EXPEDITORS INTERNATIONAL OF WASHINGTON INC
Form 10-Q
August 05, 2011

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

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: 0-13468

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.
(Exact name of registrant as specified in its charter)

Washington	91-1069248
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
1015 Third Avenue, 12th Floor, Seattle, Washington	98104
(Address of principal executive offices)	(Zip Code)

(206) 674-3400
(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 o

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 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. (Check one):

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer o (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 Act). Yes ¨ No x

At August 1, 2011, the number of shares outstanding of the issuer’s Common Stock was 212,085,663.

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.
AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(In thousands, except share data)
(Unaudited)

	June 30, 2011	December 31, 2010
Current Assets:		
Cash and cash equivalents	$1,225,830	$1,084,465
Short-term investments	1,071	524
Accounts receivable, less allowance for doubtful accounts of $12,991 at June 30, 2011 and $14,636 at December 31, 2010	1,028,015	1,003,884
Deferred Federal and state income taxes	9,469	8,706
Other	48,657	42,776
Total current assets	2,313,042	2,140,355
Property and equipment, less accumulated depreciation and amortization of $292,556 at June 30, 2011 and $281,651 at December 31, 2010	523,400	498,648
Goodwill, net	7,927	7,927
Other intangibles, net	3,159	3,716
Other assets, net	30,476	28,533
Total assets	$2,878,004	$2,679,179
Current Liabilities:		
Accounts payable	688,854	652,161
Accrued expenses, primarily salaries and related costs	196,813	177,869
Federal, state and foreign income taxes	35,858	31,948
Total current liabilities	921,525	861,978
Deferred Federal and state income taxes	77,329	69,047
Commitments and contingencies		
Shareholders' Equity:		
Preferred stock, none issued	—	—
Common stock, par value $.01 per share. Issued and outstanding 211,992,082 shares at June 30, 2011 and 212,047,774 shares at December 31, 2010	2,120	2,120
Additional paid-in capital	2,698	13,412
Retained earnings	1,844,771	1,717,249
Accumulated other comprehensive income	22,459	8,125
Total shareholders' equity	1,872,048	1,740,906
Noncontrolling interest	7,102	7,248
Total equity	1,879,150	1,748,154
Total liabilities and equity	$2,878,004	$2,679,179

See accompanying notes to condensed consolidated financial statements.

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.
AND SUBSIDIARIES
Condensed Consolidated Statements of Earnings
(In thousands, except share data)
(Unaudited)

	Three months ended June 30, 2011	2010	Six months ended June 30, 2011	2010
Revenues:				
Airfreight services	$749,861	$732,881	$1,450,784	$1,292,264
Ocean freight and ocean services	486,831	493,613	926,972	874,857
Customs brokerage and other services	344,676	290,276	664,460	550,758
Total revenues	1,581,368	1,516,770	3,042,216	2,717,879
Operating Expenses:				
Airfreight consolidation	576,280	571,023	1,100,916	998,365
Ocean freight consolidation	377,805	400,729	717,354	701,819
Customs brokerage and other services	154,722	126,160	297,470	237,014
Salaries and related costs	249,114	221,105	486,929	420,953
Rent and occupancy costs	21,354	18,699	42,735	37,926
Depreciation and amortization	9,257	9,110	18,431	18,505
Selling and promotion	10,022	7,550	19,185	14,585
Other	30,539	23,898	59,691	49,675
Total operating expenses	1,429,093	1,378,274	2,742,711	2,478,842
Operating income	152,275	138,496	299,505	239,037
Other Income (Expense):				
Interest income	2,312	1,484	4,632	3,259
Interest expense	(229)	(151)	(443)	(238)
Other, net	857	10,288	1,974	10,897
Other income, net	2,940	11,621	6,163	13,918
Earnings before income taxes	155,215	150,117	305,668	252,955
Income tax expense	60,195	59,708	119,441	101,236
Net earnings	95,020	90,409	186,227	151,719
Less: net earnings (losses) attributable to the noncontrolling interest	20	91	(5)	154
Net earnings attributable to shareholders	$95,000	$90,318	$186,232	$151,565
Diluted earnings attributable to shareholders per share	$.44	$.42	$.86	$.70
Basic earnings attributable to shareholders per share	$.45	$.43	$.88	$.71
Dividends declared and paid per common share	$.25	$.20	$.25	$.20
Weighted average diluted shares outstanding	215,659,043	216,460,977	215,780,230	216,576,596
Weighted average basic shares outstanding	212,136,164	212,332,375	212,112,643	212,262,928

See accompanying notes to condensed consolidated financial statements.

