxes are sold through various third party retail partners. Our PhotoStamps retail boxes are not subject to administrative fees on unredeemed boxes and have no expiration date. PhotoStamps retail box sales are recorded as deferred revenue. Prior to the second quarter of 2011, revenue was recognized only on boxes that were actually redeemed on our website.

During the second quarter of 2011, we concluded that sufficient company-specific historical evidence existed to determine the period of time after which the likelihood of the PhotoStamps retail boxes being redeemed was remote.

Based on our analysis of the redemption data, we estimate that period of time to be 60 months after the sale of our PhotoStamps retail boxes.

Table of Contents
STAMPS.COM INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Beginning in the second quarter of 2011, we began recognizing breakage revenue related to our PhotoStamps retail boxes utilizing the redemption recognition method. Under the redemption recognition method, we recognize breakage revenue from unredeemed retail boxes in proportion to the revenue recognized from the retail boxes that have been redeemed. During the second quarter of 2011, we recognized $2.2 million, which was $0.15 on a per share basis using fully diluted shares as of June 30, 2011 (revenue divided by fully diluted shares outstanding, exclusive of any current or prior period costs related to the retail programs), of retail box breakage revenue, of which $2.1 million related to a cumulative catch-up for previously sold and unredeemed PhotoStamps retail boxes originally recorded as deferred revenue. The retail box breakage revenue recognized was recorded in PhotoStamps revenue. We continue to recognize retail box breakage revenue from PhotoStamps retail boxes using the redemption recognition method. During 2013, 2012 and 2011 PhotoStamps retail box breakage revenue was approximately $115,000, $260,000 and $2.3 million, respectively.

Cost of Service Revenue

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

Promotional Expense

New PC Postage customers are typically offered promotional items that are redeemed using coupons that are qualified for redemption after a customer is successfully billed beyond an initial trial period. We account for our promotional expense in accordance with Accounting Standard Codification (“ASC”) 605-50-25, “Recognition – Vendor’s Accounting for Consideration Given to a Customer”, by recognizing a liability for promotional expense based on estimated amounts that will be claimed by customers unless the liability for promotional expense cannot be reasonable and reliably estimated. This includes free postage and a free digital scale and is expensed in the period in which a customer qualifies using estimated redemption rates based on historical data. We periodically review our historical redemption rates and adjust, if necessary, our estimated redemption rates for future periods. Promotional expense, which is included in cost of service, is incurred as customers qualify and thereby may not correlate directly with changes in revenue, as the revenue associated with the acquired customer is earned over the customer’s lifetime. During 2013, 2012 and 2011 promotional expense was $2.4 million, $3.5 million and $3.6, respectively.

Research and Development Costs

Research and development expense principally consist of compensation for personnel involved in the development of our services, depreciation of equipment and software and expenditures for consulting services and third party software.

Sales and Marketing

Sales and marketing expense principally consists of spending to acquire new customers and compensation and related expenses for personnel engaged in sales, marketing, and business development activities. Ongoing marketing programs include the following: traditional advertising, partnerships, customer referral programs, customer re-marketing efforts, telemarketing, direct sales, direct mail, and online advertising.

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. For the years ended December 31, 2013, 2012 and 2011, advertising and tradeshow costs were $10.3 million, $8.7 million and $7.0 million, respectively.

Internet Advertising

We recognize Internet advertising 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. Under Internet search advertising, we record expenses based on actual “click activity” on our displayed advertisements following targeted key word searches.

General and Administrative

General and administrative expense principally consists of compensation and related costs for executive and administrative personnel, fees for legal and other professional services, depreciation of equipment and software used for general corporate purposes and amortization of intangible assets.

