

Angie's List, Inc.
Form 10-Q
November 09, 2012

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

FORM 10-Q

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

For the quarterly period ended September 30, 2012

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

For the transition period from _____ to _____

Commission file number 001-35339

ANGIE'S LIST, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

27-2440197
(I.R.S. Employer
Identification Number)

1030 E. Washington Street
Indianapolis, IN
(Address of principal executive offices)

46202
(Zip Code)

(888) 888-5478
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

The number of shares of registrant's common stock outstanding as of November 2, 2012 was 57,814,208.

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ITEM 1. FINANCIAL STATEMENTS

Angie's List, Inc.
Consolidated Balance Sheets
(in thousands, except share and per share data)

	September 30, 2012 (Unaudited)	December 31, 2011
Assets		
Cash and cash equivalents	\$ 65,497	\$ 88,607
Restricted cash	50	300
Accounts receivable, net of allowance for doubtful accounts of \$1,203 and \$535 at September 30, 2012 and December 31, 2011	7,290	3,937
Prepaid expenses and other current assets	19,829	11,835
Total current assets	92,666	104,679
Property and equipment, net	5,384	3,883
Goodwill	415	415
Amortizable intangible assets, net	2,630	1,555
Deferred financing fees, net	694	866
Total assets	\$ 101,789	\$ 111,398
Liabilities and stockholders' equity		
Accounts payable	\$ 9,418	\$ 5,266
Accrued liabilities	23,118	10,532
Deferred membership revenue	27,718	17,153
Deferred advertising revenue	20,162	13,643
Total current liabilities	80,416	46,594
Long-term debt, including accrued interest	14,857	14,820
Deferred membership revenue, noncurrent	4,385	3,751
Deferred advertising revenue, noncurrent	260	239
Deferred income taxes	158	158
Total liabilities	100,076	65,562
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, \$0.001 par value: 10,000,000 shares authorized, no shares issued or outstanding at September 30, 2012 and December 31, 2011	—	—
Common stock, \$0.001 par value: 300,000,000 shares authorized, 66,358,648 and 65,491,897 shares issued and 57,799,936 and 56,933,185 shares outstanding at September 30, 2012 and December 31, 2011, respectively	66	65
Additional paid-in-capital	247,150	235,950
Treasury stock, at cost: 8,558,712 shares of common stock at September 30, 2012 and December 31, 2011	(23,719)	(23,719)
Accumulated deficit	(221,784)	(166,460)
Total stockholders' equity	1,713	45,836
Total liabilities and stockholders' equity	\$ 101,789	\$ 111,398

See accompanying notes.

Angie's List, Inc.
 Consolidated Statements of Operations
 (in thousands, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012 (Unaudited)	2011	2012 (Unaudited)	2011
Revenue				
Membership	\$ 12,769	\$ 9,109	\$ 34,036	\$ 24,082
Service provider	29,253	14,899	75,584	38,512
Total revenue	42,022	24,008	109,620	62,594
Operating expenses				
Operations and support	7,140	4,697	19,631	12,294
Selling	16,240	8,736	42,974	22,392
Marketing	26,088	18,760	71,316	47,991
Technology	4,905	2,277	12,223	6,003
General and administrative	5,669	4,365	17,420	12,730
Operating loss	(18,020)	(14,827)	(53,944)	(38,816)
Interest expense	467	712	1,380	2,519
Loss on debt extinguishment	—	1,830	—	1,830
Loss before income taxes	(18,487)	(17,369)	(55,324)	(43,165)
Income tax expense	—	—	—	—
Net loss	\$ (18,487)	\$ (17,369)	\$ (55,324)	\$ (43,165)
Net loss per common share—basic and diluted	\$ (0.32)	\$ (0.66)	\$ (0.96)	\$ (1.59)
Weighted average number of common shares outstanding—basic and diluted	57,768,777	26,140,678	57,369,674	27,125,491

See accompanying notes.

Angie's List, Inc.
Consolidated Statements of Cash Flows
(in thousands)

	Nine Months Ended September 30,	
	2012	2011
	(Unaudited)	
Operating activities		
Net loss	\$ (55,324)	\$ (43,165)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,960	1,195
Accrued interest due on debt maturity date	—	625
Amortization of debt discount and deferred financing fees	209	524
Non-cash stock-based compensation expense	2,213	1,844
Non-cash loss on debt extinguishment	—	1,075
Changes in certain assets:		
Accounts receivable	(3,353)	(764)
Prepaid expenses and other current assets	(7,994)	(6,438)
Changes in certain liabilities:		
Accounts payable	4,152	3,582
Accrued liabilities	12,601	9,526
Accrued interest on long-term debt	—	(2,668)
Deferred advertising revenue	11,199	4,392
Deferred membership revenue	6,540	6,508
Net cash used in operating activities	(27,797)	(23,764)
Investing activities		
Restricted cash	250	—
Property and equipment	(2,583)	(2,345)
Data acquisition costs	(1,968)	(837)
Net cash used in investing activities	(4,301)	(3,182)
Financing activities		
Principal payments on long-term debt	—	(21,797)
Proceeds from long-term debt	—	15,000
Proceeds from exercise of stock options	361	—
Cash paid for financing costs	—	(910)
Payments on capital lease obligations	—	(35)
Purchase of treasury shares	—	(21,897)
Sale of common stock, net of costs	8,627	—
Sale of preferred stock, net of costs	—	57,923
Net cash provided by financing activities	8,988	28,284
Net increase (decrease) in cash	(23,110)	1,338
Cash and cash equivalents, beginning of period	88,607	9,209
Cash and cash equivalents, end of period	\$ 65,497	\$ 10,547

See accompanying notes.

Angie's List, Inc.
Notes to Consolidated Financial Statements
(Unaudited)
(in thousands, except share and 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. The Company's services are provided in metropolitan areas located across the continental United States.

The accompanying unaudited Consolidated Financial Statements have been prepared in conformity with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934. Accordingly, they do not include all of the information and footnotes necessary for fair presentation of financial position, results of operations and cash flows in conformity with U.S. generally accepted accounting principles. Operating results from interim periods are not necessarily indicative of results that may be expected for the fiscal year as a whole. The Company is subject to seasonal patterns that generally affect its business. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates, but management does not believe such differences will materially affect the Company's financial position or results of operations. The Consolidated Financial Statements reflect all adjustments considered, in the opinion of management, necessary to fairly present the results for the periods. Such adjustments are of a normal recurring nature.

For further information, including the Company's significant accounting policies, refer to the audited Consolidated Financial Statements and the notes thereto for the year ended December 31, 2011. As used herein, the terms "Angie's List", "Company", "we", "our" and "us" mean Angie's List, Inc. and its consolidated subsidiaries.

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.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, other current assets, accounts payable, and accrued expenses approximate their fair values because of the short maturity of these instruments. The carrying amount of the term loan approximates its fair value because this borrowing bears interest at a variable (market) rate.

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 68 months for annual or multi-year members and 12 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 renewal 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 upon delivery of the voucher to the purchaser. Our e-commerce revenue was \$3,806 and \$1,934 for the three months ended September 30, 2012 and 2011, respectively, and \$11,008 and \$3,993 for the nine months ended September 30, 2012 and 2011, respectively.

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.

