UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended February 17, 2008

OR

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

Commission file number 0-20355

Costco Wholesale Corporation

(Exact name of registrant as specified in its charter)

Washington	**91-1223280**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

999 Lake Drive, Issaquah, WA 98027

(Address of principal executive office)

(Zip Code)

(Registrant s telephone number, including area code): **(425) 313-8100**

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

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) YES ¨ NO x

The number of shares outstanding of the issuer s common stock as of March 16, 2008 was 433,256,963

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PART I FINANCIAL INFORMATION

Item 1 Financial Statements

COSTCO WHOLESALE CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except par value)

(unaudited)

	February 17, 2008	September 2, 2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,267,381	$ 2,779,733
Short-term investments	832,966	575,787
Receivables, net	815,220	762,017
Merchandise inventories	5,235,648	4,879,465
Deferred income taxes and other current assets	518,190	327,151
Total current assets	9,669,405	9,324,153
PROPERTY AND EQUIPMENT		
Land	3,134,361	3,009,514
Buildings, leasehold and land improvements	7,496,626	7,035,672
Equipment and fixtures	2,996,658	2,747,243
Construction in progress	242,895	276,087
	13,870,540	13,068,516
Less accumulated depreciation and amortization	(3,822,598)	(3,548,736)
Net property and equipment	10,047,942	9,519,780
OTHER ASSETS	951,530	762,653
	$ 20,668,877	$ 19,606,586
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	$ 103,479	$ 53,832
Accounts payable	5,338,177	5,124,990
Accrued salaries and benefits	1,318,013	1,226,666
Accrued sales and other taxes	280,629	267,920
Deferred membership fees	775,684	692,176
Current portion of long-term debt	34,455	59,905
Other current liabilities	1,318,652	1,156,264
Total current liabilities	9,169,089	8,581,753
LONG-TERM DEBT, excluding current portion	2,181,919	2,107,978
DEFERRED INCOME TAXES AND OTHER LIABILITIES	297,908	224,197

Total liabilities	11,648,916	10,913,928
COMMITMENTS AND CONTINGENCIES		
MINORITY INTEREST	73,570	69,317
STOCKHOLDERS EQUITY		
Preferred stock $.005 par value; 100,000,000 shares authorized; no shares issued and outstanding		
Common stock $.005 par value; 900,000,000 shares authorized; 434,230,000 and 437,013,000 shares issued and outstanding	2,171	2,185
Additional paid-in capital	3,278,580	3,118,224
Accumulated other comprehensive income	429,990	370,589
Retained earnings	5,235,650	5,132,343
Total stockholders equity	8,946,391	8,623,341
	$ 20,668,877	$ 19,606,586

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

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COSTCO WHOLESALE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(dollars in thousands, except per share data)

(unaudited)

	12 Weeks Ended		24 Weeks Ended	
	February 17, 2008	February 18, 2007	February 17, 2008	February 18, 2007
REVENUE				
Net sales	$ 16,616,962	$ 14,804,696	$ 32,088,462	$ 28,657,017
Membership fees	342,924	307,320	680,954	606,623
Total revenue	16,959,886	15,112,016	32,769,416	29,263,640
OPERATING EXPENSES				
Merchandise costs	14,833,189	13,251,752	28,656,700	25,640,710
Selling, general and administrative	1,615,531	1,487,991	3,185,125	2,870,458
Preopening expenses	9,699	7,486	31,191	30,213
Provision for impaired assets and closing costs, net	(2,865)	3,459	(2,786)	7,791
Operating income	504,332	361,328	899,186	714,468
OTHER INCOME (EXPENSE)				
Interest expense	(23,471)	(3,620)	(46,439)	(5,760)
Interest income and other	40,604	36,526	73,881	63,637
INCOME BEFORE INCOME TAXES	521,465	394,234	926,628	772,345
Provision for income taxes	193,615	144,756	336,797	285,981
NET INCOME	$ 327,850	$ 249,478	$ 589,831	$ 486,364
NET INCOME PER COMMON SHARE:				
Basic	$ 0.75	$ 0.55	$ 1.36	$ 1.07
Diluted	$ 0.74	$ 0.54	$ 1.33	$ 1.05
Shares used in calculation (000 s)				
Basic	434,779	450,901	434,934	454,884
Diluted	444,925	461,575	445,148	465,149
Dividends per share	$ 0.145	$ 0.13	$ 0.29	$ 0.26

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

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COSTCO WHOLESALE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

(unaudited)

	24 Weeks Ended	
	February 17, 2008	February 18, 2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 589,831	$ 486,364
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	286,542	258,595
Stock-based compensation	80,296	64,899
Undistributed equity earnings in joint ventures	(20,731)	(17,099)
Net (gain) / loss on sale of property and equipment and other	(3,642)	1,397
Accretion of discount on long-term debt	1,260	1,261
Excess tax benefit from share based awards	(14,519)	(9,981)
Realized and other than temporary impairment loss on investments	2,773	
Other non-cash items, net	5,406	(5,867)
Change in deferred income taxes	(19,972)	(21,546)
Change in receivables, other current assets, deferred membership fees, accrued and other current liabilities	111,191	43,025
Increase in merchandise inventories	(319,365)	(365,667)
Increase in accounts payable	154,318	290,534
Total adjustments	263,557	239,551
Net cash provided by operating activities	853,388	725,915
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment, net of $39,239 and $14,186 of non-cash capital expenditures in the first half of fiscal 2008 and 2007, respectively	(778,760)	(661,741)
Proceeds from the sale of property and equipment	10,476	5,046
Purchases of short-term investments	(655,192)	(544,583)
Maturities of short-term investments	522,367	743,846
Sales of short-term investments	93,800	465,852
Change in other assets and other, net	(19,922)	(19,112)
Investments transferred from cash and cash equivalents	(371,062)	
Net cash used in investing activities	(1,198,293)	(10,692)
CASH FLOWS FROM FINANCING ACTIVITIES		
Changes in bank checks outstanding	61,245	125,068
Proceeds from short-term borrowings, net	50,008	81,484
Proceeds from issuance of long-term debt, net	72,269	2,567
Repayment of long-term debt	(35,219)	(3,362)
Cash dividend payments	(63,055)	(59,358)
Change in minority interests	4,253	2,789
Excess tax benefit from share based awards	14,519	9,981
Exercise of stock options	119,132	113,555
Repurchases of common stock	(407,015)	(918,756)
Net cash used in financing activities	(183,863)	(646,032)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	16,416	(8,225)

Net (decrease) / increase in cash and cash equivalents	(512,352)	60,966
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	2,779,733	1,510,939
CASH AND CASH EQUIVALENTS END OF PERIOD	$ 2,267,381	$ 1,571,905
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest (reduced by $7,127 and $5,246 interest capitalized in the first half of fiscal 2008 and 2007, respectively)	$ 56,613	$ 4,940
Income taxes	$ 285,603	$ 401,194
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES:		
Cash dividend declared, but not yet paid	$ 62,963	$ 58,341
Common stock issued upon conversion of 3.5% Zero Coupon Convertible Subordinated Notes	$ 202	$ 14,143

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

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COSTCO WHOLESALE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share data)

(unaudited)

NOTE (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q for interim financial reporting pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). While these statements reflect all normal recurring adjustments which are, in the opinion of management, necessary for fair presentation of the results of the interim period, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. Therefore, the interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company s annual report filed on Form 10-K for the fiscal year ended September 2, 2007.

The condensed consolidated financial statements include the accounts of Costco Wholesale Corporation, a Washington corporation, and its subsidiaries (Costco or the Company). All material inter-company transactions between the Company and its subsidiaries have been eliminated in consolidation.

Costco operates membership warehouses that offer low prices on a limited selection of nationally branded and select private label products in a wide range of merchandise categories in no-frills, self-service facilities. At February 17, 2008, Costco operated 501 warehouses: 385 in the United States and four in Puerto Rico; 75 in Canada; 19 in the United Kingdom; seven in Japan; six in Korea; and five in Taiwan. The Company s 50%-owned unconsolidated joint venture in Mexico operates an additional 30 warehouses.

In connection with the adoption of Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (FIN 48), the Company adjusted its beginning retained earnings for fiscal 2008 in the accompanying condensed consolidated financial statements. See discussion below under Income Taxes for additional information on FIN 48.

Fiscal Year End

Costco operates on a 52/53-week fiscal year basis with the fiscal year ending on the Sunday closest to August 31. The fiscal quarters ended February 17, 2008 and February 18, 2007 included 12 weeks.

Merchandise Inventories

Merchandise inventories are valued at the lower of cost or market, as determined primarily by the retail inventory method, and are stated using the last-in, first-out (LIFO) method for substantially all U.S. merchandise inventories. Merchandise inventories for all foreign operations are primarily valued by the retail inventory method and are stated using the first-in, first-out (FIFO) method. The Company believes the LIFO method more fairly presents the results of operations by more closely matching current costs with current revenues. The Company records an adjustment each quarter, if necessary, for the expected annual effect of inflation, and these estimates are adjusted to actual results determined at year-end. At both February 17, 2008 and September 2, 2007, merchandise inventories valued at LIFO approximated FIFO after considering the lower of cost or market principle.

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NOTE (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock Repurchase Programs

Shares repurchased are not displayed separately as treasury stock on the consolidated balance sheets in accordance with the Washington Business Corporation Act, which requires the retirement of repurchased shares. The par value of repurchased shares is deducted from common stock, and the excess repurchase price over par value is deducted from additional paid-in capital and retained earnings. See Note 4 for additional information.

Income Taxes

Effective September 3, 2007, the Company adopted FIN 48, which clarified the accounting for uncertainty in income taxes recognized in an enterprise s financial statements. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The cumulative effect of adopting FIN 48 resulted in an increase to the Company s liability for uncertain tax positions of $6,008. The impact of this adjustment upon adoption was to decrease the beginning balance of retained earnings on the consolidated balance sheet and to increase our liability for uncertain tax positions and related interest by a corresponding amount.

Upon adoption of FIN 48, the Company had approximately $56,352 of gross unrecognized tax benefits. The total amount of such unrecognized tax benefits upon adoption, that, if recognized, would favorably affect the effective income tax rate in future periods was $41,749. Interest and penalties related to income tax matters are classified as a component of income tax expense. Accrued interest and penalties upon adoption were $22,882.

The Company is currently under audit by several taxing jurisdictions in the United States and in several foreign countries. During fiscal 2008, it is reasonably possible that approximately $16,000 of the unrecognized tax benefit will decrease in connection with a settlement related to the deductibility of inter-company interest in a foreign jurisdiction. In addition, it is possible that some audits may conclude in the next 12 months and that the unrecognized tax benefits we have recorded in relation to the audits may differ from settlement amounts. It is not possible to estimate the effect, if any, of any amount of such change during the next 12 months to previously recorded uncertain tax positions.

The Company files income tax returns in the United States, various state and local jurisdictions, in Canada and in several other foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state or local examination for years before fiscal 2004. The Company is currently subject to examination in Canada for fiscal years 2002 to present and in California for fiscal years 2000 to present. No other examinations are material.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair-value measurements required under other accounting pronouncements, but does not change existing guidance as to whether or not an instrument is carried at fair value. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the FASB issued Staff Position No. 157-2, which provides a one-year delayed application of SFAS 157 for nonfinancial assets and liabilities, except for items that

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NOTE (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Early adoption is permitted. The Company must adopt these new requirements no later than its first quarter of fiscal 2009.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment to FASB No. 115 (SFAS 159). Under SFAS 159, entities may elect to measure specified financial instruments and warranty and insurance contracts at fair value on a contract-by-contract basis, with changes in fair value recognized in earnings each reporting period. The election, called the fair value option, will enable entities to achieve an offset accounting effect for changes in fair value of certain related assets and liabilities without having to apply complex hedge accounting provisions. SFAS 159 is effective as of the beginning of a company s first fiscal year that begins after November 15, 2007. The Company must adopt these new requirements no later than its first quarter of fiscal 2009.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment of Accounting Research Bulletin No 51 (SFAS 160). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, changes in a parent s ownership of a noncontrolling interest, calculation and disclosure of the consolidated net income attributable to the parent and the noncontrolling interest, changes in a parent s ownership interest while the parent retains its controlling financial interest and fair value measurement of any retained noncontrolling equity investment. SFAS 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The Company must adopt these new requirements in its first quarter of fiscal 2010.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations (SFAS 141R), which establishes principles and requirements for the reporting entity in a business combination, including recognition and measurement in the financial statements of the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. This statement also establishes disclosure requirements to enable financial statement users to evaluate the nature and financial effects of the business combination. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, and interim periods within those fiscal years. The Company must adopt these new requirements no later than in its first quarter of fiscal 2010.

The Company is in the process of evaluating the impact that adoption of these standards will have on its future consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to prior fiscal period amounts or balances to conform to the presentation adopted in the current fiscal period.

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NOTE (2) SHORT-TERM INVESTMENTS

During the second quarter of fiscal 2008, one of the Company s enhanced money fund investments, Columbia Strategic Cash Portfolio Fund, ceased accepting cash redemption requests and changed to a floating net asset value. In light of the restricted liquidity, the Company elected to receive a pro-rata allocation of the underlying securities in a separately managed account. The Company assessed the fair value of the underlying securities in this account through market quotations and review of current investment ratings, as available, coupled with an evaluation of the liquidation value of each investment and their current performance in meeting scheduled payments of principal and interest. The Company recognized an impairment loss on short-term investments of $2,773 related to these securities that was considered to be other-than-temporary. The loss is included in interest income and other in the accompanying condensed consolidated statements of income. The markets relating to these investments remain uncertain, and there may be further declines in the value of these investments that may cause additional losses in future periods.

Additionally in December 2007, two other enhanced cash money fund investments, BlackRock Cash Strategies, LLC (BlackRock) and Merrill Lynch Capital Reserve Fund, LLC (Merrill Lynch) ceased accepting redemption requests from investors. These two funds are being liquidated with periodic distributions and the expectation is that the funds will be completely liquidated by 2010. To date the funds have maintained a one-dollar per unit net asset value. Subsequent to the end of the second quarter and through March 14, 2008, the Company has received additional cash redemptions of $33,142 from the BlackRock and Merrill Lynch funds.

During the second quarter of fiscal 2008, the Company reclassified $371,062 related to these three funds from cash and cash equivalents , with $212,160 to short-term investments and $158,902 to other assets in its consolidated balance sheets to reflect the timing of the expected distributions. This reclassification is shown in cash flows from investing activities in the condensed consolidated statements of cash flows.

NOTE (3) LONG-TERM DEBT

During the second quarter of fiscal 2008, $139 in face amount of the Company s 3.5% Zero Coupon Convertible Subordinated Notes (Zero Coupon Notes) was converted by note holders into 3,000 shares of common stock, and during the first half of fiscal 2008, $283 in face amount of the Company s Zero Coupon Notes was converted by note holders into 6,000 shares of common stock.

During the second quarter of fiscal 2007, $7,145 in face amount of the Company s 3.5% Zero Coupon Notes was converted by note holders into 162,000 shares of common stock, and during the first half of fiscal 2007, $20,565 in face amount of the Company s Zero Coupon Notes was converted by note holders into 467,000 shares of common stock.

These amounts differ from those in the supplemental disclosure of non-cash items in the Statements of Cash Flows due to the related discount and issuance costs.

On October 17, 2007, the Company s wholly-owned Japanese subsidiary issued promissory notes through a private placement in the aggregate amount of $55,400, bearing interest at 2.695%. Interest is payable semi-annually, and principal is due in October 2017. The proceeds were used to repay the 2.07% Promissory Notes due on October 23, 2007 in the amount of $30,600, and the balance will be used for general corporate purposes.

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NOTE (4) STOCKHOLDERS EQUITY

Dividends

The Company s current quarterly cash dividend rate is $0.145 per share. On January 29, 2008, the Board of Directors declared a quarterly cash dividend of $0.145 per share to shareholders of record on February 15, 2008. The dividend was paid on February 29, 2008.

Payment of future dividends is subject to declaration by the Board of Directors. Factors considered in determining the size of the dividends are profitability and expected capital needs of the Company. The Company presently expects to continue to pay dividends on a quarterly basis.

Stock Repurchase Programs

In the second quarter of 2008, the Company purchased 1,973,000 shares of its common stock, at an average price of $65.51, for a total cost of $129,251. During the first half of fiscal 2008, the Company purchased 6,362,000 shares, at an average price of $62.93, for a total cost of $400,368. In the second quarter of fiscal 2007, the Company purchased 8,886,000 shares, at an average price of $54.11, for a total cost of $480,771. During the first half of fiscal 2007, the Company purchased 17,161,000 shares, at an average price of $52.78, for a total cost of $905,730. These amounts differ from the stock repurchase balances in the statements of cash flows due to repurchases that had not been settled at the end of each period. Purchases are made from time-to-time as conditions warrant in the open market or in block purchases, or pursuant to plans under SEC Rule 10b5-1. Repurchased shares are retired.

Comprehensive Income

Comprehensive income includes net income, plus certain other items that are recorded directly to stockholders equity. Accumulated other comprehensive income reported on the Company s consolidated balance sheets consists of foreign currency translation adjustments and unrealized gains and losses on short-term investments and their related tax effects.

The following table shows the components of comprehensive income, net of related tax effects:

	12 Weeks Ended		**24 Weeks Ended**	
	February 17, 2008	**February 18, 2007**	**February 17, 2008**	**February 18, 2007**
Unrealized gain on short term investments	$ 3,391	$ 477	$ 7,679	$ 3,308
Tax provision	(1,023)	(190)	(2,569)	(1,239)
Unrealized gain on short term investments, net of tax	2,368	287	5,110	2,069
Foreign currency translation adjustment and other	(49,898)	(25,293)	52,948	(34,541)
Tax benefit (provision) on translation gain (loss) in relation to earnings subject to repatriation		(951)	1,343	204
Comprehensive income adjustments, net	(47,530)	(25,957)	59,401	(32,268)
Net income	327,850	249,478	589,831	486,364
Total comprehensive income	$ 280,320	$ 223,521	$ 649,232	$ 454,096

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NOTE (5) STOCK-BASED COMPENSATION PLANS

Through the first quarter of fiscal 2006, the Company granted stock options under the Amended and Restated 2002 Stock Incentive Plan (Second Restated 2002 Plan) and predecessor plans, and since the fourth quarter of fiscal 2006, the Company has granted restricted stock units (RSUs) under the Second Restated 2002 Plan. In the second quarter of fiscal 2008, the Second Restated 2002 Plan was amended following shareholder approval and is now referred to as the Third Restated 2002 Plan. The Third Restated 2002 Plan authorizes the issuance of an additional eight million shares of common stock for future grants in addition to grants currently authorized. Each share issued in respect of stock bonuses or stock units will be counted as 1.75 shares toward the share limit. Stock options generally vest over five years and have a ten-year term. The Company issues new shares of common stock upon exercise of stock options and vesting of RSUs.

Compensation expense for all stock-based awards granted subsequent to fiscal 2002 is recognized using the straight-line method. SFAS No. 123R, Share-Based Payment (as amended) (SFAS 123R) requires the estimation of the number of stock-based awards that will ultimately not complete their vesting requirements (forfeitures) and requires that the compensation expense recognized equals or exceeds the number of stock-based awards vested. While options and RSUs generally vest over five years with an equal amount vesting on each anniversary of the grant date, the Company s plans allow for daily vesting of the pro-rata number of stock-based awards that would vest on the next anniversary of the grant date in the event of retirement or voluntary termination. As such, the Company does not reduce stock-based compensation for an estimate of forfeitures because this would result in less compensation expense recognized than the number of stock-based awards vested. The impact of actual forfeitures arising in the event of involuntary termination is recognized as actual forfeitures occur, which generally is infrequent.

Summary of Stock Option Activity

The following table summarizes stock option transactions during the first half of fiscal 2008:

	Shares (in 000 s)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in (years)	Aggregate Intrinsic Value (1)
Outstanding at September 3, 2007	30,088	$ 39.26		
Granted				
Exercised	(3,069)	37.51		
Forfeited or expired	(60)	42.87		
Outstanding at February 17, 2008	26,959	$ 39.45	5.04	$ 659,573
Exercisable at February 17, 2008	16,757	$ 38.64	4.10	$ 423,539

(1) The difference between the original exercise price and market value of common stock at February 17, 2008.

Tax benefits and intrinsic value related to total stock options exercised during the first half of fiscal year 2008 and 2007 are provided in the following table:

	24 Weeks Ended	
	February 17, 2008	February 18, 2007
Actual tax benefit realized for stock options exercised	$ 28,624	$ 26,769
Intrinsic value of stock options exercised	$ 91,317	$ 81,858

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NOTE (5) STOCK-BASED COMPENSATION PLANS (Continued)

Employee Tax Consequences on Certain Stock Options

As previously disclosed, in fiscal 2006, the Company initiated an internal review of its historical stock option grant practices to determine whether the stated grant dates of options were supported by the Company s books and records. As a result of this preliminary review, a special committee of independent directors was formed. In connection with this review and guidance issued by the U.S. Internal Revenue Service, on November 30, 2006, the Compensation Committee of the Board of Directors approved a program intended to protect approximately 1,000 Company employees who are United States taxpayers from certain adverse tax consequences resulting from their options having been granted originally at prices lower than the market value. The program involved increasing the exercise prices on certain stock options granted from 2000 to 2003 and, in turn, the Company making payments to employees in an amount approximately equal to the increase in the exercise price. As a result of this program, the Company made cash payments totaling $18,735 to approximately 1,000 employees in the second quarter of fiscal 2007, which resulted in a pre-tax stock compensation charge of $8,072 (incremental fair value). The difference between the cash payment and the incremental fair value of $10,663 was recognized as a reduction to additional paid-in capital, as it represented a partial cash settlement of the original award because no future service was required to earn the cash payment.

While the Company is still examining the availability of similar alternatives for employees outside the United States, the Company recorded $38,300 in selling, general and administrative expense in the second quarter of fiscal 2007 for the estimated charge to remedy adverse tax consequences related to stock options held and previously exercised by employees outside the United States. This amount primarily relates to options exercised from 2004 through the end of the first quarter of fiscal 2007 and represents the estimated payment the Company would make to compensate employees for expected disallowance of the deduction previously allowed for options exercised. The Company has since increased the liability by $6,128 for options exercised subsequent to the second quarter of fiscal 2007 and through the end of the second quarter of fiscal 2008.

Summary of Restricted Stock Unit Activity

RSUs are granted to employees and consultants, which generally vest over five years, and to non-employee directors, which generally vest over three years; however, the Company provides for accelerated vesting upon qualified retirement for recipients that have attained certain years of service with the Company. Recipients are not entitled to vote or receive dividends on unvested shares. The fair value of RSUs is the market value of the common stock on the date of grant less the present value of the expected dividends forgone during the vesting period. At February 17, 2008, 8.9 million RSUs were available to be granted under the Third Restated 2002 Plan.