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.
AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(In thousands)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Operating Activities:				
Net earnings	$95,020	$90,409	$186,227	$151,719
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Provision for losses on accounts receivable	(63)	(618)	1,790	1,825
Deferred income tax expense (benefit)	1,601	10,814	(335)	3,086
Excess tax benefits from stock plans	(2,285)	(4,107)	(4,531)	(8,119)
Stock compensation expense	10,236	11,003	20,708	22,201
Depreciation and amortization	9,257	9,110	18,431	18,505
Gain on sale of assets	(21)	(109)	(51)	(404)
Other	311	367	618	845
Changes in operating assets and liabilities:				
Increase in accounts receivable	(14,173)	(219,602)	(7,490)	(232,567)
Decrease in other current assets	3,896	2,947	2,481	1,136
Increase in accounts payable and accrued expenses	7,943	121,941	38,130	165,110
(Decrease) increase in income taxes payable, net	(33,665)	(1,609)	(88)	24,332
Net cash provided by operating activities	78,057	20,546	255,890	147,669
Investing Activities:				
(Increase) decrease in short-term investments, net	(449)	6	(538)	(30)
Purchase of property and equipment	(17,110)	(8,118)	(38,235)	(15,700)
Proceeds from sale of property and equipment	42	111	85	170
Other	(64)	(707)	(1,506)	(895)
Net cash used in investing activities	(17,581)	(8,708)	(40,194)	(16,455)
Financing Activities:				
Proceeds from issuance of common stock	15,821	11,020	23,625	23,240
Repurchases of common stock	(45,690)	(53,649)	(65,274)	(71,668)
Excess tax benefits from stock plans	2,285	4,107	4,531	8,119
Dividends paid	(53,014)	(42,397)	(53,014)	(42,397)
Net cash used in financing activities	(80,598)	(80,919)	(90,132)	(82,706)
Effect of exchange rate changes on cash and cash equivalents	7,481	(12,267)	15,801	(14,137)
(Decrease) increase in cash and cash equivalents	(12,641)	(81,348)	141,365	34,371
Cash and cash equivalents at beginning of period	1,238,471	1,041,648	1,084,465	925,929
Cash and cash equivalents at end of period	$1,225,830	$960,300	$1,225,830	$960,300
Interest and Taxes Paid:				
Interest	$13	$35	$17	$44
Income taxes	91,035	56,846	117,311	76,842

See accompanying notes to condensed consolidated financial statements.

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EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.
AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(in thousands, except share data)
(Unaudited)