Income Taxes

We account for income taxes in accordance with ASC 740, Income Taxes (“ASC 740”), which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax basis of recorded assets and liabilities. ASC 740 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some or all of the net deferred tax assets will not be realized. We record a valuation allowance to reduce our gross deferred tax assets, which are primarily comprised of U.S. Federal and State tax loss carry-forwards, to the amount that is more likely than not (a likelihood of more than 50 percent) to be realized. In order for us to realize our deferred tax assets, we must be able to generate sufficient taxable income. We evaluate the appropriateness of our deferred tax assets and related valuation allowance in accordance with ASC 740 based on all available positive and negative evidence.

Under the guidance related to uncertain tax positions, we are required to determine whether it is more likely than not that a tax position will be sustained upon examination based on the technical merits of the position. A tax position that meets the more likely than not recognition threshold is measured to determine the amount of liability or benefit to recognize in the financial statements.

Net Income per Share

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

Table of Contents
STAMPS.COM INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	Year Ended December 31,		
	2013	2012	2011
Net income	$44,153	$38,557	$26,265
Basic - weighted average common shares	15,691	16,079	14,767
Dilutive effect of common stock equivalents	607	714	401
Diluted - weighted average common shares	16,298	16,793	15,168
Net income per share:			
Basic	$2.81	$2.40	$1.78
Diluted	$2.71	$2.30	$1.73

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

	Year ended December 31,		
	2013	2012	2011
Anti-dilutive stock option shares	65	119	1,023

Stock-Based Compensation

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

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

	2013	2012	2011
Stock-based compensation expense relating to:			
Employee and director stock options	$3,751	$3,438	$3,112
Employee stock purchases	741	553	307
Total stock-based compensation expense	$4,492	$3,991	$3,419
Stock-based compensation expense relating to:			
Cost of revenues	$406	$325	$278
Sales and marketing	864	873	764
Research and development	990	893	750
General and administrative	2,232	1,900	1,627
Total stock-based compensation expense	$4,492	$3,991	$3,419

F-13

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

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

	2013	2012	2011
Expected dividend yield	—	—	—
Risk-free interest rate	0.53%	0.37%	1.39%
Expected volatility	48 %	50 %	48 %
Expected life (in years)	3.6	3.7	4.4
Expected forfeiture rate	7 %	7 %	9 %

We elected to utilize the alternative transition method for calculating the tax effects of stock-based compensation. The alternative transition method includes computational guidance to establish the beginning balance of the additional paid-in capital pool ("APIC Pool") related to the tax effects of employee stock-based compensation, and a simplified method to determine the subsequent impact on the APIC Pool for employee stock-based compensation awards that are vested and outstanding upon adoption of ASC 718. There has been no tax benefit recognized to date from the exercise of stock options. A tax benefit will be recorded in additional paid-in capital when these deductions reduce our future income taxes payable.

At December 31, 2013, we had approximately $4.1 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under our stock incentive plans, which is expected to be recognized over a weighted-average period of approximately 2 years.

Treasury Stock

During 2013, 2012 and 2011, we repurchased approximately 179,000 shares for $4.3 million, 1.5 million shares for $31.8 million and 426,000 shares for $5.3 million, respectively.

Segment Information

We operate in a single segment. We are a provider of Internet-based postage solutions located in a single geographic location from which substantially all of our revenue is generated. While components of revenue include both services and products associated with our postage solutions, our Chief Executive Officer, who is the chief operating decision maker, evaluates performance, makes operating decisions and allocates resources based on the financial data provided in our financial statements as a single operating segment.

Website Development Costs

We develop and maintain our website. Costs associated with the operation of our website consist primarily of software and hardware purchased from third parties and administrative cost relating to the maintenance and development of the website. Costs related to the purchase of software and hardware are capitalized based on our capitalization policy. These capitalized costs are amortized based on their estimated useful life. Administrative costs related to the maintenance and development of our website are expensed as incurred.