The following awards were outstanding as of February 17, 2008:

- 6,309,500 shares of time-based RSUs, in which the restrictions lapse upon the achievement of continued employment over a specified period of time; and

- 587,500 performance RSUs, of which 305,000 were approved in the first quarter of fiscal 2008 and will formally be granted to certain executive officers of the Company upon the achievement of specified performance targets in fiscal 2008. Once formally granted, restrictions lapse upon achievement of continued employment over a specified period of time.

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NOTE (5) STOCK-BASED COMPENSATION PLANS (Continued)

The following table summarizes RSU transactions during the first half of fiscal 2008:

	Number of Units (in 000 s)	Weighted-Average Grant Date Fair Value
Non-vested at September 3, 2007	4,779	$ 50.63
Granted	2,838	65.02
Vested	(688)	50.45
Forfeited	(32)	53.60
Non-vested at February 17, 2008	6,897	$ 56.55

Summary of Stock-Based Compensation

The following table summarizes stock-based compensation and the related tax benefits under our plans:

	12 Weeks Ended		24 Weeks Ended	
	February 17, 2008	February 18, 2007	February 17, 2008	February 18, 2007
Restricted stock units	$ 24,984	$ 12,572	$ 45,153	$ 23,412
Stock options	17,162	20,074	35,143	41,487
Incremental expense related to modification of certain stock options		8,072		8,072
Total stock-based compensation expense before income taxes	42,146	40,718	80,296	72,971
Income tax benefit	(14,108)	(13,556)	(26,608)	(24,342)
Total stock-based compensation expense, net of income tax	$ 28,038	$ 27,162	$ 53,688	$ 48,629

The remaining unrecognized compensation cost related to non-vested RSUs at February 17, 2008, was $337,637, and the weighed-average period of time over which this cost will be recognized is 4.1 years. The remaining unrecognized compensation cost related to unvested stock options at February 17, 2008, was $104,649, and the weighted-average period of time over which this cost will be recognized is 1.8 years.

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NOTE (6) NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE

The following data show the amounts used in computing net income per share and the effect on income and the weighted average number of shares of dilutive potential common stock.

	12 Weeks Ended		24 Weeks Ended	
	February 17, 2008	February 18, 2007	February 17, 2008	February 18, 2007
Net income available to common stockholders used in basic net income per share	$ 327,850	$ 249,478	$ 589,831	$ 486,364
Interest on convertible bonds, net of tax	239	391	485	794
Net income available to common stockholders after assumed conversions of dilutive securities	$ 328,089	$ 249,869	$ 590,316	$ 487,158
Weighted average number of common shares used in basic net income per share (000 s)	434,779	450,901	434,934	454,884
Stock options and restricted stock units (000 s)	8,616	8,100	8,681	7,636
Conversion of convertible bonds (000 s)	1,530	2,574	1,533	2,629
Weighted number of common shares and dilutive potential of common stock used in diluted net income per share (000 s)	444,925	461,575	445,148	465,149
Anti-dilutive stock options and RSUs (000 s)		4,071		4,356

NOTE (7) COMMITMENTS AND CONTINGENCIES

Legal Proceedings

The Company is involved from time to time in claims, proceedings and litigation arising from its business and property ownership. The Company is a defendant in the following matters, among others:

Two cases purportedly brought as class actions on behalf of certain present and former Costco managers in California, in which plaintiffs principally allege that they have not been properly compensated for overtime work. Scott M. Williams v. Costco Wholesale Corp., United States District Court (San Diego), Case No. 02-CV-2003 NAJ (JFS); Greg Randall v. Costco Wholesale Corp., Superior Court for the County of Los Angeles, Case No. BC-296369. On February 21, 2008 the court in Randall granted in part and denied in part plaintiffs motion for class certification. The Company intends to seek appellate review in part of that decision. Williams has been stayed pending the class certification outcome in Randall. The Company is reviewing the implications of the class certification order. If the Company determines that a loss is probable and estimable, it will record a reserve for this matter during the third quarter of fiscal 2008.

An overtime compensation case certified as a class action on behalf of present and former hourly employees in California, in which plaintiffs principally allege that Costco s semi-annual bonus formula is improper with regard to retroactive overtime pay. Anthony Marin v. Costco Wholesale Corp., Superior Court for the County of Alameda, Case No. RG-04150447. Costco has filed an appeal challenging the entry of a $5.3 million judgment in favor of the class.

On December 26, 2007, another putative class action was filed, also principally alleging denial of overtime. The complaint alleges misclassification of certain California managers. Jesse Drenckhahn v. Costco Wholesale Corp., Superior Court for the County of Los Angeles, Case No. BC-382911.

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NOTE (7) COMMITMENTS AND CONTINGENCIES (Continued)

A case purportedly brought as a class action on behalf of present and former hourly employees in California, in which the plaintiff principally alleges that the Company s routine closing procedures and security checks cause employees to incur delays that qualify as uncompensated working time and that effectively deny them statutorily guaranteed meal periods and rest breaks. Elizabeth Alvarado v. Costco Wholesale Corp., United States District Court (San Francisco), Case No. C-06-04015-MJJ. Discovery is ongoing.

A putative class action, filed on January 24, 2008, purportedly brought on behalf of two groups of former California employees an "Unpaid Wage Class" and a "Wage Statement Class." The "Unpaid Wage Class" focuses on an allegation that Costco improperly deducts employee credit card balances from final paychecks, while the "Wage Statement Class" focuses on an allegation that Costco's final paychecks do not contain the accurate and itemized information required for wage statements by applicable law. Carrie Ward v. Costco Wholesale Corp., Superior Court for the County of Los Angeles, Case No. BC-384334.

Claims in these six actions are made under various provisions of the California Labor Code and the California Business and Professions Code. Plaintiffs seek restitution/disgorgement, compensatory damages, various statutory penalties, punitive damages, interest, and attorneys fees.

A case brought as a class action on behalf of certain present and former female managers, in which plaintiffs allege denial of promotion based on gender in violation of Title VII of the Civil Rights Act of 1964 and California state law. Shirley Rae Ellis v. Costco Wholesale Corp., United States District Court (San Francisco), Case No. C-04-3341-MHP. Plaintiffs seek compensatory damages, punitive damages, injunctive relief, interest and attorneys fees. Class certification was granted on January 11, 2007. On May 11, 2007, the United States Court of Appeals for the Ninth Circuit granted a petition to hear the Company s appeal of the certification. Proceedings in the district court have been stayed during the appeal.

Class actions stated to have been brought on behalf of certain present and former Costco members.

In Barmak v. Costco Wholesale Corp., et al., No. BC348857 (Superior Court for the County of Los Angeles), it is asserted that the Company violated various provisions of the common law and California statutes in connection with its former practice of paying Executive Members who downgraded or terminated their memberships a 2% Reward for less than twelve months of eligible purchases. Plaintiff seeks compensatory damages, restitution, injunctive relief, attorneys fees and costs, prejudgment interest, and punitive damages. On August 31, 2007, the Court certified a nationwide class in respect of the breach of contract claim and a California class for the remaining claims. The Company has agreed in principle to settle this action, which will involve providing reward certificates to most class members. A reserve was established during the second quarter of fiscal 2008 in the amount $5.5 million to cover the expected cost of the certificates, payment of attorneys fees to class counsel, and the expenses of settlement administration.

In Evans, et ano., v. Costco Wholesale Corp., No. BC351869 (Superior Court for the County of Los Angeles), and Dupler v. Costco Wholesale Corp., Index No. 06-007555 (commenced in the Supreme Court of Nassau County, New York and removed to the United States District Court for the Eastern District of New York), it is asserted that the Company violated various provisions of California and New York common law and statutes in connection with a membership renewal practice. Under that practice, members who pay their renewal fees late generally have their twelve-month membership renewal periods commence at the time of the prior year s expiration rather than the time of the late payment. Plaintiffs in these two actions seek compensatory damages, restitution, disgorgement, preliminary and permanent injunctive and declaratory relief, attorneys fees and costs, prejudgment interest and, in Evans, punitive damages. The court has certified a class in the Dupler action.

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NOTE (7) COMMITMENTS AND CONTINGENCIES (Continued)

Numerous putative class actions have been brought around the United States against motor fuel retailers, including the Company, alleging that they have been overcharging consumers by selling gasoline or diesel that is warmer than 60 degrees without adjusting the volume sold to compensate for heat-related expansion or disclosing the effect of such expansion on the energy equivalent received by the consumer. The Company is named in the following actions: Raphael Sagalyn, et al., v. Chevron USA, Inc., et al., Case No. 07-430 (D. Md.); Phyllis Lerner, et al., v. Costco Wholesale Corporation, et al., Case No. 07-1216 (C.D. Cal.); Linda A. Williams, et al., v. BP Corporation North America, Inc., et al., Case No. 07-179 (M.D. Ala.); James Graham, et al. v. Chevron USA, Inc., et al., Civil Action No. 07-193 (E.D. Va.); Betty A. Delgado, et al., v. Allsups, Convenience Stores, Inc., et al., Case No. 07-202 (D.N.M.); Gary Kohut, et al. v. Chevron USA, Inc., et al., Case No. 07-285 (D. Nev.); Mark Rushing, et al., v. Alon USA, Inc., et al., Case No. 06-7621 (N.D. Cal.); James Vanderbilt, et al., v. BP Corporation North America, Inc., et al., Case No. 06-1052 (W.D. Mo.); Zachary Wilson, et al., v. Ampride, Inc., et al., Case No. 06-2582 (D. Kan.); Diane Foster, et al., v. BP North America Petroleum, Inc., et al., Case No. 07-02059 (W.D. Tenn.); Mara Redstone, et al., v. Chevron USA, Inc., et al., Case No. 07-20751 (S.D. Fla.); Fred Aguirre, et al. v. BP West Coast Products LLC, et al., Case No. 07-1534 (N.D. Cal.); J.C. Wash, et al., v. Chevron USA, Inc., et al.; Case No. 4:07cv37 (E.D. Mo.); Jonathan Charles Conlin, et al., v. Chevron USA, Inc., et al.; Case No. 07 0317 (M.D. Tenn.); William Barker, et al. v. Chevron USA, Inc., et al.; Case No. 07-cv-00293 (D.N.M.); Melissa J. Couch, et al. v. BP Products North America, Inc., et al., Case No. 07cv291 (E.D. Tex.); S. Garrett Cook, Jr., et al., v. Hess Corporation, et al., Case No. 07cv750 (M.D. Ala.); Jeff Jenkins, et al. v. Amoco Oil Company, et al., Case No. 07-cv-00661 (D. Utah); and Mark Wyatt, et al., v. B. P. America Corp., et al., Case No. 07-1754 (S.D. Cal.). On June 18, 2007, the Judicial Panel on Multidistrict Litigation assigned the action, entitled In re Motor Fuel Temperature Sales Practices Litigation, MDL Docket No 1840, to Judge Kathryn Vratil in the United States District Court for the District of Kansas. On February 21, 2008, the court denied a motion to dismiss the consolidated amended complaint.

Mimi Serna, Timothy Herrock, et al., v. Costco Wholesale Corp., Case No. 2:07-CV-1491-AHM (JWJx). This is a consumer class action filed in March 2007 in the United States District Court for the Central District of California alleging willful violations of the 15 U.S.C. §1681c(g) of the Fair Credit Reporting Act (FCRA). Section 1681c(g), enacted December 4, 2003, provides that no person that accepts credit cards or debit cards for the transaction of business shall print more than the last five digits of the card number or the expiration date upon any receipt provided to the cardholder at the point of the sale or transaction. Plaintiffs allege that, on or after January 1, 2005, Costco printed the expiration date and/or more than the last five digits of their credit card or debit card number on electronically printed receipts provided at the point of sale involving transactions at Costco s gasoline dispensers throughout the United States. The lawsuit seeks statutory damages, punitive damages, and attorneys fees. On January 2, 2008, the court denied plaintiff s motion for class certification. The action has since been stayed pending the resolution of an appeal in the United States Court of Appeals for the Ninth Circuit in an action with related subject matter.

The Company has been named as a defendant in two purported class actions relating to sales of organic milk. Hesse v. Costco Wholesale Corp., No. C07-1975 (W.D. Wash.); Snell v. Aurora Dairy Corp., et al., No. 07-CV-2449 (D. Col.). Both actions claim violations of the laws of various states, essentially alleging that milk provided to Costco by its supplier Aurora Dairy Corp. was improperly labeled organic. Costco has not yet responded to the complaints; Aurora has maintained that it has held and continues to hold valid organic certifications. The complaints seek, among other things, actual, compensatory, statutory, punitive and/or exemplary damages in unspecified amounts, as well as costs and attorneys fees.

On October 4, 2006, the Company received a grand jury subpoena from the United States Attorney s Office for the Central District of California, seeking records relating to the Company s receipt and handling

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NOTE (7) COMMITMENTS AND CONTINGENCIES (Continued)

of hazardous merchandise returned by Costco members and other records. The Company is cooperating with the inquiry and at this time cannot reasonably estimate any loss that may arise from this matter.

On March 15, 2007, the Company was informed by the U.S. Attorney s Office in the Western District of Washington that the office is conducting an investigation of the Company s past stock option granting practices to determine whether there have been any violations of federal law. As part of this investigation, the U.S. Attorney s Office has served a grand jury subpoena on the Company seeking documents and information relating to its stock option grants. The Company is cooperating with the inquiry and at this time cannot reasonably estimate any loss that may arise from this matter.

The Environmental Protection Agency (EPA) issued an Information Request to the Company, dated November 1, 2007, under the Clean Air Act. The EPA is seeking records regarding warehouses in the states of Arizona, California, Hawaii, and Nevada relating to compliance with regulations concerning air-conditioning and refrigeration equipment. A similar request, dated January 14, 2008, has been received concerning a warehouse in New Hampshire. If the EPA determines that violations have occurred, substantial penalties may be levied. The Company is cooperating with these inquiries and at this time cannot reasonably estimate any loss that might arise from these matters.

Except where indicated otherwise above, a reasonable estimate of the possible loss or range of loss cannot be made at this time for the matters described. The Company does not believe that any pending claim, proceeding or litigation, either alone or in the aggregate, will have a material adverse effect on the Company s financial position; however, it is possible that an unfavorable outcome of some or all of the matters, however unlikely, could result in a charge that might be material to the results of an individual fiscal quarter.

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NOTE (8) SEGMENT REPORTING

The Company and its subsidiaries are principally engaged in the operation of membership warehouses in the United States, Canada, Japan, the United Kingdom and through majority-owned subsidiaries in Taiwan and Korea and through a 50%-owned joint-venture in Mexico. The Company s reportable segments are based on management responsibility. The investment in the Mexico joint-venture is included only in total assets under United States Operations in the table below, as it is accounted for under the equity method and its operations are not consolidated in the Company s financial statements.

	United States Operations (a)	Canadian Operations	Other International Operations	Total
Twelve Weeks Ended February 17, 2008				
Total revenue	$ 13,323,991	$ 2,442,803	$ 1,193,092	$ 16,959,886
Operating income	378,162	88,428	37,742	504,332
Depreciation and amortization	112,454	21,026	11,568	145,048
Capital expenditures	261,215	51,227	29,251	341,693
Twelve Weeks Ended February 18, 2007				
Total revenue	$ 12,189,920	$ 1,921,540	$ 1,000,556	$ 15,112,016
Operating income	261,703	69,056	30,569	361,328
Depreciation and amortization	102,717	15,811	13,091	131,619
Capital expenditures	203,465	47,074	22,402	272,941
Twenty-Four Weeks Ended February 17, 2008				
Total revenue	$ 25,634,157	$ 4,848,608	$ 2,286,651	$ 32,769,416
Operating income	649,619	180,575	68,992	899,186
Depreciation and amortization	222,757	41,092	22,693	286,542
Capital expenditures	590,343	128,289	60,128	778,760
Property and equipment, net	7,703,784	1,379,203	964,955	10,047,942
Total assets	16,287,541	2,518,676	1,862,660	20,668,877
Net assets	6,651,767	1,246,207	1,048,417	8,946,391
Twenty-Four Weeks Ended February 18, 2007				
Total revenue	$ 23,433,482	$ 3,890,358	$ 1,939,800	$ 29,263,640
Operating income	514,450	145,121	54,897	714,468
Depreciation and amortization	204,192	31,447	22,956	258,595
Capital expenditures	512,020	107,762	41,959	661,741
Property and equipment, net	6,970,725	1,056,831	889,215	8,916,771
Total assets	14,184,256	2,002,629	1,738,336	17,925,221
Net assets	6,667,727	1,117,247	1,003,426	8,788,400
Year Ended September 2, 2007				
Total revenue	$ 51,532,178	$ 8,723,562	$ 4,144,415	$ 64,400,155
Operating income	1,216,517	287,045	105,024	1,608,586
Depreciation and amortization	449,338	72,915	44,132	566,385
Capital expenditures	1,104,461	206,840	74,398	1,385,699
Property and equipment, net	7,357,160	1,237,031	925,589	9,519,780
Total assets	15,543,357	2,279,453	1,783,776	19,606,586
Net assets	6,417,458	1,157,640	1,048,243	8,623,341

The accounting policies of the segments are the same as those described in the notes to the consolidated financial statements included in the Company s annual report filed on Form 10-K for the fiscal year ended September 2, 2007, after considering newly adopted accounting pronouncements described elsewhere herein. All inter-segment net sales and expenses are immaterial and have been eliminated in computing total revenue and operating income.

(a) Certain home office operating expenses are incurred on behalf of our Canadian operations, but are included in the United States operations above as those costs are not allocated internally and generally come under the responsibility of our United States management team.

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Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations

Forward-looking Statements

Certain statements contained in this document constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. For these purposes, forward-looking statements are statements that address activities, events, conditions or developments that we expect or anticipate may occur in the future. Such forward-looking statements involve risks and uncertainties that may cause actual events, results or performance to differ materially from those indicated by such statements. These risks and uncertainties include, but are not limited to, domestic and international economic conditions including exchange rates, the effects of competition and regulation, consumer and small business spending patterns and debt levels, conditions affecting the acquisition, development, ownership or use of real estate, actions of vendors, ability to attract, train and retain highly qualified employees, rising costs associated with employees (including health care and workers compensation costs), rising costs associated with the acquisition of merchandise (including the direct and indirect effects of the rising cost of petroleum-based products and fuel and energy costs), privacy and information security of member-related information, geopolitical conditions, uncertainties in the financial markets, and other risks identified from time to time in our public statements and reports filed with the Securities and Exchange Commission (SEC).

This management discussion should be read in conjunction with the management discussion included in our fiscal 2007 annual report on Form 10-K previously filed with the SEC.

Overview

We operate membership warehouses based on the concept that offering our members low prices on a limited selection of nationally branded and select private label products will produce high sales volumes and rapid inventory turnover. This rapid inventory turnover, when combined with the operating efficiencies achieved by volume purchasing, efficient distribution and reduced handling of merchandise in no-frills, self-service warehouse facilities, enables us to operate profitably at significantly lower gross margins than many competitors.

Key items for the second quarter of fiscal 2008 included:

- Net sales increased 12.2% over the prior year, driven by a 7% increase in comparable sales (sales in warehouses open for at least one year) and the opening of 27 new warehouses (31 opened and 4 closed due to relocations) since the end of the second quarter of fiscal year 2007;

- Membership fees increased 11.6%, primarily due to new membership sign-ups at warehouses opened since the end of the second quarter of fiscal 2007, increased penetration of our Executive Membership program, as well as the $5 increase in our annual membership fee in the second half of fiscal 2006 for non-Executive members;

- Gross margin (net sales less merchandise costs) as a percentage of net sales increased 24 basis points over the prior year s second quarter;

- Selling, general and administrative (SG&A) expenses as a percentage of net sales decreased 33 basis points over the prior year s second quarter;

- Net income increased 31.4% to $327.9 million from $249.5 million in the second quarter of fiscal 2007;

- The Board of Directors declared a quarterly cash dividend in the amount of $0.145 per share; and

We repurchased 2.0 million shares of our common stock, at an average cost of $65.51 per share, totaling approximately $129.3 million.

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Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

As previously reported, the second quarter of fiscal 2007 was impacted by the following three unusual items:

Sales return reserve: We revised our methodology of estimating our sales return reserve to include a longer timeframe for returns, as well as a lower realization rate on certain returned items. The effect of these revisions to our estimated sales return reserve was a decrease in net sales of $224.4 million and a charge to gross margin of approximately $48.1 million.

Employee tax consequences on stock options: The Compensation Committee of the Board of Directors approved a program intended to protect approximately 1,000 employees who are United States taxpayers from certain adverse tax consequences arising from a review of stock option practices. The program involved increasing the exercise prices on certain stock options granted from 2000 to 2003 and, in turn, making payments to employees in an amount approximately equal to the increase in the exercise price. We also recorded a charge for the estimated amount to remedy adverse tax consequences related to stock options held and previously exercised by employees outside the United States. In aggregate, these charges totaled $46.4 million.

Excise tax refund: We received a $10.1 million refund, related to fiscal 2002 through 2006, as a result of a settlement with the U.S. Internal Revenue Service relating to excise taxes previously paid.

We believe it is helpful to disclose the effects of these items for purposes of providing a meaningful comparison of the impact to fiscal 2007, as well as provide a more representative expectation of future operating results. The impact of each of these items noted above is presented below.

	Increase (decrease); amounts in 000 s			
	Sales return Reserve	Employee tax consequences on stock options	Excise tax refund	Total
Net sales	$ (224,384)	$	$	$ (224,384)
Merchandise costs	176,313	(157)	8,661	184,817
Gross margin	(48,071)	(157)	8,661	(39,567)
SG&A		(46,215)	300	(45,915)
Operating Income	(48,071)	(46,372)	8,961	(85,482)
Interest expense		(50)		(50)
Interest income and other			1,090	1,090
Income before income taxes	(48,071)	(46,422)	10,051	(84,442)
Provision for income taxes	17,652	17,046	(3,691)	31,007
Net Income	$ (30,419)	$ (29,376)	$ 6,360	$ (53,435)

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Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Results of Operations (dollars in thousands, except earnings per share and warehouse number data)

Net Sales

	12 Weeks Ended		24 Weeks Ended	
	February 17, 2008	February 18, 2007	February 17, 2008	February 18, 2007
Net sales	$ 16,616,962	$ 14,804,696	$ 32,088,462	$ 28,657,017
Effect of change in estimated sales returns reserve		224,384		224,384
Net Sales, as adjusted	$ 16,616,962	$ 15,029,080	$ 32,088,462	$ 28,881,401
Increase in comparable warehouse sales	7%	5%	7%	5%

Net sales increased 12.2% to $16.62 billion during the second quarter of fiscal 2008, from $14.80 billion during the second quarter of fiscal 2007. Excluding the impact of the change in the estimated sales returns reserve in the second quarter of fiscal 2007, net sales increased $1.59 billion, or 10.6% in the second quarter of fiscal 2008 as compared to the previous year. The $1.59 billion increase in adjusted net sales is comprised of $1.09 billion from the increase in comparable warehouse sales and $500.8 million primarily from sales at 27 new warehouses opened (31 opened and 4 closed due to relocations) since the end of the second quarter of fiscal 2007. Significantly stronger foreign currencies, particularly in Canada, positively impacted adjusted net sales by approximately $348.9 million, or 230 basis points.