Note 1. Summary of Significant Accounting Policies
A. Basis of Presentation
Expeditors International of Washington, Inc. ("the Company") is a non-asset based provider of global logistics services operating through a worldwide network of offices, international service centers and exclusive or non-exclusive agents. The Company's customers include retailing and wholesaling, electronics, and manufacturing companies around the world.
The condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. As a result, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) have been condensed or omitted. The Company believes that the disclosures made are adequate to make the information presented not misleading. The condensed consolidated financial statements reflect all adjustments, consisting of normal recurring items, which are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's Form 10-K as filed with the Securities and Exchange Commission on February 28, 2011. Certain 2010 amounts have been reclassified to conform with the 2011 presentation. All dollar amounts in the notes are presented in thousands except for share data. All significant intercompany accounts and transactions have been eliminated in consolidation.
B. Accounts Receivable
The Company maintains an allowance for doubtful accounts, which is reviewed at least monthly for estimated losses resulting from the inability of its customers to make required payments for services and advances. Additional allowances may be necessary in the future if the ability of its customers to pay deteriorates. The Company has recorded an allowance for doubtful accounts in the amounts of $12,991 as of June 30, 2011 and $14,636 as of December 31, 2010. Additions and write-offs have not been significant in the periods presented.
C. Comprehensive Income
Comprehensive income consists of net income and other gains and losses affecting equity that, under U.S. GAAP, are excluded from net income. For the Company, these consist of foreign currency translation gains and losses, net of related income tax effects and comprehensive income or loss attributable to the noncontrolling interests.
D. Use of Estimates
The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of the assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. The Company uses estimates primarily in the following areas: accounts receivable valuation, accrual of costs related to ancillary services the Company provides, accrual of insurance liabilities for the portion of the freight related exposure which the Company has self-insured, accrual of various tax liabilities, accrual of loss contingencies and calculation of share-based compensation expense. Actual results could differ from those estimates.
E. Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-No. 05 "Presentation of Comprehensive Income", which amends Accounting Standards Codification Topic 220 -"Comprehensive Income". This update is intended to increase the prominence of items reported in other comprehensive income by giving the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The Company is required to and plans to adopt the provisions of ASU

2011-No. 05 beginning in the first quarter of 2012. The adoption is only expected to have a presentation impact on the Company's consolidated statements of earnings and

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consolidated statements of equity and comprehensive income.

In October 2009, the FASB issued ASU 2009–No. 13 “Multiple-Deliverable Revenue Arrangements”, which amends Accounting Standards Codification Topic 605 –”Revenue Recognition”. This update provides amendments to the criteria for separating deliverables, measuring and allocating arrangement consideration to one or more units of accounting. This update establishes a selling price hierarchy for determining the selling price of a deliverable. ASU 2009–No. 13 is effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company adopted the provisions of ASU 2009–No. 13 beginning in the first quarter of 2011. The adoption had no material impact on the Company’s consolidated financial condition or results of operations.

Note 2. Share-Based Compensation

The Company provides compensation benefits by granting stock options and employee stock purchase rights to its employees and restricted shares to its directors. On May 4, 2011, the shareholders approved the 2011 Stock Option Plan ("2011 Plan"), which made available 3,000,000 shares of the Company's common stock for purchase upon exercise of options granted under the 2011 Plan. The Company's annual grant of option awards generally takes place during the second quarter of each fiscal year. For the six months ended June 30, 2011 and 2010, 2,998,390 and 2,634,885 options were granted, respectively. The grant of employee stock purchase rights and the issuance of shares under the employee stock purchase plan are made in the third quarter of each fiscal year and none were issued in the three and six-month periods ended June 30, 2011 and 2010.

The Company recognizes stock compensation expense based on the estimated fair value of awards granted to employees and directors under the Company’s stock option, director restricted stock and employee stock purchase rights plans. The expense, adjusted for expected forfeitures, is recognized on a straight-line basis over the stock awards' vesting period.

The forfeiture assumption used to calculate compensation expense is primarily based on historical pre-vesting employee forfeiture patterns. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing with the following assumptions:

	Six months ended June 30,			
	2011		2010	
Dividend yield	0.97	%	1.08	%
Volatility - stock option plans	38 - 40 %		38 - 40 %	
Risk free interest rates	2.17 - 2.84%		2.18 - 2.86%	
Expected life (years) - stock option plans	5.50 - 7.11		5.44 - 6.90	
Weighted average fair value of stock options granted during the period	$19.35		$14.51	

Total stock compensation expense and the total related tax benefit recognized are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Stock compensation expense	$10,236	$11,003	$20,708	$22,201
Recognized tax benefit	$39	$52	$77	$109

Note 3. Basic and Diluted Earnings per Share

The following table reconciles the numerator and the denominator of the basic and diluted per share computations for earnings attributable to shareholders per share:

