

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

Angie's List, Inc.  
Form 10-K  
February 25, 2015

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

FORM 10-K

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

For the fiscal year ended December 31, 2014

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

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

Securities registered pursuant to Section 12(b) of the Act:	
Common Stock, \$0.001 par value (Title of each class)	The NASDAQ Global Market (Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:

None  
(Title of each class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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

---

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of June 30, 2014, computed by reference to the number of shares outstanding and using the price at which the stock was last sold, was \$523,395,679.

As of February 23, 2015, the number of shares of the registrant's common stock outstanding was 58,516,677.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement relating to its 2015 annual meeting of stockholders, to be filed subsequent to the date hereof, are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. Such Definitive Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the conclusion of the registrant's fiscal year ended December 31, 2014. Except with respect to information specifically incorporated by reference in this Annual Report on Form 10-K, the Definitive Proxy Statement is not deemed to be filed as part of this Annual Report on Form 10-K.

---

## Table of Contents

	Page No.
<u>PART I.</u>	
<u>Item 1.</u> <u>Business</u>	<u>2</u>
<u>Item 1A.</u> <u>Risk Factors</u>	<u>8</u>
<u>Item 1B.</u> <u>Unresolved Staff Comments</u>	<u>27</u>
<u>Item 2.</u> <u>Properties</u>	<u>27</u>
<u>Item 3.</u> <u>Legal Proceedings</u>	<u>27</u>
<u>Item 4.</u> <u>Mine Safety Disclosures</u>	<u>27</u>
<u>PART II.</u>	
<u>Item 5.</u> <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>27</u>
<u>Item 6.</u> <u>Selected Consolidated Financial and Other Data</u>	<u>29</u>
<u>Item 7.</u> <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>31</u>
<u>Item 7A.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>47</u>
<u>Item 8.</u> <u>Financial Statements and Supplementary Data</u>	<u>48</u>
<u>Item 9.</u> <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>72</u>
<u>Item 9A.</u> <u>Controls and Procedures</u>	<u>72</u>
<u>Item 9B.</u> <u>Other Information</u>	<u>74</u>
<u>PART III.</u>	
<u>Item 10.</u> <u>Directors, Executive Officers and Corporate Governance</u>	<u>74</u>
<u>Item 11.</u> <u>Executive Compensation</u>	<u>74</u>
<u>Item 12.</u> <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>74</u>
<u>Item 13.</u> <u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>74</u>
<u>Item 14.</u> <u>Principal Accountant Fees and Services</u>	<u>74</u>
<u>PART IV.</u>	
<u>Item 15.</u> <u>Exhibits and Financial Statement Schedules</u>	<u>75</u>
<u>Signatures</u>	<u>77</u>

---

Table of Contents

PART I

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA

This Annual Report on Form 10-K (this "Form 10-K") 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 Annual Report on Form 10-K 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, including, without limitation, those set forth in Item 1A of this Annual Report on Form 10-K and in other reports we file with the Securities and Exchange Commission ("SEC").

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.

ITEM 1. BUSINESS

Overview

Angie's List 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 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 help consumers purchase "high cost of failure" services in an extremely fragmented local services marketplace. These services are typically expensive and carry a high cost to the consumer if performed poorly. Consumers seeking reputable providers of local services are often forced to rely on data from word-of-mouth testimonials, local advertisements, the Yellow Pages or Internet search results, all of which may be incomplete, unreliable or misleading. Our ratings are based exclusively on reviews from our members, and we do not accept anonymous reviews. As a result, we believe our reviews are a trusted resource for consumers seeking high-quality service providers.

In addition to serving as a reliable source of vital information on providers of local services for consumers, we also assist service providers in finding quality customers and differentiating themselves in a competitive marketplace. As of December 31, 2014, we offered our service to more than three million paying members, who represent an attractive, targeted group of consumers for service providers. Our typical member is between the ages of 35 and 64, is married, owns a home, is college educated and earns an annual household income of at least \$75,000 based on information derived from third-party demographic data and interpreted by us.

We enable highly-rated service providers to advertise discounts and other promotions to our consumers across our platforms, which include our website, mobile application, email promotions, monthly magazine and our call center. Beyond traditional advertising on our platforms, our e-commerce marketplace solutions offer highly-rated service providers the opportunity to sell their services through us to our members as well as visitors to our website and mobile application.