Changes in prices of merchandise, with the exception of gasoline, did not materially affect the sales increase. Gasoline sales contributed to the $1.59 billion adjusted net sales growth by approximately $398.8 million, with approximately $288.7 million of this increase related to the increase in gasoline sales prices, which, on average, increased approximately 29% over the second quarter of fiscal 2007.

Most of the comparable sales growth was derived from increased amounts spent by members, with a smaller contribution from increases in shopping frequency. Gasoline sales positively impacted comparable warehouse sales growth by approximately $346.7 million, or 245 basis points. Significantly stronger foreign currencies, particularly in Canada, positively impacted comparable sales by approximately $332.8 million, or 220 basis points. Reported comparable sales growth includes the negative impact of cannibalization (established warehouses losing sales to our newly opened locations).

For the first half of fiscal 2008, net sales increased 12.0% to $32.09 billion from $28.66 billion during the first half of fiscal 2007. Excluding the impact of the change in the estimated sales returns reserve in the second quarter of fiscal 2007, net sales increased $3.21 billion, or 11.1% in the first half of fiscal 2008 as compared to the previous year. The $3.21 billion increase in adjusted net sales is comprised of $2.19 billion from the increase in comparable warehouse sales and $1.02 billion primarily from sales at 27 new warehouses opened (31 opened and 4 closed due to relocations) since the end of the second quarter of fiscal 2007. Significantly stronger foreign currencies, particularly in Canada, positively impacted adjusted net sales by approximately $703.7 million, or 245 basis points.

Changes in prices of merchandise, with the exception of gasoline, did not materially affect the sales increase. Gasoline sales contributed to the $3.21 billion adjusted net sales growth by approximately $707.1 million, with approximately $503.0 million of this increase related to the increase in gasoline sales prices, which, on average, increased approximately 25% over the first half of fiscal 2007.

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Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Most of the comparable sales growth was derived from increased amounts spent by members, with a smaller contribution from increases in shopping frequency. Gasoline sales positively impacted comparable warehouse sales growth by approximately $592.1 million, or 220 basis points. Significantly stronger foreign currencies, particularly in Canada, positively impacted comparable sales by approximately $676.2 million, or 235 basis points.

Membership Fees

	12 Weeks Ended		24 Weeks Ended	
	February 17, 2008	February 18, 2007	February 17, 2008	February 18, 2007
Membership fees	$ 342,924	$ 307,320	$ 680,954	$ 606,623
Membership fees as a percent of net sales	2.06%	2.08%	2.12%	2.12%
Membership fees as a percent of adjusted net sales	2.06%	2.05%	2.12%	2.10%
Total cardholders (000 s)	51,800	49,000	51,800	49,000

Membership fees increased 11.6% to $342.9 million, or 2.06% of net sales, in the second quarter of fiscal 2008, from $307.3 million, or 2.08% of net sales, in the second quarter of fiscal 2007, and increased 12.3% to $681.0 million, or 2.12% of net sales, in the first half of fiscal 2008 from $606.6 million, or 2.12% of net sales, in the first half of fiscal 2007. The increase was primarily due to additional membership sign-ups at the 27 new warehouses opened since the second quarter of fiscal 2007, increased penetration of the higher-fee Executive Membership program, as well as the $5 increase in our annual membership fee in the second half of fiscal 2006 for non-Executive members. Our member renewal rate, currently at 87%, is consistent with recent years.

Gross Margin

	12 Weeks Ended		24 Weeks Ended	
	February 17, 2008	February 18, 2007	February 17, 2008	February 18, 2007
Gross margin	$ 1,783,773	$ 1,552,944	$ 3,431,762	$ 3,016,307
Unusual items		39,567		39,567
Gross margin, as adjusted	$ 1,783,773	$ 1,592,511	$ 3,431,762	$ 3,055,874
Gross margin as a percent of net sales	10.73%	10.49%	10.69%	10.53%
Adjusted gross margin as a percent of adjusted net sales	10.73%	10.60%	10.69%	10.58%

Gross margin was $1.78 billion, or 10.73% of net sales, in the second quarter of fiscal 2008, compared to $1.55 billion, or 10.49% of net sales, in the second quarter of fiscal 2007. Excluding the unusual items affecting net sales and gross margin, gross margin as a percentage of net sales increased 13 basis points in the second quarter of fiscal 2008, from 10.60% in the second quarter of fiscal 2007. This increase was due to a 29 basis point increase in our merchandise departments, particularly food and sundries and hardlines. This increase was offset by a net twelve basis point decrease primarily from our warehouse ancillary businesses, which reflected decreases in pharmacy, food services and tire shop, partially offset by an increase in our gasoline business. In addition, increased penetration of the Executive Membership two-percent reward program and increased spending by Executive members negatively affected gross margin by four basis points.

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Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Gross margin was $3.43 billion, or 10.69% of net sales, in the first half of fiscal 2008, compared to $3.02 billion, or 10.53% of net sales, in the first half of fiscal 2007. Excluding the unusual items affecting net sales and gross margin, gross margin as a percentage of net sales increased 11 basis points in the first half of fiscal 2008, from 10.58% in the first half of fiscal 2007. This net 11 basis point increase reflected an increase of 34 basis points in our merchandise departments, particularly food and sundries and hardlines. This increase was offset by a decrease of 19 basis points in our warehouse ancillary businesses, primarily tire shop, gas and food services. In addition, increased penetration of the Executive Membership two-percent reward program and increased spending by Executive members negatively affected gross margin by four basis points.

Selling, General and Administrative Expenses

	12 Weeks Ended		24 Weeks Ended	
	February 17, 2008	**February 18, 2007**	**February 17, 2008**	**February 18, 2007**
Selling, general and administrative expenses (SG&A)	$ 1,615,531	$ 1,487,991	$ 3,185,125	$ 2,870,458
Unusual items		(45,915)		(45,915)
SG&A, as adjusted	$ 1,615,531	$ 1,442,076	$ 3,185,125	$ 2,824,543
SG&A as a percent of net sales	9.72%	10.05%	9.93%	10.02%
Adjusted SG&A as a percent of adjusted net sales	9.72%	9.60%	9.93%	9.78%

SG&A totaled $1.62 billion, or 9.72% of net sales, during the second quarter of fiscal 2008, compared to $1.49 billion, or 10.05% of net sales, during the second quarter of fiscal 2007. Excluding the unusual items affecting net sales and SG&A expenses in the second quarter of fiscal 2007, SG&A as a percentage of net sales increased 12 basis points in the second quarter of fiscal 2008 as compared to the previous year. Warehouse operating and central administrative costs negatively impacted SG&A comparisons, on a net basis, by approximately eight basis points, partially due to the increase in the entry-level hourly wage rate, which was effective in March 2007. Stock compensation expense increased four basis points in the second quarter of fiscal 2008 as compared to fiscal 2007, primarily due to a higher closing stock price on the date that our October 2007 RSU grant was valued as compared to previous grants.

SG&A totaled $3.19 billion, or 9.93% of net sales, during the first half of fiscal 2008 compared to $2.87 billion, or 10.02% of net sales, during the first half of fiscal 2007. Excluding the unusual items affecting net sales and SG&A expenses in the first half of fiscal 2007, SG&A as a percentage of net sales increased 15 basis points in the first half of fiscal 2008 as compared to the previous year. Warehouse operating and central administrative costs negatively impacted SG&A comparisons, on a net basis, by approximately nine basis points, partially due to the increase in the entry-level hourly wage rate, which was effective in March 2007. Stock compensation expense increased three basis points in the first half of fiscal 2008 as compared to fiscal 2007. Additionally, in the first quarter of fiscal 2008, we accrued approximately $9 million, or three basis points, for compensation adjustments we made to employees enrolled in our medical and dental plans related to a decision to share a portion of the health plan s savings that we achieved, beyond what was expected in fiscal 2007.

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Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Preopening Expenses

	12 Weeks Ended		24 Weeks Ended	
	February 17, 2008	February 18, 2007	February 17, 2008	February 18, 2007
Preopening expenses	$ 9,699	$ 7,486	$ 31,191	$ 30,213
Warehouse openings	7	4	17	16
Relocations			(4)	
Warehouse openings, net of relocations	7	4	13	16

Preopening expenses include costs incurred for startup operations related to new warehouses and the expansion of ancillary operations at existing warehouses. Preopening expenses can vary due to the timing of the opening relative to our fiscal quarter end, whether the warehouse is owned or leased, whether the opening is in an existing, new or international market, as well as the number and magnitude of warehouse remodel projects.

Preopening expenses totaled $9.7 million during the second quarter of fiscal 2008, compared to $7.5 million during the second quarter of fiscal 2007. The increase is largely due to opening more warehouses in the second quarter of 2008 compared to the second quarter of fiscal 2007. Six of the seven openings in the second quarter of fiscal 2008 were in international markets: four in Canada, one in Korea and one in Japan.

Preopening expenses totaled $31.2 million during the first half of fiscal 2008, compared to $30.2 million during the first half of fiscal 2007. The increase is largely due to opening one additional warehouse in the first half of 2008 compared to the first half of fiscal 2007. Seven of the 17 openings in the first half of fiscal 2008 were in international markets: four in Canada, one each in Taiwan, Korea and Japan.

Provision for Impaired Assets and Closing Costs, Net

	12 Weeks Ended		24 Weeks Ended	
	February 17, 2008	February 18, 2007	February 17, 2008	February 18, 2007
Warehouse closing expenses	$ 533	$ 3,878	$ 3,217	$ 7,591
Impairment of long-lived assets			592	
Net (gains)/losses on sale of real property	(3,398)	(419)	(6,595)	200
Provision for impaired assets & closing costs, net	$ (2,865)	$ 3,459	$ (2,786)	$ 7,791

The provision primarily includes costs related to impairment of long-lived assets, future lease obligations of warehouses that have been relocated to new facilities, accelerated depreciation on buildings to be demolished or sold and that are not otherwise impaired, and losses or gains resulting from the sale of real property, largely comprised of former warehouse locations.

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Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Interest Expense

	12 Weeks Ended		24 Weeks Ended	
	February 17, 2008	February 18, 2007	February 17, 2008	February 18, 2007
Interest Expenses	$ 23,471	$ 3,620	$ 46,439	$ 5,760

Interest expense totaled $23.5 million in the second quarter of fiscal 2008, compared to $3.6 million in the second quarter of fiscal 2007, and $46.4 million in the first half of fiscal 2008 compared to $5.8 million in the first half of fiscal 2007. These increases in interest expense as compared to the prior year resulted primarily from the issuance of our $900 million of 5.3% and $1.1 billion of 5.5% Senior Notes (2007 Senior Notes) in February 2007, partially offset by lower interest expense resulting from the repayment of the $300 million 5.5% Senior Notes (2002 Senior Notes) in March 2007.

Interest Income and Other

	12 Weeks Ended		24 Weeks Ended	
	February 17, 2008	February 18, 2007	February 17, 2008	February 18, 2007
Interest income	$ 26,346	$ 24,349	$ 52,444	$ 44,957
Earnings of affiliates	13,546	12,148	20,717	17,756
Minority interest and other	712	29	720	924
Interest income and other	$ 40,604	$ 36,526	$ 73,881	$ 63,637

Interest income and other totaled $40.6 million in the second quarter of fiscal 2008, compared to $36.5 million in the second quarter of fiscal 2007, and $73.9 million in the first half of fiscal 2008, compared to $63.6 million in the first half of fiscal 2007. These increases are largely due to the increase in our cash and cash equivalents and short-term investments resulting from increased cash flows from operations and the proceeds from the issuance of the 2007 Senior Notes, as well as an increase in the earnings of affiliates, primarily Costco Mexico.

Provision for Income Taxes

	12 Weeks Ended		24 Weeks Ended	
	February 17, 2008	February 18, 2007	February 17, 2008	February 18, 2007
Provision for income taxes	$ 193,615	$ 144,756	$ 336,797	$ 285,981
Effective tax rate	37.1%	36.7%	36.3%	37.0%

The effective income tax rate on earnings was 37.1% in the second quarter of fiscal 2008, compared to 36.7% in the second quarter of fiscal 2007.

The effective income tax rate on earnings was 36.3% in the first half of fiscal 2008, compared to 37.0% in the first half of fiscal 2007. The effective income tax rate for the first half of fiscal 2008 was positively impacted by certain discrete items of approximately $7.7 million, which are not expected to reoccur. Excluding these discrete items, the effective tax rate for the first half of fiscal 2008 was 37.2%.

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Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Net Income

	12 Weeks Ended		24 Weeks Ended	
	February 17, 2008	February 18, 2007	February 17, 2008	February 18, 2007
Net income	$ 327,850	$ 249,478	$ 589,831	$ 486,364
Unusual items (net of tax)		53,435		53,173
Net income, as adjusted	$ 327,850	$ 302,913	$ 589,831	$ 539,537
Diluted net income per share	$ 0.74	$ 0.54	$ 1.33	$ 1.05
Shares used to calculate diluted net income per common share	444,925	461,575	445,148	465,149

Net income for the second quarter of fiscal 2008 was $327.9 million, or $0.74 per diluted share, compared to $249.5 million, or $0.54 per diluted share, during the second quarter of fiscal 2007. Net income for the first half of fiscal 2008 was $589.8 million, or $1.33 per diluted share, compared to net income for the first half of fiscal 2007 of $486.4 million, or $1.05 per diluted share.

The unusual items previously discussed totaled $53.4 million net of tax, or $0.12 per diluted share, and $53.2 million net of tax, or $0.11 per diluted share, in the second quarter and first half of fiscal 2007, respectively. Excluding these items, net income per diluted share was $0.66 per diluted share and $1.16 per diluted share for the second quarter and first half of fiscal 2007, respectively. Net income per diluted share in the second quarter and first half of fiscal 2008 represent an increase of 12% and 15%, respectively, over these figures.

We have repurchased 25.6 million shares of common stock since the end of the second quarter of fiscal 2007, favorably impacting net income per diluted share by approximately $0.02 and $0.03 in the second quarter and first half of fiscal 2008, respectively.

Liquidity and Capital Resources (dollars in thousands, except per share data)

Cash Flows

The following table itemizes components of our most liquid assets:

	February 17, 2008	September 2, 2007
Cash and cash equivalents	$ 2,267,381	$ 2,779,733
Short-term investments .	832,966	575,787
Total	$ 3,100,347	$ 3,355,520

Our primary sources of liquidity are cash flows generated from warehouse operations and existing cash and cash equivalents and short-term investments balances, which were $3.10 billion and $3.36 billion at February 17, 2008 and September 2, 2007, respectively. Of these balances, approximately $660.8 million and $655.2 million at February 17, 2008 and September 2, 2007, respectively, represented debit and credit card receivables, primarily related to weekend sales immediately prior to the quarter-end close. The decrease in our most liquid assets of $255.2 million to $3.10 billion at February 17, 2008, reflects acquisition of property and equipment related to warehouse expansion and remodel activity and the repurchase of our common stock, partially offset by cash provided from operating activities and an increase in bank checks outstanding.

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Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Net cash provided by operating activities totaled $853.4 million in the first half of fiscal 2008, compared to $725.9 million in the first half of fiscal 2007. This increase of $127.5 million was primarily attributable to an increase in net income of $103.5 million.

Net cash used in investing activities totaled $1.20 billion in the first half of fiscal 2008, compared to $10.7 million in the first half of fiscal 2007, an increase of $1.19 billion. The increase in investing activities relates primarily to a decrease in cash provided by the net investment in short-term investments of $704.1 million, as investments were sold in the first half of fiscal 2007, primarily to fund our stock repurchase activity and increased capital expenditures. In the first half of fiscal 2008, a lower level of cash was required for these activities due to the issuance of the 2007 Senior Notes in February 2007. In addition, as discussed below, $371.1 million formerly classified as cash and cash equivalents was reclassfied to short-term investments and other assets.

In December 2007, one of our enhanced money fund investments, Columbia Strategic Cash Portfolio Fund ceased accepting cash redemption requests and changed to a floating net asset value. In light of the restricted liquidity, we elected to receive our pro-rata allocation of the underlying securities in a separately managed account. We assessed the fair value of the underlying securities in this account through market quotations and review of current investment ratings, as available, coupled with the evaluation of the liquidation value of each investment and current performance in meeting scheduled payments of principal and interest. We recognized an impairment loss on short-term investments of $2.8 million related to these securities that was considered to be other-than-temporary. The loss is included in interest income and other in the accompanying condensed consolidated statements of income. The markets relating to these investments remain uncertain, and there may be further declines in the value of these investments that may cause additional losses in future periods.

Additionally in December 2007, two other enhanced cash money fund investments, BlackRock Cash Strategies, LLC (BlackRock) and Merrill Lynch Capital Reserve Fund, LLC (Merrill Lynch) ceased accepting redemption requests from investors. These two funds are being liquidated with periodic distributions and an expectation that the funds will be completely liquidated by 2010. To date the funds have maintained a one-dollar per unit net asset value. Subsequent to the end of our second quarter and through March 14, 2008, we have received additional cash redemptions of $33.1 million from the BlackRock and Merrill Lynch funds. Although future market conditions cannot be predicted, we currently do not expect future losses in our investment portfolio to be material to our condensed consolidated financial statements, or that we will experience a detriment to our overall liquidity.

During the second quarter of fiscal 2008, we reclassified $371.1 million related to these three funds from cash and cash equivalents , with $212.2 million to short-term investments and $158.9 million to other assets in our consolidated balance sheets to reflect the timing of the expected distributions. This reclassification is shown in cash flows from investing activities in our consolidated statements of cash flows.

Net cash used in financing activities totaled $183.9 million in the first half of fiscal 2008, compared to $646.0 million in the first half of fiscal 2007, a decrease of $462.2 million. The decrease in cash used in financing activities relates primarily to a decrease in the cash used for the repurchase of common stock. In the first half of fiscal 2008, we repurchased common stock using $407.0 million of cash, compared to $918.8 million in the first half of fiscal 2007.

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Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Dividends

Our current quarterly cash dividend rate is $0.145 per share or $0.58 per share on an annualized basis. On January 29, 2008, our Board of Directors declared a quarterly cash dividend of $0.145 per share for shareholders of record on February 15, 2008. The dividend was paid on February 29, 2008.

Expansion Plans

Our primary requirement for capital is the financing of the land, building and equipment costs for new and remodeled warehouses. Capital is also required for initial warehouse operations and working capital. While there can be no assurance that current expectations will be realized, and plans are subject to change upon further review, it is our current intention to spend approximately $1.6 billion to $1.7 billion during fiscal 2008 for real estate, construction, remodeling and equipment for warehouses and related operations. These expenditures are expected to be financed with a combination of cash provided from operations and existing cash and cash equivalents and short-term investments. Through the end of the second quarter of fiscal 2008, we have spent approximately $778.8 million.

We opened seven new warehouses in the second quarter of fiscal 2008. Expansion plans during the remainder of fiscal 2008 are to open an additional 18 to 20 new warehouses, including four to five relocations to larger and better-located facilities.

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Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Bank Credit Facilities and Commercial Paper Programs (all amounts stated in U.S. dollars)

				Credit Line Usage as of 02/17/2008				
Entity	**Facility Description**	**Expiration Date**	**Total of all Credit Facilities**	**Stand-by LC & Letter of Guaranty**	**Commercial Letter of Credit**	**Short Term Borrowing**	**Available Credit**	**Applicable Interest Rate**
US	Uncommitted Stand By Letter of Credit	N/A	$ 25,335(5)	$ 25,335	$	$	$	N/A
US	Uncommitted Commercial Letter of Credit	N/A	160,000(5)		6,909		153,091	N/A
Canada [1]	Revolving Credit	March-09	225,225(5)	24,809		74,266(7)	126,141(7)	4.10%
Japan [2]	Revolving Credit	February-09	32,513			2,322	30,191	1.00%
Japan [2]	Bank Guaranty	February-09	9,289(5)	9,289				
Japan [2]	Revolving Credit	February-09	32,513			2,322	30,191	1.00%
Korea [3]	Multi Purpose Line	March-09	12,705(5)	1,615	350		10,740	6.03%
Taiwan	Multi Purpose Line	January-09	9,460(5)	757			8,703	4.50%
Taiwan	Revolving Credit	July-08	15,767(5)	4,494			11,273	4.53%
Taiwan	Revolving Credit	March-08[6]	9,460(5)				9,460	4.54%
United Kingdom	Revolving Credit	February-10	78,620				78,620	5.81%
United Kingdom	Uncommitted Money Market Line	May-08	39,310			24,569	14,741	5.60%
United Kingdom	Overdraft Line	May-08	58,965				58,965	6.25%
United Kingdom [4]	Letter of Guarantee	N/A	4,710(5)	4,710				N/A
United Kingdom	Commercial Letter of Credit	N/A	3,931(5)	256			3,675	N/A
	TOTAL		$ 717,803	$ 71,265	$ 7,259	$ 103,479	$ 535,791	

(1) Our wholly-owned Canadian subsidiary has a commercial paper program supported by a revolving credit facility, which we guarantee.

(2) Our wholly-owned Japanese subsidiary has a revolving credit facility available.

(3) Our Korean subsidiary has a revolving credit facility, which we guarantee.

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Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

(4) The letter of guarantee is fully cash collateralized by the United Kingdom subsidiary.

(5) We have letter of credit facilities (for commercial and standby letters of credit) totaling $475.9 million. The outstanding commitments under these facilities at February 17, 2008 totaled $78.5 million, including $71.3 million in standby letters of credit.

(6) We did not renew this revolving credit facility.

(7) The amount shown for short-term borrowings under this facility is net of a note issue discount, which is excluded from the credit amount available.

Financing Activities

During the second quarter of fiscal 2008, $0.1 million in face amount of our 3.5% Zero Coupon Convertible Subordinated Notes (Zero Coupon Notes) were converted by note holders into 3,000 shares of common stock, and during the first half of fiscal 2008, $0.3 million in face amount of our Zero Coupon Notes were converted by note holders into 6,000 shares of common stock.

During the second quarter of fiscal 2007, $7.1 million in face amount of our Zero Coupon Notes were converted by note holders into 162,000 shares of common stock, and during the first half of fiscal 2007, $20.6 million in face amount of our Zero Coupon Notes were converted by note holders into 467,000 shares of common stock.

On October 17, 2007, our wholly-owned Japanese subsidiary issued promissory notes through a private placement in the aggregate amount of $55.4 million, bearing interest at 2.695%. Interest is payable semi-annually and principal is due in October 2017. The proceeds were used, in part, to repay the 2.07% Promissory Notes due on October 23, 2007 in the amount of $30.6 million, and the balance will be used for general corporate purposes.

Derivatives

We use derivative and hedging arrangements only to manage well-defined risks. Forward foreign exchange contracts are used to hedge the impact of fluctuations of foreign exchange on inventory purchases and typically have very short terms. These forward contracts do not qualify for derivative hedge accounting. The aggregate notional amount, which approximates the fair value, of foreign exchange contracts outstanding was $68.7 million and $75.0 million at February 17, 2008 and September 2, 2007, respectively. The mark-to-market adjustment related to these contracts was a charge of $2.1 million and $0.9 million at February 17, 2008 and September 2, 2007, respectively. The majority of the forward foreign exchange contracts were entered into by our United Kingdom subsidiary, primarily to hedge U.S. dollar merchandise inventory purchases.

