

Edgar Filing: Angie's List, Inc. - Form 10-Q

Angie's List, Inc.  
Form 10-Q  
October 22, 2015  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

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

For the transition period from to

Commission file number 001-35339

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

|                                                                |                                         |
|----------------------------------------------------------------|-----------------------------------------|
| Delaware                                                       | 27-2440197                              |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |
| 1030 E. Washington Street Indianapolis, IN                     | 46202                                   |
| (Address of principal executive offices)                       | (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 x 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 x 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.

|                         |    |                                               |                           |
|-------------------------|----|-----------------------------------------------|---------------------------|
| Large accelerated filer | x  | Accelerated filer                             | ..                        |
| Non-accelerated filer   | .. | (Do not check if a smaller reporting company) | Smaller reporting company |

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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 October 19, 2015 was 58,516,677.

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## PART I – FINANCIAL INFORMATION

## ITEM 1. CONDENSED FINANCIAL STATEMENTS

Angie's List, Inc.

Condensed Consolidated Balance Sheets

(in thousands, except share data)

|                                                                                                                                                                                                                    | September 30,<br>2015 | December 31,<br>2014 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
|                                                                                                                                                                                                                    | (Unaudited)           |                      |
| Assets                                                                                                                                                                                                             |                       |                      |
| Cash and cash equivalents                                                                                                                                                                                          | \$33,662              | \$39,991             |
| Short-term investments                                                                                                                                                                                             | 24,542                | 24,268               |
| Accounts receivable, net of allowance for doubtful accounts of \$1,621 and \$1,651 at September 30, 2015 and December 31, 2014, respectively                                                                       | 16,215                | 15,141               |
| Prepaid expenses and other current assets                                                                                                                                                                          | 21,168                | 18,120               |
| Total current assets                                                                                                                                                                                               | 95,587                | 97,520               |
| Property, equipment and software, net                                                                                                                                                                              | 72,786                | 51,264               |
| Goodwill                                                                                                                                                                                                           | 1,145                 | 1,145                |
| Amortizable intangible assets, net                                                                                                                                                                                 | 2,169                 | 2,755                |
| Other assets, noncurrent                                                                                                                                                                                           | 1,560                 | 1,854                |
| Total assets                                                                                                                                                                                                       | \$173,247             | \$154,538            |
| Liabilities and stockholders' deficit                                                                                                                                                                              |                       |                      |
| Accounts payable                                                                                                                                                                                                   | \$13,112              | \$5,490              |
| Accrued liabilities                                                                                                                                                                                                | 30,368                | 23,189               |
| Deferred membership revenue                                                                                                                                                                                        | 35,442                | 33,767               |
| Deferred advertising revenue                                                                                                                                                                                       | 49,039                | 48,399               |
| Current maturities of long-term debt                                                                                                                                                                               | 750                   | —                    |
| Total current liabilities                                                                                                                                                                                          | 128,711               | 110,845              |
| Long-term debt, net                                                                                                                                                                                                | 58,285                | 58,854               |
| Deferred membership revenue, noncurrent                                                                                                                                                                            | 4,121                 | 4,744                |
| Deferred advertising revenue, noncurrent                                                                                                                                                                           | 532                   | 669                  |
| Other liabilities, noncurrent                                                                                                                                                                                      | 1,430                 | 1,600                |
| Total liabilities                                                                                                                                                                                                  | 193,079               | 176,712              |
| Commitments and contingencies (Note 9)                                                                                                                                                                             | —                     | —                    |
| Stockholders' deficit:                                                                                                                                                                                             |                       |                      |
| Preferred stock, \$0.001 par value: 10,000,000 shares authorized, no shares issued or outstanding at September 30, 2015 and December 31, 2014                                                                      | —                     | —                    |
| Common stock, \$0.001 par value: 300,000,000 shares authorized, 67,075,389 and 67,075,389 shares issued and 58,516,677 and 58,516,677 shares outstanding at September 30, 2015 and December 31, 2014, respectively | 67                    | 67                   |
| Additional paid-in-capital                                                                                                                                                                                         | 272,144               | 265,895              |
| Treasury stock, at cost: 8,558,712 shares of common stock at September 30, 2015 and December 31, 2014                                                                                                              | (23,719)              | (23,719)             |
| Accumulated deficit                                                                                                                                                                                                | (268,324)             | (264,417)            |
| Total stockholders' deficit                                                                                                                                                                                        | (19,832)              | (22,174)             |
| Total liabilities and stockholders' deficit                                                                                                                                                                        | \$173,247             | \$154,538            |

See accompanying notes.

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Angie's List, Inc.

Condensed Consolidated Statements of Operations

(in thousands, except share and per share data)

|                                                                          | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|--------------------------------------------------------------------------|-------------------------------------|------------|------------------------------------|------------|
|                                                                          | 2015                                | 2014       | 2015                               | 2014       |
|                                                                          | (Unaudited)                         |            | (Unaudited)                        |            |
| Revenue                                                                  |                                     |            |                                    |            |
| Membership                                                               | \$17,178                            | \$18,279   | \$51,427                           | \$55,095   |
| Service provider                                                         | 69,814                              | 63,027     | 206,443                            | 177,764    |
| Total revenue                                                            | 86,992                              | 81,306     | 257,870                            | 232,859    |
| Operating expenses                                                       |                                     |            |                                    |            |
| Operations and support                                                   | 14,022                              | 14,119     | 43,476                             | 39,413     |
| Selling                                                                  | 29,034                              | 32,078     | 89,467                             | 88,478     |
| Marketing                                                                | 23,450                              | 22,508     | 65,245                             | 81,909     |
| Product and technology                                                   | 8,990                               | 8,696      | 26,977                             | 24,243     |
| General and administrative                                               | 10,721                              | 8,639      | 34,204                             | 25,080     |
| Operating income (loss)                                                  | 775                                 | (4,734)    | (1,499)                            | (26,264)   |
| Interest expense, net                                                    | 684                                 | —          | 2,380                              | 579        |
| Loss on debt extinguishment                                              | —                                   | 458        | —                                  | 458        |
| Income (loss) before income taxes                                        | 91                                  | (5,192)    | (3,879)                            | (27,301)   |
| Income tax expense                                                       | 9                                   | 15         | 28                                 | 45         |
| Net income (loss)                                                        | \$82                                | \$(5,207)  | \$(3,907)                          | \$(27,346) |
| Net income (loss) per common share — basic and diluted                   | \$0.00                              | \$(0.09)   | \$(0.07)                           | \$(0.47)   |
| Weighted average number of common shares outstanding — basic and diluted | 58,516,677                          | 58,516,677 | 58,516,677                         | 58,507,892 |

See accompanying notes.

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Angie's List, Inc.

Condensed Consolidated Statements of Cash Flows

(in thousands)

|                                                                                 | Nine Months Ended<br>September 30, |            |
|---------------------------------------------------------------------------------|------------------------------------|------------|
|                                                                                 | 2015                               | 2014       |
|                                                                                 | (Unaudited)                        |            |
| Operating activities                                                            |                                    |            |
| Net loss                                                                        | \$(3,907)                          | \$(27,346) |
| Adjustments to reconcile net loss to net cash provided by operating activities: |                                    |            |
| Depreciation and amortization                                                   | 4,791                              | 4,018      |
| Amortization of debt discount, deferred financing fees and bond premium         | 526                                | 301        |
| Non-cash stock-based compensation                                               | 6,249                              | 5,945      |
| Non-cash loss on debt extinguishment                                            | —                                  | 266        |
| Non-cash long-lived asset impairment charge                                     | 686                                | —          |
| Non-cash loss on disposal of long-lived assets                                  | 279                                | —          |
| Changes in certain assets:                                                      |                                    |            |
| Accounts receivable                                                             | (1,074)                            | (1,865)    |
| Prepaid expenses and other current assets                                       | (3,048)                            | (4,545)    |
| Changes in certain liabilities:                                                 |                                    |            |
| Accounts payable                                                                | 8,046                              | 7,546      |
| Accrued liabilities                                                             | 7,338                              | 12,653     |
| Deferred advertising revenue                                                    | 503                                | 8,274      |
| Deferred membership revenue                                                     | 1,052                              | 2,703      |
| Net cash provided by operating activities                                       | 21,441                             | 7,950      |
| Investing activities                                                            |                                    |            |
| Purchases of investments                                                        | (13,680)                           | (13,164)   |
| Sales of investments                                                            | 13,355                             | 17,400     |
| Property, equipment and software                                                | (6,473)                            | (12,904)   |
| Capitalized website and software development costs                              | (20,429)                           | (12,785)   |
| Intangible assets                                                               | (379)                              | (841)      |
| Net cash (used in) investing activities                                         | (27,606)                           | (22,294)   |
| Financing activities                                                            |                                    |            |
| Proceeds from exercise of stock options                                         | —                                  | 501        |
| Principal payments on long-term debt                                            | —                                  | (15,000)   |
| Proceeds from long-term debt issuance                                           | —                                  | 60,000     |
| Fees paid to lender                                                             | —                                  | (1,210)    |
| Cash paid for financing fees                                                    | —                                  | (1,879)    |
| Payment of contingent consideration from acquisition of business assets         | —                                  | (500)      |
| Payments on capital lease obligations                                           | (164)                              | (52)       |
| Net cash (used in) provided by financing activities                             | (164)                              | 41,860     |
| Net (decrease) increase in cash and cash equivalents                            | \$(6,329)                          | \$27,516   |
| Cash and cash equivalents, beginning of period                                  | 39,991                             | 34,803     |
| Cash and cash equivalents, end of period                                        | \$33,662                           | \$62,319   |

Supplemental cash flow disclosures

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|                                                |         |         |
|------------------------------------------------|---------|---------|
| Capital expenditures incurred but not yet paid | \$1,666 | \$2,454 |
|------------------------------------------------|---------|---------|

See accompanying notes.



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Angie's List, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(in thousands, except share and per share data)

### 1. Description of Business, Basis of Presentation and Summary of Significant Accounting Policies

Angie's List, Inc. (collectively with its wholly owned subsidiaries, the "Company", "we", "us" or "our") operates a national local services consumer review service and marketplace where consumers can research, shop for and purchase local services for critical needs, such as home, health and automotive services, as well as rate and review the providers of these services. Ratings and reviews, which are available only to the Company's members, assist members in identifying and hiring 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 consumer feedback. The Company also sells advertising in its monthly publication, on its website and mobile applications and through its call center to service providers that meet certain ratings criteria. In addition, the Company's e-commerce marketplace offerings provide consumers with the opportunity to purchase services directly through the Company's marketplace from highly-rated service providers. The Company's services are provided in markets located across the continental United States.

#### Basis of Presentation

The accompanying unaudited condensed consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") 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. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP were condensed or omitted pursuant to such rules and regulations. Accordingly, the accompanying unaudited condensed consolidated financial statements do not include all information and footnotes necessary for fair presentation of financial position, results of operations and cash flows in conformity with U.S. GAAP and should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. The accompanying unaudited condensed consolidated balance sheet as of December 31, 2014 was derived from the audited consolidated financial statements as of that date but does not include all disclosures required by U.S. GAAP, including certain notes thereto.

For additional information, including a discussion of the Company's significant accounting policies, refer to the audited consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

#### Operating Segments

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

## Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect amounts reported in the condensed consolidated financial statements and accompanying notes as well as the disclosure of contingent assets and liabilities and reported revenue and expenses. Actual results could differ from those estimates. The condensed consolidated financial statements reflect all adjustments of a normal recurring nature considered, in the opinion of management, necessary to fairly present the results for the periods. Operating results from interim periods are not necessarily indicative of results that may be expected for the fiscal year as a whole.

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### Significant Accounting Policies

There were no material changes to the Company's significant accounting policies from those described in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

### Revenue Recognition

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. Prior to 2014, the Company also generally received a one-time, nonrefundable enrollment fee at the time a member joined. Enrollment fees are deferred and recognized on a straight-line basis over an estimated average membership life of 80 months for annual or multi-year members and 13 months for monthly members, which is based on historical membership experience. The Company discontinued charging one-time nonrefundable enrollment fees in 2014.

### Service Provider Revenue

Revenue from the sale of advertising in the Company's Angie's List Magazine publication is recognized in the period in which the publication is published and distributed. Revenue from the sale of website, mobile and call center advertising is recognized ratably over the time period the advertisements run. Revenue from e-commerce vouchers is recognized on a net basis when the voucher is delivered to the purchaser. While the Company is not the merchant of record with respect to its customers for these transactions, it does offer customers refunds in certain circumstances. Accordingly, revenue from e-commerce transactions is recorded net of a reserve for estimated refunds.

### Deferred Revenue

Deferred revenue includes the unamortized portion of revenue associated with membership and service provider fees for which the Company received payment in advance of services or advertising to be provided. Deferred revenue is recognized as revenue when the related services or advertising are actually provided.