Table of Contents

The value proposition we offer to both consumers and service providers strengthens our position as a trusted resource and enables us to derive revenue from both consumers and service providers. As more consumers contribute reviews to our service, we increase the breadth and depth of content and offerings available to consumers, attracting more traffic to our platforms and enhancing the value of our service to reputable service providers for whom our consumers constitute a large pool of qualified customers. We believe our strong levels of consumer engagement and our consistent membership and service provider renewal rates are evidence of the value we offer both consumers and service providers.

As we continue the process of transitioning our business to a marketplace model wherein we act as an intermediary in local services transactions between consumers and service providers, our approach to generating revenue from e-commerce has evolved such that e-commerce is now becoming a core component of the holistic value proposition we offer to service providers and an increasingly important aspect of our service provider pricing and monetization strategies. Accordingly, we are making substantial investments in the development of our marketplace platforms and initiatives 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. Our completely redesigned mobile application gives consumers 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 new feature that eliminates the hassle of hiring a professional.

Our Services

We help facilitate happy transactions between consumers nationwide and our collection of highly-rated service providers in more than 720 categories of service, ranging from home improvement to health care. Built on a foundation of authentic reviews of local service, Angie's List connects consumers directly to its online marketplace of services from member-reviewed providers and offers unique tools and support designed to improve the local service experience for both consumers and service professionals.

Member Services

We compile a breadth of highly relevant, member-generated ratings and reviews that provide insights that would otherwise be difficult for consumers to obtain on their own. We collect reviews from both members and non-members, and we actively monitor for fraudulent reviews. Only our members' reviews factor into service providers' ratings, and consumers must subscribe to our service in order to access our ratings and reviews.

Our members' reviews span more than 720 categories of service. Consumers may purchase monthly, annual or multi-year memberships to Angie's List in one of three membership plans: (1) Basic, (2) Plus or (3) Premium, each of which offers a different level of service and membership benefits, including varying access to reviews, online and phone support, offers, rebates and promotions, all at tiered price points. The table below highlights a sampling of our service provider categories.

Home Improvement	Health	Auto	Services
Builders - Homes/Garages	Allergy & Immunology	Accessories	Accountants/Tax Consultants
Electrical	Blood Care/Hematology	Alarms	Cake Decorating
Handymen	Cancer/Oncology	Body Work	Carpet Cleaning
Heating & A/C	Dentistry	Detailing	Child Care
Landscaping	Dermatology	Glass	Financial Planning
Painting	Eye Care	Mufflers	Housecleaning
Plumbing	Heart Care	Painting	Insurance Agencies
Remodeling	Orthopedics	Radiators	Limousine Service
Roofing	Primary Care	Tires	Photography

Windows

Rehabilitation

Transmission

Rentals

Our members rate service providers on an “A” (Excellent) through “F” (Lousy) grading scale based on a variety of criteria, including, overall experience, availability, price, quality, responsiveness, punctuality and professionalism as well as other criteria, depending on the type of service provided. Ratings on each applicable criterion are averaged across all member reviews submitted for the service provider to produce the service provider’s grade on Angie’s List.

Non-member reviews do not factor into ratings but appear in a separate section from the member reviews on a service provider’s profile. Service providers cannot influence their ratings on Angie’s List. In addition to a letter grade, we encourage members and non-members to provide a detailed description and commentary on the service experience.

We also request the approximate cost of the service, the date that the service was provided and whether the member or non-member would hire the service provider again in the future. We

3

---



## Table of Contents

allow both members and non-members to report on each unique experience they engage in with a service provider. However, if an individual submits more than one review for the same service provider within a 180-day period, the second review is published only if we determine that it is for a separate, unique service experience. Member ratings and number of reviews submitted dictate which service providers are eligible to offer discounts, promotions and e-commerce offers to members and non-members through our platforms.

We do not allow our members or non-members to submit reviews anonymously, and our certified data collection process prevents service providers from reporting on themselves or their competitors. We believe that this policy is critical to maintaining the integrity of our reviews. We permit service providers to respond to reviews, both positive and negative, to provide our members with both sides of the story. We also deploy a variety of other resources, including a team of internal audit personnel and our proprietary fraud detection technology, to ensure that our members can trust the service provider reviews available via our service. We use automated techniques to screen all reviews for fraudulent activity, duplicate reviews, vulgar language and fake or defamatory content prior to publication, and flagged reviews receive additional screening to ensure their accuracy, reliability and propriety.