Stock Repurchase Programs

During the second quarters of fiscal 2008 and 2007, we repurchased 2.0 million and 8.9 million shares of our common stock, at an average price of $65.51 and $54.11, totaling approximately $129.3 million and $480.8 million, respectively. In the first half of fiscal 2008 and 2007, we repurchased 6.4 million and 17.2 million shares, at an average price of $62.93 and $52.78, for a total amount of $400.4 million and $905.7 million, respectively. In September 2007 and November 2007, our Board of Directors approved an additional $300.0 million and $1.0 billion respectively, of stock repurchases, both expiring in 2010. The remaining amount available for stock repurchases under the approved plans was approximately $1.55 billion at February 17, 2008. Purchases are made from time-to-time as conditions warrant in the open market or in block purchases, or pursuant to plans under SEC Rule 10b5-1. Repurchased shares are retired.

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Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Critical Accounting Policies

The preparation of our financial statements requires that we make estimates and judgments. We base our estimates on historical experience and on other assumptions that we believe to be reasonable. Our critical accounting policies are discussed in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations section of our Annual Report on Form 10-K for the fiscal year ended September 2, 2007. There have been no material changes to the critical accounting policies previously disclosed in that report.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair-value measurements required under other accounting pronouncements, but does not change existing guidance as to whether or not an instrument is carried at fair value. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the FASB issued Staff Position No. 157-2 which provided a one-year delayed application of SFAS 157 for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Early adoption is permitted. We must adopt these new requirements no later than our first quarter of fiscal 2010.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment to FASB No. 115 (SFAS 159). Under SFAS 159, entities may elect to measure specified financial instruments and warranty and insurance contracts at fair value on a contract-by-contract basis, with changes in fair value recognized in earnings each reporting period. The election, called the fair value option, will enable entities to achieve an offset accounting effect for changes in fair value of certain related assets and liabilities without having to apply complex hedge accounting provisions. SFAS 159 is effective as of the beginning of a company s first fiscal year that begins after November 15, 2007. We must adopt these new requirements no later than our first quarter of fiscal 2009.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment of Accounting Research Bulletin No 51 (SFAS 160). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, changes in a parent s ownership of a noncontrolling interest, calculation and disclosure of the consolidated net income attributable to the parent and the noncontrolling interest, changes in a parent s ownership interest while the parent retains its controlling financial interest and fair value measurement of any retained noncontrolling equity investment. SFAS 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. We must adopt these new requirements in our first quarter of fiscal 2010.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations (SFAS 141R), which establishes principles and requirements for the reporting entity in a business combination, including recognition and measurement in the financial statements of the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. This statement also establishes disclosure requirements to enable financial statement users to evaluate the nature and financial effects of the business combination. SFAS 141R applies prospectively to business combinations for which the

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acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, and interim periods within those fiscal years. We must adopt these new requirements no later than our first quarter of fiscal 2010.

We are in the process of evaluating the impact that adoption of these standards will have on our future consolidated financial statements.

Item 3 Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio, which consists primarily of money market funds, debt securities, corporate notes and bonds and enhanced money market funds with maturities of three months to five years at the date of purchase. The primary objective of our investment activities is to preserve principal while generating yields without significantly increasing risk. Historically, this was accomplished by investing in high investment grade securities with a minimum overall portfolio average credit rating of AA- as well as investment diversification. The investment policy was recently approved by our Board of Directors, limiting investments to direct U.S. Government and Government Agency obligations, repurchase agreements collateralized by U.S. Government and Government Agency obligations and U.S Government and Government Agency Money Market funds. The investment policies of our subsidiaries are currently under review in light of market conditions.

Item 4 Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, we performed an evaluation under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities and Exchange Act of 1934 (the Exchange Act)). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Quarterly Report, our disclosure controls and procedures are effective.

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) of the Exchange Act) during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

The certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 are filed as Exhibit 31.1 to this report.

PART II OTHER INFORMATION

Item 1 Legal Proceedings

See discussion of Legal Proceedings in Note 7 to the condensed consolidated financial statements included in Part I, Item 1 of this Report.

Item 1A Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended September 2, 2007. There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

The following table sets forth information on our common stock repurchase program activity for the second quarter of fiscal 2008 (amounts in thousands, except per share data):

Period (1)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs (2)	Maximum Dollar Value of Shares that May Yet be Purchased Under the Programs (2)
November 26 December 23, 2007	254,211	$ 66.82	254,211	$ 1,658,259
December 24, 2007 January 20, 2008	616,644	65.62	616,644	1,617,797
January 21 February 17, 2008	1,102,100	65.15	1,102,100	1,545,996
Total Second Quarter	1,972,955	$ 65.51	1,972,955	

(1) Monthly information is presented by reference to our fiscal periods during the second quarter of fiscal 2008.

(2) Our stock repurchase program is conducted under authorizations made by our Board of Directors. The amounts reported in the table are covered by a Board authorization to repurchase shares of common stock of $2 billion authorized in July 2006 and expiring in July 2009; and $300 million and $1 billion authorized in September 2007 and November 2007, respectively, both of which expire in 2010.

Item 3 Defaults Upon Senior Securities

None.

Item 4 Submission of Matters to a Vote of Security Holders

The Company s annual meeting of shareholders was held on January 29, 2008 at which time the shareholders voted on the following proposals:

(1) Election of five Class III directors to hold office until the 2011 Annual Meeting of Shareholders and until their successors are elected and qualified.

Name of Candidate	For		Withheld	
Susan L. Decker	366,167,353	97.85%	8,036,576	2.15%
Richard D. DiCerchio	363,631,121	97.17%	10,572,808	2.83%
Richard M. Libenson	349,983,602	93.53%	24,220,327	6.47%
John W. Meisenbach	349,627,427	93.43%	24,576,502	6.57%
Charles T. Munger	352,926,763	94.31%	21,277,166	5.69%

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Item 4 Submission of Matters to a Vote of Security Holders (Continued)

There were no abstentions and no broker non-votes.

(2) Ratification of the selection of KPMG LLP as the Company s independent auditors.

For		Against		Abstained	
368,401,316	98.45%	2,622,092	0.70%	3,183,772	0.85%

There were no broker non-votes.

(3) Amendment to the Company s Second Restated 2002 Stock Incentive Plan to increase the number of shares available to be granted under the plan.

For		Against		Abstained	
300,289,052	92.58%	20,508,492	6.32%	3,560,472	1.10%

Item 5 Other Information

None.

Item 6 Exhibits

(a) The following exhibits are included herein or incorporated by reference.

3.1	Articles of Incorporation of the Registrant. Incorporated by reference to Form 8-K dated August 30, 1999
3.2	Bylaws of the Registrant. Incorporated by reference to Form 10-K dated November 17, 2000
4.1	Registrant will furnish upon request copies of instruments defining the rights of holders of its long-term debt instruments
10.1.11	Amendment to Second Restated 2002 Stock Incentive Plan (1)
31.1	Rule 13(a) 14(a) Certifications
32.1	Section 1350 Certifications

(1) Incorporated by reference to exhibit filed as part of the Current Report on Form 8-K of Costco Wholesale Corporation dated January 31, 2008.

SIGNATURES

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

COSTCO WHOLESALE CORPORATION

(Registrant)

Date: March 28, 2008

/s/ JAMES D. SINEGAL
James D. Sinegal

President,

Chief Executive Officer

Date: March 28, 2008

/s/ RICHARD A. GALANTI
Richard A. Galanti

Executive Vice President,

Chief Financial Officer

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Net loss

$(32,989

)

$(52,894

)

$(49,037

)

$(27,246

)

$(11,981

)

Net loss per common share—basic and diluted

$(0.57

)

$(0.92

)

$(1.60

)

$(0.99

)

$(0.45

)

Weighted average number of common shares outstanding— basic and diluted[2]

58,230,927 57,485,589 30,655,532 27,603,927 26,666,918

(1) Includes non-cash stock-based compensation as follows:

Operations and support

$64 $— $— $— $—

Selling

147 — — — —

Technology

17 762 786 496 —

General and administrative

3,836 2,181 3,056 6,203 76 $4,064 $2,943 $3,842 $6,699 $76

(2) The weighted average number of common shares for all periods prior to April 30, 2010 is based on member units assuming conversion to common stock at the applicable rates effective upon reorganization as a corporation on April 30, 2010.

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	Years Ended December 31,				
	2013	**2012**	**2011**	**2010**	**2009**
Other Data (unaudited):					
Total paid memberships (end of period)[1]	2,484,059	1,787,394	1,074,757	602,882	411,727
Gross paid memberships added (in period)[2]	1,218,258	1,092,935	716,350	355,580	219,140
Marketing cost per paid membership acquisition (in period)[3]	$72	$73	$78	$85	$74
First-year membership renewal rate (in period)[4]	74 %	75 %	75 %	70 %	67 %
Average membership renewal rate (in period)[4]	78 %	78 %	78 %	75 %	73 %
Participating service providers (end of period)[5]	46,329	35,952	24,095	15,060	10,415
Total service provider contract value (end of period, in thousands)[6]	$194,137	$132,646	$73,609	$43,050	$30,849

(1) Reflects the number of paid memberships at the end of each period presented. Total paid memberships also includes a de minimis number of complimentary memberships in our paid markets for all periods presented. The number of memberships lost during the periods presented were 521,593, 380,298, 244,475, 164,425, and 140,902 for 2013, 2012, 2011, 2010, and 2009, respectively.
(2) Reflects the total number of new paid memberships added in a reporting period.
(3) Reflects marketing expense divided by gross paid memberships added in a reporting period.
(4) First-year membership renewal rate reflects the percentage of paid memberships expiring in the reporting period after the first year of membership that are renewed, and average membership renewal rate reflects the percentage of all paid memberships expiring in the reporting period that are renewed. Renewal rates exclude monthly memberships.
(5) Reflects the total number of service providers under contract for advertising at the end of the period.
(6) Reflects the total contract value of active service provider contracts at the end of the period. Contract value is the total payment obligation, including amounts already recognized in revenue, of a service provider to us over the stated term of the contract.

	As of December 31,				
	2013	**2012**	**2011**	**2010**	**2009**
Balance Sheet Data:					
Cash and cash equivalents	$34,803	$42,638	$88,607	$9,209	$2,016
Short-term investments	21,055	10,460	—	—	—
Working capital	(21,672)	9,411	58,085	(18,378)	(15,331)
Total assets	105,643	96,229	111,398	22,601	12,299
Total deferred revenue	80,438	55,331	34,786	23,261	18,024
Long-term debt, including accrued interest	14,918	14,869	14,820	16,463	22,503
Common stock and additional paid-in capital	257,572	248,392	236,015	85,486	—
Stockholders' equity (deficit)	(18,490)	5,319	45,836	(33,757)	(36,268)

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and the notes thereto included elsewhere in this report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this report, particularly in the "Risk Factors" section.

Overview

We operate a consumer-driven service for our members to research, hire, rate, review, and purchase local services for critical needs, such as home, health care and automotive services. Our ratings and reviews, which are available only to our members, help our members find the best provider for their local service needs. We had approximately 2.5 million paid memberships as of December 31, 2013. We allow local service providers who are highly rated by our members to advertise discounts and other promotions to our members.

We generate revenue from both our members and our service providers. We derive membership revenue from subscription fees and, in certain cases, non-refundable initiation fees for monthly, annual and multi-year memberships. These fees typically are charged in advance. Subscription fees are recognized ratably over the subscription period, and initiation fees are recognized ratably over the expected life of the membership. As of December 31, 2013, approximately 94% of our total membership base had purchased annual or multi-year memberships. These subscription fees represent a significant source of working capital and provide a relatively predictable revenue stream.

We derive service provider revenue principally from term-based sales of advertising to local service providers. Our members grade local service providers on an "A" to "F" scale, and we invite local service providers with an average grade of "B" or better and at least two reviews submitted in the last three years to advertise to our members through any or all of our website, email promotions, monthly magazine and call center. As of December 31, 2013, approximately 452,000 local service providers rated by our members were eligible to offer discounts and other promotions to our members based on these criteria. Service provider contracts can be prepaid or invoiced monthly at the option of the service provider and carry an early termination penalty. We recognize service provider revenue ratably over the period in which an advertising campaign is run. We are expanding our service provider sales personnel to drive increased service provider revenue. Our high service provider renewal rates, both in number of service providers renewing and as a percentage of initial contract value renewed, have provided us with a relatively predictable revenue stream.

In addition to traditional advertising on our website and publications, our e-commerce solutions offer our members the opportunity to purchase services through us from service providers rated highly on our website. These offerings are available through both email promotions and through postings on our website. When the member purchases the service, the transaction is processed through Angie's List. The member then can work directly with the service provider to schedule the service. These e-commerce offerings provide our members a discount and an easier way to fulfill their service needs.

To establish a new market, we begin by offering free memberships and actively soliciting members' reviews of local service providers. As the number of members and the number of reviews of service providers grow, we begin charging membership fees and offering advertising opportunities to eligible local service providers. Historically, we have begun to convert most markets to paid membership status within 24 months after launch.

Increasing new paid memberships is a key growth strategy. Increased penetration in a market results in more member reviews of local service providers, which increases the value of our service to consumers and drives further membership growth in that market. Increased penetration in a market also drives increased advertising sales to service providers and supports higher advertising rates as the pool of members actively seeking to hire service providers grows. However, our ability to increase advertising rates tends to lag increased penetration of our markets due to our inability to increase rates under existing service provider contracts prior to renewal. Our primary strategy for new member acquisition is national offline and online advertising.

As described further in the "Market Cohort Analysis" below, we believe that our estimated penetration rate and average revenue per market will increase as markets mature, and over the long term, we believe that these increased revenues will more than offset our operating expenses. In addition, our advertising spending is focused on the acquisition of new members, rather than the maintenance of existing members. Given that our advertising contracts are typically short-term, we can rapidly adjust marketing expense and thus decrease total operating expenses to reduce cash used in operations or generate cash and profits from operations should we begin to experience adverse trends in marketing cost per paid membership acquisition or wish to optimize for profitability at the expense of rapid growth. We believe that our high membership renewal rates and "word of mouth" referrals from existing members, combined with effective purchasing of lower volumes of advertising and increasing utilization of search engine optimization, or SEO, would enable us to maintain and potentially grow the size of our paid membership base at a lower level of overall advertising spending.

Recent Developments

On August 2, 2013, we acquired substantially all of the assets of SmartHabitat, Inc. ("BrightNest") for a purchase price of $2.7 million. The purchase price consists of $2.2 million in cash paid at closing and an additional $0.5 million that is payable on the one-year anniversary of the closing, subject to certain performance criteria of BrightNest employees hired by us on the acquisition date. The acquisition of the BrightNest assets adds a user-friendly front end and personalized member experience with expanded content offerings and enhanced technologies. Revenues and expenses related to BrightNest, which were not material for the period ended December 31, 2013, are included in the consolidated results of operations from the date of acquisition.

Market Cohort Analysis

To analyze our progress in executing our expansion plan, we compile certain financial and operating data regarding markets we have entered, grouped by the years in which the markets transitioned to paid membership status. The table below summarizes this data for 2013 by the following cohorts. The pre-2003 cohort includes our ten most established markets, where we initially built out our business model. The markets in this cohort include several mid-sized urban markets in the midwest as well as Chicago and Boston. The 2003 through 2007 cohort includes the first major subset of markets, including many of our largest potential markets, that we targeted in our national expansion strategy. The markets in these older cohorts generally have achieved penetration rates that allow us to transition beyond introductory membership and advertising rates. The 2008-2010 and post-2010 cohorts include markets that have most recently converted to paid status and that still have predominantly introductory membership and advertising rates. The markets in these cohorts generally are smaller markets that we entered to fill out our national presence.

Cohort	# of Markets	Avg. Revenue/	Membership Revenue/Paid	Service Provider	Avg. Marketing	Total Paid Memberships[5]	Estimated Penetration	Annual Membership

		Market[1]	Membership[2]	Revenue/Paid Membership[3]	Expense/ Market[4]		Rate[6]	Growth Rate[7]
Pre-2003	10	$6,329,201	$ 39.16	$ 113.65	$1,317,075	470,206	11.5 %	31 %
2003-2007	35	4,385,040	34.39	97.74	1,384,373	1,350,130	9.0 %	39 %
2008-2010	103	253,976	16.84	36.08	193,802	574,024	9.3 %	38 %
Post 2010	105	24,119	12.46	26.17	56,170	89,699	4.9 %	n/a
Total	253					2,484,059		

(1) Average revenue per market is calculated by dividing the revenue recognized for the markets in a given cohort by the number of markets in the cohort at year end.

(2) Membership revenue per paid membership is calculated as our membership revenue in the cohort divided by the average number of paid memberships in the cohort. We calculate this average per market to facilitate comparisons among cohorts, but it is not intended to represent typical characteristics of actual markets within the cohort.

(3) Service provider revenue per paid membership is calculated as service provider revenue in the cohort divided by the average number of paid memberships in the cohort. We calculate this average per market to facilitate comparisons among cohorts, but it is not intended to represent typical characteristics of actual markets within the cohort.

(4) Average marketing expense per market is calculated first by allocating marketing expense to each cohort based on the percentage of our total target demographic for all markets in such cohort, as determined by third-party data, and then dividing the allocated cohort marketing expense by the number of markets in the cohort at year end. We calculate this average per market to facilitate comparisons among cohorts, but it is not intended to represent typical characteristics of actual markets within the cohort. According to a January 2014 demographic study by Merkle Inc. that we commissioned, there were approximately 30 million households in the United States in our target demographic, which consists of homeowners aged 35 to 64 with an annual household income of at least $75,000. Approximately 27 million of these households were in our markets. The average number of households per market in our demographic target were 410,000, 430,000, 60,000 and 20,000 for the pre-2003, 2003-2007, 2008-2010 and post-2010 cohorts, respectively.

(5) Includes total paid memberships as of December 31, 2013. Total paid memberships in each cohort includes a de minimis number of complimentary memberships in our paid markets for the period presented.

(6) Estimated penetration rate is calculated by dividing the number of paid memberships in a given cohort as of December 31, 2013 by the number of households meeting our target demographic criteria in such cohort.

(7) Annual membership growth rate is the rate of increase in the total number of paid memberships in the cohort between December 31, 2013 and 2012.

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Our average revenue per market and total revenue per paid membership have generally increased with the maturity and corresponding increased penetration of our markets in prior periods. In the future, we expect total revenue per paid membership to fluctuate from period to period, reflecting the timing of our ability to adjust advertising rates given our advertising contract terms and membership pricing innovations designed to drive increased penetration. For example:

Our average advertising contract term is typically more than one year, and we are only able to increase rates for a given participating service provider upon contract renewal. As such, there is a lag in our ability to leverage increased penetration in a market into increased advertising rates;

In 80 of our markets, we offer members the opportunity to purchase only those segments of Angie’s List that are most relevant to them, which includes the original Angie’s List (covering 396 categories, including home, lawn, car and pets), Angie’s List Health & Wellness or Angie’s List Classic Cars. These segments continue to be offered in all other markets as a single bundle. We anticipate unbundling our offerings in more of our markets as market penetration increases and the number and categories of local service providers reviewed by members in such markets grow. We believe this pricing model enables us to offer a better value proposition to our members and preserve cross-selling opportunities as members’ needs evolve, although we also expect that this strategy may result in lower average membership fees per paid membership overall;

Increasingly we are seeing members opt for annual memberships, and as such, the percentage of our membership base on monthly memberships has declined. While we believe annual memberships are more beneficial to members and promote high renewal rates, these memberships generate lower proceeds than monthly memberships taken on an annualized basis; and

In certain markets we have elected to retain lower membership pricing than we have historically used to drive deeper penetration.

Our most important growth strategy remains driving increased membership growth, which creates the network effects of a more valuable service for consumers and a more attractive commercial platform for service providers. We intend to continue to evaluate and adopt innovative pricing and packaging strategies, such as deeply reduced membership pricing, to deliver compelling value to our members and thereby support membership growth and retention. Although these overall dynamics have caused and may continue to cause membership revenue per paid membership to decline sequentially in some of our cohorts, we believe that the increase in our membership base is critical for continuing to produce the overall growth in average revenue per market, service provider revenue per paid membership and total revenue per paid membership across all cohorts that we have experienced.

As a market matures, our penetration rate typically increases. Historically, while the absolute number of paid members may grow faster in large markets, our small and medium markets have often achieved greater penetration over a shorter time period than our larger markets. We believe that a principal reason for our lower penetration rates in large markets is the manner in which we market Angie's List to our target demographic in such markets. We have chosen to spend the majority of our marketing dollars on national advertising. We believe that this advertising strategy provides us the most cost effective and efficient manner of acquiring new paid memberships. However, advertising nationally means we deliver the same volume of advertising regardless of the size of the market. Since each market differs in terms of the number of advertising outlets available, the impact of our spending on national advertising varies across markets. In our experience, smaller markets typically have fewer advertising outlets than larger markets. We believe the same volume of advertising in a smaller market is more effective in building brand awareness and generating new memberships than in larger markets. We expect to continue to see lower relative penetration rates in our larger markets for these reasons. As several of these larger markets are in the 2003-2007 cohort, over time our penetration rate in this cohort may lag other cohorts.

Key Operating Metrics

In addition to the line items in our financial statements, we regularly review a number of other operating metrics related to our membership and service provider bases to evaluate our business, determine the allocation of resources and make decisions regarding business strategies. We believe information on these metrics is useful for investors and analysts to understand the underlying trends in our business. The following table summarizes our key operating metrics, which are unaudited, for the years ended December 31, 2013, 2012 and 2011:

	Years Ended December 31,		
	2013	**2012**	**2011**
Total paid memberships (end of period)	2,484,059	1,787,394	1,074,757
Gross paid memberships added (in period)	1,218,258	1,092,935	716,350
Marketing cost per paid membership acquisition (in period)	$72	$73	$78
First-year membership renewal rate (in period)	74 %	75 %	75 %
Average membership renewal rate (in period)	78 %	78 %	78 %
Participating service providers (end of period)	46,329	35,952	24,095
Total service provider contract value (end of period, in thousands)	$194,137	$132,646	$73,609

Total paid memberships. Total paid memberships reflects the number of paid memberships at the end of each period presented. Total paid memberships also includes a de minimis number of complimentary memberships in our paid markets for all periods presented. We generally expect that there will be one membership per household and, as such, each membership may actually represent multiple individual consumers.

Gross paid memberships added. Gross paid memberships added reflects the total number of new paid memberships added in a reporting period. Gross paid memberships added increased substantially in each period presented, which we believe has been driven by our increasing investment in national advertising and, to a lesser extent, by “word of mouth” referrals from our existing members.

Marketing cost per paid membership acquisition. We calculate marketing cost per paid membership acquisition in a reporting period as marketing expense divided by gross paid memberships added in that period. As we advertise in national media, some of our marketing expense also increases the number of unpaid memberships. On a comparative basis, marketing cost per paid membership acquisition can reflect our success in generating new paid memberships through our SEO efforts and “word of mouth” referrals and experimentation and adjustments to our marketing expense to focus on more effective advertising outlets for membership acquisition. We typically have higher marketing expense in the second and third quarters of the year in order to attract consumers during the periods when we have found they are most actively seeking Angie’s List services. Our marketing expense is normally reduced in the fourth quarter, reflecting reduced consumer activity in the service sector and higher advertising rates generally due to holiday promotional activity.