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3. Intangible Assets

We have amortizable and non-amortizable intangible assets consisting of patents, trademarks, other intellectual property and lease-in-place intangible assets with a gross carrying value of $9.4 million as of December 31, 2013 and 2012, and accumulated amortization of $8.3 million and $8.1 million as of December 30, 2013 and 2012, respectively. During 2012, we completed our purchase of our new corporate headquarters for an aggregate purchase price of $13.4 million. As a result of the purchase we also acquired existing leases of building tenants, and $700,000 of the initial purchase price was allocated to lease-in-place intangible assets and is being amortized over the remaining actual lease terms, which are as long as 5.5 years. The expected useful lives of our amortizable intangible assets range from approximately 5 to 17 years. As of December 31, 2013, the remaining weighted average amortization period for our amortizable intangible assets is approximately 4.2 years. During 2013, we assessed whether events or changes in circumstances occurred that could potentially indicate that the carrying amount of our intangible assets may not be recoverable. We concluded that there were no such events or changes in circumstances during 2013 and determined that the fair value of our intangible assets was in excess of their carrying value as of December 31, 2013. Aggregate amortization expense on patents, trademarks and lease-in-place intangible asset was approximately $215,000, $269,000 and $47,000 for the years ended December 31, 2013, 2012 and 2011, respectively. Our average expected yearly amortization expense for the next five years is approximately $107,000.

4. Cash, Cash Equivalents and Investments

Our cash equivalents and investments consist of money market, U.S. government obligations, asset-backed securities and public corporate debt securities at December 31, 2013 and 2012. We consider all highly liquid investments with an original or remaining maturity of three months or less at the date of purchase to be cash equivalents. All of our investments are classified as available for sale and are recorded at market value using the specific identification method. Realized gains and losses are reflected in other income, net using the specific identification method. There was no material realized gain or loss with respect to our investments during 2013, 2012 and 2011. Unrealized gains and losses are included as a separate component of stockholders' equity. We do not intend to sell investments with an amortized cost basis exceeding fair value, and it is not likely that we will be required to sell the investments before recovery of their amortized cost bases. We have seven securities with a total fair value of $2.9 million that have unrealized losses of approximately $10,000 as of December 31, 2013.

On at least a quarterly basis, we evaluate our available for sale securities and record an “other-than-temporary impairment” (“OTTI”) if we believe their fair value is less than historical cost and it is probable that we will not collect all contractual cash flows. We did not record any OTTI during 2013, 2012 and 2011 after evaluating a number of factors including, but not limited to:

- How much fair value has declined below amortized cost
- The financial condition of the issuers
- Significant rating agency changes on the issuers
- Our intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value

Table of Contents
STAMPS.COM INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table summarizes our cash, cash equivalents, and investments as of December 31, 2013 and 2012 (in thousands):

	December 31, 2013			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash	$46,792	—	—	$ 46,792
Money market	19,882	—	—	19,882
Cash and cash equivalents	66,674	—	—	66,674
Short-term investments:				
Corporate bonds and asset backed securities	6,479	45	—	6,524
Short-term investments	6,479	45	—	6,524
Long-term investments:				
Corporate bonds and asset backed securities	13,917	106	(11)	14,012
Long-term investments	13,917	106	(11)	14,012
Cash and cash equivalents and investments	$87,070	151	(11)	$ 87,210

	December 31, 2012			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash	$7,043	—	—	$ 7,043
Money market	22,533	—	—	22,533
Cash and cash equivalents	29,576	—	—	29,576
Short-term investments:				
Corporate notes and bonds	5,248	66	—	5,314
U.S. government and agency securities	1,005	4	—	1,009
Short-term investments	6,253	70	—	6,323
Long-term investments:				
Corporate bonds and asset backed securities	10,539	190	(9)	10,720
Long-term investments	10,539	190	(9)	10,720
Cash and equivalents and investments	$46,368	260	(9)	$ 46,619

STAMPS.COM INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table summarizes contractual maturities of our marketable fixed-income securities as of December 31, 2013 (in thousands):

	Amortized Cost	Estimated Fair Value
Due within one year	$ 6,479	$ 6,524
Due after one year through five years	13,917	14,012
Due after five years through ten years	—	—
Total	$ 20,396	$ 20,536