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

	September 30, 2012	September 30, 2011
Stock options	2,794,562	2,321,784
Restricted stock	—	236,776
Preferred stock(1)	—	22,967,488
Warrants	88,240	360,544

(1) Preferred stock is presented on an as converted basis to reflect the applicable conversion ratio of one-to-eight.

3. Prepaid and other current assets

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

	September 30, 2012	December 31, 2011
Prepaid and deferred commissions	\$ 17,568	\$ 10,486
Other prepaid and current assets	2,261	1,349
Total prepaid expenses and other current assets	\$ 19,829	\$ 11,835

4. Accrued liabilities

Accrued liabilities were comprised of the following:

	September 30, 2012	December 31, 2011
Accrued sales commissions	\$ 5,593	\$ 3,609
Sales and use tax	1,825	1,430
Accrued compensation	3,679	2,293
Uninvoiced accounts payable	8,955	1,646
Other	3,066	1,554
Total accrued liabilities	\$ 23,118	\$ 10,532

5. Debt and Credit Arrangements

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. As of September 30, 2012 and December 31, 2011, the Company had \$15,000 in outstanding borrowings under the term loan and available credit of \$15,000 under the revolving credit facility. The carrying amount of the term loan approximates its fair value because this borrowing bears interest at a variable (market) rate.

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 September 30, 2012 and December 31, 2011.

6. Commitments and Contingencies

Legal Matters

From time to time, the Company 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 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.

A lawsuit seeking class action status, *Fritzing v. Angie's List*, was filed against the Company on August 14, 2012 in the U.S. District Court for the Southern District of Indiana. The lawsuit alleges claims for breach of contract, deception and unjust enrichment, and requests certification of a class consisting of all current and former Angie's List members whose membership was renewed between August 14, 2006 and the present. The plaintiff is seeking unspecified compensatory damages and an award of treble damages, attorneys' fees and costs. The Company believes this suit is without merit and intends to defend itself vigorously in this matter.

7. Warrants

In March 2012, the holder of 272,304 warrants completed a net issuance exercise in accordance with the terms of the warrants, resulting in the issuance of 120,096 shares of common stock. As of September 30, 2012, there were outstanding warrants to purchase 88,240 shares of common stock. On October 17, 2012, the holders of these 88,240 warrants to purchase common stock completed a net issuance exercise in accordance with the terms of their warrants, resulting in the issuance of 14,272 shares of common stock.

8. Stockholder's Equity

In May 2012, the Company completed a secondary 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 price to the public of the shares sold in the offering was \$13.00. Proceeds to the Company were approximately \$8,708, net of underwriting discounts and commissions. Proceeds to the selling stockholders were approximately \$98,151, net of underwriting discounts and commissions. The Company did not receive any proceeds from the sale of shares by the selling stockholders. Total underwriting discounts and commissions were \$5,329. 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.

9. Subsequent Events

On November 9, 2012, the Company entered into a Purchase and Sale Agreement (the "Agreement"), dated effective as of November 8, 2012, with Henry Amalgamated, LLC, and Henry Amalgamated II, LLC, Indiana limited liability companies (together, "Henry Amalgamated"), pursuant to which the Company agreed to acquire certain real properties in Indianapolis, Indiana (collectively, "the Property"), comprising the Company's headquarters, for an aggregate purchase price of \$6,250. The closing of the transaction occurred on November 9, 2012. In connection with its acquisition of the Property, on November 9, 2012, the Company's leases for its headquarters properties 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. Because the transaction described above constitutes a related party transaction, the audit committee of the Company's board of directors reviewed and approved the Company's acquisition of the Property.

ITEM 2. 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 and review local professionals 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 more than 1.6 million paid memberships as of September 30, 2012. 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 and recognized ratably over the subscription period and the expected life of the membership, respectively. As of September 30, 2012, approximately 90% 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.

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, monthly magazine and call center. We derive service provider revenue principally from term-based sales of advertising to local service providers. 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 for these term based contracts ratably over the period in which an advertising campaign is run. We also generate service provider revenue through prepaid e-commerce vouchers sold to consumers, and recognize the revenue on a net basis upon delivery of the voucher to the member. We continue to expand our service provider sales force 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.

To establish a new geographic 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. We currently have 205 paid markets.

Increasing new paid memberships is our 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 advertising. We expect marketing expense to increase in future years as we accelerate our advertising spending to acquire new paid memberships.

In the fourth quarter of 2012, we commenced the transition to a new compensation plan for our sales force responsible for new advertising originations whereby we will pay commissions as cash is collected from our service providers rather than upfront at booking as we have done historically. This change, once fully implemented, is expected to reduce growth in our prepaid expenses and therefore have a positive impact on our operating cash flows, as it will allow us to grow newly originated service provider revenue on a primarily self-funded basis. To minimize the disruption to our sales force, we will be transitioning to the new compensation plan gradually over the next several quarters and will be adopting a base salary, plus commission structure in lieu of our historical "commission only" structure. Because the base portion of compensation will be recognized within the same period as it is paid, irrespective of revenue recognition, we expect to see higher selling expense as a percent of revenue in the near-term as we make this transition and the legacy "commission only" contracts run off.

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 the twelve month period ended September 30, 2012 by cohort. 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 2003-2007 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 cohorts have begun to achieve 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/Market(1)	Membership Revenue/Paid Membership(2)	Service Provider Revenue/Paid Membership(3)	Avg. Marketing Expense/Market(4)	Total Paid Memberships(5)	Estimated Penetration Rate(6)	Annual Membership Growth Rate(7)
Pre-2003	10	\$ 4,350,693	\$ 43.98	\$ 107.53	\$ 1,249,986	338,863	8.5 %	44 %
2003-2007	35	2,364,197	37.20	78.66	1,284,796	898,962	6.3 %	70 %
2008-2010	103	99,116	14.53	19.53	182,659	384,002	6.4 %	78 %
Post-2010	57	7,922	9.99	11.07	55,533	34,941	3.5 %	*
Total	205					1,656,768		

* Not meaningful

- (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 period 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 period 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 February 2012 demographic study by LogicLab LLC that we commissioned, there were approximately 29 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 25 million of these households were in our markets. The average number of households per market in our demographic target was 400,000, 410,000, 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 September 30, 2012. Total paid memberships in each cohort includes a de minimis number of complimentary memberships in our paid markets for the

period presented. All revenue and paid memberships relating to locations that were not identified as part of a specific market are included in the 2008-2010 cohort.

- (6) Estimated penetration rate is calculated by dividing the number of paid memberships in a given cohort as of September 30, 2012 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 September 30, 2011 and September 30, 2012.

Our average revenue per market and total revenue per paid membership generally increase with the maturity and corresponding increased penetration of our markets. However, we expect total revenue per paid membership to fluctuate from period to period, and in recent periods, we generally recorded declining total revenue per paid membership overall. This decline reflects a lag in our ability to leverage increased penetration in a market into increased advertising rates as 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. In addition, the decline reflects rapid membership growth in less penetrated markets where the average membership and service provider revenue per paid member is lower than in more penetrated markets.

We also have adopted a dynamic membership subscription pricing model in 68 of our mature markets to 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, which covers 320 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 will enable us to offer a better value proposition to our members and preserve cross-selling opportunities as members' needs evolve. Although we expect that this strategy may result in lower average membership fees per paid membership overall, we believe the new members generated by this pricing model should ultimately produce increased service provider revenue per paid membership.