Membership renewal rates. First-year membership renewal rate reflects the percentage of paid memberships expiring in the reporting period after the first year of membership that are renewed. Average membership renewal rate reflects the percentage of all paid memberships expiring in the reporting period that are renewed. Renewal rates do not include monthly memberships, which comprised approximately 6% of our total membership base as of December 31, 2013. Given the correlation between increased penetration and higher total revenue per paid membership, we view first-year membership renewal rate and average membership renewal rate as key indicators of expected operating results in future periods.

Participating service providers. We include in participating service providers the total number of service providers under contract for advertising at the end of the period.

Total service provider contract value. We calculate service provider contract value as the total contract value of active service provider contracts at the end of the period. Contract value is the total payment obligation of a service provider to us, including amounts already recognized in revenue, over the stated term of the contract.

In addition, we also track contract value backlog as a key metric. Contract value backlog consists of the portion of service provider contract value at the stated date which has not yet been recognized as revenue. At December 31, 2013 and 2012, our contract value backlog was $121.4 million and $82.1 million, respectively.

Basis of Presentation and Recent Trends

Revenue

Membership revenue. Our members sign up for monthly, annual or multi-year subscriptions to our service. Membership revenue includes subscription fees and, in certain cases, non-refundable initiation fees charged to new members. We charge the full price of membership at the commencement of the subscription period and at each renewal date (whether monthly, annual or multi-year), unless the member chooses not to renew the membership before the renewal date. Our members prepay their membership fees at the commencement of the subscription period. We record prepaid membership fees as deferred revenue and recognize the fees as revenue over the subscription period. We charge a non-refundable initiation fee in connection with monthly memberships and the lowest cost annual memberships in less penetrated markets. For the year ended December 31, 2013, we recognized revenue from non-refundable initiation fees over the expected life of the membership, which we estimated to be 15 months for monthly memberships and 76 months for annual and multi-year memberships, based on our historical experience.

Service provider revenue. Local service providers generally pay for advertisements in advance on a monthly or annual basis. Our average advertising contract term in effect as of December 31, 2013 was more than twelve months. The vast majority of our service provider contracts cover a period of twelve months. This term allows us to have a predictable revenue stream while providing us an opportunity to adjust advertising rates at the renewal period as our membership penetration of a given market increases.

We recognize revenue from the sale of website and call center advertising ratably over the time period in which the advertisements run. We recognize revenue from the sale of advertising placement in the *Angie's List Magazine* in the month the advertisement is published and distributed. As our penetration of a given market increases, we are typically able to charge higher rates for advertising because service providers are able to reach a larger base of potential customers. However, as we only increase advertising rates at the time of contract renewal, increases in service provider revenue in a given market may trail increases in market penetration.

Our e-commerce offerings primarily consist of Big Deal and Storefront, which allow our members to purchase services or products from our service providers through us. We receive a portion of the offer price at the time of the purchase, recognizing the revenue net of the total transaction. Revenue is recognized in the period the offer is sold to members and is included in service provider revenue. While we are not the merchant of record with respect to our members for these transactions, we do offer members refunds in certain circumstances. Revenue from e-commerce transactions is recorded net of a reserve for estimated refunds.

Operating expenses

Operations and support. Operations and support expense consists primarily of costs associated with publishing the *Angie's List Magazine*, operating our call center and providing support to our members and service providers, including wages and other employee benefits, credit card processing fees for member enrollment and other service provider transactions on our website, report transcription and data entry and amortization of the cost of acquired data. Operations and support expense does not include the cost of maintaining our website, which is included in technology expense. With the growth of our membership base, we expanded our call center staff to maintain high levels of customer service and encourage high renewal rates. We also use third-party marketing research firms to enable our members to submit reviews by telephone to enrich the content available to our members and expand the number of service providers eligible to advertise with us. We expect our operations and support expense to increase in absolute dollars in the future as we continue to grow our membership and scale our operations.

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Selling. Selling expense consists primarily of commissions, wages and other employee benefits for personnel focused on selling and renewing advertising to eligible service providers and e-commerce deals. We pay substantially higher commissions to our service provider sales personnel for contracts with first-time participating service providers than we pay for renewals. Our e-commerce sales personnel earn commissions based on the net revenue received from the sale of Big Deal and Storefront offerings. Selling expense also includes the cost of service provider marketing efforts, facilities related to sales personnel, supplies and sales personnel training, as well as personnel-related costs for account management. Because selling expense primarily consists of commissions, we generally expect it to fluctuate with service provider revenue.

Marketing. Marketing expense consists of national television, radio and print, as well as online advertising for the purpose of acquiring new paid memberships. As the vast majority of our advertising spending is related to our growth strategy, and our advertising contracts are typically short-term, we can rapidly adjust marketing expense. We intend to continue to invest substantial amounts in acquiring new paid memberships.

Technology. Technology expense consists primarily of personnel-related costs, including wages, employee benefits, including stock-based compensation, and expenditures for professional services and facilities, all of which are related to maintenance of our website and product development. Our technology expense has increased during the periods presented primarily as a result of the addition of technology personnel and enhancement of our technology platform. We expect technology expense to continue to increase in absolute dollars in future periods to support the growth in our members, service providers and personnel.

General and administrative. General and administrative expense consists primarily of personnel-related costs, including wages, benefits, including stock-based compensation, and expenditures for executive, legal, finance, human resources, marketing and corporate communications personnel, product management, as well as professional fees, facilities expense, insurance premiums, acquisition costs, amortization of certain intangibles, depreciation of building and improvements and other corporate expenses. We expect general and administrative expenses to continue to increase in absolute dollars in future periods as we support our growing organization.

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Results of Operations

The following tables set forth our results of operations for the periods presented in absolute dollars and as a percentage of our revenue for those periods. The period-to-period comparison of financial results is not necessarily indicative of future results.

	Years Ended December 31,		
	2013	**2012**	**2011**
Revenue			
Membership	$65,307	$47,717	$33,815
Service provider	180,335	108,082	56,228
Total revenue	245,642	155,799	90,043
Operating expenses			
Operations and support[(1)]	40,072	27,081	16,417
Selling[(1)]	90,143	58,596	33,815
Marketing	87,483	80,230	56,122
Technology[(1)]	26,197	16,870	9,109
General and administrative[(1)]	32,828	24,055	18,740
Operating loss	(31,081)	(51,033)	(44,160)
Interest expense	1,868	1,856	3,004
Loss on debt extinguishment	—	—	1,830
Loss before income taxes	$(32,949)	$(52,889)	$(48,994)
Income tax expense	40	5	43
Net loss	$(32,989)	$(52,894)	$(49,037)

(1) Includes non-cash stock-based compensation as follows:

Operations and support	$64	$—	$—
Selling	147	—	—
Technology	17	762	786
General and administrative	3,836	2,181	3,056
	$4,064	$2,943	$3,842

The following table sets forth operating data of the Company as a percentage of total revenue for the years indicated below.

Years Ended December 31,

	2013	2012	2011
Revenue			
Membership	27 %	31 %	38 %
Service provider	73	69	62
Total revenue	100 %	100 %	100 %
Operating expenses			
Operations and support	16	17	18
Selling	37	38	38
Marketing	36	52	62
Technology	11	11	10
General and administrative	13	15	21
Operating loss	(13)	(33)	(49)
Interest expense	1	1	3
Loss on debt extinguishment	—	—	2
Loss before income taxes	(14)	(34)	(54)
Income tax expense	—	—	—
Net loss	(14%)	(34%)	(54%)

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Comparison of the years ended December 31, 2013, 2012 and 2011

Revenue

	Years Ended December 31,				
	2013	**2012**	**2011**	**2013 over 2012**	**2012 over 2011**
	(dollars in thousands)				
Revenue					
Membership	$65,307	$47,717	$33,815	37 %	41 %
Service provider	180,335	108,082	56,228	67 %	92 %
Total revenue	$245,642	$155,799	$90,043	58 %	73 %
Percentage of revenue by type					
Membership	27 %	31 %	38 %		
Service provider	73 %	69 %	62 %		
Total revenue	100 %	100 %	100 %		
Total paid memberships (end of period)	2,484,059	1,787,394	1,074,757	39 %	66 %
Gross paid memberships added (in period)	1,218,258	1,092,935	716,350	11 %	53 %
Participating service providers (end of period)	46,329	35,952	24,095	29 %	49 %

2013 compared to 2012. Total revenue increased $89.8 million for 2013 as compared to 2012.

Membership revenue increased $17.6 million, primarily due to a 39% increase in the total number of paid memberships, partially offset by an 8% decrease in average membership revenue per paid membership in 2013. The decrease in average membership revenue per paid membership primarily resulted from growth in paid memberships in less penetrated markets where average membership fees per paid membership are lower. This decline also reflected the effect of allowing members in our more penetrated markets to purchase only those segments of Angie’s List that are most relevant to them at a lower membership rate than applicable for the full service. As of December 31, 2013, there were 80 markets in which we offered members the opportunity to purchase individual segments. We offer only bundled memberships to members in less penetrated markets. In addition, in 2013 we reduced prices in certain markets which also yielded a decline in revenue per average paid membership. The decrease in membership revenue per paid membership also resulted from an increase from 91% to 94% in total paid memberships constituting annual and multi-year memberships. Consumers pay more per month for a monthly membership than for an annual membership. Therefore, in periods in which our percentage of memberships shifts to more annual and multi-year memberships, our membership revenue per paid membership decreases.

Service provider revenue increased $72.3 million to 73% of total revenue, primarily as a result of a 29% increase in the number of local service providers participating in our advertising programs and a 22% increase in revenue per average participating service provider. Service provider revenue primarily consists of revenue from advertising contracts with service providers. As our penetration of a given market increases, we are typically able to charge higher rates for advertising because service providers are able to reach a larger base of potential customers. However, as we only increase advertising rates at the time of contract renewal, increases in service provider revenue in a given market may trail increases in market penetration. We also include our e-commerce revenue of $22.1 million and $14.5 million in 2013 and 2012, respectively, in service provider revenue. Our e-commerce revenue is generated by our Angie's List Big Deal and Storefront offerings. We expect the revenue contribution from these offerings to fluctuate from period to period as the offerings evolve and due to seasonality.

2012 compared to 2011. Total revenue increased $65.8 million for 2012 as compared to 2011.

Membership revenue increased $13.9 million primarily due to a 66% increase in the total number of paid memberships, partially offset by a 17% decrease in membership revenue per average paid membership in 2012. The decrease in membership revenue per average paid membership resulted primarily from growth in paid memberships in less penetrated markets where average membership fees per paid membership are lower. This decline also reflected the effect of allowing members in our more penetrated markets to purchase only those segments of Angie's List that are most relevant to them at a lower membership rate than applicable for the full service. We offer only bundled memberships to members in less penetrated markets. The decrease in membership revenue per average paid membership in 2012 is also the result of a shift to more annual and multi-year memberships as a percentage of total paid memberships.

Service provider revenue increased $51.9 million to 69% of total revenue primarily as a result of a 49% increase in the number of local service providers participating in our advertising programs and an increase in revenue per average participating service provider. Service provider revenue primarily consists of revenue from advertising contracts with service providers. As our penetration of a given market increases, we are typically able to charge higher rates for advertising because service providers are able to reach a larger base of potential customers. However, because we only increase advertising rates at the time of contract renewal, increases in service provider revenue in a given market may trail increases in market penetration. We also included our e-commerce revenue of $14.5 million and $6.7 million in service provider in 2012 and 2011, respectively. Our e-commerce revenue is generated by our Angie's List Big Deal and Storefront offerings.

Operations and support

	Years Ended December 31,				
	2013	**2012**	**2011**	**2013 over 2012**	**2012 over 2011**
	(dollars in thousands)				
Operations and support	$40,072	$27,081	$16,417	48 %	65 %
Percentage of revenue	16 %	17 %	18 %		

2013 compared to 2012. Operations and support expense increased $13.0 million for 2013 compared to 2012. This increase was due in part to a $5.3 million increase in operations and support personnel-related costs as we increased our headcount to service our growing member and service provider base. Additionally, there was a $2.0 million increase in credit card processing fees year over year due to the increased volume of membership enrollment and service provider transactions. We also incurred a $3.7 million increase in publication-related costs associated with the increased circulation of our monthly *Angie's List Magazine* due to the continued expansion of our membership base.

We expect operations and support expense to continue to increase in absolute dollars as we grow our membership and service provider base. Operations and support expense as a percentage of revenue decreased to 16% from 17% as a result of the increase in revenue and our realization of economies of scale as we service our members and service providers.

2012 compared to 2011. Operations and support expense increased $10.7 million for 2012 compared to 2011. This increase was due in part to a $4.4 million increase in call center costs as compared to the prior year period as we increased our headcount to service our growing member and service provider base. There was a $2.2 million increase in credit card processing fees due to the increased volume of membership enrollment and service provider transactions. We also incurred a $2.1 million increase in costs associated with the collection of member reviews of service providers as we continued to increase the content on our website. Publication-related costs increased by $1.3 million due to a 68% increase in circulation of our monthly *Angie's List Magazine* which is consistent with the growth of our membership base. Operations and support expense as a percentage of revenue decreased to 17% from 18% as a result of the increase in revenue and our realization of economies of scale as we service our members and service providers.

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Selling

	Years Ended December 31,				
	2013	**2012**	**2011**	**2013 over 2012**	**2012 over 2011**
	(dollars in thousands)				
Selling	$90,143	$58,596	$33,815	54 %	73 %
Percentage of revenue	37 %	38 %	38 %		

2013 compared to 2012. Selling expense increased $31.5 million for 2013 compared to 2012. This increase is largely due to an increase in service provider revenue, which increased 67% over the prior year. Additionally, we increased the number of sales personnel and management responsible for originating new advertising contracts and e-commerce transactions by 39% to 773. We also increased the number of sales personnel and management responsible for contract renewals by 38% to 192 from December 31, 2012.

Selling expense as a percentage of revenue decreased to 37% in 2013 from 38% in 2012, primarily as a result of our transition to a new compensation structure for our sales personnel. Additionally, as selling expense primarily consists of commissions, we expect it to fluctuate with service provider revenue and the composition of that revenue over time.

2012 compared to 2011. Selling expense increased $24.8 million for 2012 compared to 2011. This increase is due to an increase in service provider revenue. Service provider revenue increased 92% over the prior year. We increased the number of our sales personnel and management responsible for originating new advertising contracts and e-commerce transactions by 60% to 558. Additionally, the number of our sales personnel and management responsible for contract renewals increased by 117% to 139 from December 31, 2011.

Selling expense as a percentage of revenue remained consistent for 2012 as compared to 2011.

Marketing

Years Ended December 31,		
2013	**2012**	**2011**

				2013 over 2012	2012 over 2011
	(dollars in thousands)				
Marketing	$87,483	$80,230	$56,122	9 %	43 %
Percentage of revenue	36 %	52 %	62 %		
Gross paid memberships added in the period	1,218,258	1,092,935	716,350		
Marketing cost per paid membership acquisition	$72	$73	$78		

2013 compared to 2012. Marketing expense increased $7.3 million for 2013 compared to 2012, primarily due to a planned increase in national advertising spending for 2013 to acquire new members.

Marketing expense as a percentage of revenue decreased from the prior year period due to total revenue increasing at a greater rate than marketing expense increased in absolute dollars. Even with the current year increase in marketing expense, our marketing cost per paid membership acquisition decreased from $73 to $72 as a result of improved brand awareness, successful SEO efforts, improved effectiveness in purchasing advertising and the "word of mouth" benefits of increased penetration. Consistent with the seasonality that characterizes our business, our marketing expense and marketing cost per paid membership acquisition typically peak in the second and third quarters of the year. We expect marketing expense to decrease as a percentage of revenue in 2014.

2012 compared to 2011. Marketing expense increased $24.1 million for 2012 compared to 2011, primarily due to a planned increase in national advertising spending for 2012 to acquire new members.

Marketing expense as a percentage of revenue decreased from the prior year period due to total revenue increasing at a greater rate than marketing expense increased in absolute dollars. Even with the current year increase in marketing expense, our marketing cost per paid membership acquisition decreased from $78 to $73 as a result of improved brand awareness, successful web search efforts, improved effectiveness in purchasing advertising and the "word of mouth" benefits of increased penetration. Consistent with the seasonality that characterizes our business, our marketing expense and marketing cost per paid membership acquisition typically peak in the second and third quarters of the year.

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Technology

	Years Ended December 31,				
	2013	2012	2011	2013 over 2012	2012 over 2011
	(dollars in thousands)				
Technology	$26,197	$16,870	$9,109	55 %	85 %
Percentage of revenue	11 %	11 %	10 %		
Non-cash stock-based compensation	$17	$762	$786		

2013 compared to 2012. Technology expense increased $9.3 million for 2013 compared to 2012. The increase in technology expense was primarily attributable to a $5.1 million increase in personnel-related costs and a $2.9 million increase in technology-related outside consulting and professional fees as well as costs incurred to continue to develop our technology platform and service our growing base of members and service providers. This was offset by a decrease in non-cash stock based compensation related to forfeitures occurring in the current year.

Technology expense as a percentage of revenue remained consistent compared with the prior year. We expect technology expense to increase in absolute dollars and as a percentage of revenue as we continue to develop our technology and product offerings.

2012 compared to 2011. Technology expense increased $7.8 million for 2012 compared to 2011. The increase in technology expense was primarily attributable to a $3.9 million increase in personnel-related costs as we continued to develop our technology platform, including expanding our mobile offerings and establishing a technology presence in Palo Alto, California. We also incurred additional technology costs related to servicing our growing base of members and service providers.

For these reasons technology expense increased as a percentage of revenue compared with the prior year.

General and administrative

Years Ended December 31,

	2013	2012	2011	2013 over 2012	2012 over 2011
	(dollars in thousands)				
General and administrative	$ 32,828	$ 24,055	$ 18,740	36 %	28 %
Percentage of revenue	13 %	15 %	21 %		
Non-cash stock-based compensation	$ 3,836	$ 2,181	$ 3,056		

2013 compared to 2012. General and administrative expense increased $8.8 million for 2013 compared to 2012. The increase is partially explained by a $4.0 million charge recorded during the fourth quarter of 2013 reflecting the expected settlement of pending litigation for which we have entered into a settlement agreement that is subject to court approval. Additionally, there was an approximately $1.8 million year over year increase in bad debt expense related to uncollectible receivables as well as a $1.7 million increase in non-cash stock-based compensation due to additional grants during 2013. The remaining portion of the fluctuation in general and administrative expense is attributable to increases in headquarters staff and outside consulting and professional fees and other public company costs. These increases were partially offset by non-recurring costs incurred of $0.7 million for fees related to the follow-on sale of common stock in May 2012 that were not present in the current year. General and administrative expense as a percentage of revenue decreased primarily due to the increase in revenue and our realization of economies of scale.

2012 compared to 2011. General and administrative expense increased $5.3 million for 2012 compared to 2011. Personnel-related costs increased $2.1 million primarily as a result of an increase in our headquarters staff, and we incurred an additional $1.2 million in outside consulting and professional services fees to support our growing public company. We also incurred $0.7 million for non-recurring fees related to the follow-on sale of common stock in May 2012. Non-cash stock-based compensation expense decreased by $0.9 million primarily due to restricted grants that immediately vested as a result of our initial public offering in 2011.

Interest expense

2013 compared to 2012. Interest expense was approximately $1.9 million for both 2013 and 2012 as debt balances remained constant.

2012 compared to 2011. Interest expense decreased $1.1 million for 2012 compared to 2011, as the result of a decrease in average debt outstanding in 2012 as well as lower interest rates associated with the refinancing of our primary debt obligations during 2011.

Loss on debt extinguishment

Loss on debt extinguishment in 2011 was due to the refinancing of our primary debt obligations, which resulted in pre-payment penalties and write-offs of debt discounts and unamortized loan fees. We did not incur any loss on debt extinguishment in 2013 or 2012.

Liquidity and Capital Resources

General

At December 31, 2013, we had $34.8 million in cash and cash equivalents and $21.1 million in short-term investments. Cash and cash equivalents consists of bank deposit accounts and money market funds with contractual maturities of three months or less, which, at times, may exceed federally insured limits. Short-term investments consist of certificates of deposit and corporate bonds with maturities greater than 90 days but less than one year. To date, the carrying value of these investments approximate their fair values, and we have incurred no loss in these accounts.

We have financed our operations primarily through private and public sales of equity and, to a lesser extent, from borrowings. Our principal sources of operating cash flows are receipts for membership fees and service provider transactions. We continue to invest aggressively to grow our business. Over the past three years, our largest uses of cash in operating activities have been for national advertising campaigns to expand our membership base and commissions paid to service provider sales personnel as our service provider revenue has increased.

Our cash flows from operating activities are influenced by certain timing differences. Membership fees from our members are generally collected at the beginning of the membership period and are a part of our working capital although the associated revenue is recognized over the term of the subscription period. Additionally, from time to time we amend our commission plans for sales personnel, and changes to these plans can have a positive or negative impact on prepaid commissions depending on the structure of the commission plan in place.

We believe that our existing cash and cash equivalents and short-term investments will be sufficient to fund our operations for at least the next 12 months. From time to time, we may explore additional financing sources to develop or enhance our services, to fund expansion, to respond to competitive pressures, to acquire or to invest in complementary products, businesses or technologies, or to lower our cost of capital, which could include equity, equity-linked and debt financing. We cannot assure you that any additional financing will be available to us on acceptable terms, if at all.

Summary cash flow information for the years ended December 31, 2013, 2012 and 2011 is set forth below.

	Years Ended December 31,		
	2013	**2012**	**2011**
Net cash provided by (used in) operating activities	$8,906	$(33,397)	$(33,135)
Net cash used in investing activities	(21,857)	(22,006)	(4,276)
Net cash provided by financing activities	5,116	9,434	116,809

Net Cash Provided By (Used in) Operating Activities

We have experienced negative operating cash flows in previous years principally due to our aggressive investment in sales personnel and national advertising campaigns for the purpose of acquiring new members. Our operating cash flows will continue to be affected principally by the extent to which we continue to pursue our growth strategy, including investing in national advertising, changes in price per average paid membership, the expansion of our sales personnel to originate service provider contracts, investing in technology personnel and equipment, and other increases in headcount to grow our business. Our largest source of operating cash flows is cash collections from our members and service providers.

Cash provided by operating activities for 2013 of $8.9 million was generated despite a net loss of $33.0 million. Our cash provided by operating activities was attributable to a deferred revenue increase of $25.1 million as a result of an increase in both the number of our paid memberships and in the number of service providers participating in our advertising programs, a $6.6 million net increase in accounts payable and accrued liabilities primarily related to increases in accrued compensation, the impact of a $4.0 million current period legal accrual and the expected timing of payment of these balances, and a decrease in prepaid expenses of $6.2 million primarily attributable to our change in compensation structure for our sales personnel responsible for new advertising originations. In addition, our net loss included approximately $11.4 million of non-cash expenses, which included $4.1 million of stock-based compensation expense, $4.1 million of depreciation and amortization, $2.7 million of bad debt expense and $0.5 million attributable to the amortization of debt discount and deferred financing fees. Uses of cash included a $7.3 million increase in accounts receivable attributable to an increase in service provider billings.