5. Fair Value Measurements

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

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

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

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

The following table summarizes our financial assets measured at fair value on a recurring basis as of December 31, 2013 and 2012 (in thousands):

		Fair Value Measurement at Reporting Date Using		
Description	December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 66,674	$66,674	$ —	$ —
Available-for-sale debt securities	20,536	—	20,536	—
Total	$ 87,210	$66,674	$ 20,536	$ —

Table of Contents
STAMPS.COM INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

		Fair Value Measurement at Reporting Date Using		
Description	December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 29,576	$29,576	$ —	$ —
Available-for-sale debt securities	17,043	—	17,043	—
Total	$ 46,619	$29,576	$ 17,043	$ —

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

There were no non-financial assets or liabilities that were required to be measured at fair value as of December 31, 2013 and 2012.

6. Accounts Payable and Accrued Expenses

The following table summarizes our accounts payable and accrued expenses as of December 31, 2013 and 2012 (in thousands):

	2013	2012
Payroll and related accrual	$4,575	$3,783
Cost of sale, inventory and materials accrual	2,035	2,366
Construction and related fixed asset accrual	401	2,216
Professional fees accrual	688	690
Sales and marketing related accrual	2,457	2,832
Operating expenses related accrual	1,975	1,651
Other accruals	1,797	2,828
Accounts payable and accrued expenses	$13,928	$16,366

7. Allowance for Doubtful Accounts

As of December 31, 2013 and 2012, our allowance for doubtful accounts totaled approximately $283,000 and $239,000, respectively. Increases in our allowance for doubtful accounts totaled approximately $44,000 and $122,000 for 2013 and 2012, respectively. There were no material write-offs against the allowance for doubtful accounts during 2013 or 2012.
F-18

Table of Contents
STAMPS.COM INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. Property and Equipment

Property and equipment is summarized as follows (in thousands):

	2013	2012
Land	$7,156	$7,156
Building	4,886	4,886
Building improvements	13,483	13,569
Furniture and equipment	987	1,362
Computers and software	12,228	8,311
	38,740	35,284
Less accumulated depreciation and amortization	(8,977)	(6,653)
Property and equipment, net	$29,763	$28,631

During 2013, 2012 and 2011, depreciation expense was approximately $2.4 million, $1.4 million and $838,000, respectively.

9. Income Taxes

During 2013, our net income tax benefit consisted of federal and state alternative minimum taxes and a reduction of a portion of our valuation allowance on our deferred tax asset (as described below). Our effective income tax rate differs from the statutory income tax rate primarily as a result of the reduction of a portion of our valuation allowance. We evaluated the appropriateness of our deferred tax assets and related valuation allowance in accordance with ASC 740 based on all available positive and negative evidence. A valuation allowance is recorded against a portion of our gross deferred tax assets as we have determined the realization of these assets does not meet the more likely than not criteria.

On March 6, 2012, we entered into a binding agreement with PSI Systems, Inc. (PSI) to resolve all outstanding patent litigation among the parties. Because the PSI litigation settlement occurred during the first quarter of 2012, we eliminated what had previously been negative evidence at that time. The litigation settlement then became positive evidence because (1) it eliminated the hard-to-predict fluctuations in litigation expenditures, which we expected to be material in future forecasts, (2) it eliminated the potential for a material negative financial judgment against us and (3) it eliminated the possibility of an injunction against us. We believe the other positive and negative evidence we evaluated is consistent (e.g., no material change has occurred) relative to our evaluation of this evidence in prior periods. Based on this discrete event, we extended our forecast of projected taxable income from two years to three years for the portion of our deferred tax asset for which it was more likely than not that a tax benefit would be realized under ASC 740 as of March 31, 2012. As a result, we released a portion of our valuation allowance totaling $11.9 million during the first quarter of 2012.