### Income Taxes - Valuation Allowance

The Company evaluates whether it will realize the benefits of its net deferred tax assets and establishes a valuation allowance to reduce the carrying value of its deferred tax assets to the amount considered more likely than not to be recognized. Deferred tax assets arise as a result of tax loss carryforwards and various differences between the book basis and the tax basis of such assets. The Company periodically reviews the deferred tax assets for recoverability based on historical taxable income, projected future taxable income and the expected timing of the reversals of existing temporary differences. Should there be a change in the ability to recover deferred tax assets, the tax provision would be adjusted in the period in which the assessment is changed. There was no change to the Company's assessment during the periods ended September 30, 2015.

While the Company reported net income for the three months ended September 30, 2015, any taxable income will ultimately be reduced by net operating loss carryforwards. The Company maintains a full valuation allowance against its deferred tax assets, and as a result, there is no federal income tax expense recorded in the condensed consolidated statement of operations for the three and nine months ended September 30, 2015.

## Contractual Obligations

The Company's contractual obligations primarily consist of long-term noncancellable operating leases expiring through 2020 and long-term debt comprised of a \$60,000 term loan scheduled to mature on September 26, 2019. There have been no significant changes in the Company's contractual obligations from those disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. Total combined future minimum payment obligations under long-term noncancellable operating leases amounted to approximately \$9,396 as of September 30, 2015, while the Company had \$59,035 in outstanding borrowings, net of fees paid to the lender, under the term loan as of the same date.

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### Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update No. 2015-05: Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement ("ASU 2015-05"). The amendments in this update provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the update specifies that the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. The update further specifies that the customer should account for a cloud computing arrangement as a service contract if the arrangement does not include a software license. ASU 2015-05 will be effective for the Company in fiscal year 2016. The Company does not believe that the adoption of the guidance set forth in this update will have a material impact on the consolidated financial statements.

In April 2015, the FASB issued Accounting Standards Update No. 2015-03: Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"). The update sets forth a requirement that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs is not affected by the amendments in this update. ASU 2015-03 will be effective for the Company in fiscal year 2016. Retrospective application of the guidance set forth in this update is required, and as such, once effective, will result in a reclassification of the deferred financing fees currently recorded as a noncurrent asset within the consolidated balance sheet to a direct deduction from the carrying amount of long-term debt within noncurrent liabilities.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15: Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"). The update sets forth a requirement for management to evaluate whether there are conditions and events that raise substantial doubt about an entity's ability to continue as a going concern, a responsibility that did not previously exist in U.S. GAAP. The amendments included in this update require management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term substantial doubt, (2) require an evaluation every reporting period, including interim periods, (3) provide principles for considering the mitigating effect of management's plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). ASU 2014-15 will be effective for the Company in fiscal year 2016. The Company does not believe that the adoption of the guidance set forth in this update will have a material impact on the consolidated financial statements.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09: Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"). The update outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that "an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." The update also requires significantly expanded disclosures related to revenue recognition. ASU 2014-09 will be effective for the Company in fiscal year 2018 following the issuance of ASU 2015-14 in August 2015, which deferred the effective date of ASU 2014-09 by one year. The Company is currently evaluating the future impact and method of adoption of this update with respect to the consolidated financial statements.



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## 2. Net Income (Loss) Per Common Share

Basic and diluted net income (loss) per common share is computed by dividing consolidated net income (loss) by the weighted average number of common shares outstanding for the period. Basic and diluted net income (loss) per common share was \$0.00 and \$(0.09) for the three months ended September 30, 2015 and 2014, respectively, and \$(0.07) and \$(0.47) for the nine months ended September 30, 2015 and 2014, respectively.

The following potentially dilutive equity securities were not included in the diluted net income (loss) per common share calculations as they would have an antidilutive effect for the periods presented:

|                                              | September 30,<br>2015 | September 30,<br>2014 |
|----------------------------------------------|-----------------------|-----------------------|
| Stock options                                | 6,943,829             | 5,665,904             |
| Restricted stock units                       | 1,187,748             | —                     |
| Performance awards of restricted stock units | 955,084               | —                     |

The performance awards of restricted stock units, which are market condition performance equity awards that are earned and begin vesting in separate tranches upon the Company's achievement of certain predetermined stock price targets, were a component of the equity awards granted on September 8, 2015 to Scott A. Durchslag, our new President and Chief Executive Officer. Mr. Durchslag was also awarded 471,522 nonqualified stock options and 479,846 restricted stock units, and these amounts are reflected in the applicable totals for the period ended September 30, 2015 shown in the table above.

## 3. Fair Value Measurements

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

## Fair Value Hierarchy

Fair value is based on the price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In accordance with Accounting Standards Codification ("ASC") 820, Fair Value Measurement, the Company categorized the financial assets and liabilities that are adjusted to fair value based on the priority of the inputs to the valuation technique, following the three-level fair value hierarchy prescribed by ASC 820, as follows:

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

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

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

## Valuation Techniques

The Company's money market fund investments are classified as cash equivalents within Level 1 of the fair value hierarchy on the basis of valuations using quoted market prices. Short-term investments consist of corporate bonds and certificates of deposit with maturities of more than 90 days but less than one year. As many fixed income securities do not trade daily, fair values are often derived using recent trades of securities with similar features and characteristics. When recent trades are not available, pricing models are used to determine these prices. These models calculate fair values by discounting future cash flows at estimated market interest rates. Such market rates are derived by calculating the appropriate spreads over comparable U.S. Treasury securities, based on the credit quality, industry and structure of the asset. Typical inputs and assumptions to pricing models include, but are not limited to, a combination of benchmark yields, reported trades, issuer spreads, liquidity, benchmark securities, bids, offers, reference data and industry and economic events. The Company's fixed income corporate bond investments and certificates of deposit with fixed maturities are valued using recent trades or pricing models and are therefore classified within Level 2 of the fair value hierarchy.



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## Recurring Fair Value Measurements

There were no movements between fair value measurement levels for the Company's cash equivalents and investments to date during 2015 or in 2014, and there were no material unrealized gains or losses as of September 30, 2015 or December 31, 2014.

The following tables summarize the Company's financial instruments at fair value based on the fair value hierarchy for each class of instrument as of September 30, 2015 and December 31, 2014:

|                         | Carrying Value at September 30, 2015 | Fair Value Measurement at September 30, 2015<br>Using          |                                               |                                           |
|-------------------------|--------------------------------------|----------------------------------------------------------------|-----------------------------------------------|-------------------------------------------|
|                         |                                      | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Cash equivalents:       |                                      |                                                                |                                               |                                           |
| Money market funds      | \$374                                | \$374                                                          | \$—                                           | \$—                                       |
| Investments:            |                                      |                                                                |                                               |                                           |
| Certificates of deposit | 21,520                               | —                                                              | 21,528                                        | —                                         |
| Corporate bonds         | 3,022                                | —                                                              | 3,021                                         | —                                         |
| Total assets            | \$24,916                             | \$374                                                          | \$24,549                                      | \$—                                       |
|                         | Carrying Value at December 31, 2014  | Fair Value Measurement at December 31, 2014<br>Using           |                                               |                                           |
|                         |                                      | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Cash equivalents:       |                                      |                                                                |                                               |                                           |
| Money market funds      | \$365                                | \$365                                                          | \$—                                           | \$—                                       |
| Certificates of deposit | 240                                  | —                                                              | 240                                           | —                                         |
| Investments:            |                                      |                                                                |                                               |                                           |
| Certificates of deposit | 21,235                               | —                                                              | 21,211                                        | —                                         |
| Corporate bonds         | 3,033                                | —                                                              | 3,028                                         | —                                         |
| Total assets            | \$24,873                             | \$365                                                          | \$24,479                                      | \$—                                       |

The Company reviews its investment portfolio for other-than-temporary impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may be impaired, considering such factors as the duration, severity and reason for the decline in value as well as the potential recovery period. During the three and nine months ended September 30, 2015 and 2014, the Company did not recognize any other-than-temporary impairment losses.

The carrying amount of the term loan approximates fair value, using Level 2 inputs, as this borrowing bears interest at a variable (market) rate at September 30, 2015 and December 31, 2014.

## Non-Recurring Fair Value Measurements

The Company has certain assets that are measured at fair value on a non-recurring basis under circumstances and events, including those described in Note 6, "Goodwill and Amortizable Intangible Assets," that are adjusted to fair value only when the carrying values are more than the fair values. The categorization of the framework used to price

the assets in the event of an impairment is considered a Level 3 measurement due to the subjective nature of the unobservable inputs used to determine the fair value.

Assets and liabilities acquired in business combinations are recorded at their fair value as of the date of acquisition.

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

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## 4. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets was comprised of the following as of September 30, 2015 and December 31, 2014:

|                                                 | September 30,<br>2015 | December 31,<br>2014 |
|-------------------------------------------------|-----------------------|----------------------|
| Prepaid and deferred commissions                | \$9,966               | \$11,378             |
| Other prepaid expenses and current assets       | 11,202                | 6,742                |
| Total prepaid expenses and other current assets | \$21,168              | \$18,120             |

## 5. Property, Equipment and Software

Property, equipment and software was comprised of the following as of September 30, 2015 and December 31, 2014:

|                                                    | September 30,<br>2015 | December 31,<br>2014 |
|----------------------------------------------------|-----------------------|----------------------|
| Furniture and equipment                            | \$15,156              | \$12,450             |
| Land                                               | 3,105                 | 3,101                |
| Buildings and improvements                         | 17,630                | 17,082               |
| Software                                           | 6,482                 | 4,696                |
| Capitalized website and software development costs | 43,103                | 23,214               |
| Total property, equipment and software             | 85,476                | 60,543               |
| Less accumulated depreciation                      | (12,690)              | (9,279)              |
| Total property, equipment and software, net        | \$72,786              | \$51,264             |

Included in the Company's net property, equipment and software balance at September 30, 2015 was approximately \$43,212 in construction in progress, comprised of \$1,285 for furniture and equipment, \$36 for buildings and improvements, \$1,569 for software and \$40,322 for capitalized website and software development costs, which included \$2,868 of capitalized interest.

At December 31, 2014, the Company's construction in progress balance was \$22,418, consisting of \$76 for furniture and equipment, \$826 for buildings and improvements, \$138 for software and \$21,378 for capitalized website and software development costs, which included \$1,410 of capitalized interest.

Depreciation expense for the three months ended September 30, 2015 and 2014 was approximately \$1,315 and \$1,013, respectively. Depreciation expense for the nine months ended September 30, 2015 and 2014 was approximately \$3,826 and \$2,708, respectively.

During the second quarter of 2015, the Company recorded a \$686 long-lived asset impairment charge for certain assets categorized as buildings and improvements related to the Company's decision not to pursue its Indianapolis campus expansion plan. The long-lived asset impairment charge was recorded in the general and administrative expense line within the condensed consolidated statements of operations for the nine months ended September 30, 2015.

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## 6. Goodwill and Amortizable Intangible Assets

The Company has goodwill as well as certain amortizable intangible assets consisting of data acquisition costs, a member list, content, core technology and other intangible assets related to the purchase of a website domain name. Amortization of the intangible assets is computed using the straight-line method over the estimated lives of the assets, which are six years for the member list and three years for the content, core technology, data acquisition costs and other intangible assets.

Amortizable intangible assets as of September 30, 2015 and December 31, 2014 were as follows:

|                                     | Cost    | Accumulated<br>Amortization | Net Carrying<br>Amount | Weighted-Average<br>Remaining<br>Amortization<br>Period (in years) |
|-------------------------------------|---------|-----------------------------|------------------------|--------------------------------------------------------------------|
| September 30, 2015                  |         |                             |                        |                                                                    |
| Member list                         | \$1,670 | \$603                       | \$1,067                | 3.8                                                                |
| Content                             | 140     | 101                         | 39                     | 0.8                                                                |
| Core technology                     | 110     | 80                          | 30                     | 0.8                                                                |
| Data acquisition costs              | 1,873   | 982                         | 891                    | 1.5                                                                |
| Other intangible assets             | 300     | 158                         | 142                    | 1.4                                                                |
| Total amortizable intangible assets | \$4,093 | \$1,924                     | \$2,169                |                                                                    |
|                                     | Cost    | Accumulated<br>Amortization | Net Carrying<br>Amount | Weighted-Average<br>Remaining<br>Amortization<br>Period (in years) |
| December 31, 2014                   |         |                             |                        |                                                                    |
| Member list                         | \$1,670 | \$394                       | \$1,276                | 4.6                                                                |
| Content                             | 140     | 66                          | 74                     | 1.6                                                                |
| Core technology                     | 110     | 52                          | 58                     | 1.6                                                                |
| Data acquisition costs              | 3,488   | 2,358                       | 1,130                  | 1.2                                                                |
| Other intangible assets             | 300     | 83                          | 217                    | 2.2                                                                |
| Total amortizable intangible assets | \$5,708 | \$2,953                     | \$2,755                |                                                                    |

Amortization expense for the three months ended September 30, 2015 and 2014 was approximately \$273 and \$437, respectively. Amortization expense for the nine months ended September 30, 2015 and 2014 was approximately \$965 and \$1,310, respectively.