Our use of cash in operating activities for 2012 was primarily attributable to our net loss of $52.9 million, reflecting continued investments in our national advertising campaigns, an increase in our sales personnel, as well as other headcount increases and other expenses to grow our business. This net loss included $8.0 million of non-cash expenses, which included $2.9 million of stock-based compensation expense, $2.8 million of depreciation and amortization, $2.0 million of bad debt expense, and $0.3 million of amortization of debt discount and deferred financing fees. Additional uses of cash included an $8.0 million increase in prepaid expenses primarily as a result of the timing of payment of commissions to our sales personnel and a $5.8 million increase in accounts receivable associated with the growth in service provider revenue. These uses of cash in operating activities were offset in part by a $4.8 million increase in accounts payable and accrued liabilities, primarily attributable to increases in accrued marketing expenses and accrued but unpaid commissions, and increases in deferred revenue of $20.5 million, as a result of an increase both in the number of our paid memberships and in the number of service providers participating in our advertising programs.

Our use of cash in operating activities for 2011 was primarily attributable to our net loss of $49.0 million, reflecting continued investments in our national advertising campaigns, an increase in our sales personnel, as well as other headcount increases and other expenses to grow our business. This net loss included $8.6 million of non-cash expenses, which included $3.8 million of stock-based compensation expense, $1.7 million of depreciation and amortization, $0.6 million of accrued interest on debt maturity, $0.8 million of bad debt expense and $0.6 million attributable to the amortization of debt discount and deferred financing fees. Non-cash expenses also included a $1.1 million write-off attributable to our debt refinancing during 2011. Additional uses of cash included a $6.1 million increase in prepaid expenses primarily as a result of the timing of payment of commissions to our sales personnel and the cash payment of accrued interest of $2.7 million. These uses of cash in operating activities were offset in part by a $6.6 million increase in accounts payable and accrued liabilities primarily attributable to increases in accrued marketing expenses and accrued but unpaid commissions, and increases in deferred revenue of $11.5 million as a result of an increase both in the number of our paid memberships and in the number of service providers participating in our advertising programs.

Net Cash Used in Investing Activities

Our use of cash in investing activities in 2013 was attributable to the purchase, net of sales, of $10.8 million in investments in corporate bonds, commercial paper and certificates of deposit with maturities between ninety days and one year, $8.1 million for facilities and information technology hardware and software, $2.2 million for the purchase of BrightNest assets in August 2013 and $0.8 million for data acquisition to acquire consumer reports on service providers.

Our use of cash in investing activities in 2012 was attributable to the purchase of $10.5 million in investments in corporate bonds and certificates of deposits with maturities between ninety days and one year, the purchase of our headquarters facility including land and buildings for $6.8 million, including the costs and fees to acquire the properties, $2.9 million in office improvements and information technology investments, and $2.0 million for data acquisition.

Our use of cash in investing activities in 2011 was attributable to $2.9 million in information technology investments to further improve our hardware and software for members, service providers and our growing employee base, $1.2 million for data acquisition and $0.2 million in other expenditures on property and equipment.

Net Cash Provided by Financing Activities

Net cash provided by financing activities for 2013 consisted solely of proceeds from the exercise of employee stock options.

Net cash provided by financing activities for 2012 included proceeds of $8.6 million from our follow-on offering of common stock, net of underwriting discounts and expenses and additional offering-related expenses. Additionally, we obtained proceeds of $0.8 million as a result of the exercise of stock options.

Net cash provided by financing activities for 2011 included proceeds of $88.6 million from our initial public offering of common stock and simultaneous sale of stock to one of our directors, net of underwriting discounts and expenses and additional offering-related expenses the sale of preferred stock of $57.9 million, and the issuance of $15.0 million of new long-term debt. These proceeds were offset in part by stock repurchases of $21.9 million, and both scheduled and early debt extinguishment payments aggregating $21.8 million. We also incurred $0.9 million of financing costs related to the issuance of new debt obligations during the current period.

Debt Obligations

On August 31, 2011, we entered into a loan and security agreement that provides for a $15.0 million term loan and a $15.0 million revolving credit facility. A portion of the revolving credit facility is available for letters of credit and corporate credit cards. The term loan bears interest at a per annum rate equal to the greater of (i) the current cash interest rate of LIBOR plus 10% or (ii) 10.5%, and requires monthly interest-only payments until maturity in August 2015. The revolving credit facility requires monthly interest-only payments on advances, which bear interest at a per annum rate equal to LIBOR plus 5%. In addition, when less than 50% of the revolving credit facility is drawn, we are required to pay a non-usage charge of 0.50% per annum of the average unused portion of the revolving credit facility. The term loan provides for penalties for early prepayment. The term loan and revolving credit facility provide for additional interest upon an event of default and are secured by substantially all of our assets. In connection with entering into the loan and security agreement, we issued a warrant to purchase 88,240 shares of common stock to one of the lenders. The fair value of this warrant was recorded as a discount to the term loan, with the amount of the discount being amortized as interest expense through the loan’s maturity. As of December 31, 2013, we had $14.9 million in outstanding borrowings under the term loan and available credit of $15.0 million under the revolving credit facility.

The loan and security agreement contains various restrictive covenants, including restrictions on our ability to dispose of assets, make acquisitions or investments, incur debt or liens, make distributions to our stockholders or enter into certain types of related party transactions. We also are required to comply with certain financial covenants, including a minimum asset coverage ratio, and non-financial covenants. Upon an event of default, which includes a material adverse change, the lenders may accelerate amounts outstanding, terminate the agreement and foreclose on all collateral. We were in compliance with all financial and non-financial covenants at December 31, 2013.

Off-Balance Sheet Arrangements

We do not engage in any off-balance sheet activities. We do not have any off-balance sheet interest in variable interest entities, which include special purpose entities and other structured finance entities.

Contractual Obligations

We enter into long-term contractual obligations and commitments in the normal course of business, primarily debt obligations and non-cancellable operating leases. Our contractual cash obligations at December 31, 2013 are set forth below.

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt obligations, including accrued interest	$17,750	$1,650	$16,100	$ —	$ —
Operating lease obligations	787	663	124	—	—
Total contractual obligations	$18,537	$2,313	$16,224	$ —	$ —

Critical Accounting Policies and Estimates

Our financial statements are prepared in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

We believe the following critical accounting policies involve significant areas of management’s judgment and estimates in the preparation of our consolidated financial statements.

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Membership Revenue Recognition

We recognize revenue when all of the following conditions are met: there is persuasive evidence of an arrangement, the service has been provided to the customer, the collection of the fees is reasonably assured and the amount of fees to be paid by the customer is fixed or determinable. Our revenue includes membership revenue, which includes non-refundable initiation fees and membership fees for monthly, annual and multi-year memberships, and service provider revenue, which includes revenue from service provider advertising.

We recognize revenue from membership fees on a straight-line basis during the contractual period over which the service is delivered. We amortize revenue from the initiation fees of members over the average membership life on a straight-line basis. The estimated membership lives of monthly members and annual members for 2013 are 15 months and 76 months, respectively, based on historical experience. Estimates made by us may differ from actual customer lives. These differences may impact initiation fee revenue, depending on whether the estimated customer life decreases or increases. A change in the estimated customer life by one year in either direction would have a minimal impact to total revenue.

Stock-Based Compensation

We measure stock-based compensation expense for personnel at the grant date fair value of the award and recognize expense on a straight-line basis over the vesting period. Determining the fair value of an award requires judgment.

We estimate the fair value of stock-based payment awards using the Black-Scholes option-pricing model. The determination of the fair value of a stock-based award on the date of grant using the Black-Scholes option-pricing model is affected by our stock price on the date of grant as well as assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the expected term of the award, actual and projected employee stock option exercise behaviors, the risk-free interest rate for the expected term of the award and expected dividends. The value of the portion of the award that is ultimately expected to vest is recognized as an expense in our statements of operations.

The following table summarizes the weighted-average grant date fair value and the weighted-average assumptions relating to our stock options granted during 2013 and 2012:

	2013	**2012**

Dividend yield	0 %	0 %
Volatility	57 %	60 %
Risk-free interest rate	1.02%	0.71%
Expected term, in years	4.9	4.4
Weighted-average estimated fair value of options granted during the year	$9.38	$6.04

We use an expected dividend rate of zero based on the fact that we currently have no history or expectation of paying cash dividends on our capital stock. As our common stock had never been publicly traded prior to November 17, 2011, we estimated the expected volatility of our awards from the historical volatility of selected public companies within the internet and media industry with comparable characteristics to us, including similarity in size, lines of business, market capitalization, revenue and financial leverage as well as the expected volatility of our publicly traded common shares. The risk-free interest rate is based on the implied yield currently available on U.S. Treasury issues with terms approximately equal to the expected life of the option. We estimated our expected term based on our historical experience. A 10% change in our stock-based compensation would impact net income by $0.4 million and is immaterial.

Recent Accounting Pronouncements

For detailed information regarding recently issued accounting pronouncements and the expected impact on our financial statements, see Note 1, “Summary of Significant Accounting Policies” in the accompanying Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Fluctuations

We had cash and cash equivalents of $34.8 million at December 31, 2013, which was held in bank deposit accounts and money market funds for working capital purposes. In addition, we had short-term investments of $21.1 million in certificates of deposit and corporate bonds with maturities greater than 90 days but less than one year. The Company has the ability and intent to hold these investments to maturity. Declines in interest rates may reduce future investment income on these deposits. We do not enter into investments for trading or speculative purposes. We are paid interest on our deposits at variable rates and receive interest payments on held to maturity investments at fixed rates.

We do not believe that a hypothetical 10% increase or decrease in interest rates as of December 31, 2013 would have a material impact on our investment income.

In August 2011, we entered into a loan and security agreement that provides for a $15.0 million term loan and a $15.0 million revolving credit facility. The term loan bears interest at a per annum rate equal to the greater of (i) the current cash interest rate of LIBOR plus 10% or (ii) 10.5%, and requires monthly interest-only payments until maturity in August 2015. The revolving credit facility requires monthly interest-only payments on advances, which bear interest at a per annum rate equal to LIBOR plus 5%. As of December 31, 2013, we had $14.9 million in outstanding borrowings under the term loan and available credit of $15.0 million under the revolving credit facility. We do not believe an immediate 10% increase in interest rates would have a material effect on interest expense, and therefore, we do not expect our operating results or cash flows to be materially affected to any degree by a sudden change in market interest rates.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Angie's List, Inc.

Consolidated Financial Statements

Years Ended December 31, 2013, 2012 and 2011

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Angie's List, Inc.

We have audited the accompanying consolidated balance sheets of Angie's List, Inc. as of December 31, 2013 and 2012, and the related consolidated statements of operations, stockholders' equity (deficit) 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 Angie's List, Inc. at December 31, 2013 and 2012, and the consolidated results of its operations and its 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), Angie's List, Inc.'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 February 28, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Indianapolis, Indiana

February 28, 2014

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Angie's List, Inc.

Consolidated Balance Sheets

(in thousands, except share data)

	December 31, 2013	December 31, 2012
Assets		
Cash and cash equivalents	$34,803	$42,638
Restricted cash	50	50
Short-term investments	21,055	10,460
Accounts receivable, net of allowance for doubtful accounts of $1,107 and $922 at December 31, 2013 and 2012	12,385	7,787
Prepaid expenses and other current assets	13,651	19,810
Total current assets	81,944	80,745
Property and equipment, net	18,657	12,079
Goodwill	1,145	415
Amortizable intangible assets, net	3,500	2,356
Deferred financing fees, net	397	634
Total assets	$105,643	$96,229
Liabilities and stockholders' equity (deficit)		
Accounts payable	$6,838	$6,489
Accrued liabilities	21,770	14,058
Deferred membership revenue	35,560	27,627
Deferred advertising revenue	39,448	23,160
Total current liabilities	103,616	71,334
Long-term debt, including accrued interest	14,918	14,869
Deferred membership revenue, noncurrent	4,909	4,330
Deferred advertising revenue, noncurrent	521	214
Deferred income taxes	169	163
Total liabilities	124,133	90,910
Commitments and contingencies (*Note 9*)		
Stockholders' equity (deficit)		
Preferred stock, $0.001 par value: 10,000,000 shares authorized, no shares issued or outstanding at December 31, 2013 and December 31, 2012	—	—
Common stock, $0.001 par value: 300,000,000 shares authorized, 67,014,757 and 66,425,988 shares issued and 58,456,045 and 57,867,276 shares outstanding at December 31, 2013 and December 31, 2012, respectively	67	66
Additional paid-in-capital	257,505	248,326

Treasury stock, at cost: 8,558,712 shares of common stock at December 31, 2013 and December 31, 2012	(23,719)	(23,719)
Accumulated deficit	(252,343)	(219,354)
Total stockholders’ equity (deficit)	(18,490)	5,319
Total liabilities and stockholders’ equity (deficit)	$105,643	$96,229

See accompanying notes.

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Angie's List, Inc.

Consolidated Statements of Operations

(in thousands, except share and per share data)

	Year Ended December 31,		
	2013	**2012**	**2011**
Revenue			
Membership	$65,307	$47,717	$33,815
Service provider	180,335	108,082	56,228
Total revenue	245,642	155,799	90,043
Operating expenses			
Operations and support	40,072	27,081	16,417
Selling	90,143	58,596	33,815
Marketing	87,483	80,230	56,122
Technology	26,197	16,870	9,109
General and administrative	32,828	24,055	18,740
Operating loss	(31,081)	(51,033)	(44,160)
Interest expense, net	1,868	1,856	3,004
Loss on debt extinguishment	—	—	1,830
Loss before income taxes	(32,949)	(52,889)	(48,994)
Income tax expense	40	5	43
Net loss	$(32,989)	$(52,894)	$(49,037)
Net loss per common share—basic and diluted	$(0.57)	$(0.92)	$(1.60)
Weighted average number of common shares outstanding—basic and diluted	58,230,927	57,485,589	30,655,532

See accompanying notes.

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Angie's List, Inc.

Consolidated Statements of Stockholders' Equity (Deficit)

(in thousands)

	Convertible Preferred Stock	Common Stock	Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Total Equity (Deficit)
Balance at December 31, 2010	$ 2	$ 33	$ 85,453	$ (1,822)	$ (117,423)	$ (33,757)
Net loss	—	—	—	—	(49,037)	(49,037)
Sale of preferred stock, net of costs	1	—	57,922	—	—	57,923
Preferred stock conversion	(3)	3	—	—	—	—
Issuance of common stock, net of costs	—	29	88,536	—	—	88,565
Repurchase of stock	—	—	—	(21,897)	—	(21,897)
Stock-based compensation	—	—	3,842	—	—	3,842
Issuance of warrants	—	—	197	—	—	197
Balance at December 31, 2011	$ —	$ 65	$ 235,950	$ (23,719)	$ (166,460)	$ 45,836
Net loss	—	—	—	—	(52,894)	(52,894)
Issuance of common stock, net of costs	—	1	8,626	—	—	8,627
Stock-based compensation	—	—	2,943	—	—	2,943
Exercise of stock options and warrants	—	—	807	—	—	807
Balance at December 31, 2012	$ —	$ 66	$ 248,326	$ (23,719)	$ (219,354)	$ 5,319
Net loss	—	—	—	—	(32,989)	(32,989)
Stock-based compensation	—	—	4,064	—	—	4,064
Exercise of stock options	—	1	5,115	—	—	5,116
Balance at December 31, 2013	$ —	$ 67	$ 257,505	$ (23,719)	$ (252,343)	$ (18,490)

See accompanying notes.

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Angie's List, Inc.

Consolidated Statements of Cash Flows

(in thousands)

	Year Ended December 31,		
	2013	**2012**	**2011**
Operating activities			
Net loss	$(32,989)	$(52,894)	$(49,037)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	4,069	2,753	1,660
Deferred income taxes	6	5	4
Accrued interest due on debt maturity date	—	—	625
Amortization of debt discount and deferred financing fees	527	312	596
Bad debt expense	2,658	1,955	806
Noncash compensation expense	4,064	2,943	3,842
Noncash loss on debt extinguishment	—	—	1,075
Changes in certain assets:			
Accounts receivable	(7,256)	(5,805)	(2,081)
Prepaid expenses and other current assets	6,159	(7,975)	(6,068)
Changes in certain liabilities:			
Accounts payable	(1,151)	1,223	2,089
Accrued liabilities	7,712	3,541	4,497
Accrued interest on long-term debt	—	—	(2,668)
Deferred advertising revenue	16,595	9,492	5,433
Deferred membership revenue	8,512	11,053	6,092
Net cash provided by (used in) operating activities	8,906	(33,397)	(33,135)
Investing activities			
Restricted cash	—	250	—
Purchases of short-term investments	(32,814)	(10,491)	—
Sales of short-term investments	21,978	—	—
Acquisition of business	(2,150)	—	—
Property and equipment	(8,102)	(9,730)	(3,085)
Data acquisition costs	(769)	(2,035)	(1,191)
Net cash used in investing activities	(21,857)	(22,006)	(4,276)
Financing activities			
Borrowings under lines of credit	—	—	10,000
Payments under lines of credit	—	—	(10,000)

Principal payments on long-term debt	—	—	(21,797)
Proceeds from long-term debt	—	—	15,000
Payments on capital lease obligations	—	—	(41)
Purchases of treasury stock	—	—	(21,897)
Cash paid for financing costs	—	—	(944)
Proceeds from public stock offerings and other, net of fees	—	8,627	88,565
Proceeds from exercise of stock options	5,116	807	—
Sale of preferred stock, net of fees	—	—	57,923
Net cash provided by financing activities	5,116	9,434	116,809
Net increase (decrease) in cash	(7,835)	(45,969)	79,398
Cash and cash equivalents, beginning of period	42,638	88,607	9,209
Cash and cash equivalents, end of period	$34,803	$42,638	$88,607
Supplemental cash flow disclosures			
Cash paid for interest	$1,602	$1,680	$4,899
Cash paid for income taxes	—	15	—
Capital expenditures incurred but not yet paid	1,000	—	—

See accompanying notes.

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Angie's List, Inc.

Notes to Consolidated Financial Statements

Years Ended December 31, 2013, 2012, and 2011

(Dollars in Thousands, except per share data)

1. Summary of Significant Accounting Policies

Nature of Operations and Reorganization

Angie's List, Inc. (collectively with its wholly owned subsidiaries, the Company) operates a consumer-driven service for its members to research, hire, rate and review local professionals for critical needs, such as home, health care and automotive services. Ratings and reviews, which are available only to the Company's members, help its members to find the best provider for their local service needs. Membership subscriptions are sold on a monthly, annual and multi-year basis. The consumer rating network "Angie's List" is maintained and updated based on member feedback. The Company also sells advertising in its monthly publication, on its website and through its call center to service providers that meet certain rating criteria. In addition, the Company's e-commerce offerings provide its members the opportunity to purchase services directly from the Company from service providers that are rated on its website. The Company's services are provided in markets located across the continental United States.

Operating segments are defined as components of an enterprise engaging in business activities for which discrete financial information is available and regularly reviewed by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company manages its business on the basis of one operating segment.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Company has evaluated subsequent events through the date these consolidated financial statements were issued.

Estimates

Management uses estimates and assumptions in preparing consolidated financial statements in accordance with accounting principles generally accepted in the United States. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenue and expenses. Actual results could vary from the estimates that were used.

Common Stock

On October 31, 2011, the Company effected an eight-for-one split of its common stock by way of a stock dividend. As a result of the stock split, holders of the Company's common stock received seven additional shares of common stock for every share held on such date, and a proportionate adjustment was made to the applicable conversion prices for each share of the Company's outstanding convertible preferred stock (see Note 12). All share and per share amounts for all periods presented in these consolidated financial statements and notes thereto were adjusted retroactively, where applicable, to reflect this stock split and the adjustment of the convertible preferred stock conversion prices.

In May 2012, the Company completed a follow-on public offering of 8,629,797 shares of its common stock, which included 703,235 shares of common stock sold by the Company and 7,926,562 shares of common stock sold by the selling stockholders (inclusive of 189,374 shares of common stock from the partial exercise of the over-allotment option granted to the underwriters). The Company incurred fees resulting from the transaction of approximately $770, of which $81 is included in additional paid-in-capital and $689 is included in general and administrative expenses.

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Revenue Recognition and Deferred Revenue

The Company recognizes revenue when all of the following conditions are met: there is persuasive evidence of an arrangement, the service has been provided to the customer, the collection of the fees is reasonably assured and the amount of fees to be paid by the customer is fixed or determinable.

Membership Revenue

Revenue from the sale of membership subscriptions is recognized ratably over the term of the associated subscription.

At the time a member joins, the Company may receive a one-time nonrefundable enrollment fee. Enrollment fees are deferred and recognized on a straight-line basis over an estimated average membership life of 76 months for annual or multi-year members and 15 months for monthly members, which is based on historical membership experience. The Company reviews the estimated average membership life on an annual basis, or more frequently if circumstances change. Changes in member behavior, performance, competition and economic conditions may cause attrition levels to change, which could impact the estimated average membership life.

Service Provider Revenue

Revenue from the sale of advertising in the Company's publication is recognized in the month in which the Company's monthly publication is published and distributed. Revenue from the sale of website and call center advertising is recognized ratably over the time period the advertisements run. Revenue from e-commerce vouchers is recognized on a net basis when the voucher has been delivered to the purchaser. While the Company is not the merchant of record with respect to its customers for these transactions, it does offer customers refunds in certain circumstances. Revenue from e-commerce transactions is recorded net of a reserve for estimated refunds. The Company's e-commerce revenue was $22,062, $14,475, and $6,651 for 2013, 2012, and 2011, respectively.

Deferred Revenue

Deferred revenue includes the unamortized portion of revenue associated with membership and advertising fees for which the Company has received payment in advance of services or advertising to be provided.

Cash and Cash Equivalents

The Company maintains its cash in bank deposit accounts and money market funds with contractual maturities of three months or less, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

Restricted Cash

Restricted cash relates to monies held in reserve at institutions pursuant to credit card processing agreements. The restricted cash is not available for operating activities.

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Short-term Investments

Investments with maturities less than one year consist of certificates of deposit (short-term only) and corporate bonds, all of which are designated as held-to-maturity investments and are recorded at amortized cost, adjusted for amortization of premiums to maturity computed under the effective interest method, in the consolidated balance sheets. Such amortization and interest income from held-to-maturity investments is included in interest expense, net in the consolidated statement of operations. For these investments, the Company's objective is to earn a higher rate of return on funds that are not anticipated to be required to meet liquidity needs in the near term, while maintaining a low level of investment risk with the positive intent and ability to hold these investments to maturity. Short-term investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may be impaired. As of December 31, 2013, Angie's List, Inc. had $21,055 in short-term investments with no material unrealized gains or losses.