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 100% of our marketing dollars on national advertising. We believe that this advertising strategy provides us the most cost-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. Because 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 three and nine months ended September 30, 2012 and 2011:

	Three Months Ended September		Nine Months Ended September	
	2012	2011	2012	2011
Total paid memberships (end of period)	1,656,768	988,224	1,656,768	988,224
Gross paid memberships added (in period)	341,522	240,334	862,014	557,061
Marketing cost per paid membership acquisition (in period)	\$ 76	\$ 78	\$ 83	\$ 86
First-year membership renewal rate (in period)	76%	76%	76%	76%
Average membership renewal rate (in period)	78%	78%	78%	79%
Participating service providers (end of period)	33,209	21,927	33,209	21,927
Total service provider contract value (end of period, in thousands)	\$ 119,091	\$ 65,104	\$ 119,091	\$ 65,104

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. On a comparative basis, marketing cost per paid membership acquisition can reflect our success in generating “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. As such, marketing cost per paid membership also tends to be higher in these periods, particularly in the second quarter, as we ramp up spending to build brand awareness. Our marketing expense and marketing cost per paid membership acquisition 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 10% of our total membership base as of September 30, 2012.

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 have recently begun tracking 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 September 30, 2012 and 2011, our contract value backlog was \$74.9 million and \$40.6 million, respectively.

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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(dollars in thousands)		(dollars in thousands)	
Revenue				
Membership	\$ 12,769	\$ 9,109	\$ 34,036	\$ 24,082
Service provider	29,253	14,899	75,584	38,512
Total revenue	42,022	24,008	109,620	62,594
Operating expenses				
Operations and support	7,140	4,697	19,631	12,294
Selling	16,240	8,736	42,974	22,392
Marketing	26,088	18,760	71,316	47,991
Technology(1)	4,905	2,277	12,223	6,003
General and administrative(1)	5,669	4,365	17,420	12,730
Operating loss	(18,020)	(14,827)	(53,944)	(38,816)
Interest expense	467	712	1,380	2,519
Loss on debt extinguishment	—	1,830	—	1,830
Income before income taxes	\$ (18,487)	\$ (17,369)	\$ (55,324)	\$ (43,165)
Income tax expense	—	—	—	—
Net loss	\$ (18,487)	\$ (17,369)	\$ (55,324)	\$ (43,165)

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

Technology	\$ 225	\$ 62	\$ 563	\$ 362
General and administrative	545	486	1,650	1,482
	\$ 770	\$ 548	\$ 2,213	\$ 1,844

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenue				
Membership	30%	38%	31%	38%
Service provider	70	62	69	62
Total revenue	100%	100%	100%	100%
Operating expenses				
Operations and support	17	20	18	20
Selling	39	36	39	36
Marketing	62	77	65	77
Technology(1)	12	10	11	10
General and administrative(1)	13	18	16	19
Operating loss	(43)	(61)	(49)	(62)
Interest expense	1	3	1	4

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Loss on debt extinguishment	—	8	—	3
Income before income taxes	(44)	(72)	(50)	(69)
Income tax expense	—	—	—	—
Net loss	(44)%	(72)%	(50)%	(69)%

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Comparison of the three months ended September 30, 2012 and 2011

Revenue

	Three Months Ended September 30,		% Change
	2012	2011	
	(dollars in thousands)		
Revenue			
Membership	\$ 12,769	\$ 9,109	40%
Service provider	29,253	14,899	96%
Total revenue	\$ 42,022	\$ 24,008	75%
Percentage of revenue by type			
Membership	30%	38%	
Service provider	70%	62%	
Total revenue	100%	100%	
Total paid memberships (end of period)	1,656,768	988,224	68%
Gross paid memberships added (in period)	341,522	240,334	42%
Participating service providers (end of period)	33,209	21,927	51%

Total revenue increased \$18.0 million for the three months ended September 30, 2012 as compared to the three months ended September 30, 2011.

Membership revenue increased \$3.7 million primarily due to a 68% increase in the total number of paid memberships, partially offset by an 18% decrease in membership revenue per paid membership in the three months ended September 30, 2012. The decrease in membership revenue per 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. As of September 30, 2012 there were 68 markets in which we offered members the opportunity to purchase individual segments. We offer only bundled memberships to members in less penetrated markets. The decrease in membership revenue per paid membership also resulted from an increase from 87% to 90% of total memberships constituting annual and multi-year memberships. Consumers pay less per month for annual and multi-year memberships than for monthly memberships. Therefore, in periods in which our percentage of memberships shifts to more annual and multi-year memberships, our membership revenue per paid membership may decrease.

Service provider revenue increased \$14.4 million to 70% of revenue primarily as a result of a 51% increase in the number of local service providers participating in our advertising programs and an increase in contract value per average participating service provider. Service provider revenue primarily consists of advertising contracts with service providers. We also included e-commerce revenue of \$3.8 million and \$1.9 million in service provider revenue in the three months ended September 30, 2012 and 2011, respectively. Our e-commerce revenue is generated by our Angie's List Big Deal and Storefront offerings. While we are encouraged by the early results of these offerings, we expect the revenue contribution from these offerings to fluctuate from period to period as the offerings evolve.

Operations and support

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	Three Months Ended September 30,		
	2012	2011	% Change
	(dollars in thousands)		
Operations and support	\$ 7,140	\$ 4,697	52%
Percentage of revenue	17%	20%	

Operations and support expense increased \$2.4 million for the three months ended September 30, 2012 compared to the three months ended September 30, 2011. This increase was due in part to a \$0.6 million increase in call center costs as compared to the prior year period as we increased our headcount to service our member and service provider base. There was a \$0.6 million increase in credit card processing fees due to the increased volume of membership enrollment and service provider transactions. We also incurred a \$0.4 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 \$0.6 million due to a 72% increase in circulation of our monthly publication with the growth of our membership base. We expect operations and support 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 17% from 20% as a result of the increase in revenue and our realization of economies of scale as we service our members and service providers.

Selling

	Three Months Ended September 30,		% Change
	2012	2011	
	(dollars in thousands)		
Selling	\$ 16,240	\$ 8,736	86%
Percentage of revenue	39%	36%	

Selling expense increased \$7.5 million for the three months ended September 30, 2012 compared to the three months ended September 30, 2011. This increase is due to an increase in service provider revenue and the composition of that revenue. More of the revenue in the current period was originated from first year, i.e., newly originated, service provider contracts in which we incur greater effective commission rates and related costs. In connection with our increased selling efforts, we increased the number of our sales personnel originating new advertising contracts and ecommerce transactions by 72% to 556 and the number of our sales personnel responsible for contract renewals by 64% to 125 from period ended September 30, 2011.

Selling expense as a percentage of revenue increased for the three months ended September 30, 2012 as compared to the three months ended September 30, 2011, as a result of an increase in new advertising contract originations. In light of the fact that selling expense primarily consists of commissions, we generally expect it to fluctuate with service provider revenue over time. In addition, as noted above, our transition to a new base salary plus commission structure is expected to result in higher selling expense as a percentage of revenue over the next several quarters.