The Company's recorded goodwill balance at September 30, 2015 and December 31, 2014 was \$1,145.

## 7. Accrued Liabilities

Accrued liabilities was comprised of the following as of September 30, 2015 and December 31, 2014:

|                             | September 30,<br>2015 | December 31,<br>2014 |
|-----------------------------|-----------------------|----------------------|
| Accrued sales commissions   | \$2,440               | \$2,627              |
| Sales and use tax           | 4,205                 | 4,263                |
| Accrued compensation        | 8,876                 | 6,126                |
| Uninvoiced accounts payable | 6,413                 | 2,749                |
| Legal settlement accrual    | 273                   | 2,183                |
| Other accrued liabilities   | 8,161                 | 5,241                |

|                           |          |          |
|---------------------------|----------|----------|
| Total accrued liabilities | \$30,368 | \$23,189 |
|---------------------------|----------|----------|

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## 8. Debt and Credit Arrangements

Long-term debt, net, was comprised of the following as of September 30, 2015 and December 31, 2014:

|                                 | September 30,<br>2015 | December 31,<br>2014 |
|---------------------------------|-----------------------|----------------------|
| Term loan                       | \$60,000              | \$60,000             |
| Unamortized fees paid to lender | (965                  | ) (1,146             |
| Total debt, net                 | 59,035                | 58,854               |
| Less current maturities         | (750                  | ) —                  |
| Total long-term debt, net       | \$58,285              | \$58,854             |

On September 26, 2014, the Company entered into a financing agreement for a \$60,000 term loan and a \$25,000 delayed draw term loan.

Amounts outstanding under the financing agreement bear interest at a per annum rate, at the option of the Company, equal to (i) the LIBOR rate for the interest period in effect, subject to a floor of 0.5%, plus 6.75% or (ii) the reference rate, which is based on the prime rate as published by the Wall Street Journal, subject to a floor of 3.25%, plus 5.75%. The financing agreement requires monthly interest-only payments on the first business day of each month until maturity on any principal amounts outstanding under either debt facility. The financing agreement obligates the Company to make quarterly principal payments on the term loan of \$750 on the last day of each calendar quarter, commencing with the quarter ending September 30, 2016, and to repay the remaining balance of the term loan at maturity. The Company is required to make principal payments on the outstanding balance of the delayed draw term loan equal to 1.25% of the amount of such loan funded at or prior to the last day of each calendar quarter, commencing with the quarter ending September 30, 2016, and to repay the remaining outstanding balance of the delayed draw term loan at maturity. From the effective date of the financing agreement through September 26, 2017, the Company is also required to pay a commitment fee equal to 0.75% per annum of the unborrowed amounts of the delayed draw term loan.

The Company may prepay the amounts outstanding under the financing agreement at any time and is required to prepay the loans with (i) the net proceeds of certain asset sales, issuances of debt or equity, and certain casualty events, and (ii) up to 50% of consolidated excess cash flow, as defined in the financing agreement, for each fiscal year during the term of the financing agreement, commencing with the year ended December 31, 2015. The Company's obligations under the financing agreement are guaranteed by each of its subsidiaries and are secured by first priority security interests in all of their respective assets and a pledge of the equity interests of the Company's subsidiaries. The term loan and the delayed draw term loan mature on September 26, 2019. As of September 30, 2015, the Company had \$59,035 in outstanding borrowings, net of fees paid to the lender of \$965, under the term loan and availability of \$25,000 under the delayed draw term loan.

The financing 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 repurchase outstanding stock, enter into related-party transactions and make capital expenditures, other than upon satisfaction of the conditions set forth in the financing agreement. The Company is also required to comply with certain financial covenants, including minimum consolidated EBITDA as defined in the financing agreement, minimum liquidity, maximum consolidated capital expenditures and minimum membership revenue. Upon an event of default, which includes certain customary events such as, among other things, a failure to make required payments when due, a failure to comply with covenants, certain bankruptcy and insolvency events, defaults under other material indebtedness, or a change in control, 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, 2015.

As a result of its entry into the financing agreement in September 2014, the Company incurred financing costs of \$1,957 that were capitalized as a deferred financing fee asset and are being amortized into interest expense over the term of the financing agreement. Deferred financing fees, net of accumulated amortization, totaled \$1,560 and \$1,854 at September 30, 2015 and December 31, 2014, respectively.

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### 9. Commitments and Contingencies

#### Legal Matters

The Company is regularly involved in litigation, both as a plaintiff and as a defendant, relating to its business and operations. The Company assesses the likelihood of any 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 the matters listed below will not have a material adverse effect on its business, consolidated financial position, results of operations or cash flows. Regardless of the outcome, litigation can adversely impact the Company as a result of defense and settlement costs, diversion of management resources and other factors.

**Putative Securities Class Action Litigation.** Two putative securities class action complaints were filed in the United States District Court for the Southern District of Indiana, naming the Company and several of its current and former directors and officers as defendants. *Baron v. Angie's List, Inc. et al.*, 1:13-cv-2032, filed on December 23, 2013, and *Bartolone v. Angie's List, Inc., et al.*, 1:14-cv-0023, filed on January 9, 2014, allege that the defendants violated Section 10(b) of the Securities Exchange Act of 1934 by making material misstatements in, and omitting material information from, the Company's public disclosures concerning its paid membership model. The two cases were consolidated on June 16, 2014. The Court granted the defendants' motion to dismiss without prejudice on June 18, 2015. The plaintiff did not file an amended complaint within the time prescribed by the Court, which entered judgment in favor of the defendants on July 27, 2015.

*Korda v. Oesterle, et al.*, 1:14-cv-00004. On January 3, 2014, a derivative complaint was filed in the United States District Court for the Southern District of Indiana, naming the Company's Board of Directors and various current and former officers as individual defendants. The complaint asserts that the individual defendants breached their fiduciary duty based on their knowledge that the Company's public statements during 2013 concerning the Company's business prospects were allegedly misleading. The complaint also alleges that certain defendants breached their fiduciary duty by selling shares of Angie's List common stock between December 2012 and December 2013. The Court issued an order staying the action pending a ruling on the motion to dismiss in the Putative Securities Class Action Litigation described above. On September 15, 2015, the plaintiff filed a motion for voluntary dismissal, which was granted on September 17, 2015.

*Clark v. Oesterle, et al.*, C.A. No. 10255. On October 17, 2014, a derivative complaint was filed in the Court of Chancery of the State of Delaware, naming members of the Company's Board of Directors and various current and former officers as individual defendants. The complaint alleges that the individual defendants breached their fiduciary duties by making misleading representations regarding, among other things, the Company's business prospects. The complaint also alleges that certain individual defendants breached their fiduciary duties by selling shares of Angie's List common stock between February 2013 and October 2013. The Court issued an order staying the action pending a ruling on the motion to dismiss in the Putative Securities Class Action Litigation described above. On October 12, 2015, the plaintiff filed an amended complaint alleging that the individual defendants breached their fiduciary duties by engaging in business practices that were contrary to the Company's representations. The defendants have until December 1, 2015 to file a motion to dismiss the amended complaint.

*Moore v. Angie's List, Inc.*, 2:15cv-01243-SD. On March 11, 2015, a lawsuit seeking class action status was filed against the Company in the U.S. District Court for the Eastern District of Pennsylvania. The lawsuit alleges claims of



breaches of contract and covenant of good faith and fair dealing, fraud and fraudulent inducement, unjust enrichment and violation of Pennsylvania's Unfair Trade Practices and Consumer Protection Law. The Company filed a motion to dismiss on May 13, 2015. On August 7, 2015, the Court granted in part and denied in part the motion, specifically dismissing the plaintiff's breach of covenant of good faith and unjust enrichment claims based on the face of the plaintiff's complaint. The parties are entertaining a potential early settlement.

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

This Quarterly Report on Form 10-Q (this "Form 10-Q") contains statements that constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, each as amended. All statements other than statements of historical fact, including statements regarding market and industry prospects and future results of operations or financial position, made in this Form 10-Q are forward-looking. In many cases, you can identify forward-looking statements by terminology, such as "may", "should", "will", "expects", "intends", "plans", "anticipates", "believes", "estimates", "predicts", "potential" or "continue" or the negative of such terms and other comparable terminology. The forward-looking information may include, among other information, statements concerning our estimated and projected earnings, revenues, costs, expenditures, cash flows, growth rates, financial results, our plans and objectives for future operations, growth initiatives or strategies or the expected outcome or impact of pending or threatened litigation. There may also be other statements of expectations, beliefs, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those in the forward-looking statements as a result of various factors, many of which are beyond the Company's control.

The Company has based these forward-looking statements on its current expectations and projections about future events. Although the Company believes that the assumptions on which the forward-looking statements contained herein are based are reasonable, any of those assumptions could prove to be inaccurate. As a result, the forward-looking statements based upon those assumptions also could be incorrect. Risks and uncertainties may affect the accuracy of forward-looking statements. Some, but not all, of these risks are listed in Item 1A. of Part I of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014 as well as in Item 1A. of Part II of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015 and, as applicable, in Item 1A. of Part II of this Form 10-Q.

The forward-looking statements included in this report are made only as of the date hereof. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Overview

We operate a national local services consumer review service and marketplace for which our mission is to improve the local service experience for both consumers and service professionals. Our unique tools, services and content across multiple platforms enable consumers to research, shop for and purchase local services for critical needs, such as home, health and automotive services, as well as rate and review the providers of these services across 253 markets in the United States. Our ratings and reviews, which are available only to our members, assist our members in identifying and hiring the best provider for their local service needs.

We generate revenue from both members and service providers as well as non-member consumers. The primary source of membership revenue is subscription fees, which are typically charged in advance and are recognized ratably over the subscription period. At September 30, 2015, approximately 97% of our total membership base purchased annual or multi-year memberships. These subscription fees represent a significant source of working capital and provide a relatively predictable revenue stream. During 2014, in an effort to drive deeper penetration via enhanced membership growth and retention and generate increased service provider participation, we introduced a new tiered pricing membership model on a national basis, offering three different membership plans with varying levels of service and benefits at distinct price points. The introduction of tiered pricing is resulting in decreased membership

fees, on average, across all markets as members typically opt for the membership plan with the lowest price point.

We derive service provider revenue principally from term-based sales of advertising to service providers. We enable service providers that are rated highly by our members to advertise discounts and other promotions to our members. Our members grade service providers on an “A” to “F” scale, and we invite service providers with an average grade of “B” or better and at least two reviews submitted in the last three years or an average grade of “A” and at least one review submitted in the last three years to advertise to our members through any or all of our platforms. Service provider contracts can be prepaid or invoiced monthly at the option of the service provider and carry an early termination penalty. We recognize service provider revenue ratably over the period in which an advertising campaign is run. Our service provider renewal rates, both in number of service providers renewing and as a percentage of initial contract value renewed, provide us with a relatively predictable revenue stream.

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In addition to traditional advertising on our platforms, our e-commerce marketplace solutions offer consumers the opportunity to purchase services through us from highly-rated service providers. These e-commerce offerings are available through postings on our website and mobile applications as well as via email promotions and offers and are an important aspect of our business. When a consumer completes an e-commerce purchase from our marketplace, the transaction is processed through Angie's List, and we receive a portion of the price paid as revenue. The purchaser can then indicate scheduling preferences automatically using our tools or work directly with the service provider to schedule the service. E-commerce offerings provide our consumers with an easier and more convenient way to fulfill their service needs and may offer a discount as well. Our e-commerce marketplace provides a way to further enhance the value of our services for both consumers and service providers.

Our approach to generating revenue from e-commerce has evolved such that it is a key component of the value proposition we offer to service providers and an important aspect of our service provider monetization strategies. Accordingly, we are investing in the development of our marketplace platforms and initiatives, including a complete redesign and rebuild of our website and user interface, in an effort to provide greater value to consumers, improve consumer engagement, drive higher dollar service provider renewals, increase the number of service providers who sell e-commerce and enhance service provider retention. Additionally, we continue to develop mechanisms and programs focused on driving better transaction outcomes between service providers and consumers. Our dynamic tools and products provide consumers with three easy ways to get work done: (1) search for providers, (2) shop for specific home improvement services and (3) SnapFix a project, which is our revolutionary feature that greatly reduces the time and effort required to hire a service professional.

While we continue to expand the breadth and depth of the service provider side of our business, attracting new consumers, including both members and non-members, and strengthening our market reach remain among our key growth strategies. Increased penetration in a market results in more reviews of service providers, which enhances the value of our service to consumers and drives further growth in that market. Market penetration also generates growth in service provider revenue and supports higher advertising rates as the pool of consumers actively seeking to hire service providers grows. Our ability to increase advertising rates tends to lag increased penetration of our markets given that we do not increase rates under existing service provider contracts prior to renewal.