During the fourth quarter of 2012, we re-evaluated positive and negative evidence relating to our gross deferred tax assets and valuation allowance noting that there was no additional discrete event subsequent to the first quarter of 2012. During the fourth quarter of 2012, we updated our three year forecast of projected taxable income. Based on the updated forecast and a change in the California state tax laws, we recorded another release of a portion of our valuation allowance in the fourth quarter of 2012 totaling approximately $2.5 million.

During the fourth quarter of 2013, we re-evaluated positive and negative evidence relating to our gross deferred tax assets and valuation allowance noting that there was no discrete event. During the fourth quarter of 2012, we updated

our three year forecast of projected taxable income. Based on the updated forecast, we recorded another release of a portion of our valuation allowance in the fourth quarter of 2013 totaling approximately $9.7 million.

Table of Contents

STAMPS.COM INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

As of December 31, 2013, we recorded approximately $40 million of net deferred tax assets, and we continued to maintain a valuation allowance for the remainder of our gross deferred tax assets.

In making these determinations, we considered the available positive and negative evidence, including our recent earnings trend, expected future taxable income and the federal and state effective tax rates related to the future taxable income. As of December 31, 2013, we continued to maintain a valuation allowance for the remainder of our gross deferred tax assets.

In September 2008, the State of California passed legislation temporarily suspending the use of NOLs to offset current state income tax expense for the tax years 2008 and 2009. In October 2010, the State of California passed legislation extending this suspension for tax years 2010 and 2011. During 2011 we were in a taxable loss position for tax reporting purposes. We recorded a current tax provision for corporate alternative minimum federal taxes and state taxes of approximately $158,000, $565,000 and $0 during the years ended December 31, 2013, 2012 and 2011, respectively. Total tax benefit recorded was approximately $9.6 million, $13.9 million and $8.5 million during the years ended December 31, 2013, 2012 and 2011, respectively.

Under the guidance related to uncertain tax positions, we are required to determine whether it is more likely than not that a tax position will be sustained upon examination based on the technical merits of the position. A tax position that meets the more likely than not recognition threshold is measured to determine the amount of liability or benefit to recognize in the financial statements.

In accordance with the guidance we have evaluated our research and development tax credits for uncertain tax positions. As of December 31, 2013 we have research and development tax credits totaling $5.8 million for Federal and California purposes.

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits for the years ended December 31, 2013, 2012 and 2011 (in thousands):

	Unrecognized Tax Benefits		
Balance at December 31, 2010	$	(1,733	)
Reduction for tax positions of prior years		71	
Addition for tax position of the current year		(83	)
Settlement		—	
Balance at December 31, 2011	$	(1,745	)
Reductionfor tax positions of prior years		—	
Addition for tax position of the current year		(160	)
Settlement		—	
Balance at December 31, 2012	$	(1,905	)
Reductions for tax positions of prior years		—	
Additions for tax position of the current year		(409	)
Settlement		—	
Balance at December 31, 2013	$	(2,314	)

Our policy is to recognize interest and penalties expense, if any, related to unrecognized tax benefits as a component of income tax expense. As of December 31, 2013, we have not recorded any interest and penalty expense.

We remain subject to examination by the relevant tax authorities. These include the 2010 through 2012 tax years for federal purposes and the 2009 through 2012 tax years for California purposes.

Table of Contents
STAMPS.COM INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Our effective tax rate differs from the statutory federal income tax rate primarily as a result of the establishment of a valuation allowance for the future benefits to be received from the deferred tax assets including net operating loss carryforwards and tax credit carryforwards. The tax effect of temporary differences that give rise to a significant portion of the deferred tax assets and liabilities at December 31, 2013 and 2012 are presented below (in thousands):

	2013	2012
Deferred tax assets (liabilities):		
Net operating loss carryforward	$57,277	$63,830
Tax credits	7,555	5,467
Depreciation	(775)	(139)
Amortization	322	494
Accruals	3,157	2,214
Total deferred tax assets	67,536	71,866
Valuation allowance	(27,274)	(41,317)
Net deferred tax assets	$40,262	$30,549

We have NOL carryforwards of approximately $200 million and $95 million for federal and state income tax purposes, respectively, at December 31, 2013 which can be carried forward to offset future taxable income. We have available tax credit carryforwards of approximately $4.0 million and $3.5 million for federal and state income tax purposes, respectively at December 31, 2013, which can be carried forward to offset future taxable liabilities. Our federal NOLs will begin to expire in 2020, and our state NOLs have begun to expire. The federal tax credits begin to expire in 2018. Under California law, California tax credits do not have an expiration date.