Accounts Receivable

Accounts receivable are stated at the amount billed to service providers, less an estimated allowance for doubtful accounts. The Company performs ongoing credit evaluations and generally requires no collateral from service providers. Management reviews individual accounts as they become past due to determine collectability. The allowance for doubtful accounts is adjusted periodically based on management's consideration of past due accounts. Individual accounts are charged against the allowance when all reasonable collection efforts have been exhausted.

The changes in the allowance for doubtful accounts during the years ended December 31, 2013, 2012 and 2011 were as follows:

	Year Ended December 31,		
	2013	**2012**	**2011**
Beginning balance	$922	$535	$241
Additions, net of recoveries	3,773	1,955	806
Deductions	(3,588)	(1,568)	(512)
Ending Balance	$1,107	$922	$535

Property and Equipment

Property and equipment are stated at cost and are depreciated over the estimated useful life of each asset. The Company also capitalizes the cost of computer software developed or obtained for internal use. The Company’s estimated lives for property and equipment range from 3 to 25 years. Depreciation is computed using the straight-line method. Repairs and routine maintenance are charged to expense as incurred.

Data Acquisition Costs

Data acquisition costs consist of external costs related to acquiring consumer reports on service providers. These reports are used by the Company to provide its members with feedback on service providers. Amortization is computed using the straight-line method over the period which the information is expected to benefit the Company’s members, which is estimated to be three years. The capitalized costs are included in intangible assets on the consolidated balance sheet, and the amortized expense is reflected within operations and support expenses in the consolidated statements of operations.

Long-Lived Assets

Long-lived assets, including property and equipment and amortizable intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by comparison of the carrying amount to future net undiscounted cash flows expected to be generated by the related asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount exceeds the fair market value of the assets. To date, there have been no adjustments to the respective carrying values.

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Goodwill

Goodwill is not amortized but is tested for impairment annually on December 31 and more frequently whenever an event occurs or circumstances indicate the carrying amount may be impaired. If the estimated fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated, and goodwill is written down to its estimated fair value. To date, there has been no impairment of goodwill.

Sales Commissions

Commissions expense from the sale of service provider advertisements is recognized ratably over the term of the associated advertisement. The Company defers the recognition of commission expense until such time as the revenue related to the customer contract for which the commission was paid is recognized. Deferred commissions for each contract are amortized to expense in a manner consistent with how revenue is recognized for such contract, resulting in straight-line recognition of expense over the contractual term. Unamortized commission expense of $9,395 and $17,215 as of December 31, 2013 and 2012, respectively, is included in prepaid expenses and other current assets in the accompanying consolidated balance sheets. The decrease in unamortized commissions expense in 2013 is a reflection of the change in the Company’s payment practice for commissions whereby the Company now times the actual commission payment to more closely align with the timing of expense recognition.

Deferred Financing Fees

In August 2011, in connection with its entry into a loan and security agreement, the Company incurred certain costs associated with these financing activities of $944, which are being amortized into interest expense over the term of the credit facility. Deferred financing costs recorded previously in 2009 and 2010 of $328 and $1,074 were recorded as a result of certain financing agreements and were being amortized over the terms of their respective agreements. In connection with the extinguishment of its senior and subordinated loan agreements in August 2011, the Company expensed the unamortized portion of deferred financing fees associated with these loan agreements, which are included in the loss on debt extinguishment. Deferred financing fees, net of accumulated amortization, totaled $397 and $634 at December 31, 2013 and 2012, respectively. Amortization expense of $237, $232 and $524 is included in interest expense in the consolidated statements of operations for the fiscal years ended December 31, 2013, 2012 and 2011, respectively.

Income Taxes

The Company is subject to corporate-level federal and state income taxes at prevailing corporate rates and accounts for income taxes and the related accounts using the liability method in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes*. Under this method, the Company accrues income taxes payable or refundable and recognizes deferred tax assets and liabilities based on differences between the book and tax basis of assets and liabilities. The Company measures deferred tax assets and liabilities using enacted rates in effect for the years in which the differences are expected to reverse and recognizes the effect of a change in enacted rates in the period of enactment. After determining the total amount of deferred tax assets, the Company determines whether it is more likely than not that some portion of the deferred tax assets will not be realized. If the Company determines that a deferred tax asset is not likely to be realized, a valuation allowance will be established against that asset to record it at its expected realizable value.

The Company establishes assets and liabilities for uncertain positions taken or expected to be taken in income tax returns using a more-likely-than-not recognition threshold. The Company includes in income tax expense any interest and penalties related to uncertain tax positions.

Marketing Expense

Marketing expense consists of national television, radio and print, as well as online, advertising. The Company expenses all advertising costs as incurred.

Stock-Based Compensation

The Company accounts for stock-based compensation using the fair value recognition provisions of ASC 718, *Stock Compensation*. For its awards of restricted stock and stock options, the Company recognizes stock-based compensation expense in an amount equal to the fair market value on the grant date of the respective award. The Company recognizes this expense, net of estimated forfeitures, on a straight-line basis over the requisite service period.

The fair value of the stock under the plans was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

Year of Grant	Risk-free Interest Rate	Dividend Yield	Expected Term (In Years)	Volatility Factor
2011	1.26 %	0 %	4.7	50.0 %
2012	0.71 %	0 %	4.4	60.0 %
2013	1.02 %	0 %	4.9	57.0 %

Expected volatility is based on historical volatilities for publicly traded common stock of comparable companies over the estimated expected life of the stock options. The expected term represents the period of time the stock options are expected to be outstanding. The risk-free interest rate is based on yields of U.S. Treasury securities with a maturity similar to the estimated expected term of the stock options.

Sales and Use Tax

Sales and use tax expenses are included within operations and support in the consolidated statements of operations. The Company does not separately collect sales and use taxes from its members.

Recent Accounting Pronouncements

In July 2013, the FASB issued Accounting Standards Update No. 2013-11: Income Taxes (Topic 740), Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force) (“ASU 2013-11”). An entity is required to present unrecognized tax benefits as a decrease in a net operating loss, similar tax loss or tax credit carryforward if certain criteria are met. The determination of whether a deferred tax asset is available is based on the unrecognized tax benefit and the deferred tax asset that exists at the reporting date and presumes disallowance of the tax position at the reporting date. The guidance will eliminate the diversity in practice in the presentation of unrecognized tax benefits but will not alter the way in which entities assess deferred tax assets for realizability. ASU 2013-11 will be effective for the company in fiscal 2014. The Company is currently assessing the impact to the consolidated financial statements.

2. Net Loss Per Common Share

Basic and diluted net loss per common share is computed by dividing consolidated net loss by the weighted average number of common shares outstanding for the period. Basic and diluted net loss per common share were $(0.57) and $(0.92) for the years ended December 31, 2013 and December 31, 2012, respectively.

The following potential dilutive equity securities are not included in the diluted net loss per common share calculation because they would have an antidilutive effect:

	December 31, 2013	**December 31, 2012**
Stock options	3,310,764	2,820,619

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3. Fair Value Measurements

Whenever possible, quoted prices in active markets are used to determine the fair value of our financial instruments. Our financial instruments are not held for trading or other speculative purposes. The estimated fair value of financial instruments was determined by using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that we could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Fair Value Hierarchy

Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820, *Fair Value Measurement Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. Generally Accepted Accounting Principles and International Financial Reporting Standards,* defined and established a framework for measuring fair value and expands disclosures about fair value measurements for financial assets and liabilities that are adjusted to fair value on a recurring basis and/or financial assets and liabilities that are measured at fair value on a nonrecurring basis, which were adjusted to fair value during the period. In accordance with ASC 820, we categorized our financial assets and liabilities that are adjusted to fair value based on the priority of the inputs to the valuation technique, following the three-level fair value hierarchy prescribed by ASC 820, as follows:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available.

Valuation Techniques

The Company's cash equivalents are classified within Level 1 on the basis of valuations using quoted market prices. As many fixed income securities do not trade daily, fair values are often derived using recent trades of securities with similar features and characteristics. When recent trades are not available, pricing models are used to determine these prices. These models calculate fair values by discounting future cash flows at estimated market interest rates. Such market rates are derived by calculating the appropriate spreads over comparable U.S. Treasury securities, based on the credit quality, industry and structure of the asset. Typical inputs and assumptions to pricing models include, but are not limited to, a combination of benchmark yields, reported trades, issuer spreads, liquidity, benchmark securities, bids, offers, reference data, and industry and economic events. The Company's fixed income corporate bond investments and certificates of deposit with fixed maturities are valued using recent trades or pricing models and are therefore classified in Level 2.

Recurring Fair Value Measurements

There were no movements between fair value measurement levels of the Company's cash equivalents and short-term investments during 2013 and 2012. The following tables summarize the financial instruments of the Company at fair value based on the fair value hierarchy for each class of instrument as of December 31, 2013 and 2012:

		Fair Value Measurement at December 31, 2013 Using		
	Carrying Value at 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 equivalents:				
Money market funds	$ 655	$ 655	$ —	$ —
Investments:				
Certificates of deposit	13,750		13,734	
Corporate bonds	7,305		7,303	
Total assets	$ 21,710	$ 655	$ 21,037	$ —

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		Fair Value Measurement at December 31, 2012 Using		
	Carrying Value at 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 equivalents:				
Money market funds	$ 1,183	$1,183	$ —	$ —
Investments:				
Certificates of deposit	2,640		2,639	
Corporate bonds	7,820		7,816	
Total assets	$ 11,643	$1,183	$ 10,455	$ —

The carrying amount of the term loan approximates its fair value, using level 2 inputs, because this borrowing bears interest at variable (market) rate at December 31, 2013 and 2012.

Non-Recurring Fair Value Measurements

The Company has certain assets that are measured at fair value on a non-recurring basis under circumstances and events that include those described in Note 6, Goodwill and Amortizable Intangible Assets, and are adjusted to fair value only when the carrying values are more than the fair values. The categorization of the framework used to price the assets is considered a Level 3 measurement due to the subjective nature of the unobservable inputs used to determine the fair value.

Assets and liabilities acquired in business combinations are recorded at their fair value as of the date of acquisition. Refer to Note 6 for the fair values of assets acquired and liabilities assumed in connection with the acquisition of substantially all the assets of SmartHabitat (“BrightNest”).

The carrying amounts of accounts receivable and accounts payable reported in the consolidated balance sheets approximate fair value.

4. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets were comprised of the following:

	December 31,	
	2013	2012
Prepaid and deferred commissions	$9,395	$17,215
Other	4,256	2,595
Total prepaid expenses and other current assets	$13,651	$19,810

5. Property and Equipment

Property and equipment was comprised of the following:

	December 31,	
	2013	2012
Furniture and equipment	$7,965	$5,929
Land	1,464	1,401
Buildings and improvements	8,711	6,417
Software	5,949	1,949
	24,089	15,696
Less accumulated depreciation	(5,432)	(3,617)
	$18,657	$12,079

In November 2012, the Company acquired its headquarters facilities from its lessor, a related party, at a cost of $6,785, including costs and fees to acquire the properties. Buildings are being depreciated on a straight-line basis over 25 years.

Depreciation expense for the years ended December 31, 2013, 2012, and 2011, was $1,565, $994 and $661, respectively. Computer software amortization expense for 2013, 2012 and 2011 was $961, $524 and $218, respectively.

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6. Goodwill and Amortizable Intangible Assets

The Company has goodwill as well as certain amortizable intangible assets consisting of data acquisition costs, a member list, content and core technology. The goodwill and amortizable intangible asset balances reflect the goodwill, member list, content and core technology acquired during the August 2, 2013 acquisition of substantially all the assets of BrightNest for a purchase price of $2,650, inclusive of $1,920 in acquired intangible assets and goodwill of $730. The purchase price consisted of $2,150 in cash paid at closing and an additional $500 that is payable on the one-year anniversary of the closing, subject to certain performance criteria of BrightNest employees hired by the Company on the acquisition date. The acquisition of the BrightNest assets adds a user-friendly front end and personalized member experience with expanded content offerings and enhanced technologies. Revenues and expenses related to BrightNest, which are not material, are included in the consolidated results of operations from the date of acquisition.

Amortization on the intangible assets is computed using the straight-line method over the estimated lives of the assets. Amortizable intangible assets at December 31, 2013 are as follows:

	Cost	Accumulated Amortization	Net	Amortization Period (in years)
2013				
Member List	$1,670	$ 122	$1,548	6.0
Content	140	12	$128	3.0
Core technology	110	16	$94	3.0
Data acquisition costs	3,296	1,566	$1,730	3.0
	$5,216	$ 1,716	$3,500	
2012				
Data acquisition costs	$4,017	$ 1,661	$2,356	3.0
	$4,017	$ 1,661	$2,356	

Amortization expense on amortizable intangible assets for the years ended December 31, 2013, 2012 and 2011, was $1,546, $1,234 and $781, respectively. The estimated amortization expense related to amortizable intangible assets at December 31, 2013 for each of the next five years is as follows: $1,520 in 2014, $831 in 2015, $430 in 2016, $278 in 2017 and 2018 and $162 thereafter.

The Company’s recorded goodwill balance at December 31, 2013 and 2012 was $1,145 and $415, respectively. The Company expects the amount recorded as goodwill for the BrightNest acquisition to be fully deductible for tax purposes.

7. Accrued Liabilities

Accrued liabilities were comprised of the following:

	December 31,	
	2013	**2012**
Accrued sales commissions	$2,570	$4,342
Sales and use tax	3,158	2,130
Accrued compensation	5,229	2,246
Uninvoiced accounts payable	2,977	2,372
Legal accrual	4,000	—
Other	3,836	2,968
Total accrued liabilities	$21,770	$14,058

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8. Long-term Debt

Debt was comprised of the following:

	December 31,	
	2013	**2012**
Term loan	$15,000	$15,000
Debt discount on term loan	(82)	(131)
	14,918	14,869
Less current maturities	—	—
Total long-term debt, including accrued interest	$14,918	$14,869

On August 31, 2011, the Company entered into a loan and security agreement that provides for a $15,000 term loan and a $15,000 revolving credit facility. A portion of the revolving credit facility is available for letters of credit and corporate credit cards. The term loan bears interest at a per annum rate equal to the greater of (i) the current cash interest rate of LIBOR plus 10% or (ii) 10.5%, and requires monthly interest-only payments until maturity in August 2015. The revolving credit facility requires monthly interest-only payments on advances, which bear interest at a per annum rate equal to LIBOR plus 5%. In addition, when less than 50% of the revolving credit facility is drawn, the Company is required to pay a non-usage charge of 0.50% per annum of the average unused portion of the credit facility. The term loan provides for penalties for early prepayment. The term loan and revolving credit facility provide for additional interest upon an event of default and are secured by substantially all of the Company's assets. In connection with entering into the loan and security agreement, the Company issued a convertible warrant to purchase 88,240 shares of common stock to one of the lenders. The fair value of this warrant was recorded as a discount to the term loan, with the amount of the discount being amortized as interest expense through the loan's maturity. As of December 31, 2013, the Company had $14,900 in outstanding borrowings under the term loan and available credit of $15,000 under the revolving credit facility.

The loan and security agreement contains various restrictive covenants, including restrictions on the Company's ability to dispose of assets, make acquisitions or investments, incur debt or liens, make distributions to stockholders or enter into certain types of related party transactions. The Company is also required to comply with certain financial covenants, including a minimum asset coverage ratio, and non-financial covenants. Upon an event of default, which includes a material adverse change, the lenders may accelerate amounts outstanding, terminate the agreement and foreclose on all collateral. The Company was in compliance with all financial and non-financial covenants at December 31, 2013, and management believes the Company will be in compliance through the end of fiscal 2014.

On August 31, 2011, the Company repaid in full the outstanding balance of $14,178 on a note payable, including additional interest of $3,200 ($2,668 of which had been accrued as of August 31, 2011), and prepayment penalties in the amount of $220 under the prior note payable, and terminated the related amended and restated loan and security

agreement. On the same date, the Company also paid $6,087 to the holders of the senior subordinated note in satisfaction of the principal, interest and other fees due thereunder. The prepayment penalties, unaccrued additional interest and other fees are included in the loss on debt extinguishment within the consolidated statement of operations for 2011.

9. Commitments and Contingencies

Operating Leases

The Company has long-term noncancellable operating leases for offices and equipment that expire in various years through 2015. These leases require the Company to pay all executory costs (property taxes, maintenance and insurance). Rental payments include minimum rentals.

Future minimum lease payments required under long-term noncancellable operating leases at December 31, 2013 were:

	Total
Payable in	
2014	$ 663
2015	124
2016	0
	$ 787

Rental expense for all operating leases totaled $910, $1,381 and $915 in 2013, 2012 and 2011, respectively.

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Legal Matters

From time to time, the Company has or may become party to litigation incident to the ordinary course of business. The Company assesses the likelihood of any adverse judgments or outcomes with respect to these matters and determines loss contingency assessments on a gross basis after assessing the probability of incurrence of a loss and whether a loss is reasonably estimable. In addition, the Company considers other relevant factors that could impact its ability to reasonably estimate a loss. A determination of the amount of reserves required, if any, for these contingencies is made after analyzing each matter. The Company's reserves may change in the future due to new developments or changes in strategy in handling these matters. Although the results of litigation and claims cannot be predicted with certainty, the Company currently believes that the final outcome of these matters listed below will not have a material adverse effect on its business, consolidated financial position, results of operations, or cash flows. Regardless of the outcome, litigation can have an adverse impact on the Company because of defense and settlement costs, diversion of management resources, and other factors.

Fritzinger v. Angie's List. On August 14, 2012 a lawsuit seeking class action status was filed against the Company in the U.S. District Court for the Southern District of Indiana (the "Court"). The lawsuit alleges claims of breach of contract and unjust enrichment, alleging that the Company automatically renews membership fees at a higher rate than customers are led to believe, breaching their membership agreements. The plaintiff seeks compensatory damages and an award of treble damages, attorneys' fees and costs. The Company and the plaintiff have agreed in principle to settlement terms, which remains subject to Court approval. As of December 31, 2013, the Company has recorded a $4,000 legal accrual related to the settlement. The Company believes this amount represents the best estimate of the Company's ultimate liability with respect to this litigation, and any difference between the amount recorded and the actual final court-approved settlement is not expected to have a material impact on our financial condition or results of operations.

Baron v. Angie's List, Inc., et al. On December 23, 2013, a class action complaint was filed in the Court, naming the Company and various current and former directors and officers as defendants and alleging that the defendants violated Section 10(b) of the Securities Act of 1934 (the "Exchange Act") by making material misstatements in and omitting material information from the Company's public disclosures concerning the Company's business prospects. The complaint further alleges that the defendants violated Section 20(a) of the Exchange Act by virtue of their positions as control persons. The plaintiff has requested unspecified damages, interest, and costs, as well as ancillary relief. On January 23, 2014, the Court entered a scheduling order pursuant to which, upon appointment as lead plaintiff, the plaintiff has sixty days with which to file a consolidated complaint or stand on the current complaint. Pursuant to that order, the Company's response to that complaint is due sixty days thereafter.

Bartolone v. Angie's List, Inc., et al. On January 9, 2014, a class action complaint was filed in the Court, naming the same defendants, asserting the same claims, and asking for the same relief as sought in *Baron*, described above. On January 29, 2014, the Court entered a scheduling order identical to the order entered in *Baron*.

Baron and *Bartolone* are collectively referred to as the "Stockholder Class Action." The Company believes that the Stockholder Class Action is without merit and intends to vigorously defend against it.

Korda v. William S. Oesterle, et al. On January 3, 2014, a derivative complaint was filed in the Court on behalf of the Company, naming the Company's Board of Directors and various current or former officers as individual defendants and the Company as a nominal defendant. The plaintiff asserts a breach of fiduciary duty claim against the individual defendants based on their alleged knowledge that the Company's public statements during 2013 concerning the Company's business prospects were misleading. The plaintiff asserts a breach of fiduciary duty claim against certain individual defendants based on their sales of Angie's List common stock between December 2012 and December 2013. The plaintiff asks for unspecified amounts in damages, interest, and cost, as well as ancillary relief. The parties are currently seeking to negotiate a stay of the action pending a ruling on the complaint in the Stockholder Class Action, described above.

10. Profit-Sharing Plan

The Company sponsors a 401(k) profit-sharing plan (the Plan) covering substantially all of its personnel. The Company's contributions to the Plan are discretionary. The Company contributed 3% for all eligible personnel, which totaled $1,500, $1,032 and $745 in 2013, 2012 and 2011, respectively.

11. Stock-Based Compensation

In April 2010, the Company adopted an Omnibus Incentive Plan (the Incentive Plan) in order to provide an incentive to certain executive officers, personnel and directors. The Incentive Plan was amended and restated effective August 2011, increasing the number of shares issuable to 5,090,496. In March 2012 and October 2013, additional shares of stock were reserved for issuance, bringing the total available shares issuable to 10,830,475. As of December 31, 2013, there were 8,992,890 shares of common stock reserved under the Incentive Plan, of which 5,682,126 shares remained available for future grants.

Stock Options

Stock options are awarded with an exercise price equal to the market price on the date of grant. The contractual terms for options expire ten years from the grant date and generally vest over a three or four-year period. The fair value of options on the date of grant is amortized on a straight-line basis over the requisite service period.

A summary of stock option activity under the plans as of December 31, 2013 and 2012 and changes during the periods then ended are as follows:

	Number of Shares	Weighted-Average Price/ Share	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2011	2,814,888	$ 8.60	9.52	$ 21,122
Granted	352,785	12.90		
Exercised	(96,488)	8.36		
Cancelled	(250,566)	(9.00)		
Outstanding at December 31, 2012	2,820,619	$ 9.11	8.62	$ 8,687
Granted	1,923,206	19.46		
Exercised	(588,769)	8.69		
Cancelled	(844,292)	(11.16)		
Outstanding at December 31, 2013	3,310,764	$ 14.67	8.63	$ 9,717

	Number of	Weighted-Average	Weighted Average	Aggregate Intrinsic

	Shares	Price/ Share	Remaining Contractual Term (In Years)	Value
Vested and Exercisable at December 31, 2012	863,736	$ 8.78	8.50	$ 2,847
Unvested at December 31, 2012	1,956,883	9.25	8.61	
Vested and Exercisable at December 31, 2013	894,813	$ 9.38	7.61	$ 5,358
Unvested at December 31, 2013	2,415,951	16.63	7.91	

The fair value of the stock under the plans was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

Year of Grant	Risk-free Interest Rate	Dividend Yield	Expected Term (In Years)	Volatility Factor
2011	1.26 %	0 %	4.7	50.0 %
2012	0.71 %	0 %	4.4	60.0 %
2013	1.02 %	0 %	4.9	57.0 %

Expected volatility is based on historical volatilities for publicly traded common stock of comparable companies over the estimated expected life of the stock options. The expected term represents the period of time the stock options are expected to be outstanding. The risk-free interest rate is based on yields of U.S. Treasury securities with a maturity similar to the estimated expected term of the stock options.