Our primary strategy for new member acquisition is national advertising, including both offline and online media, with an increasing emphasis on digital marketing platforms. Our marketing expense is generally higher in the second or third quarters of the year as we increase our investment in advertising to attract consumers during the periods when we have found they are most actively seeking our services. We traditionally focused our marketing efforts on acquiring new members to increase our market penetration, but in 2014, we began to shift our marketing focus from solely driving member growth to also highlighting our e-commerce offerings and marketplace initiatives, the objective of which is to take better advantage of traffic to our site and open our platforms and services to a broader base of consumers. Our marketing strategy includes a mix of offline advertising via national cable and broadcast television, national broadcast radio and magazines as well as online through search engine marketing, web display and other forms of digital advertising. We also utilize our original content to supplement our marketing spend and further strengthen our brand as well as to drive more marketplace transactions through search engine optimization ("SEO").

We believe that our estimated penetration rate and average revenue per market will increase as markets mature, and over the long-term, we believe that these increased revenues will offset our operating expenses. Given that our marketing contracts are typically short-term, we can rapidly adjust marketing expense and thus decrease total operating expenses to reduce cash used in operations or generate cash and profits from operations should we begin to experience adverse trends in marketing cost per paid membership acquisition or wish to optimize for profitability. We believe that our high membership renewal rates and "word of mouth" referrals from existing members, combined with effective purchasing of lower volumes of advertising and increased utilization of SEO, would enable us to maintain and potentially grow the size of our paid membership base should we decide to reduce our overall level of advertising

investment.

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## Market Cohort Analysis

To assist with the evaluation of our performance, we compile certain financial and operating data for our markets, grouped by the years in which the markets transitioned to paid membership status. The table below summarizes this data for the twelve month periods ended September 30, 2015 and 2014 by each respective 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 is comprised of the first major subset of markets, including many of our largest potential markets, that we targeted in our national expansion strategy. The post-2007 cohort primarily consists of smaller markets that we entered to fill out our national presence.

|                                          | Pre-2003<br>September 30, |             | 2003-2007<br>September 30, |             | Post-2007<br>September 30, |           | Total<br>September 30, |             |
|------------------------------------------|---------------------------|-------------|----------------------------|-------------|----------------------------|-----------|------------------------|-------------|
|                                          | 2015                      | 2014        | 2015                       | 2014        | 2015                       | 2014      | 2015                   | 2014        |
| Number of Markets                        | 10                        | 10          | 35                         | 35          | 208                        | 208       | 253                    | 253         |
| Average Revenue/Market (1)               | \$7,957,661               | \$7,258,018 | \$6,107,238                | \$5,416,899 | \$223,525                  | \$188,725 | \$1,343,174            | \$1,191,409 |
| Average Marketing Expense/Market (2)     | \$1,070,334               | \$1,416,968 | \$1,126,209                | \$1,486,922 | \$99,040                   | \$131,304 | \$279,530              | \$369,657   |
| Membership Revenue/Paid Member (3)       | \$26.59                   | \$34.01     | \$24.41                    | \$30.35     | \$14.77                    | \$15.74   | \$22.29                | \$27.15     |
| Service Provider Revenue/Paid Member (4) | \$107.18                  | \$108.50    | \$101.31                   | \$99.70     | \$41.88                    | \$39.24   | \$86.77                | \$85.27     |
| Total Revenue/Paid Member                | \$133.77                  | \$142.51    | \$125.72                   | \$130.05    | \$56.65                    | \$54.98   | \$109.06               | \$112.42    |
| Total Paid Memberships (5)               | 625,159                   | 564,568     | 1,778,286                  | 1,622,252   | 844,794                    | 796,619   | 3,248,239              | 2,983,439   |
| Estimated Penetration Rate (6)           | 17                        | % 15        | % 13                       | % 12        | % 12                       | % 11      | % 13                   | % 12        |
| Annual Membership Growth Rate (7)        | 11                        | % 24        | % 10                       | % 25        | % 6                        | % 26      | % 9                    | % 25        |

(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) 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 each 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 September 2015 demographic study by Merkle

Inc. that we commissioned, there were approximately 27 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 24 million of these households were in our markets. The average number of households per market in our target demographic was 370,000, 380,000 and 30,000 for the pre-2003, 2003-2007 and post-2007 cohorts, respectively, for the period ended September 30, 2015. According to a September 2014 demographic study by Merkle Inc., there were approximately 28 million households in the United States in our target demographic, and approximately 25 million of these households were in our markets. The average number of households per market in our target demographic was 380,000, 400,000 and 40,000 for the pre-2003, 2003-2007 and post-2007 cohorts, respectively, for the period ended September 30, 2014.

Membership revenue per paid membership is calculated as membership revenue in the cohort divided by the (3) 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.

Service provider revenue per paid membership is calculated as service provider revenue in the cohort divided by (4) 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.

(5) Total paid memberships in each cohort as of September 30, 2015 and 2014 includes a de minimis number of complimentary memberships in our paid markets.

Estimated penetration rate is calculated by dividing the number of paid memberships in a given cohort as of (6) September 30, 2015 and 2014, respectively, by the number of households meeting our target demographic criteria in that cohort.

Annual membership growth rate represents the rate of increase in the total number of paid memberships in the (7) cohort between September 30, 2015 and 2014 for the current year and September 30, 2014 and 2013 for the prior year.

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Our average revenue per market has generally grown with the maturity and corresponding increased penetration of our markets. Total revenue per paid membership fluctuates from period to period, reflecting the timing of our ability to adjust service provider rates given our contract terms and membership pricing innovations designed to drive increased penetration. At September 30, 2015, total revenue per paid membership was down across certain cohorts and in total as compared to the prior year, primarily reflecting the impacts associated with the adoption of tiered membership pricing and, more recently, the near-term reduction in average e-commerce take rates while we focused on broadening the available inventory in our e-commerce marketplace and encouraging more service providers to participate. Factors that may drive fluctuations in total revenue per paid membership from period to period include:

Our average service provider contract term typically approximates one year, and we do not increase rates for a given participating service provider prior to contract renewal. As such, there is a lag in our ability to leverage increased penetration in a market into increased service provider rates;

Members typically opt for annual memberships, and as such, the percentage of our membership base on monthly memberships is declining. While we believe annual memberships are more beneficial to members and promote high renewal rates, these memberships are priced lower on an annualized basis as compared to monthly memberships;

On average across all markets, we are utilizing lower membership pricing and generating reduced membership revenue per paid member as part of our tiered pricing membership structure for varying levels of service and benefits that was introduced on a national basis during 2014 with the goal of driving deeper penetration via enhanced membership growth and retention and generating increased service provider participation; and

Our approach to generating revenue from our e-commerce marketplace continues to evolve as we refine the value proposition we offer to service providers and, concurrently, our service provider monetization strategies. Accordingly, we have in the past adjusted our approach with respect to e-commerce take rates in order to more effectively monetize our e-commerce marketplace, and we may do so again in the future.

Expanding our membership base creates the network effects of a more valuable service for consumers and a more attractive commercial platform for service providers. We intend to continue to evaluate and adopt innovative packaging, pricing and monetization strategies, such as tiered membership offerings, in an effort to deliver compelling value to our members and thereby support membership growth and retention. Although the dynamics associated with the introduction of such strategies have caused and may continue to cause membership revenue per paid membership to decline sequentially in some of our cohorts, we believe that increasing our membership base is critical for producing overall growth in average revenue per market, service provider revenue per paid membership and total revenue per paid membership across all cohorts over time.

As a market matures, our penetration rate typically increases. Historically, while the absolute number of paid members may grow faster in larger markets, our smaller markets often achieve greater penetration over a shorter period of time than our larger markets. We believe a principal reason for our lower penetration rates in larger markets is the manner in which we market Angie's List to our target demographic in such markets. We spend the majority of our marketing dollars on national advertising, including an increasing emphasis on digital marketing platforms, and we believe that this marketing strategy provides us the most cost effective and efficient manner of acquiring new paid memberships and highlighting our e-commerce offerings. 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 provide fewer advertising outlets than larger markets. Therefore, we believe the same volume of advertising in a smaller market is more effective in building brand awareness and generating new memberships than in larger markets. We expect to continue to see lower relative penetration rates in our larger markets for these reasons. As several of these larger markets are in the 2003-2007 cohort, over time our penetration rate in this cohort may lag other



cohorts.

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## Key Operating Metrics

In addition to the line items in our condensed consolidated 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 these metrics are 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, 2015 and 2014:

|                                                                             | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|-----------------------------------------------------------------------------|-------------------------------------|-----------|------------------------------------|-----------|
|                                                                             | 2015                                | 2014      | 2015                               | 2014      |
| Total paid memberships (end of period)                                      | 3,248,239                           | 2,983,439 | 3,248,239                          | 2,983,439 |
| Gross paid memberships added (in period)                                    | 298,922                             | 350,376   | 818,775                            | 1,035,814 |
| Marketing cost per paid membership acquisition (in period)                  | \$78                                | \$64      | \$80                               | \$79      |
| First-year membership renewal rate (in period)                              | 75                                  | % 74      | % 74                               | % 74      |
| Average membership renewal rate (in period)                                 | 77                                  | % 77      | % 77                               | % 77      |
| Participating service providers (end of period)                             | 53,918                              | 54,392    | 53,918                             | 54,392    |
| Total service provider contract value (end of period, in thousands)         | \$270,904                           | \$236,303 | \$270,904                          | \$236,303 |
| Total service provider contract value backlog (end of period, in thousands) | \$162,817                           | \$145,829 | \$162,817                          | \$145,829 |

**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, which tends to fluctuate based on our level of investment in advertising as well as the nature of our messaging included in such advertising, reflects the total number of new paid memberships added in a reporting period and is an important performance indicator as increasing paid memberships is a key growth strategy.

**Marketing cost per paid membership acquisition.** We calculate marketing cost per paid membership acquisition in a reporting period as marketing expense divided by gross paid memberships added in that period. As we advertise in national media, a portion of our marketing expenditures also increase the number of unpaid memberships. On a comparative basis, marketing cost per paid membership acquisition can reflect our success in generating new paid memberships through our SEO efforts, “word of mouth” referrals and experimentation and adjustments to our marketing expense to focus on more effective advertising outlets for membership acquisition, as well as changes in membership pricing. In 2014, we began to shift our marketing focus from solely driving member growth to also highlighting our e-commerce offerings and marketplace initiatives, and that strategy remains in place in 2015. As such, our marketing cost per paid membership acquisition is not only a reflection of the cost incurred to obtain new members but also the marketing dollars we are spending to generate traffic to and transactions on our platforms. We typically incur higher marketing expense in the second or third quarters of the year in order to attract consumers during the periods when we have found they are most actively seeking our services. We generally reduce our marketing expense in the fourth quarter due to decreased consumer activity in the service sector and higher advertising rates associated with 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 3% of our total membership base as of September 30, 2015. 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, e-commerce or both 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.

Total service provider contract value backlog. Service provider contract value backlog consists of the portion of service provider contract value at the stated date which is not yet recognized as revenue.