Marketing

	Three Months Ended September 30,		% Change
	2012	2011	
	(dollars in thousands)		
Marketing	\$ 26,088	\$ 18,760	39%
Percentage of revenue	62%	79%	
Gross paid memberships added in the period	341,522	240,334	42%
Marketing cost per paid membership acquisition	\$ 76	\$ 78	

Marketing expense increased \$7.3 million for the three months ended September 30, 2012 compared to the three months ended September 30, 2011, primarily due to an increase in national advertising.

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. 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 significantly in the fourth quarter which is consistent with seasonal trends.

Technology

Three Months Ended
September 30,

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	2012	2011	% Change
	(dollars in thousands)		
Technology	\$ 4,905	\$ 2,277	115%
Percentage of revenue	12%	10%	
Non-cash stock-based compensation	\$ 225	\$ 62	

Technology expense increased \$2.6 million for the three months ended September 30, 2012 compared to the three months ended September 30, 2011. The increase in technology expense was primarily attributable to a \$1.3 million increase in personnel-related costs as well as we continue to develop our technology platform and service our growing base of members and service providers. During the second quarter of 2012 we established a technology presence in Palo Alto, California and as a result, incurred additional costs for personnel and occupancy. We expect technology expense to continue to increase in absolute dollars in future periods as we continue to develop products to meet the needs of our members and service providers.

For the above reasons, technology expense as a percentage of revenue increased compared with the prior year period. We expect technology expense as a percentage of revenue to fluctuate as our technology investments and as revenue changes over time.

General and administrative

	Three Months Ended September 30,		
	2012	2011	% Change
	(dollars in thousands)		
General and administrative	\$ 5,669	\$ 4,365	30%
Percentage of revenue	13%	18%	
Non-cash stock-based compensation	\$ 545	\$ 486	

General and administrative expense increased \$1.3 million for the three months ended September 30, 2012 compared to the three months ended September 30, 2011. We expect general and administrative expense to continue to increase in absolute dollars in future periods as we support our growing organization and incur costs related to operating as a public company. General and administrative expense as a percentage of revenue decreased as a percentage of revenue due to the increase in revenue and our realization of economies of scale. We expect general and administrative expense as a percentage of revenue to decrease in future periods as we continue to realize economies of scale.

Interest expense

Interest expense decreased \$0.2 million for the three months ended September 30, 2012 compared to the three months ended September 30, 2011, as the result of a decrease in average debt outstanding as well as lower interest rates associated with the refinancing of our primary debt obligations in August 2011.

Comparison of the nine months ended September 30, 2012 and 2011

Revenue

	Nine Months Ended September 30,		
	2012	2011	% Change
	(dollars in thousands)		
Revenue			
Membership	\$ 34,036	\$ 24,082	41%
Service provider	75,784	38,512	97%
Total revenue	\$ 109,820	\$ 62,594	75%
Percentage of revenue by type			
Membership	31%	38%	
Service provider	69%	62%	
Total revenue	100%	100%	
Total paid memberships (end of period)	1,656,768	988,224	68%
Gross paid memberships added (in period)	862,014	557,061	55%
Participating service providers (end of period)	33,209	21,927	51%

Total revenue increased \$47.0 million for the nine months ended September 30, 2012 as compared to the nine months ended September 30, 2011.

Membership revenue increased \$10.0 million in the nine months ended September 30, 2012 primarily due to a 68% increase in the total number of paid memberships, partially offset by an 18% decrease in membership revenue per paid membership. The decrease in membership revenue per paid membership resulted primarily from growth in paid memberships in less penetrated markets where average membership fees per paid membership are lower and our strategy 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. The decrease in membership revenue per paid membership also resulted from an increase from 87% to 90% of total memberships constituting annual and multi-year memberships.

Service provider revenue increased \$37.3 million to 69% of total revenue primarily as a result of a 51% increase in the number of local service providers participating in our advertising programs and an increase in the contract value per average service provider. E-commerce revenue of \$11.0 million and \$4.0 million is included in service provider revenue for the nine months ended September 30, 2012 and 2011, respectively.

Operations and support

	Nine Months Ended September 30,		
	2012	2011	% Change
	(dollars in thousands)		
Operations and support	\$ 19,631	\$ 12,294	60%
Percentage of revenue	18%	20%	

Operations and support expense increased \$7.4 million for the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011. This increase was due in part to a \$2.4 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. In addition, there was a \$1.6 million increase in credit card processing fees for membership enrollment and service provider transactions and a \$1.4 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 \$1.5 million due to a 65% increase in circulation of our monthly publication as a result of our growing member base. Operations and support expense as a percentage of revenue decreased to 18% from 20% as a result of the increase in revenue and our realization of economies of scale as we service our members and service providers.

Selling

	Nine Months Ended September 30,		
	2012	2011	% Change
	(dollars in thousands)		
Selling	\$ 42,974	\$ 22,392	92%
Percentage of revenue	39%	36%	

Selling expense increased \$20.6 million for the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011. In connection with our increased selling efforts, we increased the number of our sales personnel and related management originating new advertising contracts by 72% to 556 and the number of our sales personnel responsible for contract renewals by 64% to 125 from the end of the prior year period.

Selling expense as a percentage of revenue increased for the nine months ended September 30, 2012 as compared to the nine months ended September 30, 2011, due to an increase in new advertising contract originations and the rapid expansion of our sales force, particularly the portion of our sales force focusing on new contract originations.

Marketing

	Nine Months Ended September 30,		
	2012	2011	% Change
	(dollars in thousands)		
Marketing	\$ 71,316	\$ 47,991	49%
Percentage of revenue	65%	77%	
Gross paid memberships added in the period	862,014	557,061	55%
Marketing cost per paid membership acquisition	\$ 83	\$ 86	

Marketing expense increased \$23.3 million for the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011, primarily due to an increase in national advertising. We attribute our year-to-date decrease in cost per paid membership acquisition to improved effectiveness of our marketing spend and additional “word of mouth” benefits as we have increased the membership base.

Marketing expense as a percentage of revenue decreased from the prior year period due to the timing of marketing initiatives as compared to revenue recognized.

Technology

	Nine Months Ended September 30,		
	2012	2011	% Change
	(dollars in thousands)		
Technology	\$ 12,223	\$ 6,003	104%
Percentage of revenue	11%	10%	
Non-cash stock-based compensation	\$ 563	\$ 362	

Technology expense increased \$6.2 million for the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011. The increase in technology expense was primarily attributable to a \$2.8 million increase in personnel-related costs as well as costs incurred to continue to develop our technology platform and service our growing base of members and service providers, including establishment of a technology presence in Palo Alto, California.

Technology expense as a percentage of revenue increased compared with the prior year period.

General and administrative

	Nine Months Ended September 30,		
	2012	2011	% Change
	(dollars in thousands)		
General and administrative	\$ 17,420	\$ 12,730	37%
Percentage of revenue	16%	19%	
Non-cash stock-based compensation	\$ 1,650	\$ 1,482	

General and administrative expense increased \$4.7 million for the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011. Personnel-related costs increased \$1.0 million primarily as a result of an increase in our headquarters staff, and we incurred an additional \$1.4 million in outside consulting and professional services fees to support our growing organization. During the current year period we incurred \$0.7 million for non-recurring fees related to the follow-on sale of common stock. Non-cash stock-based compensation expense increased by \$0.2 million as a result of grants made throughout 2011 and in 2012.

Interest expense

Interest expense decreased \$1.1 million for the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011, as the result of a decrease in average debt outstanding as well as lower interest rates associated with the refinancing of our credit facility in 2011.