We recognize excess tax benefits associated with the exercise of stock options directly to stockholders' equity only when realized. Accordingly, deferred tax assets are not recognized for NOL carryforwards resulting from excess tax benefits. As of December 31, 2013, deferred tax assets do not include approximately $18.2 million of these tax effected excess tax benefits from employee stock option exercises that are a component of our NOL carryforwards. Accordingly, additional paid-in capital will increase up to an additional $18.2 million if and when such excess tax benefits are realized.

The Federal Tax Reform Act of 1986 and similar state tax laws contain provisions that may limit the NOL carryforwards to be used in any given year upon the occurrence of certain events, including a significant change in ownership interests. We maintain a study to understand the status of net operating losses. Based on that study, we believe that we have not undergone an Internal Revenue Code (IRC) Section 382 change of ownership that would trigger an impairment of the use of our NOLs since our secondary offering in December 1999. Under 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 "5% shareholders" within a three-year period. When a change of ownership is triggered, the NOLs may be impaired. We estimate that, as of December 31, 2013 we were at approximately 19% level compared with the 50% level that would trigger impairment of our NOLs.

Table of Contents
STAMPS.COM INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The income tax expense (benefit) consists of (in thousands):

	2013	2012	2011
Current:			
Federal	$226	$411	$—
State	(68)	154	—
	158	565	—
Deferred:			
Federal	(7,842)	(15,958)	(7,245)
State	(1,871)	1,534	(1,230)
	(9,713)	(14,424)	(8,475)
Benefit for income taxes	$(9,555)	$(13,859)	$(8,475)

Differences between the benefit for income taxes and income taxes at the statutory federal income tax rate are as follows (in thousands):

	2013	2012	2011
Income tax at statutory federal rate	$11,764	$8,823	$6,057
State income taxes, net of federal benefit	652	1,516	1,044
Effect of permanent differences	199	12	12
Change in valuation allowance - discrete release	(9,713)	(14,424)	(8,475)
Other changes in valuation allowance, net	(10,364)	(13,431)	(7,225)
Change in state rate	(789)	4,186	—
Other	(1,304)	(541)	112
	$(9,555)	$(13,859)	$(8,475)

10. Employee Stock Plans

Stock Incentive Plans

Our 1999 Stock Incentive Plan (the "1999 Plan"), which became effective in June 1999, was the successor to the 1998 Stock Plan (the "1998 Plan"). Upon approval of the 1999 Plan, all outstanding options under the 1998 Plan were transferred to the 1999 Plan, and no further option grants were made under the 1998 Plan. All outstanding options under the 1998 Plan continue to be governed by the terms and conditions of the existing option agreements for those grants, unless our compensation committee decides to extend one or more features of the 1999 Plan to those options. In June 2009, our 1999 Plan expired and no further options grants were made under the 1999 Plan. Our 2010 Equity Incentive Plan (the "2010 Plan") was approved by our stockholders in June 2010. Under the 2010 Plan, we are authorized to issue 3,500,000 shares of common stock and stock units, although "full value" awards (such as restricted stock and restricted stock units) will be counted against the 2010 Plan's overall limits as two shares (rather than one), while options and stock appreciation rights will be counted as one share. A summary of stock option activity is as follows (in thousands, except per share amounts):