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## Results of Operations

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

|                                                            | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |            |
|------------------------------------------------------------|-------------------------------------|-----------|------------------------------------|------------|
|                                                            | 2015                                | 2014      | 2015                               | 2014       |
|                                                            | (in thousands)                      |           | (in thousands)                     |            |
| Revenue                                                    |                                     |           |                                    |            |
| Membership                                                 | \$17,178                            | \$18,279  | \$51,427                           | \$55,095   |
| Service provider                                           | 69,814                              | 63,027    | 206,443                            | 177,764    |
| Total revenue                                              | 86,992                              | 81,306    | 257,870                            | 232,859    |
| Operating expenses                                         |                                     |           |                                    |            |
| Operations and support (1)                                 | 14,022                              | 14,119    | 43,476                             | 39,413     |
| Selling (1)                                                | 29,034                              | 32,078    | 89,467                             | 88,478     |
| Marketing                                                  | 23,450                              | 22,508    | 65,245                             | 81,909     |
| Product and technology (1)                                 | 8,990                               | 8,696     | 26,977                             | 24,243     |
| General and administrative (1)                             | 10,721                              | 8,639     | 34,204                             | 25,080     |
| Operating income (loss)                                    | 775                                 | (4,734)   | (1,499)                            | (26,264)   |
| Interest expense, net                                      | 684                                 | —         | 2,380                              | 579        |
| Loss on debt extinguishment                                | —                                   | 458       | —                                  | 458        |
| Income (loss) before income taxes                          | 91                                  | (5,192)   | (3,879)                            | (27,301)   |
| Income tax expense                                         | 9                                   | 15        | 28                                 | 45         |
| Net income (loss)                                          | \$82                                | \$(5,207) | \$(3,907)                          | \$(27,346) |
| (1) Includes non-cash stock-based compensation as follows: |                                     |           |                                    |            |
| Operations and support                                     | \$29                                | \$20      | \$78                               | \$45       |
| Selling                                                    | 182                                 | 109       | 343                                | 292        |
| Product and technology                                     | 256                                 | 387       | 678                                | 838        |
| General and administrative                                 | 1,259                               | 1,901     | 5,150                              | 4,770      |
| Total non-cash stock-based compensation                    | \$1,726                             | \$2,417   | \$6,249                            | \$5,945    |

|                                   | Three Months Ended<br>September 30, |       | Nine Months Ended<br>September 30, |        |    |
|-----------------------------------|-------------------------------------|-------|------------------------------------|--------|----|
|                                   | 2015                                | 2014  | 2015                               | 2014   |    |
| Revenue                           |                                     |       |                                    |        |    |
| Membership                        | 20                                  | % 22  | % 20                               | % 24   | %  |
| Service provider                  | 80                                  | % 78  | % 80                               | % 76   | %  |
| Total revenue                     | 100                                 | % 100 | % 100                              | % 100  | %  |
| Operating expenses                |                                     |       |                                    |        |    |
| Operations and support            | 16                                  | % 17  | % 17                               | % 17   | %  |
| Selling                           | 34                                  | % 39  | % 35                               | % 38   | %  |
| Marketing                         | 27                                  | % 28  | % 25                               | % 35   | %  |
| Product and technology            | 10                                  | % 11  | % 11                               | % 10   | %  |
| General and administrative        | 12                                  | % 11  | % 13                               | % 11   | %  |
| Operating income (loss)           | 1                                   | % (6) | )% (1                              | )% (11 | )% |
| Interest expense, net             | 1                                   | % —   | % 1                                | % 1    | %  |
| Loss on debt extinguishment       | —                                   | % —   | % —                                | % —    | %  |
| Income (loss) before income taxes | —                                   | % (6) | )% (2                              | )% (12 | )% |

|                    |   |   |    |    |    |    |     |    |
|--------------------|---|---|----|----|----|----|-----|----|
| Income tax expense | — | % | —  | %  | —  | %  | —   | %  |
| Net income (loss)  | — | % | (6 | )% | (2 | )% | (12 | )% |

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## Comparison of the Three Months Ended September 30, 2015 and 2014

## Revenue

|  | Three Months Ended<br>September 30, |      |          |
|--|-------------------------------------|------|----------|
|  | 2015                                | 2014 | % Change |

(dollars in thousands)

|                                                 |           |           |      |   |
|-------------------------------------------------|-----------|-----------|------|---|
| Revenue                                         |           |           |      |   |
| Membership                                      | \$ 17,178 | \$ 18,279 | (6)  | % |
| Service provider                                | 69,814    | 63,027    | 11   | % |
| Total revenue                                   | \$ 86,992 | \$ 81,306 | 7    | % |
| Percentage of revenue by type                   |           |           |      |   |
| Membership                                      | 20        | % 22      | %    |   |
| Service provider                                | 80        | % 78      | %    |   |
| Total revenue                                   | 100       | % 100     | %    |   |
| Total paid memberships (end of period)          | 3,248,239 | 2,983,439 | 9    | % |
| Gross paid memberships added (in period)        | 298,922   | 350,376   | (15) | % |
| Participating service providers (end of period) | 53,918    | 54,392    | (1)  | % |

Total revenue increased \$5.7 million for the three months ended September 30, 2015 as compared to the three months ended September 30, 2014.

Membership revenue decreased \$1.1 million for the three months ended September 30, 2015 as compared to the three months ended September 30, 2014, primarily due to the 14% decrease in membership revenue per paid membership period over period as well as the 15% decline in gross paid memberships added during the period, partially offset by the impact associated with the 9% increase in the total number of paid memberships over the same time period. The decrease in membership revenue per paid membership was largely the result of reductions in membership fees, on average, across all markets due to tiered membership pricing as members typically opt for the membership plan offering with the lowest price point. A period over period increase from 95% to 97% in total memberships constituting annual and multi-year memberships also contributed to the decrease in membership revenue per paid membership in the three months ended September 30, 2015. The decline in gross paid memberships added quarter over quarter was related to the level and timing of our marketing spend as well as the messaging associated with that spend. Historically, our marketing spend is highest in the second or third quarters of the year and is generally consistent across these quarters. However, in 2014, we significantly increased our marketing spend in the second quarter, thereby favorably impacting our gross paid memberships added in the third quarter of 2014. In the current year, we did not accelerate our marketing spend in the second quarter and also shifted our marketing focus from solely driving member growth to also highlighting our e-commerce offerings and marketplace initiatives, thus negatively impacting gross paid memberships added period over period. Membership revenue accounted for 20% and 22% of total revenue for the three months ended September 30, 2015 and 2014, respectively, and we expect membership revenue as a percentage of total revenue to continue to decline due to the downward pressure on both our membership revenue and membership revenue per paid member resulting from tiered membership pricing.

Service provider revenue increased \$6.8 million for the three months ended September 30, 2015 as compared to the three months ended September 30, 2014, primarily as a result of a 12% increase in service provider revenue per participating service provider as well as a period over period increase in service provider contract value of 15%. Service provider revenue primarily consists of revenue from advertising contracts with service providers. As our

penetration of a given market increases, we are typically able to charge higher rates for advertising as service providers are able to reach a larger base of potential customers. However, as we only increase advertising rates at the time of contract renewal, increases in service provider revenue in a given market may trail increases in market penetration. Revenue from our e-commerce marketplace is also included in service provider revenue and will fluctuate from period to period as offerings and monetization strategies evolve and due to seasonality. For instance, near-term reductions in average e-commerce take rates in previous periods contributed to a realization of slower service provider revenue growth rates quarter over quarter. Service provider revenue accounted for 80% and 78% of total revenue for the three months ended September 30, 2015 and 2014, respectively, and we expect service provider revenue as a percentage of total revenue to continue to increase as we enhance the value proposition we offer service providers and leverage new service provider monetization strategies.

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## Operations and support

|                                   | Three Months Ended<br>September 30, |          | % Change |   |
|-----------------------------------|-------------------------------------|----------|----------|---|
|                                   | 2015                                | 2014     |          |   |
|                                   | (dollars in thousands)              |          |          |   |
| Operations and support            | \$14,022                            | \$14,119 | (1)      | % |
| Percentage of revenue             | 16                                  | % 17     | %        |   |
| Non-cash stock-based compensation | \$29                                | \$20     |          |   |

Operations and support expense decreased \$0.1 million for the three months ended September 30, 2015 as compared to the three months ended September 30, 2014. The decline in operations and support expense was largely attributable to quarter over quarter reductions in outsourced services expenditures and personnel costs amounting to \$0.6 million and \$0.3 million, respectively, offset by a \$0.5 million increase in publication costs associated with the increased circulation of the Angie's List Magazine and a \$0.4 million increase in credit card processing fees period over period due to the growing volume of memberships and service provider transactions on our platforms. Operations and support expense decreased slightly as a percentage of revenue quarter over quarter, and we expect this trend to continue in the fourth quarter of 2015.

## Selling

|                                   | Three Months Ended<br>September 30, |          | % Change |   |
|-----------------------------------|-------------------------------------|----------|----------|---|
|                                   | 2015                                | 2014     |          |   |
|                                   | (dollars in thousands)              |          |          |   |
| Selling                           | \$29,034                            | \$32,078 | (9)      | % |
| Percentage of revenue             | 34                                  | % 39     | %        |   |
| Non-cash stock-based compensation | \$182                               | \$109    |          |   |

Selling expense decreased \$3.0 million for the three months ended September 30, 2015 compared to the three months ended September 30, 2014. While selling expense generally correlates with fluctuations in service provider revenue, we experienced quarter over quarter leverage and efficiency in selling expense in the current period as service provider revenue increased 11% for the three months ended September 30, 2015 as compared to the three months ended September 30, 2014, while selling expense declined 9% over the same time period. Headcount was the most significant factor contributing to the period over period leverage and efficiency in selling expense, as there was a 17% reduction in the total number of sales personnel we employ from September 30, 2014 to September 30, 2015, yielding a \$1.9 million decrease in selling compensation and personnel-related costs for commissions, wages and other employee benefits. Although selling expense as a percentage of both total revenue and service provider revenue declined in the third quarter of 2015 as compared to the third quarter of 2014, our general expectation is that selling expense will fluctuate with service provider revenue and the composition of that revenue over time. For the fourth quarter of 2015, we expect selling expense to decline as a percentage of both total revenue and service provider revenue as compared to the fourth quarter of 2014 as we continue to realize efficiencies in selling expense period over period.



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## Marketing

|                                                            | Three Months Ended<br>September 30, |          |          |   |
|------------------------------------------------------------|-------------------------------------|----------|----------|---|
|                                                            | 2015                                | 2014     | % Change |   |
|                                                            | (dollars in thousands)              |          |          |   |
| Marketing                                                  | \$23,450                            | \$22,508 | 4        | % |
| Percentage of revenue                                      | 27                                  | % 28     | %        |   |
| Gross paid memberships added (in period)                   | 298,922                             | 350,376  | (15)     | % |
| Marketing cost per paid membership acquisition (in period) | \$78                                | \$64     |          |   |

Marketing expense increased \$0.9 million for the three months ended September 30, 2015 as compared to the three months ended September 30, 2014 as we continue to make significant investments in increasing our paid membership base and expanding our market reach via national offline and online advertising. We plan our quarterly marketing spend based on expectations of consumer spending and manage to marginal cost per acquisition in doing so.

Accordingly, our marketing spend in the third quarter of 2015 was reflective of the planned timing of our current year spend trajectory and our focus on the efficiency and effectiveness of our spend. In 2014, we began to shift our marketing focus from solely driving member growth to also highlighting our e-commerce offerings and marketplace initiatives, and that strategy remains in place in 2015. As such, our marketing cost per paid membership acquisition is not only a reflection of the cost incurred to obtain new members but also the marketing dollars we are spending to generate traffic to and transactions on our platforms, thus contributing to the quarter over quarter increase in our marketing cost per paid membership acquisition from \$64 for the three months ended September 30, 2014 to \$78 for the three months ended September 30, 2015. Marketing expense as a percentage of revenue decreased from the prior year period as total revenue increased by 7% for the three months ended September 30, 2015 as compared to the three months ended September 30, 2014, while marketing expense only increased by 4% over the same time period.

Consistent with the seasonality that characterizes our business, we generally expect marketing expense and marketing cost per paid membership acquisition to peak in the second or third quarters of the year. For the fourth quarter of 2015, we expect marketing expense to increase modestly as a percentage of revenue as compared to the fourth quarter of 2014 based on a planned increase in fourth quarter marketing spend year over year.

## Product and technology

|                                   | Three Months Ended<br>September 30, |         |          |   |
|-----------------------------------|-------------------------------------|---------|----------|---|
|                                   | 2015                                | 2014    | % Change |   |
|                                   | (dollars in thousands)              |         |          |   |
| Product and technology            | \$8,990                             | \$8,696 | 3        | % |
| Percentage of revenue             | 10                                  | % 11    | %        |   |
| Non-cash stock-based compensation | \$256                               | \$387   |          |   |

Product and technology expense increased \$0.3 million for the three months ended September 30, 2015 as compared to the three months ended September 30, 2014. The increase in product and technology expense was largely attributable to a period over period increase of \$0.5 million for technology-related outsourced services, which related to costs incurred for the maintenance and support of our existing technology infrastructure, including our website, in order to continue to service our membership and service provider bases. Product and technology expense as a percentage of revenue decreased slightly quarter over quarter, and we generally expect product and technology expense as a percentage of revenue to remain consistent from period to period. We expect to continue to incur product and technology expense related to the maintenance and support of our existing technology infrastructure throughout the remainder of 2015 until we launch and transition to our new technology platform and infrastructure in 2016, at

which point in time depreciation of the related assets will commence.