Liquidity and Capital Resources

General

At September 30, 2012, we had \$65.5 million in cash and cash equivalents. Cash and cash equivalents consists of bank deposit accounts which, at times, may exceed federally insured limits. To date, we have experienced no losses in these accounts.

Summary cash flow information for the nine months ended September 30, 2012 and 2011 is set forth below.

	Nine Months Ended September 30,	
	2012	2011
	(dollars in thousands)	
Net cash used in operating activities	\$ (27,797)	\$ (23,764)
Net cash used in investing activities	(4,301)	(3,182)
Net cash provided by financing activities	8,988	28,284

On November 9, 2012, we acquired certain real properties in Indianapolis, Indiana, comprising our headquarters, for an aggregate purchase price of \$6.25 million. In connection with the acquisition, on November 9, 2012, our headquarters leases were terminated. The acquisition is expected to reduce our occupancy costs and to increase net cash used in investing activities in the fourth quarter of 2012.

Net Cash Used in Operating Activities

We have experienced negative operating cash flows principally due to our aggressive investments in marketing, the expansion of our sales force and technology. Our largest source of operating cash flows is cash collections from our members and service providers. We anticipate that we will continue to incur net losses and use cash in operating activities as we continue to invest aggressively to grow and penetrate our markets.

Our use of cash in operating activities for the nine months ended September 30, 2012 was primarily attributable to our net loss of \$55.3 million, reflecting continued investments in national advertising, an increase in our sales personnel, our increased investment in technology as we increased engineering headcount, as well as other headcount increases and other expenses to grow our business. This net loss was adjusted for \$4.4 million of non-cash expenses, which included \$2.2 million of stock-based compensation expense, \$2.0 million of depreciation and amortization and \$0.2 million attributable to the amortization of debt discount and deferred financing fees. Additional uses of cash included a \$8.0 million increase in prepaid expenses primarily as a result of the timing of payment of commissions to our sales personnel and an increase in accounts receivable of \$3.4 million attributable to an increase in service provider billings. As discussed, we believe our transition over the next several quarters to paying commissions to our sales force as we collect cash from service providers will help reduce the growth in our prepaid expenses. These uses of cash in operating activities were offset in part by a \$16.8 million net 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 \$17.8 million as a result of increases in both the number of our paid memberships and the number of service providers participating in our advertising programs.

Our use of cash in operating activities for the nine months ended September 30, 2011 was primarily attributable to our net loss of \$43.2 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 was adjusted for \$5.3 million of non-cash expenses, which included \$1.8 million of stock-based compensation expense, \$1.2 million of depreciation and amortization and \$1.1 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 in the third quarter of 2011. Additional uses of cash included a \$6.4 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 \$13.1 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 \$10.9 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 the nine months ended September 30, 2012 was attributable to \$2.6 million in information technology investments and \$2.0 million for data acquisition, consisting primarily of consumer reviews on service providers. These uses of cash were offset in part by a decrease in restricted cash of \$0.3 million during the period, which had previously been established as a reserve required under our credit card agreements.

Our use of cash in investing activities in the nine months ended September 30, 2011 was attributable to \$1.9 million in information technology investments to further improve our hardware and software for members, service providers and our growing employee base, \$0.8 million for data acquisition and \$0.4 million in other expenditures on property and equipment.

Net Cash Provided by Financing Activities

Net cash provided by financing activities for the nine months ended September 30, 2012 consisted of proceeds from the sale of common stock of \$8.6 million, net of underwriting discounts, commissions, fees and expenses, and \$0.4 million in proceeds from the exercise of employee stock options.

Net cash provided by financing activities for the nine months ended September 30, 2011 included proceeds from the sale of preferred stock of \$57.9 million and 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 period.

Term Loan and Revolving Credit Facility.

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. As of September 30, 2012, we had \$15.0 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 September 30, 2012.

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

Our contractual obligations relate primarily to debt obligations and non-cancellable operating leases. During the quarter ended September 30, 2012, there were no significant changes in our contractual obligations from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011. As described above, on November 9, 2012, we acquired certain real properties in Indianapolis, Indiana, comprising our headquarters, for an aggregate purchase price of \$6.25 million. In connection with the acquisition, on November 9, 2012, our headquarters leases were terminated.

Critical Accounting 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. There have been no material changes to our critical accounting policies and estimates described in our Annual Report on Form 10-K for the year ended December 31, 2011.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

There have been no material changes in our exposure to market risk since the disclosure in our Annual Report on Form 10-K for the year ended December 31, 2011. Please refer to Part II, Item 7A. Quantitative and Qualitative Disclosure about Market Risk included in our Annual Report on Form 10-K for our fiscal year ended December 31, 2011 for a more complete discussion of the market risks we encounter.

ITEM 4. 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 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 at the end of the period covered by this Quarterly Report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of the end of the period at the reasonable assurance level.

Management's Annual Report on Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information pertaining to legal proceedings can be found in “Item 1. Financial Statements—Note 6. Commitments and Contingencies” of this Quarterly Report on Form 10-Q, and is incorporated by reference herein.

ITEM 1A. RISK FACTORS

RISK FACTORS

Investing in our common stock involves a high degree of risk. Before deciding to invest in our common stock, you should carefully consider each of the following risk factors and all other information set forth in this Quarterly Report on Form 10-Q. The following risks and the risks described elsewhere in this Quarterly Report on Form 10-Q, including in the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” could materially harm our business, financial condition, operating results, cash flow and prospects. If that occurs, the trading price of our common stock could decline, and you may lose all or part of your investment.

Risks Related to Our Business

We have incurred net losses since inception, and we expect to continue to incur net losses as we continue to invest aggressively to grow and penetrate our markets.

We have incurred significant net losses and have an accumulated deficit of \$221.8 million as of September 30, 2012. As a result, we have funded our operations through equity and debt financings. A key element of our strategy has been to aggressively grow both the number of markets in which we offer our service and our penetration in each of these markets. In addition, we have expanded the number of local service provider categories that we maintain for our members’ review, launched new products and services for members and local service providers and significantly grown our service provider sales headcount and sales activity. We anticipate that our marketing, selling, operating and support and general and administrative expenses will continue to increase as we continue to invest in growing our paid membership base, increase the number and variety of our service provider categories, increase the number of service providers participating as advertisers, develop new marketing initiatives and enhance our technology platform. In particular, we intend to continue to invest substantial resources in marketing to acquire new paid memberships, in selling to grow our base of participating service providers and in technology to enhance our product offerings. These planned investments will consume a material portion of our cash flow and are expected to result in additional net losses and negative cash flow. We also expect to incur increased operating expenses as we hire additional personnel and invest in our infrastructure to support anticipated future growth and the reporting and compliance obligations to which we are subject as a public company.

In the event that we achieve profitability in the future, we may not be able to sustain or increase profitability on a quarterly or annual basis. If our revenue does not grow or declines, or if our operating expenses exceed our expectations, our results of operations will be adversely affected. In addition, if our future growth and operating performance, or if our negative cash flow or losses resulting from our investment in membership acquisition fail to meet investor or analyst expectations, our operating results, financial condition and stock price could be materially adversely affected.

We have significantly increased, and expect to continue to increase, our annual investment in membership acquisition. If the revenue generated by new paid memberships differs significantly from our expectations, or if our membership

acquisition costs or costs associated with servicing our members increase, we may not be able to recover our membership acquisition costs or generate profits from this investment.