We provide convenient access to our reviews on our website and mobile platforms as well as over the telephone for certain membership plans. We also offer our members live customer support from our inbound member call center and assist our members in resolving disputes with service providers through our complaint resolution process.

In 2014, 2013 and 2012, membership revenue accounted for approximately 23%, 27% and 31% of our total revenue, respectively.

### Service Provider Services

Our consumers are seeking reputable providers of high cost of failure services and utilize our platforms and offerings to find them, thereby providing a large, qualified pool of demand and a strong value proposition to our participating service provider population, thus establishing the basis for the service provider side of our business.

Our consumers 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 to advertise and offer exclusive discounts, promotions and e-commerce offers to consumers through their online profiles on our website and mobile application, via our inbound member call center, through our email promotions or in the Angie's List Magazine. If a service provider's grade falls below a "B" during the term of its contract, or if a service provider refuses to participate in our complaint resolution process or engages in what we determine to be dishonest behavior through any of our service channels, we immediately terminate the service provider's contract and suspend any existing advertising, discounts, promotions or e-commerce offers. This policy, which may result in us foregoing revenue that we would otherwise receive, is guided by our commitment to consumers.

In addition to traditional advertising on our platforms, our e-commerce marketplace solutions offer consumers the opportunity to purchase services through us from service providers rated highly by our members. These e-commerce offerings are available through both email promotions and through postings on our website and mobile application 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. 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. We have increased our focus on our e-commerce marketplace as a way to further enhance the value of our services for both consumers and service providers.

As our members' reviews, and not Angie's List, dictate which service providers are eligible to advertise and offer discounts, promotions or e-commerce to consumers through our platforms, participating service providers are afforded a certain level of credibility. A service provider is not required to advertise or offer e-commerce with us to be included on Angie's List or to manage an online profile. We encourage service providers to take an active role in managing their profiles and monitoring members' ratings and reviews through our free Business Center service, which enables service providers to update their profile contact information, sign up for new review email notifications and respond to reviews. We believe that service providers operating smaller businesses particularly benefit from our service as we enable them to compete based on the quality and value of their services rather than simply the size of their respective marketing budgets.

In 2014, 2013 and 2012, service provider revenue accounted for approximately 77%, 73% and 69% of our total revenue, respectively.

## Table of Contents

### Marketing and Sales

We traditionally focused our marketing efforts on acquiring new members to increase our market penetration. 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 was 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 advertising offline via national cable and broadcast television, national broadcast radio and magazines as well as online through search engine marketing, online display and other forms of digital advertising. Our co-founder and Chief Marketing Officer, Angie Hicks, serves as the company spokeswoman. 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 optimize our marketing channel mix and creative to improve targeting effectiveness, drive efficiency in our spend and amplify our messaging.

Our sales personnel, the majority of which are located at our headquarters in Indianapolis, Indiana, focus on originating and renewing advertising contracts and identifying and converting e-commerce opportunities with service providers across our 253 paid membership markets in the United States.

### Competition

We compete for consumer attention with traditional, offline consumer resources as well as with online providers of consumer ratings, reviews and referrals on the basis of a number of factors, including breadth of our service provider listings, reliability of our content, depth and timeliness of information, quality and availability of e-commerce marketplace offerings and strength and recognition of our brand. We also compete for a share of service providers' overall advertising budgets with traditional, offline media companies and other Internet marketing providers on the basis of a number of factors, including return on investment, our high-quality membership profile, effectiveness and relevance of our discount and e-commerce initiatives, our pricing and monetization strategies and recognition of our brand. Our competitors include:

Traditional, offline competitors. We compete with a number of traditional, offline consumer resources, such as the Yellow Pages and Consumers' CHECKBOOK. Many of these competitors also provide consumer reviews and information about service providers online.