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## General and administrative

Three Months Ended  
September 30,  
2015                      2014                      % Change

(dollars in thousands)

|                                   |          |         |    |   |
|-----------------------------------|----------|---------|----|---|
| General and administrative        | \$10,721 | \$8,639 | 24 | % |
| Percentage of revenue             | 12       | % 11    | %  |   |
| Non-cash stock-based compensation | \$1,259  | \$1,901 |    |   |

General and administrative expense increased \$2.1 million for the three months ended September 30, 2015 as compared to the three months ended September 30, 2014. The most significant driver of the fluctuation in general and administrative expense period over period was a \$1.3 million increase in personnel-related costs, attributable to 15% growth in our headquarters headcount over the prior year. The headquarters personnel added over the course of the past year reflect hiring in strategic growth areas such as marketing, human resources, finance and project management as well as the addition of our new President and Chief Executive Officer during the quarter. Included in the fluctuation in general and administrative personnel-related costs was a \$0.6 million decline in non-cash stock-based compensation expense, which was largely the result of forfeitures during 2015. Additionally, we experienced a \$0.7 million increase in professional fees quarter over quarter, primarily related to activist activity in our stock and the costs incurred to identify and hire our new President and Chief Executive Officer, as well as a \$0.7 million increase in bad debt expense over the same time period. These increases were partially offset by a period over period reduction to general and administrative expense related to an adjustment of the legal settlement accrual for a prior legal obligation, amounting to \$0.9 million for the third quarter of 2015. As a percentage of revenue, general and administrative expense increased slightly for the three months ended September 30, 2015 as compared to the three months ended September 30, 2014. While we expect general and administrative expense as a percentage of revenue to generally remain constant or decrease over time as we realize efficiencies and economies of scale as we grow, we anticipate that general and administrative expense will increase in absolute dollars and as a percentage of revenue in the fourth quarter of 2015 as compared to the fourth quarter of 2014, as a result of the impact of personnel added in 2015.

## Interest expense

Interest expense for the three months ended September 30, 2015 was \$0.7 million as compared to \$0 for the three months ended September 30, 2014, reflecting the impact of recurring monthly interest payments on the outstanding long-term debt and monthly interest charges for loan fee and debt discount amortization related to the September 2014 debt financing transaction, partially offset by capitalized interest on website and software development.

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## Comparison of the Nine Months Ended September 30, 2015 and 2014

## Revenue

| Nine Months Ended<br>September 30, |      |          |
|------------------------------------|------|----------|
| 2015                               | 2014 | % Change |

(dollars in thousands)

|                                                 |           |           |      |   |
|-------------------------------------------------|-----------|-----------|------|---|
| Revenue                                         |           |           |      |   |
| Membership                                      | \$51,427  | \$55,095  | (7)  | % |
| Service provider                                | 206,443   | 177,764   | 16   | % |
| Total revenue                                   | \$257,870 | \$232,859 | 11   | % |
| Percentage of revenue by type                   |           |           |      |   |
| Membership                                      | 20        | % 24      | %    |   |
| Service provider                                | 80        | % 76      | %    |   |
| Total revenue                                   | 100       | % 100     | %    |   |
| Total paid memberships (end of period)          | 3,248,239 | 2,983,439 | 9    | % |
| Gross paid memberships added (in period)        | 818,775   | 1,035,814 | (21) | % |
| Participating service providers (end of period) | 53,918    | 54,392    | (1)  | % |

Total revenue increased \$25.0 million for the nine months ended September 30, 2015 as compared to the nine months ended September 30, 2014.

Membership revenue decreased \$3.7 million year over year, primarily due to the 14% decrease in membership revenue per paid membership in the nine months ended September 30, 2015 as compared to the prior year as well as the 21% decline in gross paid memberships added during the period, partially offset by the impact associated with the 9% increase in the total number of paid memberships over the same time period. The decrease in membership revenue per paid membership was largely the result of reductions in membership fees, on average, across all markets due to tiered membership pricing as members typically opt for the membership plan offering with the lowest price point. A year over year increase from 95% to 97% in total memberships constituting annual and multi-year memberships also contributed to the decrease in membership revenue per paid membership in the nine months ended September 30, 2015. The decline in gross paid memberships added year over year was attributable to adjustments in the level of our marketing spend, as well as the messaging associated with that spend, in the current year as compared to the prior year. We decreased marketing expense \$16.7 million year over year while simultaneously shifting our marketing focus from solely driving member growth to also highlighting our e-commerce offerings and marketplace initiatives, thus negatively impacting gross paid memberships added in the current year. Membership revenue accounted for 20% and 24% of total revenue for the nine months ended September 30, 2015 and 2014, respectively, and we expect membership revenue as a percentage of total revenue to continue to decline due to the downward pressure on both our membership revenue and membership revenue per paid member resulting from tiered membership pricing.

Service provider revenue increased \$28.7 million year over year, primarily as a result of a 17% increase in service provider revenue per participating service provider as well as a year over year increase in service provider contract value of 15%. Service provider revenue primarily consists of revenue from advertising contracts with service providers. As our penetration of a given market increases, we are typically able to charge higher rates for advertising as service providers are able to reach a larger base of potential customers. However, as we only increase advertising rates at the time of contract renewal, increases in service provider revenue in a given market may trail increases in market penetration. Revenue from our e-commerce marketplace is also included in service provider revenue and will

fluctuate from period to period as offerings and monetization strategies evolve and due to seasonality. For instance, near-term reductions in average e-commerce take rates in previous periods contributed to a realization of slower service provider revenue growth rates year over year. Service provider revenue accounted for 80% and 76% of total revenue for the nine months ended September 30, 2015 and 2014, respectively, and we expect service provider revenue as a percentage of total revenue to continue to increase as we enhance the value proposition we offer service providers and leverage new service provider monetization strategies.

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## Operations and support

|                                   | Nine Months Ended<br>September 30, |          | % Change |   |
|-----------------------------------|------------------------------------|----------|----------|---|
|                                   | 2015                               | 2014     |          |   |
|                                   | (dollars in thousands)             |          |          |   |
| Operations and support            | \$43,476                           | \$39,413 | 10       | % |
| Percentage of revenue             | 17                                 | % 17     | %        |   |
| Non-cash stock-based compensation | \$78                               | \$45     |          |   |

Operations and support expense increased \$4.1 million for the nine months ended September 30, 2015 as compared to the nine months ended September 30, 2014. This increase was due in part to a \$2.2 million increase in publication costs associated with the increased circulation of the Angie's List Magazine as we continue to expand our membership. Additionally, we experienced a \$1.8 million increase in credit card processing fees as compared to the same period in the prior year, attributable to the growing volume of memberships and service provider transactions on our platforms. We also incurred a \$1.1 million increase in operations and support personnel-related costs as we continue to invest in the personnel resources necessary to efficiently and effectively service our consumers and service providers. While our operations and support expense as a percentage of revenue was consistent year over year, we expect operations and support expense to increase in absolute dollars for fiscal year 2015 as compared to 2014 as we service a larger membership base and evolve the value proposition we offer our service providers.

## Selling

|                                   | Nine Months Ended<br>September 30, |          | % Change |   |
|-----------------------------------|------------------------------------|----------|----------|---|
|                                   | 2015                               | 2014     |          |   |
|                                   | (dollars in thousands)             |          |          |   |
| Selling                           | \$89,467                           | \$88,478 | 1        | % |
| Percentage of revenue             | 35                                 | % 38     | %        |   |
| Non-cash stock-based compensation | \$343                              | \$292    |          |   |

Selling expense increased \$1.0 million for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014, primarily attributable to costs we incurred to host a three-day service provider conference in May, which contributed to an increase in selling-related outsourced services of \$1.2 million as well as an increase in selling-related travel, meals and entertainment costs of \$1.0 million year over year. While selling expense generally correlates with fluctuations in service provider revenue, we experienced year over year leverage and efficiency in selling expense as service provider revenue increased 16% for the nine months ended September 30, 2015 as compared to the nine months ended September 30, 2014, while selling expense only grew 1% over the same time period. Headcount was the most significant factor contributing to the leverage and efficiency in selling expense, as there was a 17% reduction in the total number of sales personnel we employ from September 30, 2014 to September 30, 2015, yielding a \$1.3 million decrease in selling compensation and personnel-related costs for commissions, wages, training and other employee benefits year over year. Although selling expense as a percentage of both total revenue and service provider revenue declined for the nine months ended September 30, 2015 as compared to the nine months ended September 30, 2014, our general expectation is that selling expense will fluctuate with service provider revenue and the composition of that revenue over time. For fiscal year 2015, we expect selling expense to decline as a percentage of both total revenue and service provider revenue as compared to 2014 as we continue to realize efficiencies in selling expense year over year.



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## Marketing

|                                                            | Nine Months Ended<br>September 30, |           | % Change |   |
|------------------------------------------------------------|------------------------------------|-----------|----------|---|
|                                                            | 2015                               | 2014      |          |   |
|                                                            | (dollars in thousands)             |           |          |   |
| Marketing                                                  | \$65,245                           | \$81,909  | (20)     | % |
| Percentage of revenue                                      | 25                                 | % 35      | %        |   |
| Gross paid memberships added (in period)                   | 818,775                            | 1,035,814 | (21)     | % |
| Marketing cost per paid membership acquisition (in period) | \$80                               | \$79      |          |   |

Marketing expense decreased \$16.7 million for the nine months ended September 30, 2015 as compared to the nine months ended September 30, 2014. While we continue to make significant investments in increasing our paid membership base and expanding our market reach via national offline and online advertising, we reduced the level and pace of our marketing spend in the nine months ended September 30, 2015 as compared to the same period in 2014 based on the planned timing and extent of our current year spend trajectory and our focus on the efficiency and effectiveness of our spend. Accordingly, marketing expense as a percentage of revenue decreased from the prior year period as total revenue increased by 11% for the nine months ended September 30, 2015 as compared to the nine months ended September 30, 2014, while marketing expense declined by 20% over the same time period. In 2014, we began to shift our marketing focus from solely driving member growth to also highlighting our e-commerce offerings and marketplace initiatives, and that strategy remains in place in 2015. As such, our marketing cost per paid membership acquisition is not only a reflection of the cost incurred to obtain new members but also the marketing dollars we are spending to generate traffic to and transactions on our platforms, thus contributing to the year over year increase in our marketing cost per paid membership acquisition from \$79 for the nine months ended September 30, 2014 to \$80 for the nine months ended September 30, 2015. Consistent with the seasonality that characterizes our business, we generally expect marketing expense and marketing cost per paid membership acquisition to peak in the second or third quarters of the year. For fiscal year 2015, we expect marketing expense to decrease as a percentage of revenue as compared to 2014 based on a planned overall reduction in marketing spend year over year.

## Product and technology

|                                   | Nine Months Ended<br>September 30, |          | % Change |   |
|-----------------------------------|------------------------------------|----------|----------|---|
|                                   | 2015                               | 2014     |          |   |
|                                   | (dollars in thousands)             |          |          |   |
| Product and technology            | \$26,977                           | \$24,243 | 11       | % |
| Percentage of revenue             | 11                                 | % 10     | %        |   |
| Non-cash stock-based compensation | \$678                              | \$838    |          |   |

Product and technology expense increased \$2.7 million for the nine months ended September 30, 2015 as compared to the nine months ended September 30, 2014. The increase in product and technology expense was largely attributable to a \$2.6 million year over year increase in technology-related outsourced services, which related to costs incurred for the maintenance and support of our existing technology infrastructure, including our website, in order to continue to service our membership and service provider bases. Product and technology expense as a percentage of revenue increased slightly year over year, and we generally expect product and technology expense as a percentage of revenue to remain consistent from period to period. As we continue to incur costs to maintain and support our existing technology infrastructure while we prepare to launch and transition to our new technology platform and infrastructure in 2016, we anticipate that product and technology expense will increase in absolute dollars for fiscal year 2015 as compared to 2014.





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## General and administrative

|                                   | Nine Months Ended<br>September 30, |          | % Change |   |
|-----------------------------------|------------------------------------|----------|----------|---|
|                                   | 2015                               | 2014     |          |   |
|                                   | (dollars in thousands)             |          |          |   |
| General and administrative        | \$34,204                           | \$25,080 | 36       | % |
| Percentage of revenue             | 13                                 | % 11     | %        |   |
| Non-cash stock-based compensation | \$5,150                            | \$4,770  |          |   |

General and administrative expense increased \$9.1 million for the nine months ended September 30, 2015 as compared to the nine months ended September 30, 2014. The most significant driver of the fluctuation in general and administrative expense year over year was a \$9.1 million increase in personnel-related costs, attributable to 15% growth in our headquarters headcount over the prior year. The headquarters personnel added over the course of the past year reflect hiring in strategic growth areas such as marketing, human resources, finance and project management as well as the addition of our new President and Chief Executive Officer. While general and administrative non-cash stock-based compensation expense increased year over year, the current year amount reflects approximately \$1.2 million of forfeitures during 2015. General and administrative expense was negatively impacted by a \$0.7 million one-time, non-cash long-lived asset impairment charge recorded during the second quarter of 2015 related to our decision not to pursue our previously announced Indianapolis campus expansion plan. Additionally, we experienced a \$0.5 million increase in professional fees year over year, primarily related to activist activity in our stock as well as the costs incurred to identify and hire our new President and Chief Executive Officer. The increase in general and administrative expense was partially offset by a year over year reduction to general and administrative expense related to an adjustment of the legal settlement accrual for a prior legal obligation, amounting to \$1.9 million for the nine months ended September 30, 2015. As a percentage of revenue, general and administrative expense increased slightly for the nine months ended September 30, 2015 as compared to the nine months ended September 30, 2014. While we expect general and administrative expense as a percentage of revenue to generally remain constant or decrease over time as we realize efficiencies and economies of scale as we grow, we anticipate that general and administrative expense will increase in absolute dollars and as a percentage of revenue in fiscal year 2015 as compared to 2014 due to the annualized impact of personnel added in 2014 coupled with the impact on general and administrative expense associated with personnel added in 2015.