We spent \$56.1 million and \$71.3 million on marketing to acquire new memberships in 2011 and the nine months ended September 30, 2012, respectively, and expect to continue to spend significant amounts to acquire additional memberships, primarily through national advertising. Our decisions regarding investments in membership acquisition are based upon our marginal marketing cost per paid membership acquisition and our analysis of the revenue we have historically generated per paid membership over the expected lifetime of such membership. Our analysis of the revenue that we expect new paid memberships to generate over their lifetimes depends upon several estimates and assumptions, including membership renewal rates, future membership fees and incremental advertising revenue from service providers driven by increased penetration in a particular market. Due to our recent expansion, our experience with long-term financial and operating trends is limited to a relatively small proportion of our overall number of paid membership markets. Our experience in markets in which we presently have low penetration rates may differ from our more established markets.

Historically, our membership revenue per paid membership and service provider revenue per paid membership in a geographic market have increased with the maturity and corresponding increased penetration of such market. However, in recent periods we recorded declining total revenue per paid membership overall. This decline reflects a lag in our ability to leverage increased penetration in a market into increased advertising rates as the average advertising contract term is more than one year, and we are only able to increase rates for a given participating service provider upon contract renewal. In addition, the decline reflects rapid membership growth in less penetrated markets where the average membership revenue and service provider revenue per paid membership is lower and our adoption of an unbundled pricing structure in certain of our more established markets.

If our estimates and assumptions regarding the revenue we can generate from new paid memberships prove incorrect, or if the revenue generated by new paid memberships over the periods such members continue to subscribe differs significantly from that of paid memberships acquired in prior periods, we may be unable to recover our membership acquisition costs or generate profits from our investment in acquiring new paid memberships. Moreover, if our membership acquisition costs or the costs associated with servicing our members increase, the return on our investment may be lower than we anticipate irrespective of the revenue generated by new memberships. If we cannot generate profits from this investment, we may need to alter our growth strategy, and our growth rate and results of operations may be adversely affected.

Our business depends on the strength of our brand, which has been built by the trust of consumers, and the failure to maintain that trust would damage our brand and harm our ability to maintain or expand our base of paid memberships and participating service providers.

Trust in the integrity of the “Angie’s List” brand and in the objective, unbiased nature of our ratings and reviews has contributed significantly to our ability to attract new paid memberships and participating service providers. Maintaining consumer trust and enhancing our brand will depend largely on our ability to maintain our commitment to and reputation for placing the interests of the consumer first. If our existing or potential members perceive that we are not focused primarily on helping them make more informed purchasing decisions about local services transactions or that the advertising revenue we receive from service providers interferes with the objective rating of service providers on the basis of member reviews, our reputation and the strength of our brand will be adversely affected. Complaints or negative publicity about our sales and business practices, services, personnel and customer service, irrespective of their validity, and data privacy and security issues could diminish consumers’ confidence in and the use of our service and adversely impact our brand. For example, in August 2012, a lawsuit seeking class action status, *Fritzinger v. Angie’s List, Inc.*, was filed against us in the U.S. District Court for the Southern District of Indiana, alleging that we automatically renew membership fees at a higher rate than customers are led to believe, breaching our membership agreements. Trust in our brand also will suffer if we are not able to maintain the quality and integrity of the ratings and reviews that appear on Angie’s List. We collect reviews from both members and non-members and make these reviews available to members on our website, although non-member reviews are not factored into the service providers’ ratings. While we use various technology-based algorithms and filters to detect fraudulent reviews, and we believe that our prohibition of anonymous reviews provides a degree of traceability and accountability not present in other websites, we cannot guarantee the accuracy of our reviews. Moreover, as our base of paid memberships expands and the number of local service providers rated and reviewed by our members grows, we may see an increase in fraudulent or inaccurate reviews. If fraudulent or inaccurate reviews—positive or negative—increase on Angie’s List and we are unable to effectively identify and remove such reviews, the overall quality of our ratings and reviews would decrease, our reputation as a source of trusted ratings and reviews may be harmed and consumers and local service providers may be deterred from using our products and services. We regularly employ steps designed to ensure that consumer reviews are not inaccurate or fraudulent and that service providers are rated according only to member reviews of them rather than their advertising with us or any other factor. If such steps prove ineffective or if members otherwise believe that we are not objective, we could lose their trust, and our brand and business could be harmed.

In addition, our brand could be harmed if others use any of our trademarks inappropriately. For example, local service providers may use our trademarks without our permission, including our “Super Service Award,” which is available only to local service providers that have maintained superior service ratings. We have in the past taken, and will in the future take, action, including initiating litigation, to protect our trademarks and the integrity of our brand. If such efforts are unsuccessful, our brand and our business would be adversely affected.

If our efforts to increase the number of our paid memberships, to retain existing paid memberships and to maintain high levels of member engagement are not successful, our growth prospects and revenue will be adversely affected.

Our ability to grow our business and to generate both membership revenue and service provider revenue depends on attracting new paid memberships, retaining our existing paid membership base and maintaining high levels of member engagement. We must convince prospective members of the benefits of our service and existing members of its continuing value. In addition, we must convince our members to submit reviews of local service providers to our database. We are dependent upon increased penetration and active member engagement in each of our markets to grow our database of reviews of local service providers, and in turn to enhance the value of our service to other members and prospective members in that market and to increase membership revenue per paid membership. We also depend on growing our paid membership base to increase our service provider revenue in that market by driving greater participation by service providers in our advertising programs and higher advertising rates. We cannot assure

you that we will be successful in maintaining or expanding our paid membership base, or in increasing our revenue per paid membership.

In addition, we have historically relied upon high membership renewal rates and “word of mouth” referrals from existing members to maintain and grow our paid membership base. If our efforts to satisfy our existing members are not successful, we may not be able to maintain our renewal rates or continue receiving those referrals. Furthermore, although we use our number of paid memberships as one indicator of the growth of our business, some of our members may not actively use our service or submit reviews of local service providers to our database. If member engagement does not meet our expectations, we may lose members or service providers who advertise with us, and our revenue may not increase or may decline.

Our ability to increase the number of our paid memberships and to maintain high levels of member engagement will require us to address a number of challenges, and we may fail to do so successfully. Some of these challenges include:

- continuing to build our database of member-generated ratings and reviews of local service providers;
- increasing the number and variety of local service providers reviewed by our members;
- delivering our members relevant, high-quality discount, coupon and other promotional offers from our participating local service providers; and
- continuing to innovate and keep pace with changes in technology and our competitors.

Our inability to increase the number of our paid memberships and to maintain high levels of member engagement would have an adverse effect on our growth prospects, operating results and financial condition.

Any failure to convince local service providers of the benefits of advertising with us would harm our business.

For 2011 and the nine months ended September 30, 2012, we derived 62% and 69%, respectively, of our revenue from the sale of advertising to service providers, and we expect to continue to derive an increasing percentage of our revenue from the sale of advertising to service providers in the future. Our ability to attract and retain participating service providers and, ultimately, to generate advertising revenue depends on a number of factors, including:

- increasing the number of paid memberships in our existing markets;
- maintaining high levels of member engagement;
- competing effectively for advertising dollars with other online and offline advertising providers; and
- continuing to develop and diversify our advertising offerings.