Online competitors. We compete with "free to consumer" online ratings websites and referral services, such as Handy, Inc., HomeAdvisor, Inc., Houzz, Inc., Porch.com, Inc., Red Beacon, Inc., Thumbtack, Inc. and Yelp, Inc. In our Health categories, we compete for members with other online resources for patients, such as RateMDs, Inc. and Health Grades, Inc. Across all categories, we also compete with established Internet companies such as Amazon.com, Inc., eBay Inc., Facebook, Inc., Google, Inc., Groupon, Inc., LivingSocial, Inc., Microsoft Corporation and Yahoo! Inc.

### Our Technology

Our proprietary technology platform is designed to create an engaging user experience for our consumers, to enable us to collect and verify the integrity of our reviews and to help us connect our consumers to our online marketplace of services from our highly-rated service providers. We employ a team of internal product and engineering professionals, as well as external resources when necessary, at our headquarters in Indianapolis, Indiana dedicated to enhancing our technology platform, developing new products and services for consumers and service providers and conducting product and quality assurance testing.

Key elements of our proprietary technology platform include:

Search. Our search technology combines structured and free-form content to enable consumers to search for service providers in numerous categories. The search functionality utilizes a number of factors, such as grade, number of reviews, service area and current discounts or other promotions, to connect consumers with the most relevant service providers.

Targeted review acquisition. We developed a review targeting engine for collecting reviews on service providers. This engine enables us to identify individuals who may have hired a service provider found through Angie's List, and we then encourage these individuals to submit a review of their service experience.

5

---

## Table of Contents

Fraud detection. We employ various technology-based algorithms and filters to detect fraudulent reviews. Our reviews are not anonymous and provide a degree of traceability and accountability not present in many competitor websites.

Service provider sales lead targeting. We utilize a scoring engine that assigns weights to a variety of attributes in order to effectively identify the most qualified prospective service provider leads for our service provider sales representatives to target.

Membership, contracts and renewal tools. We use sophisticated and proprietary tools for managing memberships and markets, highly localized and targeted service provider contracts and automatic renewals of both memberships and service provider contracts.

E-commerce tools. We developed and continue to evolve dynamic tools that enable consumers, including both members and non-members, to purchase services through our e-commerce marketplace platforms from highly-rated service providers. Our offerings provide our consumers with the ability to receive e-commerce deal alerts via email as well as peruse and purchase service provider offerings on our website and mobile platforms.

We developed our website and related infrastructure, which are hosted in a redundant fashion within multiple third-party co-location facilities and cloud computing services, with the goal of offering unique tools and support to facilitate improvement of the local service experience for both consumers and service professionals.

## Intellectual Property

We protect our intellectual property rights by relying on federal, state and common law rights as well as contractual restrictions. We control access to our proprietary technology by entering into confidentiality and invention assignment agreements with our personnel and contractors and confidentiality agreements with third parties. In addition to these contractual arrangements, we also rely on a combination of trade secrets, trademarks, trade dress, domain names and copyrights to protect our intellectual property. We believe our domain names, trademarks and service marks are important to our marketing strategy and development of awareness of our brand, and therefore, we pursue their registration in the United States and in certain locations outside the United States. As of December 31, 2014, we have registered 23 trademarks in the United States, including "Angie's List," and two registered trademarks in Canada, as well as two pending trademark applications in the United States.

## Personnel

As of December 31, 2014, we employed 1,852 full-time personnel in the United States. None of our personnel are covered by a collective bargaining agreement. We believe that relations with our personnel are good.

## Seasonality

We believe our business is subject to seasonal trends and that we will continue to be impacted by seasonality in the future, potentially resulting in fluctuations to our revenue, operating expenses or overall financial results. However, we believe our growth trajectory may have overshadowed any such seasonal effects to date.

## Operating Segments and Geographic Areas

We manage our business on the basis of one operating segment. Substantially all of our revenue in the year ended December 31, 2014 was from members and participating service providers in the United States.



Table of Contents

Available Information

We were organized in the State of Indiana in April 1995 as Brownstone Publishing, LLC. In April 2010, we became a Delaware corporation and changed our name to Angie's List, Inc. Our principal executive offices are located at 1030 East Washington Street, Indianapolis, Indiana, 46202, and our telephone number is (888) 888-5478.

Our website is located at [www.angieslist.com](http://www.angieslist.com), and our "Investor Relations" website is located at [investor.angieslist.com](http://investor.angieslist.com).