Table of Contents
STAMPS.COM INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Options Outstanding Number of Options	Weighted Average Exercise Price
Balance at December 31, 2010	2,778	$ 12.58
Granted	1,718	13.20
Forfeited	(136)	12.01
Exercised	(2,043)	12.25
Balance at December 31, 2011	2,317	$ 13.36
Granted	192	25.50
Forfeited	(88)	21.44
Exercised	(560)	13.04
Balance at December 31, 2012	1,861	$ 14.33
Granted	164	34.29
Forfeited	(38)	21.57
Exercised	(991)	13.55
Balance at December 31, 2013	996	$ 18.12

The weighted-average fair value of stock grants for 2013, 2012 and 2011 using the Black-Scholes valuation method are as follows:

	2013	2012	2011
Weighted-average fair value of stock options with an exercise price equal to the market price on the grant date	$5.10	$5.04	$5.05
Weighted-average fair value of stock options with an exercise price greater than the market price on the grant date	—	—	—
Total	$5.10	$5.04	$5.05

Weighted average exercise prices for stock options exercised in 2013 are as follows:

	2013
Weighted-average exercise price of stock options with an exercise price equal to the market price on the grant date	$13.56
Weighted-average exercise price of stock options with an exercise price greater than the market price on the grant date	13.40
Total weighted-average exercise price	$13.55

Table of Contents
STAMPS.COM INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following tables summarize information concerning outstanding and exercisable options at December 31, 2013 (in thousands, except number of years and per share amounts):

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (in Years)	Weighted Average Exercise Price per Share	Number Exercisable	Weighted Average Exercise Price per Share
$0.00 - $9.99	40	6.5	$ 6.61	28	$ 9.15
$10.00 - $19.99	649	6.3	12.76	408	12.81
$20.00 - $29.99	191	8.1	25.12	55	24.23
$30.00 - $39.99	48	8.6	36.21	20	35.79
$40.00 - $49.99	68	9.7	43.55	1	44.03
$0.00 - $49.99	996	7.0	$ 18.12	512	$ 14.75

The following table summarizes stock option activity for 2013:

	Number of Stock Options (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2012	1,861	$ 14.33		
Granted	164	34.29		
Exercised	(991)	13.55		
Forfeited or expired	(38)	21.57		
Balance at December 31, 2012	996	$ 18.12	7.0	$ 23,991
Exercisable at December 31, 2012	512	$ 14.75	5.8	$ 13,991

The aggregate intrinsic value in the table above represents the total pretax intrinsic value, based on our closing stock price of $42.10 at December 31, 2013, the last trading day of 2013, which would have been received by award holders had all award holders exercised their awards that were in-the-money as of that date.

The weighted average grant date fair value of options granted during 2013, 2012 and 2011 was $13.48, $9.41 and $5.05, respectively. The weighted average grant date fair value of options vested during 2013, 2012 and 2011 was $5.47, $5.03 and $4.78, respectively. The total intrinsic value of options exercised during 2013, 2012 and 2011 was approximately $24.0 million, $8.4 million and $25.1 million, respectively.

Table of Contents
STAMPS.COM INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table summarizes the status of our non-vested stock options as of December 31, 2013:

	Non-vested Number of Stock Options (in thousands)	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2012	996	$ 5.67
Granted	164	13.48
Vested	(641)	8.26
Forfeited / Cancelled	(35)	5.47
Non-vested at December 31, 2013	484	$ 8.48

As of December 31, 2013, there was $4.1 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements, which is expected to be recognized over a weighted-average period of approximately 2 years.

Employee Stock Purchase Plan

In June 1999, our Board of Directors adopted an Employee Stock Purchase Plan (ESPP), which allows our eligible employees to purchase shares of common stock, at semi-annual intervals, with their accumulated payroll deductions.

Eligible participants may contribute up to 15% of cash earnings through payroll deductions, and the accumulated deductions will be applied to the purchase of shares on each semi-annual purchase date. The purchase price per share is equal to 85% of the fair market value per share on the participant's entry date into the offering period or, if lower, 85% of the fair market value per share on the semi-annual purchase date.