Historically, advertising markets for local service providers have been dominated by traditional offline advertising media, such as broadcast and cable television, broadcast radio, newspapers and the Yellow Pages. We offer both offline and online advertising products to eligible local service providers, and our business will depend in part on local service providers' willingness to pay for our advertising products. Local service providers may view advertising with us as experimental and its long-term effectiveness as unproven, and may choose not to advertise with us, or may leave us for competing alternatives upon expiration or termination of their agreements with us. Failure to demonstrate the value of our service would result in reduced spending by, or loss of, existing or potential future participating service providers, which would materially harm our revenue and business.

Unlike competitors such as Yellow Pages, we generally do not employ local "feet on the street" sales forces to sell advertising to service providers and instead rely on call center sales personnel. The resulting lack of a personal connection with local service providers may impede us in growing service provider revenue. As we grow, we will need to recruit, integrate and retain additional skilled and experienced call center sales personnel who can demonstrate our value proposition to service providers and increase the monetization of our membership base. We will be adversely affected if we hire poorly and if sales personnel do not reach levels of effectiveness within a period of time consistent with our historical experience, or if we are unable to convince service providers to advertise with us through our call center model.

Our success depends in part upon our ability to increase our service provider revenue per paid membership as we increase our market penetration.

Historically, our service provider revenue per paid membership in a given market has generally increased with market penetration because we have attracted more service providers and charged higher advertising rates as the pool of members using our service to actively seek local service providers has grown. Because we only increase advertising rates at the time of contract renewal, such rate increases in a given market may trail increases in market penetration. In addition, in certain markets we have not increased our advertising rates in a given market as rapidly as the number of paid memberships has grown. Moreover, trends in market penetration and growth in service provider revenue per paid membership in our larger or less penetrated markets have differed from our experiences in our smaller or more penetrated markets. Accordingly, growth of our membership may not result in service provider revenue increases until future periods, if at all. In addition, we are subject to risks associated with the credit quality of our service providers. If service providers to whom we have provided advertising services are unable to meet their contractual obligations to us, our service provider revenue could decrease, and our results of operations could be harmed.

We are and will continue to be faced with many competitive challenges, any of which could adversely affect our prospects, results of operations and financial condition.

We compete for both members and service providers with a range of established and emerging companies. We compete for members on the basis of a number of factors, including breadth of service provider listings, reliability of our content, breadth, depth and timeliness of information and strength and recognition of our brand. We compete for a share of local service providers' advertising budgets on the basis of a number of factors, including return on investment, our high quality membership profile, effectiveness and relevance of our service providers' discount offers to our members, our pricing structure and recognition of our brand. Our current competitors for memberships and service providers include a number of traditional offline consumer resources, such as the Yellow Pages and Consumers' CHECKBOOK. Many of these competitors also have consumer reviews and information about service providers available online. We also compete with "free to consumer" online ratings websites and referral services funded directly by service providers or by service provider advertising, such as ServiceMagic, Inc., the "Diamond Certified" directory operated by American Ratings Corporation, Yelp, Inc., Kudzu, an indirect subsidiary of Cox Enterprises, Inc., and Insider Pages, an indirect subsidiary of IAC/InterActiveCorp. In our Angie's List Health & Wellness categories, we compete for members with other online resources for patients, such as RateMDs, Inc. and Health Grades, Inc. Across all categories, we also compete with established Internet companies who have significantly greater resources and name recognition than we do.

To compete effectively for members, we must continue to invest significant resources in marketing and in the development of our products and services to enhance value for members. To compete effectively for service provider revenue, we must continue to invest significant resources in our sales force, in the development of existing and new advertising products, the acquisition of new paid memberships and the collection of our members' reviews of local service providers. Many of our competitors for service providers utilize local sales forces or "feet on the street," and we may be at a disadvantage as a result of our call center-based sales model. Failure to compete effectively against our current or future competitors could result in loss of current or potential participating service providers or a reduced share of our participating service providers' overall advertising budget, which could adversely affect our pricing and margins, lower our service provider revenue and prevent us from achieving or maintaining profitability. We cannot assure you that we will be able to compete effectively for memberships or service providers in the future against existing or new competitors, and the failure to do so could result in loss of existing or potential paid memberships, reduced membership base and service provider revenue, increased marketing or selling expenses or diminished brand strength, any of which could harm our business.

If we are unable to replicate our performance in our larger markets, our operating results and financial condition will be harmed.

Our penetration rates in a number of our larger geographic markets lag those of our mid-size markets. Many of our largest markets, including New York City, Los Angeles and San Francisco, were converted to paid status beginning in 2006 and 2007, and these markets have produced the largest number of new members in recent years. However, the penetration rate in these larger markets has lagged, on a percentage basis, those of our mid-size markets that converted in the same time frame. We believe that a principal reason for the lower penetration rates in our larger markets is the manner in which we market Angie's List. We have chosen to spend 100% of our marketing dollars on national advertising. We believe that this advertising strategy provides us the most cost-efficient manner of acquiring new paid memberships. However, advertising nationally means we deliver the same volume of advertising regardless of the size of 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 available 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 allocate our marketing dollars in accordance with our national advertising strategy and accordingly expect to continue to see lower relative penetration rates in the larger markets.

Slower penetration of our larger markets may delay or prevent us from increasing total revenue per paid membership in these markets. If we are unable to replicate the performance we have achieved in our most mature markets in our larger and less penetrated markets, or if growth in larger or less penetrated markets is significantly slower than we anticipate, our operating results and financial condition could be harmed.

Interruptions or delays in service arising from our own systems or from our third-party data center could impair the delivery of our service and harm our business.

We rely in part upon third-party vendors, including data center, Internet infrastructure and bandwidth providers, to provide our products and services to our members and service providers. We do not control the operation of the third-party facilities, and both our own facilities and the third-party data center facility are vulnerable to damage or interruption from tornadoes, floods, fires, power loss, telecommunications failures and similar events. They also are subject to break-ins, sabotage, intentional acts of vandalism, the failure of physical, administrative, and technical security measures, terrorist acts, human error, the financial insolvency of the third-party provider and other unanticipated problems or events. The occurrence of any of these events could result in interruptions in our service and unauthorized access to, or alteration of, the content and data contained on our systems and the content and data that these third-party vendors store and deliver on our behalf.

We exercise little control over these third-party vendors, which increases our vulnerability to problems with the services they provide. We have experienced, and expect to continue to experience, interruptions and delays in service and availability for such elements. Any errors, failures, interruptions or delays experienced in connection with these third-party technologies and information services could negatively impact our relationship with our members, our brand and reputation and our ability to attract, retain and serve our members and service providers.

If we fail to effectively manage our growth, our business, operating and financial results may suffer.

We have recently experienced, and expect to continue to experience, significant growth in new and existing markets, which has placed, and will continue to place, significant demands on our management and our operational and financial infrastructure. We expect that our growth strategy will require us to commit substantial financial, operational and technical resources, and we expect that our marketing cost per paid membership acquisition may increase in the near term. Continued growth also could strain our ability to maintain reliable service levels for our members and participating service providers, to effectively monetize our membership base, to develop and improve our operational, financial and management controls, to enhance our reporting systems and procedures and to recruit, train and retain highly skilled personnel. As our operations grow in size, scope and complexity, we will need to improve and upgrade our systems and infrastructure and may determine we need to open additional operational locations, such as call centers, to support our advertising sales, which will require significant expenditures and allocation of valuable management resources. If we fail to maintain the necessary level of discipline and efficiency, or if we fail to allocate limited resources effectively in our organization as it grows, our business, operating results and financial condition may suffer.