## Interest expense

Interest expense for the nine months ended September 30, 2015 was \$2.4 million as compared to \$0.6 million for the nine months ended September 30, 2014, reflecting the impact of recurring monthly interest payments on the outstanding long-term debt and monthly interest charges for loan fee and debt discount amortization related to the September 2014 debt financing transaction, partially offset by capitalized interest on website and software development.

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## Liquidity and Capital Resources

## General

At September 30, 2015, we had \$33.7 million in cash and cash equivalents and \$24.5 million in short-term investments. Cash and cash equivalents consists of bank deposit accounts and money market funds as well as any investments in corporate bonds or certificates of deposit with contractual maturities of three months or less, which, at times, may exceed federally insured limits. Short-term investments consist of corporate bonds and certificates of deposit with maturities of more than 90 days but less than one year. To date, the carrying values of these investments approximate their fair values, and we have incurred no material loss in these accounts.

Summary cash flow information for the nine months ended September 30, 2015 and 2014 is set forth below.

|                                                     | Nine Months Ended<br>September 30, |          |
|-----------------------------------------------------|------------------------------------|----------|
|                                                     | 2015                               | 2014     |
|                                                     | (in thousands)                     |          |
| Net cash provided by operating activities           | \$21,441                           | \$7,950  |
| Net cash (used in) investing activities             | (27,606)                           | (22,294) |
| Net cash (used in) provided by financing activities | (164)                              | 41,860   |

## Net Cash Provided by Operating Activities

Our operating cash flows will continue to be impacted principally by the extent to which we continue to pursue our growth strategy, including investments in national advertising, the development of our marketplace model, changes in price per average paid membership, the size and composition of our sales organization responsible for originating and renewing service provider contracts and general fluctuations in employee headcount as we grow our business. Our largest source of operating cash flows is cash collections from our service providers and members. We expect positive operating cash flows in some periods and negative operating cash flows in others, depending on seasonality and the extent of our investments in future growth of the business.

Cash provided by operating activities for the nine months ended September 30, 2015 of \$21.4 million was generated despite a net loss of \$3.9 million incurred over the same time period, predominately attributable to a \$15.4 million net increase in accounts payable and accrued liabilities since December 31, 2014 related to increases in accrued marketing expenses, accrued e-commerce, accrued base payroll, trade accounts payable and the expected timing of payment of these balances. Additionally, increases in both deferred membership revenue and deferred advertising revenue resulted in a net \$1.6 million contribution to operating cash flows for the nine months ended September 30, 2015, reflecting the impact of increases in service provider contract values and a concurrent increase in the number of paid memberships over the comparison period. Our net loss was adjusted for \$12.5 million of non-cash activity, including \$6.2 million in non-cash stock-based compensation and \$4.8 million in depreciation and amortization, which also impacted operating cash flows for the current year. Uses of cash from operations for the period included a \$3.0 million increase in prepaid expenses and other current assets associated with certain technology and marketing service agreements and a receivable due for state payroll tax incentives, offset by a reduction in prepaid commissions.

Cash provided by operating activities for the nine months ended September 30, 2014 of \$8.0 million was achieved despite a net loss of \$27.3 million. Cash provided by operating activities was largely attributable to a \$20.2 million net increase in accounts payable and accrued liabilities, primarily related to increases in accrued marketing expenses, accrued base payroll, accrued e-commerce, general trade accounts payable and the expected timing of payment of these balances. Additionally, we experienced an increase in total combined deferred revenue of \$11.0 million year

over year as a result of an increase in both the number of paid memberships and in the number of service providers participating in our advertising programs, thereby positively impacting operating cash flow. Furthermore, our net loss was adjusted for \$10.5 million of non-cash expenses, which included \$5.9 million of stock-based compensation expense, \$4.0 million of depreciation and amortization, \$0.3 million related to the non-cash loss on debt extinguishment and \$0.3 million attributable to the amortization of the debt discount, deferred financing fees and the bond premium. Uses of cash included a \$1.9 million increase in accounts receivable attributable to an increase in service provider billings and a \$4.5 million increase in prepaid expenses and other current assets associated with prepaid commissions and a receivable due for state tax payroll incentives.

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### Net Cash (Used in) Investing Activities

Our use of cash in investing activities of \$27.6 million for the nine months ended September 30, 2015 was primarily attributable to the total combined \$26.9 million in capital expenditures for property, equipment and software to date during 2015, consisting of \$20.4 million for capitalized website and software development costs as we continue to make significant investments in the technology infrastructure supporting our web and mobile platforms to sustain our current and anticipated future growth as well as \$6.5 million for facilities and technology hardware and software.

Our use of cash in investing activities of \$22.3 million for the nine months ended September 30, 2014 was largely attributable to the total combined \$25.7 million in property, equipment and software related capital expenditures during the year, consisting of \$12.9 million for facilities and information technology hardware and software and nearly \$12.8 million for capitalized website and software development costs as we continued to make significant upgrades to our web and mobile platforms and implemented new information technology infrastructure to support our growth. We also spent approximately \$0.8 million in the nine months ended September 30, 2014 on data acquisition to acquire consumer reports on service providers and to purchase a website domain name. The combined impact from each of the aforementioned uses of cash in investing activities was offset by a \$4.2 million positive cash inflow related to our sales of investments at maturity, net of purchases, in corporate bonds and certificates of deposit with maturities of more than 90 days but less than one year.

### Net Cash (Used in) Provided by Financing Activities

Net cash used in financing activities of \$0.2 million for the nine months ended September 30, 2015 was entirely attributable to payments on our capital lease obligation.

Net cash provided by financing activities of \$41.9 million for the nine months ended September 30, 2014 consisted, in part, of proceeds from the exercise of employee stock options, offset by payments on our capital lease obligation. In addition, as a result of the debt refinancing transaction completed during the third quarter of 2014, we received debt proceeds of \$60.0 million, offset by fees paid to the lender of \$1.2 million, paid out cash for financing costs amounting to \$1.9 million and incurred a \$15.0 million cash outflow related to the retirement of our previous debt facility. Cash from financing activities was also impacted by an additional \$0.5 million in contingent consideration that was paid out during the third quarter of 2014 to satisfy our final obligation related to the 2013 BrightNest acquisition, which was due and payable on the one-year anniversary of the closing of the transaction.

### Debt Obligations

On September 26, 2014, we entered into a financing agreement that provided for a \$60.0 million term loan and a \$25.0 million delayed draw term loan. Amounts outstanding under the financing agreement bear interest at a per annum rate, at the option of us, equal to (i) the LIBOR rate for the interest period in effect, subject to a floor of 0.5%, plus 6.75% or (ii) the reference rate, which is based on the prime rate as published by the Wall Street Journal, subject to a floor of 3.25%, plus 5.75%. The financing agreement requires monthly interest-only payments on the first business day of each month until maturity on any principal amounts outstanding under either debt facility. The financing agreement obligates us to make quarterly principal payments on the term loan of \$0.8 million on the last day of each calendar quarter, commencing with the quarter ending September 30, 2016, and to repay the remaining balance of the term loan at maturity. We are required to make principal payments on the outstanding balance of the delayed draw term loan equal to 1.25% of the amount of such loan funded at or prior to the last day of each calendar quarter, commencing with the quarter ending September 30, 2016, and to repay the remaining outstanding balance of the delayed draw term loan at maturity.

We may prepay the amounts outstanding under the financing agreement at any time and are required to prepay the loans with (i) the net proceeds of certain asset sales, issuances of debt or equity, and certain casualty events, and (ii) up to 50% of consolidated excess cash flow, as defined in the financing agreement, for each fiscal year during the term of the financing agreement, commencing with the year ended December 31, 2015. Our obligations under the financing agreement are guaranteed by each of our subsidiaries and are secured by first priority security interests in all of our respective assets and a pledge of the equity interests of our subsidiaries. The term loan and the delayed draw term loan mature on September 26, 2019. As of September 30, 2015, we had \$59.0 million in outstanding borrowings, net of fees paid to the lender of \$1.0 million, under the term loan and availability of \$25.0 million under the delayed draw term loan.

The financing 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 stockholders or repurchase outstanding stock, enter into related-party transactions and make capital expenditures. We are also required to comply with certain financial covenants, including minimum consolidated EBITDA as defined in the financing agreement, minimum liquidity, maximum consolidated capital expenditures and minimum membership revenue. Upon an event of default, which includes, among other things, a failure

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to make required payments when due, a failure to comply with covenants, certain bankruptcy and insolvency events, defaults under other material indebtedness, or a change in control, 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, 2015.

### Off-Balance Sheet Arrangements

We do not engage in any off-balance sheet activities, other than long-term noncancellable operating leases as described below, nor do we maintain any off-balance interests in variable interest entities, special-purpose entities or other structured finance entities.

### Contractual Obligations

Our contractual obligations primarily consist of long-term noncancellable operating leases expiring through 2020 and long-term debt comprised of a \$60.0 million term loan scheduled to mature on September 26, 2019. There were no material changes in our contractual obligations from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014. Total combined future minimum payment obligations under long-term noncancellable operating leases amounted to approximately \$9.4 million as of September 30, 2015, while we had \$59.0 million in outstanding borrowings, net of fees paid to the lender, under the term loan as of the same date.

### Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with U.S. GAAP. The preparation of the condensed consolidated 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 were no material changes to our critical accounting policies and estimates from those described in our Annual Report on Form 10-K for the year ended December 31, 2014.

### Recent Accounting Pronouncements

For detailed information regarding recently issued accounting pronouncements and the expected impact on our condensed consolidated financial statements, see Note 1, "Summary of Significant Accounting Policies" in the accompanying Notes to Condensed Consolidated Financial Statements included in Item 1. of Part I of this Form 10-Q.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were 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, 2014. Please refer to Part II, Item 7A. "Quantitative and Qualitative Disclosures about Market Risk" included in our Annual Report on Form 10-K for our fiscal year ended December 31, 2014 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 Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended (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 U.S. Securities and Exchange Commission 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.

Based on their evaluation as of 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, as of such date, our disclosure controls and procedures are effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the third quarter of 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

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 was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures.



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PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information pertaining to legal proceedings can be found in Part I, Item 1. "Condensed Financial Statements" — Note 9, "Commitments and Contingencies," of this Quarterly Report on Form 10-Q and is incorporated by reference herein.

ITEM 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. In addition to the information set forth 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," you should carefully consider the factors discussed in Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for our fiscal year ended December 31, 2014 and in Part II, Item 1A. "Risk Factors" in our Quarterly Report on Form 10-Q for our quarter ended June 30, 2015 as well as the risk factors discussed below, all of which could materially affect our business, financial condition and future results. These risks are not the only risks facing us as additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may become important factors that may materially affect our business, financial condition and future results. The trading price of our common stock could decline due to any of these risks or uncertainties, and you may lose all or part of your investment.

We may not realize the expected business benefits of our efforts to reorganize our sales department, and the reorganized sales department could prove difficult to integrate, disrupt our business or adversely affect our revenues and operating income.

We periodically make changes to the structure of our sales department in an effort to optimize performance and productivity. We are currently in the midst of such a reorganization of our sales department, and we may determine it is necessary to make additional organizational changes again in the future. Such reorganizations involve numerous risks, including:

- potential failure to achieve the expected benefits of the reorganization;
- difficulties in and the cost of reorganizing operations, services and personnel;
- diversion of financial and managerial resources from existing operations;
- potential loss of key employees;
- inability to generate sufficient revenue to offset reorganization costs;
- liabilities and expenses associated with the reorganization, both known and unknown; and
- negative impacts on our operating income and revenues due to the reduction in productivity and efficiency caused by the reorganization process.

If we fail to properly evaluate and execute internal reorganizations, our business may be seriously harmed, negatively impacting our financial condition and results of operations, and the value of your investment may decline as a result.

Our business could be negatively affected as a result of actions of activist stockholders.

The actions of TCS Capital Management, LLC, an employee-owned hedge fund sponsor that is currently the beneficial owner of approximately 9.1% of our outstanding common stock, or another activist stockholder in the future could adversely affect our business. Specifically:

- responding to common actions of an activist stockholder, such as public proposals and requests for special meetings,
- potential nominations of candidates for election to our board of directors, requests to pursue a strategic combination or

other transaction or other special requests, could disrupt our operations, be costly and time-consuming or divert the attention of our management and employees;

perceived uncertainties as to our future direction in relation to the actions of an activist stockholder may result in the loss of potential business opportunities or the perception that we are unstable and need to make changes, which may be exploited by our competitors and make it more difficult to attract and retain key personnel as well as consumers and service providers;

pursuit of an activist stockholder's agenda may adversely affect our ability to effectively implement our business strategy and create additional value for our stockholders; and

actions of an activist stockholder may cause fluctuations in our stock price based on speculative market perceptions or other factors that do not necessarily reflect the underlying fundamentals and prospects of our business.