Upon adoption of the plan, 150,000 shares of common stock were reserved for issuance. This reserve automatically increases on the first trading day in January each year, by an amount equal to 1% of the total number of outstanding shares of our common stock on the last trading day in December in the prior year. In no event will any annual increase exceed 260,786 shares.

In July 2009, our Board of Directors amended our ESPP to extend it for a period of ten years beyond its original expiration date of July 31, 2009. Under this amendment, the total shares available for issuance may not increase. As of December 31, 2013 and 2012, we had approximately 1.7 million shares available for issuance under our ESPP. Total shares of common stock issued pursuant to the ESPP during 2013, 2012 and 2011 were approximately 56,000 each year.

Savings Plan

During 1999, we implemented a savings plan for all eligible employees, which qualifies under Section 401(k) of the Internal Revenue Code. Participating employees may contribute any percentage of their pretax salary, but not more than statutory dollar limits. We match 50% of the first 4% a participant contributes. We expensed approximately $326,000, $303,000 and $276,000 in 2013, 2012 and 2011, respectively, related to this plan.

Table of Contents

STAMPS.COM INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Legal Proceedings

We are subject to various routine legal proceedings and claims incidental to our business, and we do not believe that these proceedings and claims would reasonably be expected to have a material adverse effect on our financial position, results of operations or cash flows.

12. Subsequent Events

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

13. Quarterly Information (Unaudited)

	Quarter Ended			
	March	June	September	December
	(in thousands except per share data)			
Fiscal Year 2013:				
Revenues	$32,101	$32,109	$ 31,245	$ 32,364
Gross profit	24,449	25,021	24,661	26,188
Income from operations	7,815	8,545	8,761	8,997
Net income	7,906	8,613	8,763	18,871 (1)
Net income per share:				
Basic	$0.52	$0.56	$ 0.55	$ 1.17
Diluted	$0.49	$0.53	$ 0.53	$ 1.13
Weighted average shares outstanding:				
Basic	15,328	15,486	15,816	16,124
Diluted	16,000	16,163	16,389	16,640
Fiscal Year 2012:				
Revenues	$28,293	$28,227	$ 29,071	$ 30,070
Gross profit	21,030	21,589	22,578	22,708
Income from operations	4,421	5,824	7,085	6,827
Net income	16,360 (2)	5,923	6,977	9,297 (2)
Net income per share:				
Basic	$1.01	$0.36	$ 0.43	$ 0.60
Diluted	$0.95	$0.34	$ 0.42	$ 0.58
Weighted average shares outstanding:				
Basic	16,250	16,468	16,103	15,502
Diluted	17,173	17,196	16,675	16,129

Quarterly and year-to-date computations of per share amounts are made independently. Therefore, the sum of per share amounts for the quarters may not agree with per share amounts for the year shown elsewhere in our Annual Report on Form 10-K.

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(1) During the fourth quarter of 2013 we released a portion of our valuation allowance totaling approximately $9.7 million. (See Income Taxes- Notes to Consolidated Financial Statements).

(2) During the first quarter of 2012 we released a portion of our valuation allowance totaling approximately $11.9 million. During the fourth quarter of 2012 we released another portion of our valuation allowance totaling approximately $2.5 million (See Income Taxes- Notes to Consolidated Financial Statements).

Table of Contents
SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Los Angeles, State of California, on the 17th day of March 2014.

STAMPS.COM INC.

By: /s/ KENNETH MCBRIDE
Kenneth McBride
Chief Executive Officer and Chairman of the Board of Directors

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ KENNETH MCBRIDE Kenneth McBride	Chairman and Chief Executive Officer (Principal Executive Officer)	March 17, 2014
/s/ KYLE HUEBNER Kyle Huebner	Co-President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 17, 2014
* Mohan P. Ananda	Director	March 17, 2014
* G. Bradford Jones	Director	March 17, 2014
* Lloyd I. Miller	Director	March 17, 2014

*By Kenneth McBride as Attorney-in-fact.