We may not maintain our current rate of revenue growth.

Our paid membership base has grown rapidly in recent periods in new and existing markets. As a result, our membership revenue and service provider revenue have increased quickly and substantially. We believe that our continued revenue growth will depend on, among other factors, our ability to:

- improve our penetration of our existing markets by efficiently deploying marketing expenditures to attract new paid memberships and by retaining our existing paid memberships in these markets;
- maintain high levels of member engagement and the quality and integrity of our members' reviews of local service providers;
- increase the number and variety of local service providers reviewed by our members and convince highly-rated local service providers to advertise with us;
- retain service providers that currently advertise with us and convince them to increase their advertising spending with us;
- continue to develop and diversify our product offerings for local service providers;
- recruit, integrate and retain skilled and experienced sales personnel who can demonstrate our value proposition to service providers;
- provide our members and local service providers with superior user experiences;
- react to changes in technology and challenges from existing and new competitors; and
- increase awareness of our brand.

We cannot assure you that our paid membership base or our service provider participation will continue to grow or will not decline as a result of increased competition and the maturation of our business. If our growth rates were to decline significantly or become negative, it could adversely affect our financial condition and results of operations. You should not rely on our historical rate of revenue growth as an indication of our future performance.

Our future growth depends in part on our ability to effectively develop and sell additional products, services and features.

We invest in the development of new products, services and features with the expectation that we will be able to effectively offer them to consumers and local service providers. For example, in 2008 and 2009, respectively, we launched our Angie's List Health & Wellness and Classic Car offerings, to which our members can subscribe for an additional fee or as part of a bundled offering. We also have introduced two e-commerce initiatives, Angie's List Big Deal and Storefront, which give our members the option to receive alerts of deals or search our website for deals. We plan to continue to develop or potentially acquire vertical offerings that address other "high cost of failure" segments of the market for local services. In addition, we plan to continue to develop and sell additional advertising products to qualified local service providers.

Our future growth depends in part on our ability to sell these products and services, as well as additional features and enhancements to our existing offerings. As our new offerings evolve, we have adapted our sales and marketing strategies for them, and changes in these strategies may delay or prevent growth in these parts of our business. For example, we have continued to adjust our service provider eligibility criteria for our e-commerce initiatives, which may cause our revenue from these offerings to fluctuate from period to period in the future. Further, many of our current and potential service provider advertisers have modest advertising budgets. Accordingly, we cannot assure you that the successful introduction of new products or services will not adversely affect sales of our current products and services or that those service providers that currently advertise with us will increase their aggregate spending as a result of the introduction of new products and services or successfully fulfill offers made on a prepaid basis through our e-commerce platform. If our efforts to effectively develop and sell additional products, services and features are not successful, our business may suffer.

We invest in features, functionality and customer support designed to drive traffic and increase engagement with members and service providers; however, these investments may not lead to increased revenue.

Our future growth and profitability will depend in large part on the effectiveness and efficiency of our efforts to convert consumers and local service providers who visit Angie's List into paid memberships and participating service providers, respectively. We have made and will continue to make substantial investments in features and functionality for our website that are designed to drive online traffic and user engagement, and in customer support for local service providers who do not advertise with us. These activities do not directly generate revenue, and we cannot assure you that we will reap any rewards from these investments. If the expenses that we incur in connection with these activities do not result in sufficient growth in paid members and participating service providers to offset their cost, our business, financial condition and results of operations will be adversely affected.

Our operating results may fluctuate, which makes our results difficult to predict and could cause our results to fall short of expectations.

Our revenue and operating results vary significantly from quarter to quarter and year to year because of a variety of factors, many of which are outside our control. As a result, comparing our operating results on a period to period basis may not be meaningful. In addition to other risk factors discussed in this “Risk Factors” section, factors that may contribute to the variability of our quarterly and annual results include:

- our ability to retain our current paid memberships and build our paid membership base;
- our ability to retain our service providers that currently advertise with us, and convince them to increase their advertising spending with us;
- our revenue mix and any changes we make to our membership fees or other sources of revenue;
- our marketing costs or selling expenses;
- our ability to effectively manage our growth;
- the effects of increased competition in our business;
- our ability to keep pace with changes in technology and our competitors;
- costs associated with defending any litigation or enforcing our intellectual property rights;
- the impact of economic conditions in the United States on our revenue and expenses; and
- changes in government regulation affecting our business.

Seasonal variations in the behavior of our members and service providers also may cause fluctuations in our financial results. For example, we expect to experience some effects of seasonal trends in member and service provider behavior due to decreased demand for home improvement services in winter months. In addition, advertising expenditures by local service providers tend to be discretionary in nature and may be sporadic, reflecting overall economic conditions, the economic prospects of specific local service providers or industries, budgeting constraints and buying patterns and a variety of other factors, many of which are outside our control. While we believe seasonal trends have affected and will continue to affect our quarterly results, our trajectory of rapid growth may have overshadowed these effects to date. We believe that our business will be subject to seasonality in the future, which may result in fluctuations in our financial results.

Our revenue may be negatively affected if we are required to pay sales tax or other transaction taxes on all or a portion of our past and future sales in jurisdictions where we are currently not collecting and reporting tax.

We currently only pay sales or other transaction taxes in certain jurisdictions in which we do business. We do not separately collect sales or other transaction taxes. A successful assertion by any state, local jurisdiction or country in which we do not pay such taxes that we should be paying sales or other transaction taxes on the sale of our products or services, or the imposition of new laws requiring the payment of sales or other transaction taxes on the sale of our products or services, could result in substantial tax liabilities related to past sales, create increased administrative burdens or costs, discourage consumers and service providers from purchasing products or services from us, decrease

our ability to compete or otherwise substantially harm our business and results of operations.

We depend on key personnel to operate our business, and if we are unable to retain, attract and integrate qualified personnel, our ability to develop and successfully grow our business could be harmed.

We believe that our future success depends in part upon the continued service of key members of our management team as well as our ability to attract and retain highly skilled and experienced sales, technical and other personnel. Our co-founders, William S. Oesterle and Angie Hicks, are critical to our overall management as well as the development of our culture and strategic direction. In particular, the reputation, popularity and talent of Ms. Hicks is an important factor in public perceptions of Angie's List, and the loss of her services or any repeated or sustained shifts in public perceptions of her could adversely affect our business.

In addition, qualified individuals are in high demand in the Internet sector, and we may incur significant costs to attract them. Competition for these personnel is intense, and we may not be successful in attracting and retaining qualified personnel. Many of the companies with which we compete for experienced personnel have greater resources than us. In addition, in making employment decisions, particularly in the technology sector, job candidates often consider the value of the stock options they are to receive in connection with their employment.

We have historically relied primarily on cash, rather than equity, compensation for the majority of our workforce. As such, we may have difficulty competing on a national scale for candidates focused on equity incentives. If we are unable to attract and retain executive officers and key personnel to our headquarters in Indianapolis, Indiana, or integrate recently hired executive officers and key personnel, our business, operating results and financial condition could be harmed.