We file reports with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any other filings required by the SEC. We make available on our "Investor Relations" website, free of charge, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. We use our "Investor Relations" website as a means of disclosing material non-public information and for complying with disclosure obligations under Regulation FD. Accordingly, investors should monitor [investor.angieslist.com](http://investor.angieslist.com), in addition to following our press releases, SEC filings and public conference calls and webcasts. References to our website and our "Investor Relations" website in this report are intended to be inactive textual references only, and none of the information contained on our website or our "Investor Relations" website is part of this report or incorporated in this report by reference.

The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

Table of Contents

ITEM 1A. RISK FACTORS

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

We have incurred annual net losses each year since inception, and we may continue to incur net losses as we invest to grow and penetrate our markets.

We have incurred annual net losses each year since inception. As a result, our accumulated deficit was \$264.4 million as of December 31, 2014. Consequently, we have primarily funded our operations through equity and debt financings. Key elements of our growth strategy include growing our membership and service provider bases and penetration rates in each of the markets where we offer our services as well as enhancing consumer engagement in our marketplace. We anticipate that our expenses will continue to increase as we sustain our investments in growing our paid membership base, increasing the number and variety of participating service providers, developing new marketing initiatives, enhancing our technology platform and launching new products and services. In particular, we intend to continue to invest substantial resources in marketing to acquire new paid memberships and highlight our e-commerce offerings in an effort to increase the number of transactions in our marketplace. Further, we also plan to maintain our investments in our sales personnel and selling expenditures to grow our base of service providers participating in both advertising and e-commerce as well as in product and technology as we enhance our product offerings and technology platforms. These planned investments may result in additional net losses or negative cash flow impacts. We also expect to incur increased operating expenses as we hire additional personnel and invest in our infrastructure to support anticipated future growth and the reporting and compliance obligations to which we are subject as a public company. We have also expanded and expect to continue to grow the number of personnel in our sales force in an effort to increase revenue as the number of members has grown.

If our revenue does not grow or declines, or if our operating expenses exceed our expectations, we may not become profitable on a sustained basis. In addition, if our future growth and operating performance or our cash flows or losses resulting from our investments fail to meet investor or analyst expectations, our operating results, financial condition and stock price could be materially adversely affected. Additionally, if our hiring of additional sales personnel does not result in a sufficient corresponding increase in revenue, the cost of the additional headcount will not be offset, which could harm our business, financial condition or results of operations.

Our stock price may be volatile, and the value of an investment in our common stock may decline.

The trading price of our common stock has historically demonstrated, and is likely to continue to exhibit, volatility, and could decline substantially within a short period of time. For example, since shares of our common stock were sold in our initial public offering in November 2011 at a price of \$13.00 per share, our trading price has ranged from \$4.36 to \$28.32. The trading price of our common stock may be subject to wide fluctuations in response to various factors, some of which are beyond our control. In addition to the risk factors discussed herein, these factors include:

- our operating performance and the operating performance of similar companies;
- the overall performance of the equity markets;
- the number of shares of our common stock publicly owned and available for trading;
- threatened or actual litigation;
- changes in laws or regulations relating to our business;



any major change in our board of directors or management;  
publication of research reports about us or our industry, changes in securities analysts' projections or recommendations, withdrawal of research coverage or our failure to meet analysts' expectations;  
large volumes of sales of shares of our common stock by existing stockholders; and  
general political and economic conditions.

Furthermore, the stock market has experienced extreme price and volume fluctuations that were often unrelated or disproportionate to the operating performance of listed companies. Our operating results and financial condition could be materially and adversely impacted due to declines or volatility in our stock price, and the value of an investment in our common stock could decrease as a result.

8

---

Table of Contents

Securities class action litigation has often been instituted against companies following periods of volatility in the overall stock market or in the market price of a company's securities. We are currently the subject of multiple stockholder class action lawsuits. These lawsuits, and any future stockholder class action lawsuits initiated against us, could result in substantial costs, divert our management's attention and resources and therefore harm our business, financial condition or results of operations.

We continue to make substantial investments in membership acquisition. If the revenue generated by new paid memberships varies significantly from our expectations, or if our membership acquisition costs or costs associated with servicing our members increase, we may not be able to recover our membership acquisition costs or generate profits from this investment.

We spent \$87.4 million and \$87.5 million on marketing expenditures in 2014