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Concentration of ownership among our officers and directors and their affiliates may limit the influence of new investors on corporate decisions.

Our officers, directors and their affiliated funds beneficially own or control, directly or indirectly, approximately 24% of our company's outstanding shares of common stock. As a result, if some of these persons or entities act together, they would be capable of meaningfully influencing the outcome of matters submitted to our stockholders for approval, including the election of directors and approval of significant corporate transactions, such as a merger or sale of our company or its assets. This concentration of ownership could limit the ability of other stockholders to influence corporate matters and may delay or preclude an acquisition or cause the market price of our stock to decline. Some of these persons or entities may have interests different from the rest of our stockholders.

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, technology and other personnel. Our Chief Executive Officer, Scott A. Durchslag, and our co-founder and Chief Marketing Officer, 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.

Further, Mr. Durchslag joined our company in September 2015. Leadership transitions can be inherently difficult to manage and may cause uncertainty or a disruption to our business or may increase the likelihood of turnover in other key officers and employees. Periods of transition in senior management leadership are often difficult as the new executives gain detailed knowledge of the company's operations and may result in cultural differences and friction due to changes in strategy and style. During the transition periods, there may be uncertainty among investors, employees, creditors and others concerning our future direction and performance. Any disruption or uncertainty could have a material adverse effect on our results of operations and financial condition and the market price of our common stock.

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 them. Many of the companies with which we compete for experienced personnel possess more resources than us. In addition, in making employment decisions, particularly in the technology sector, job candidates often consider the value of the stock compensation they would receive in connection with their employment. If we are unable to attract and retain our executive officers and key employees, we may not be able to achieve our strategic objectives, and our business could be harmed.

We provide our executive officers and other key personnel with a mix of cash and equity compensation. With respect to equity compensation, prior to 2015, we only offered stock options to these parties, but during 2015, we began granting restricted stock units as well as performance awards of restricted stock units to these parties as well. If equity awards granted to executive officers and other key personnel lose value or, in the case of stock options, are not in the money subsequent to the grant date, the viability of such equity awards as a retention tool could be negatively impacted, which may make it difficult to retain these employees. If we are unable to attract and retain executive officers and key personnel, our business, financial condition or results of operations could be harmed.

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If service providers rated on our website do not meet the expectations of our members, or engage in unethical or illegal conduct, we may suffer reputational harm, liability or adverse impacts on our profitability and liquidity as a result.

Quality and integrity are important foundations of our business that could be harmed by actions taken by service providers outside our control. Given that our members use our services to gather information about services that oftentimes carry a high risk of failure and also at times to purchase services at discounted rates through our e-commerce offerings, if such services are performed incompetently or if service providers fail to perform prepaid services, our reputation could be adversely affected. We cannot be certain that highly-rated service providers will perform to the satisfaction of our members or at all. In addition, unethical or illegal conduct by service providers rated on our website could damage our reputation or expose us to liability arising from claims made by or on behalf of those harmed by such conduct.

We pay service providers for e-commerce offerings purchased by members in advance of the service performed. Under this payment model, service providers are paid regardless of whether the e-commerce offers are redeemed or the services are performed. Subject to certain limitations, we offer guarantees around price and service quality on work performed by service providers under e-commerce transactions executed on our platforms, and, also subject to certain limitations, our members may request a refund from us on these e-commerce transactions. As we do not have control over service providers and the quality or price of the services they deliver, we develop estimates for refund claims. Our actual level of refund claims could prove to be greater than the level of refund claims we estimate, particularly as our revenue from e-commerce offerings grows and we develop additional e-commerce products, services and features. Moreover, our members may make requests for refunds with respect to which we are unable to recover reimbursement from our service providers, particularly as we alter our service provider monetization strategies. An increase in our refund rates, or our inability to recover from our service providers, could adversely affect our profitability and liquidity.

As we develop and sell new products, services and features, we may be subject to additional and unexpected regulations, which could increase our costs or otherwise harm our business.

As we develop and sell products and services that address new segments of the market for local services and expand our marketplace initiatives, we may become subject to additional laws and regulations that could create unexpected liabilities for us, cause us to incur additional costs or restrict our operations. For example, our Angie's List Health offerings may become subject to complex federal and state health care laws and regulations, the application of which to specific products and services is unclear. Many existing health care laws and regulations, when enacted, did not anticipate the online health and wellness information and advertising products and services that we provide; nevertheless, they may be applied to our products and services.

We generate e-commerce offerings that enable consumers to purchase services or products from our service providers. Transactions between consumers and service providers through our platforms in connection with these offerings may be subject to regulation, in whole or in part, by federal, state and local authorities.

In addition, the application of certain laws and regulations to some of our promotions are uncertain. These include laws and regulations such as the Credit Card Accountability Responsibility and Disclosure Act of 2009, or the CARD Act, and unclaimed and abandoned property laws. If these promotions are subject to the CARD Act or any similar state law or regulation, we may be required to record liabilities with respect to unredeemed promotions, and we may be subject to additional fines and penalties.

From time to time, we may also be notified of new laws and regulations, such as the Department of Labor's recently proposed revisions to the Fair Labor Standard Act, that governmental organizations or others may claim should be

applicable to our business. Our failure to accurately anticipate the application of these laws and regulations, or any failure to comply, could create liability for us, result in adverse publicity or cause us to alter our business practices, which could cause our revenue to decrease, our costs to increase or harm our business, financial condition or results of operations.

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Interruptions or delays in service arising from our technology infrastructure could impair the delivery of our services and harm our business.

We rely in part upon third-party co-location technology facilities and cloud-based data services vendors, including data center, Internet infrastructure and bandwidth, as well as payment processing vendors, none of which are under our control, to provide our products and services to our consumers and service providers. Our own internal facilities as well as the external third-party technology facilities and vendors we utilize are vulnerable to damage or interruption from tornadoes, floods, fires, power loss, telecommunications failures, break-ins, sabotage, intentional acts of vandalism, cyber-attacks, the failure of physical, administrative and technical security measures, terrorist acts, human error, financial insolvency of third-party providers or 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 or stored and delivered on our behalf by third-party vendors and facilities. Our disaster recovery capabilities may not be able to fully support our technology infrastructure in the event of interruption or delay. As our technology infrastructure is critical to the performance of our systems and our overall operations, such disruptions could negatively impact our ability to run our business, result in a loss of existing or potential consumers and service providers or increase our technology maintenance and support costs, all of which would adversely impact our operating results and financial condition. Further, our business interruption insurance may be insufficient to compensate us for any losses that may occur as a result of any such interruptions or delays.

Our technology infrastructure is critical to the performance of our systems and our overall operations. Certain aspects of our technology infrastructure run on a complex distributed system, or what is commonly known as cloud computing. We own, operate and maintain the primary elements of this system, but some elements of this system are operated by third parties that we do not control and which would require significant time to replace, thereby increasing 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 cloud computing technologies and information services could negatively impact our brand and reputation, our relationship with our consumers and service providers or our ability to attract, retain and serve our consumers and service providers.

In addition, we designed and developed key aspects of the software code and technical infrastructure for the technology platforms through which we provide our products and services, and we plan to continue to maintain and develop certain elements of our technology platforms internally. Our software code and technical infrastructure are complex, and such efforts may therefore lead to increased product and technology expense, operational inefficiencies or interruptions in the delivery or degradation of the quality of our products and services. These issues may not be identified immediately, which could result in further interruption, degradation or cost, thereby resulting in potential adverse impacts on our business, financial condition or results of operations.

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

None.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## ITEM 5. OTHER INFORMATION

None.

## ITEM 6. EXHIBITS

| Exhibit No. | Exhibit Description                                                                                                                                                                                        | Incorporated by Reference |            |         | Filing Date | Filed Herewith |
|-------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|------------|---------|-------------|----------------|
|             |                                                                                                                                                                                                            | Form                      | File No.   | Exhibit |             |                |
| 3.01        | Amended and Restated Certificate of Incorporation                                                                                                                                                          | S-1/A                     | 333-176503 | 3.1     | 10/31/2011  |                |
| 3.02        | Amended and Restated Bylaws                                                                                                                                                                                | S-1/A                     | 333-176503 | 3.2     | 10/31/2011  |                |
| 10.01       | Transition and Separation Agreement, dated July 2, 2015, by and between Angie's List, Inc. and William S. Oesterle                                                                                         | 8-K                       | 001-35339  | 10.1    | 7/6/2015    |                |
| 10.02       | Employment Agreement, dated September 4, 2015, by and between Angie's List, Inc. and Scott A. Durchslag                                                                                                    | 8-K                       | 001-35339  | 10.1    | 9/8/2015    |                |
| 10.03       | Separation and General Release Agreement, dated August 4, 2015, by and between Angie's List, Inc. and Patrick Brady                                                                                        |                           |            |         |             | X              |
| 10.04       | Nonqualified Stock Option Agreement under the Amended and Restated Omnibus Incentive Plan, dated September 8, 2015, by and between Angie's List, Inc. and Scott A. Durchslag                               |                           |            |         |             | X              |
| 10.05       | Restricted Stock Unit Agreement under the Amended and Restated Omnibus Incentive Plan, dated September 8, 2015, by and between Angie's List, Inc. and Scott A. Durchslag                                   |                           |            |         |             | X              |
| 10.06       | Performance Award Attributable to Restricted Stock Unit Agreement under the Amended and Restated Omnibus Incentive Plan, dated September 8, 2015, by and between Angie's List, Inc. and Scott A. Durchslag |                           |            |         |             | X              |
| 31.01       | Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act                                                                                                             |                           |            |         |             | X              |
| 31.02       | Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act                                                                                                             |                           |            |         |             | X              |
| 32.01       | Certification of the Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act *                                                                                                           |                           |            |         |             | X              |
| 32.02       | Certification of the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act *                                                                                                           |                           |            |         |             | X              |

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Interactive Data Files Pursuant to Rule 405 of Regulation  
S-T: (i) Condensed Consolidated Balance Sheets as of  
September 30, 2015 and December 31, 2014, (ii)  
Condensed Consolidated Statements of Operations for the  
three and nine months ended September 30, 2015 and  
2014, (iii) Condensed Consolidated Statements of Cash  
Flows for the nine months ended September 30, 2015 and  
2014 and (iv) Notes to Condensed Consolidated Financial  
Statements

101 X

\* Furnished, not filed.



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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on October 22, 2015.

ANGIE'S LIST, INC.

By: /s/ CHARLES HUNDT  
Name: Charles Hundt  
Chief Accounting Officer  
Title: (Duly Authorized Officer and  
Principal Accounting Officer)

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## EXHIBIT INDEX

| Exhibit No. | Exhibit Description                                                                                                                                                                                                                                                                                                                                                                                                                                      | Incorporated by Reference |            |         | Filing Date | Filed Herewith |
|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|------------|---------|-------------|----------------|
|             |                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Form                      | File No.   | Exhibit |             |                |
| 3.01        | Amended and Restated Certificate of Incorporation                                                                                                                                                                                                                                                                                                                                                                                                        | S-1/A                     | 333-176503 | 3.1     | 10/31/2011  |                |
| 3.02        | Amended and Restated Bylaws                                                                                                                                                                                                                                                                                                                                                                                                                              | S-1/A                     | 333-176503 | 3.2     | 10/31/2011  |                |
| 10.01       | Transition and Separation Agreement, dated July 2, 2015, by and between Angie's List, Inc. and William S. Oesterle                                                                                                                                                                                                                                                                                                                                       | 8-K                       | 001-35339  | 10.1    | 7/6/2015    |                |
| 10.02       | Employment Agreement, dated September 4, 2015, by and between Angie's List, Inc. and Scott A. Durchslag                                                                                                                                                                                                                                                                                                                                                  | 8-K                       | 001-35339  | 10.1    | 9/8/2015    |                |
| 10.03       | Separation and General Release Agreement, dated August 4, 2015, by and between Angie's List, Inc. and Patrick Brady                                                                                                                                                                                                                                                                                                                                      |                           |            |         |             | X              |
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| 31.02       | Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act                                                                                                                                                                                                                                                                                                                                                           |                           |            |         |             | X              |
| 32.01       | Certification of the Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act*                                                                                                                                                                                                                                                                                                                                                          |                           |            |         |             | X              |
| 32.02       | Certification of the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act*                                                                                                                                                                                                                                                                                                                                                          |                           |            |         |             | X              |
| 101         | Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) Condensed Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014, (ii) Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2015 and 2014, (iii) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014 and (iv) Notes to Condensed Consolidated Financial Statements |                           |            |         |             | X              |

\* Furnished, not filed.