The weighted-average grant date fair value of options granted during 2013 and 2012 was $9.38 and $6.04 per share, respectively. The total intrinsic value of options exercised during 2013, 2012 and 2011 was $7,376, $297 and $0, respectively. The Company recognized compensation expense of $4,064, $2,943 and $1,673 in the consolidated statements of operations related to stock options in 2013, 2012 and 2011, respectively. As of December 31, 2013, total compensation expense related to non-vested options not yet recognized was $14,799, which will be recognized over the remaining weighted-average life of the awards, 3.22 years.

Restricted Stock

Restricted stock vests over various periods in accordance with the respective grant agreement. The fair value of restricted stock on the date of grant is amortized on a straight-line basis over the requisite vesting period, with the amount of compensation expense recognized at any date at least equal to the portion of the grant date value of the award that is vested at that date.

The Company recognized compensation expense of $2,169 in the consolidated statement of operations related to restricted stock in 2011. There was no restricted stock issued or outstanding during 2012 or 2013.

12. Convertible Preferred Stock

On March 15, 2011 and May 17, 2011, the Company issued 757,724 and 90,486 shares of Series D preferred stock for $53,600 and $6,400, respectively.

Each share of preferred stock was convertible, at the option of the holder, to common stock on a one-to-one basis, unless additional common shares had been issued by the Company (exclusive of shares issued to satisfy outstanding options, declared dividends or splits, or certain approved issuances to financial institutions or investors pursuant to a debt financing), at which point a defined conversion formula should be utilized to identify the appropriate conversion ratio. During August 2011, the preferred stockholders agreed via written consent of (1) the holders of at least 70% of the outstanding shares of Series D preferred stock, (2) the holders of at least 80% of the outstanding shares of Series C preferred stock, (3) the holders of at least a supermajority, as defined in the Amended and Restated Certificate of Incorporation, of the holders of the outstanding shares of Series B preferred stock, and (4) the holders of at least a supermajority of the outstanding shares of Series A preferred stock that each share of preferred stock shall be mandatorily converted to common stock immediately prior to the completion of a firm-commitment underwritten initial public offering if the share price is at least $70.74, as adjusted for stock splits and other adjustments. The Series A, B, C, and D convertible preferred stock are not subject to mandatory redemption outside the control of the Company.

On October 31, 2011, the Company effected an eight-for-one split of its common stock by way of a stock dividend declared. As a result of the stock split, holders of the Company's common stock received seven additional shares of common stock for every share held on such date, and a proportionate adjustment was made to the applicable conversion prices for each share of the Company's outstanding convertible preferred stock, resulting in a conversion ratio of one-to-eight. As a result of the initial public offering of stock at a price greater than the pre-split adjusted price of $70.74, all preferred shares were converted to common shares on November 17, 2011.

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13. Treasury Stock

In April 2011, the Company repurchased 1,940,744 shares of common stock for $16,496. Prior to the repurchase, a certain stockholder converted 14,096 shares of Series B and 29,663 shares of Series C preferred shares into common stock. Additionally, in June 2011, the Company repurchased 635,288 shares of common stock for $5,400.

The Company has 8,558,712 shares of its common stock in treasury stock as of December 31, 2013 and 2012. Of these, the Company's wholly-owned subsidiary holds 5,743,744 shares of common stock.

14. Income Taxes

As management believes that it is more likely than not that the Company will not realize the full amount of the net deferred tax assets, the Company has recorded a valuation allowance for the deferred tax assets as of December 31, 2013, 2012 and 2011, respectively.

The components of income tax expense are summarized as follows:

	2013	**2012**	**2011**
Current:			
U.S. federal	$ —	$ —	$ —
State	34	—	39
	34	—	39
Deferred:			
U.S. federal	4	2	7
State	2	3	(3)
	6	5	4
Income tax expense	$ 40	$ 5	$ 43

The reconciliation of income tax expense computed at the U.S. federal statutory rate to the Company's effective tax rate for the years ended December 31, 2013, 2012 and 2011 is as follows:

	2013	**2012**	**2011**

U.S. federal income tax rate	34.0 %	34.0 %	34.0 %
State income taxes, net of federal benefit	6.4	5.7	5.6
Valuation allowance	(39.7)	(39.1)	(36.7)
Other	(0.8)	(0.6)	(2.8)
Effective income tax rate	(0.1)%	0.0 %	0.1 %

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Significant components of the Company’s deferred tax assets and liabilities as of December 31, 2013 and 2012 are as follows:

	2013	2012
Deferred tax assets:		
Current:		
Deferred revenue	$32,643	$22,299
Non-current:		
Intangibles — other	12,138	12,962
Net operating loss carryforwards	39,757	41,464
Equity compensation	1,999	1,388
Other	4,337	2,095
Total deferred tax assets	90,874	80,208
Valuation allowance	(87,006)	(73,434)
Total net deferred tax assets	3,868	6,774
Deferred tax liabilities:		
Current:		
Prepaids	(3,923)	(7,010)
Non-current:		
Property and equipment	55	236
Goodwill	(169)	(163)
Total net deferred tax liabilities	(4,037)	(6,937)
Total net deferred tax liability	$(169)	$(163)

As of December 31, 2013, the Company had net operating loss carryforwards for federal and state income tax purposes of approximately $105,290 and $130,853, respectively. These net operating losses include an unrealized benefit of approximately $5,800 related to share-based compensation that will be recorded in equity when realized. The net operating loss carryforwards will expire in future years, primarily beginning in 2027. The net operating losses may be subject to annual limitations of use under Internal Revenue Code Section 382. The Company files income tax returns in the U.S. federal jurisdiction and in various state jurisdictions. Income tax returns for calendar 2010 to present are open for examination in the federal jurisdiction and in significant state jurisdictions.

A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. The Company does not benefit from its deferred tax assets based on the deferred tax liabilities related to goodwill that are not expected to reverse during the carryforward period. As this deferred tax liability would not reverse until some future indefinite period when the intangibles are either sold or impaired, any resulting temporary differences cannot be considered a source of future taxable income to support realization of the deferred tax assets.

At December 31, 2013 and 2012, the Company did not have any material unrecognized income tax benefits recorded in its consolidated balance sheets.

15. Warrants

During 2011, the Company issued warrants to purchase 88,240 shares of common stock in connection with its loan and security agreement. These warrants are exercisable at the fair market value as of the grant date for a period of seven years from the grant date. The grant date fair value of the warrants was $2.23 per share, using the Black-Scholes option-pricing model. On October 17, 2012, the holder of these warrants completed a net issuance exercise in accordance with the terms of their agreement, resulting in the issuance of 14,272 shares of common stock.

During 2010, the Company issued warrants to purchase 272,304 shares of common stock in connection with an amendment to its note payable. On March 7, 2012, the holder of these warrants completed a net issuance exercise in accordance with the terms of their agreement, resulting in the issuance of 120,096 shares of common stock.

A summary of warrant activity is as follows:

	Warrants	**Weighted-Average Exercise Price**
Outstanding at December 31, 2011	360,544	$ 8.45
Issued	(360,544)	8.45
Outstanding at December 31, 2012	—	$ —
Exercised		
Outstanding at December 31, 2013	—	$ —

Outstanding warrants at December 31, 2011 had a weighted-average remaining contractual life of 5.7 years. There were no outstanding warrants as of December 31, 2012 or 2013.

16. Related-Party Transactions

In November 2012, the Company completed the purchase of its headquarters facilities (the “properties”), which were owned by Henry Amalgamated, LLC, and Henry Amalgamated II, LLC, Indiana limited liability companies (together, “Henry Amalgamated”) for an aggregate purchase price of $6,250, excluding fees and other charges. In connection with its acquisition of the properties, the Company’s leases for its headquarters facilities were terminated.

William S. Oesterle, the Company’s Chief Executive Officer and member of the Company’s board of directors, owns a 70% interest in Henry Amalgamated. As the transaction described above constitutes a related party transaction at the direction of the board of directors (the “board”), the audit committee of the Company’s board reviewed and negotiated the Company’s acquisition of the property. With the audit committee’s recommendation and after a full board review, the board approved this transaction. Prior to the acquisition, the Company leased these properties from Henry Amalgamated. In addition to the primary acquisition costs of $6,250, the Company paid $178 to Henry Amalgamated for other charges incurred to prepare the properties for use, of which $150 was capitalized with the purchase of the properties.

Rent expense to Henry Amalgamated was $11, $977 and $856 for 2013, 2012 and 2011, respectively. The Company did not owe Henry Amalgamated any amounts as of December 31, 2013 and 2012.

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17. Quarterly Financial Information (Unaudited)

The table below sets forth selected quarterly financial data for each of the last two fiscal years ($ in thousands, except per share data).

	Fiscal Year Ended December 31, 2013			
	First Quarter (unaudited)	Second Quarter (unaudited)	Third Quarter (unaudited)	Fourth Quarter (unaudited)
Total revenue	$52,171	$ 59,215	$ 65,500	$ 68,756
Operating income (loss)	(7,469)	(13,855)	(13,028)	3,271
Net income (loss)	(7,947)	(14,334)	(13,511)	2,803
Net income (loss) per common share—basic and diluted	$(0.14)	$ (0.25)	$ (0.23)	$ 0.05

	Fiscal Year Ended December 31, 2012			
	First Quarter (unaudited)	Second Quarter (unaudited)	Third Quarter (unaudited)	Fourth Quarter (unaudited)
Total revenue	$31,094	$ 36,504	$ 42,022	$ 46,179
Operating income (loss)	(12,994)	(22,930)	(18,020)	2,911
Net income (loss)	(13,450)	(23,387)	(18,487)	2,430
Net income (loss) per common share—basic and diluted	$(0.24)	$ (0.41)	$ (0.32)	$ 0.04

Information in any one quarterly period should not be considered indicative of annual results due to the effects of seasonality on the Company’s business.

The fourth quarter of 2013 includes a $4.0 million charge to general and administrative expense reflective of an expected settlement of pending litigation.

The fourth quarter of 2012 includes an out of period adjustment related to 2011 and prior to reduce commission expense by $700.

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 Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. Based on their evaluation as of the end of the period covered by this Annual Report on Form 10-K, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

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 Rule 13(a)-15(f) and Rule 15(d)-15(f) of the Exchange Act, to provide reasonable assurance regarding the reliability of the company's financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Management assessed our internal control over financial reporting as of December 31, 2013. Management based its assessment on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("1992 Framework"). Based on its assessment, our management has

concluded that our internal control over financial reporting was effective as of December 31, 2013.

Ernst & Young, LLP, an independent registered public accounting firm, has issued an attestation report on our internal control over financial reporting, which is included in this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the three months ended December 31, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Angie's List, Inc.

We have audited Angie's List, Inc.'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"). Angie's List, Inc.'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, Angie's List, Inc. 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 consolidated balance sheets of Angie's List, Inc. as of December 31, 2013 and 2012, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2013 of Angie's List, Inc. and our report dated February 28, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Indianapolis, Indiana

February 28, 2014

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Angie's List has adopted a code of business conduct and ethics for directors, officers (including Angie's List's Chief Executive Officer and Chief Financial Officer) and employees, known as the Code of Business Conduct and Ethics. The Code of Business Conduct and Ethics is available on our "Investor Relations" website at *investor.angieslist.com* in the Corporate Governance section. Stockholders may request a free copy of the Code of Business Conduct and Ethics by sending an email request to investor@angieslist.com.

The other information required by this item will be contained in our definitive proxy statement to be filed with the Securities and Exchange Commission in connection with our 2014 annual meeting of stockholders (the "Proxy Statement"), which is expected to be filed not later than 120 days after the end of our fiscal year ended December 31, 2013, and is incorporated in this report by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this Item is incorporated by reference to the sections of the Proxy Statement entitled "Executive Compensation," "Director Compensation," "Information Regarding the Board of Directors and its Committees—Compensation Committee Interlocks and Insider Participation" and "Compensation Committee Report."

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

Information regarding security ownership of certain beneficial owners and management is incorporated by reference to the section of the Proxy Statement entitled “Security Ownership of Certain Beneficial Owners and Management.”

Information regarding our stockholder approved and non-approved equity compensation plans is incorporated by reference to the section of the Proxy Statement entitled “Executive Compensation—Equity Compensation Plan Information.”

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

Information required by this Item is incorporated by reference to the sections of the Proxy Statement entitled “Certain Relationships and Related Party Transactions” and “Information Regarding the Board of Directors and its Committees—Independence of the Board of Directors.”

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this Item is incorporated by reference to the section of the Proxy Statement entitled “Proposal No. 2 Ratification of Appointment of Independent Registered Public Accounting Firm.”

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are included as part of this Annual Report on Form 10-K.

(1) Index to Financial Statements

Report of Independent Registered Public Accounting Firm	49
Consolidated Balance Sheets as of December 31, 2013 and 2012	50
Consolidated Statements of Operations for the fiscal years ended December 31, 2013, 2012 and 2011	51
Consolidated Statements of Stockholders' Equity (Deficit) for the fiscal years ended December 31, 2013, 2012 and 2011	52
Consolidated Statements of Cash Flows for the fiscal years ended December 31, 2013, 2012 and 2011	53
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(2) Financial Statement Schedule

All other schedules are omitted as the information required is inapplicable or the information is presented in the consolidated financial statements or the related notes.

(3) Exhibits

The documents set forth below are filed herewith or incorporated by reference to the location indicated.

Exhibit Description	Form	Incorporated by Reference File No.	Exhibit

Exhibit No.					**Filing Date**	**Filed Herewith**
3.01	Amended and Restated Certificate of Incorporation	S-1/A	333-176503	3.1	10/31/11	
3.02	Amended and Restated Bylaws	S-1/A	333-176503	3.2	10/31/11	
4.01	Fifth Amended and Restated Investor Rights Agreement, by and among Angie's List, Inc. and the investors listed on Schedule A thereto, dated March 15, 2011, as amended	S-1	333-176503	4.2	08/25/11	
10.01†	Amended and Restated Omnibus Incentive Plan and form of award agreements under the Amended and Restated Omnibus Incentive Plan	S-8	333-191884	99.1	10/24/13	
10.02	Lease Agreement, dated February 28, 2009, by and between Brownstone Publishing, LLC and Henry Amalgamated, LLC	S-1	333-176503	10.2	08/25/11	
10.03	First Addendum to Lease Agreement, dated May 4, 2010, by and between Brownstone Publishing, LLC and Henry Amalgamated, LLC	S-1	333-176503	10.3	08/25/11	
10.04	Second Addendum to Lease Agreement, dated December 1, 2010, by and between Brownstone Publishing, LLC and Henry Amalgamated, LLC	S-1	333-176503	10.4	08/25/11	
10.05	Third Addendum to Lease Agreement, dated December 16, 2010, by and between Brownstone Publishing, LLC and Henry Amalgamated, LLC	S-1	333-176503	10.5	08/25/11	
10.06	Fourth Addendum to Lease Agreement, dated January 1, 2011, by and between the registrant and Henry Amalgamated, LLC	S-1	333-176503	10.6	08/25/11	
10.07	Fifth Addendum to Lease Agreement, dated June 1, 2011, by and between the registrant and Henry Amalgamated, LLC	S-1	333-176503	10.7	08/25/11	
10.08	Sixth Addendum to Lease Agreement, dated June 1, 2011, by and between the registrant and Henry Amalgamated, LLC	S-1	333-176503	10.8	08/25/11	

10.09	Contingent Addendum to Lease Agreement, dated January 1, 2011 and effective February 1, 2011, by and between the registrant and Henry Amalgamated, LLC	S-1	333-176503	10.9	08/25/11
10.10	Contingent Addendum to Lease Agreement, dated January 1 2011 and effective March 1, 2011, by and between the registrant and Henry Amalgamated, LLC	S-1	333-176503	10.10	08/25/11
10.11	Parking Lease, dated February 28, 2009, by and between Brownstone Publishing, LLC and Henry Amalgamated, LLC	S-1	333-176503	10.11	08/25/11
10.12	Lease, dated November 2, 2007, by and between AL Campus Kids, LLC, and Henry Amalgamated, LLC (124 Herman Street)	S-1	333-176503	10.12	08/25/11
10.13	Lease, dated November 2, 2007, by and between AL Campus Kids, LLC, and Henry Amalgamated, LLC (118 Herman Street)	S-1	333-176503	10.13	08/25/11
10.14 †	Employment Agreement, dated July 10, 2006, by and between Brownstone Publishing, LLC and Michael D. Rutz	S-1	333-176503	10.15	08/25/11
10.15†	Form of Indemnification Agreement by and between Angie's List, Inc. and each of its executive officers and its directors not affiliated with an investment fund	S-1/A	333-176503	10.19	09/29/11
10.16†	Form of Indemnification Agreement by and between Angie's List, Inc. and each of its directors affiliated with an investment fund	S-1/A	333-176503	10.20	09/29/11
10.17	Loan and Security Agreement, dated August 31, 2011, by and between ORIX Venture Finance LLC, Bridge Bank National Association and Angie's List, Inc.	S-1/A	333-176503	10.21	09/29/11
10.18	Project Agreement by and between Angie's List, Inc. and the Consolidated City of Indianapolis, dated October 21, 2011	S-1/A	333-176503	10.22	11/02/11
10.19	Contingent Addendum to Lease Agreement, dated November 15, 2011 by and between the registrant and Henry Amalgamated LLC	10-K	001-35339	10.23	03/15/12
10.20	Contingent Addendum to Lease Agreement, dated December 1, 2011 by and between the registrant and Henry Amalgamated LLC	10-K	001-35339	10.24	03/15/12
10.21	Contingent Addendum to Lease Agreement, dated April 10, 2012 by and between the registrant and Henry Amalgamated LLC [934 E Washington Street, Indianapolis, IN 46202]	10-Q	001-35339	10.1	08/09/12
10.22	Contingent Addendum to Lease Agreement, dated April 10, 2012 by and between the registrant and Henry Amalgamated LLC [25 Pine Street, Indianapolis, IN 46202]	10-Q	001-35339	10.2	08/09/12
10.23	Contingent Addendum to Lease Agreement, dated April 10, 2012 by and between the registrant and Henry Amalgamated LLC [902 E Washington Street, Indianapolis, IN 46202]	10-Q	001-35339	10.3	08/09/12
10.24	Contingent Addendum to Lease Agreement, dated July 1, 2012 by and between the registrant and Henry Amalgamated LLC [902, 932 & 934 Suite A, E Washington Street, Indianapolis, IN 46202]	10-Q	001-35339	10.4	08/09/12
10.25	Purchase and sale agreement by and among Angie's List, Inc. and Henry Amalgamated, LLC and Henry Amalgamated II, LLC	8-K	001-35339	10.1	11/09/12

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10.26†	Offer letter with Mark Howell, dated December 20, 2012	8-K	001-35339	10.1	01/17/13	
10.27†	Offer letter with Patrick Brady, dated May 14, 2013	10-Q	001-35339	10.1	07/25/13	
10.28†	Offer Letter Agreement by and between Angie's List, Inc. and Thomas R. Fox, dated August 20, 2013	8-K	001-35339	10.1	08/21/13	
21.01	Subsidiaries of the Registrant	S-1	333-176503	21.1	08/25/11	
23.01	Consent of independent registered public accounting firm					X
24.01	Power of Attorney (included on signature page of this Annual Report on Form 10-K)					X
31.01	Certification of the Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act					X
31.02	Certification of the Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act					X
32.01	Certification of the Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act					X
32.02	Certification of the Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act					X
101.INS*(1)	XBRL Instance Document					X
101.SCH*(1)	XBRL Taxonomy Extension Schema Document					X
101.CAL*(1)	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF*(1)	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB*(1)	XBRL Taxonomy Extension Labels Linkbase Document					X
101.PRE*(1)	XBRL Taxonomy Extension Presentation Linkbase Document					X

† Indicates management contract or compensatory plan.

SIGNATURES

Pursuant to the requirements Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on February 28, 2014.

ANGIE'S LIST, INC.

By: /S/ WILLIAM S. OESTERLE
Name: William S. Oesterle
Title: Chief Executive Officer and Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints William S. Oesterle, Thomas R. Fox and Shannon Shaw and each of them, his or her true and lawful attorneys-in-fact and agents, with full power to act separately and full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K and to file the same, with all exhibits thereto, and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto each said attorney-in-fact and agent full power and authority to do and perform each and every act in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or either of them or his or her or their substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1934, as amended, this report has been signed by the following persons in the capacities and on the dates indicated.

Signature	**Title**	**Date**
/S/ WILLIAM S. OESTERLE William S. Oesterle	Chief Executive Officer and Director (Principal Executive Officer)	February 28, 2014
/S/ THOMAS R. FOX Thomas R. Fox	Chief Financial Officer (Principal Financial and Accounting Officer)	February 28, 2014
/S/ JOHN W. BIDDINGER John W. Biddinger	Director	February 28, 2014
/S/ MARK BRITTO Mark Britto	Director	February 28, 2014
/S/ JOHN H. CHUANG John H. Chuang	Director	February 28, 2014
/S/ STEVEN M. KAPNER Steven M. Kapner	Director	February 28, 2014
/S/ KEITH J. KRACH Keith J. Krach	Director	February 28, 2014

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Signature	Title	Date
/S/ ROGER H. LEE Roger H. Lee	Director	February 28, 2014
/S/ MICHAEL S. MAURER Michael S. Maurer	Director	February 28, 2014
/S/ SUSAN THRONSON Susan Thronson	Director	February 28, 2014
/S/ ANGELA R. HICKS BOWMAN Angela R. Hicks Bowman	Director	February 28, 2014

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EXHIBIT INDEX

		Incorporated by Reference				
Exhibit No.	**Exhibit Description**	**Form**	**File No.**	**Exhibit**	**Filing Date**	**Filed Herewith**
3.01	Amended and Restated Certificate of Incorporation	S-1/A	333-176503	3.1	10/31/11	
3.02	Amended and Restated Bylaws	S-1/A	333-176503	3.2	10/31/11	
4.01	Fifth Amended and Restated Investor Rights Agreement, by and among Angie’s List, Inc. and the investors listed on Schedule A thereto, dated March 15, 2011, as amended	S-1	333-176503	4.2	08/25/11	
10.01†	Amended and Restated Omnibus Incentive Plan and form of award agreements under the Amended and Restated Omnibus Incentive Plan	S-8	333-191884	99.1	10/24/13	
10.02	Lease Agreement, dated February 28, 2009, by and between Brownstone Publishing, LLC and Henry Amalgamated, LLC	S-1	333-176503	10.2	08/25/11	
10.03	First Addendum to Lease Agreement, dated May 4, 2010, by and between Brownstone Publishing, LLC and Henry Amalgamated, LLC	S-1	333-176503	10.3	08/25/11	
10.04	Second Addendum to Lease Agreement, dated December 1, 2010, by and between Brownstone Publishing, LLC and Henry Amalgamated, LLC	S-1	333-176503	10.4	08/25/11	
10.05	Third Addendum to Lease Agreement, dated December 16, 2010, by and between Brownstone Publishing, LLC and Henry Amalgamated, LLC	S-1	333-176503	10.5	08/25/11	
10.06	Fourth Addendum to Lease Agreement, dated January 1, 2011, by and between the registrant and Henry Amalgamated, LLC	S-1	333-176503	10.6	08/25/11	
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