(Amounts in thousands, except share and per share amounts)	Three months ended June 30, Net earnings attributable to shareholders	Weighted average shares	Earnings per share
2011			
Basic earnings attributable to shareholders	$95,000	212,136,164	$ .45
Effect of dilutive potential common shares	—	3,522,879	—
Diluted earnings attributable to shareholders	$95,000	215,659,043	$ .44
2010			
Basic earnings attributable to shareholders	$90,318	212,332,375	$ .43
Effect of dilutive potential common shares	—	4,128,602	—
Diluted earnings attributable to shareholders	$90,318	216,460,977	$ .42

(Amounts in thousands, except share and per share amounts)	Six months ended June 30, Net earnings attributable to shareholders	Weighted average shares	Earnings per share
2011			
Basic earnings attributable to shareholders	$186,232	212,112,643	$ .88
Effect of dilutive potential common shares	—	3,667,587	—
Diluted earnings attributable to shareholders	$186,232	215,780,230	$ .86
2010			
Basic earnings attributable to shareholders	$151,565	212,262,928	$ .71
Effect of dilutive potential common shares	—	4,313,668	—
Diluted earnings attributable to shareholders	$151,565	216,576,596	$ .70

The following shares have been excluded from the computation of diluted earnings per share because the effect would have been antidilutive:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Shares	7,413,458	11,114,502	7,415,063	11,114,502

Note 4. Components of Equity and Comprehensive Income
The components of equity for the six months ended June 30, 2011 and 2010 are as follows:

	Shareholders' equity	Non controlling interest	Total equity
Balance at December 31, 2010	$1,740,906	7,248	1,748,154
Exercise of stock options	23,625	—	23,625
Shares repurchased under provisions of stock repurchase plans	(65,274)	—	(65,274)
Stock compensation expense	20,708	—	20,708
Tax benefits from stock plans	4,531	—	4,531
Comprehensive income:			
Net earnings	186,232	(5)	186,227
Foreign currency translation adjustments, net of tax of $7,855	14,334	(141)	14,193
Total comprehensive income	200,566	(146)	200,420
Dividends paid ($.25 per share)	(53,014)	—	(53,014)
Balance at June 30, 2011	$1,872,048	7,102	1,879,150
Balance at December 31, 2009	$1,553,007	8,340	1,561,347
Exercise of stock options	23,240	—	23,240
Shares repurchased under provisions of stock repurchase plans	(71,668)	—	(71,668)
Stock compensation expense	22,201	—	22,201
Tax benefits from stock plans	8,119	—	8,119
Comprehensive income:			
Net earnings	151,565	154	151,719
Foreign currency translation adjustments, net of tax of $9,681	(17,647)	(106)	(17,753)
Total comprehensive income	133,918	48	133,966
Dividends paid ($.20 per share)	(42,397)	—	(42,397)
Balance at June 30, 2010	$1,626,420	8,388	1,634,808

On May 4, 2011, the Board of Directors declared a semi-annual cash dividend of $.25 per share payable on June 15, 2011 to shareholders of record as of June 1, 2011. On May 5, 2010, the Board of Directors declared a semi-annual cash dividend of $.20 per share payable on June 15, 2010 to shareholders of record as of June 1, 2010.

The components of total comprehensive income for interim periods are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Net earnings	$95,020	$90,409	$186,227	$151,719
Foreign currency translation adjustments, net of tax of $3,014 and $7,970 for the three months ended June 30, 2011 and 2010, and $7,855 and $9,681 for the six months ended June 30, 2011 and 2010	5,372	(14,621)	14,193	(17,753)
Comprehensive income	100,392	75,788	200,420	133,966
Less: comprehensive (loss) income attributable to the noncontrolling interest	(109)	(1)	(146)	48
Comprehensive income attributable to shareholders	$100,501	$75,789	$200,566	$133,918

Note 5. Fair Value of Financial Instruments

The Company’s financial instruments, other than cash, consist primarily of cash equivalents, short-term investments, accounts receivable, accounts payable and accrued expenses. The carrying value of these financial instruments approximates their fair value. Cash equivalents consist of highly liquid investments with a maturity of three months or less at date of purchase. Short term investments have a maturity of greater than three months at date of purchase. Cash, cash equivalents and short-term investments consist of the following:

	June 30, 2011		December 31, 2010	
	Cost	Fair Value	Cost	Fair Value
Cash and Cash Equivalents:				
Cash and overnight deposits	$530,817	$530,817	$443,716	$443,716
Corporate commercial paper	629,976	630,128	571,260	571,373
Time deposits	65,037	65,037	69,489	69,489
Total cash and cash equivalents	1,225,830	1,225,982	1,084,465	1,084,578
Short-Term Investments:				
Time deposits	1,071	1,071	524	524
Total	$1,226,901	$1,227,053	$1,084,989	$1,085,102

The fair value of corporate commercial paper is based on the use of market interest rates for identical or similar assets.

Note 6. Contingencies

On October 10, 2007, the U. S. Department of Justice (DOJ) issued a subpoena ordering the Company to produce certain information and records relating to an investigation of alleged anti-competitive behavior amongst air cargo freight forwarders. The Company has retained the services of a law firm to assist in complying with the DOJ’s subpoena. As part of this process, the Company has met with and continues to co-operate with the DOJ. The Company expects to incur additional costs during the course of this ongoing investigation, which could include fines and/or penalties if the DOJ concludes that the Company has engaged in anti-competitive behavior and such fines and/or penalties could have a material impact on the Company’s financial position, results of operations and operating cash flows.

On January 3, 2008, the Company was named as a defendant, with seven other European and North American-based global logistics providers, in a Federal antitrust class action lawsuit filed in the United States District Court of the Eastern District of New York, Precision Associates, Inc. et al v. Panalpina World Transport, No. 08-CV0042. On July 21, 2009, the plaintiffs filed an amended complaint adding a number of new third party defendants and various claims which they assert to violate the Sherman Act. The plaintiffs’ amended complaint, which purports to be brought on behalf of a class of customers (and has not yet been certified), asserts claims that the defendants engaged in price fixing regarding eight discrete surcharges in violation of the Sherman Act. The allegations concerning the Company relate to two of these surcharges. The amended complaint seeks unspecified damages and injunctive relief. The Company believes that these allegations are without merit and intends to vigorously defend itself. At this time the Company has no way of predicting the ultimate outcome of this proceeding. The Company expects to incur ongoing attorneys' fees and other defense costs and, if there is an adverse judgment, monetary damages could be substantial. On August 13, 2009, the Company filed a motion to dismiss the amended complaint for failure to state a claim, which is currently pending before the Court. Plaintiffs filed their opposition to the Company’s motion on January 30, 2010 and the motion is currently pending before the Court.

On June 18, 2008, the European Commission (EC) issued a request for information to the Company’s UK subsidiary, Expeditors International (UK) Ltd., requesting certain information relating to an ongoing investigation of freight forwarders. The Company replied to the request. On February 18, 2009, the EC issued another request for information to the same subsidiary requesting certain additional information in connection with the EC’s ongoing investigation of freight forwarders. The Company replied to the request. On February 10, 2010, the Company and its Hong Kong subsidiary, Expeditors Hong Kong Limited, received a Statement of Objections (SO) from the EC. The SO initiates a proceeding against the Company alleging anti-competitive behavior contrary to European Union rules on competition. Specific to the Company, the allegations in the SO are limited to the period from August 2005 to June 2006 and only concern airfreight trade lanes between South China/Hong Kong and the European Economic Area. The Company filed a response to the allegations in the SO on April 12, 2010 and participated in an oral hearing on July 6, 2010. On January 20, 2011, the EC issued another request for information to the Company and its Hong Kong subsidiary requesting certain additional information in connection with its on-going investigation of freight forwarders. The Company replied to the request. The Company continues to vigorously defend itself against the allegations. The Company expects to incur additional costs during the course of this ongoing proceeding, which could include administrative fines if the EC concludes that the Company has engaged in anti-competitive behavior and such fines could have a material impact on the Company's financial position, results of operations and operating cash flows.

On August 17, 2010, the Company and its Brazilian subsidiary, Expeditors Internacional do Brasil Ltda received an Administrative Proceeding (AP) from the Brazilian Ministry of Justice (MOJ). The AP initiates a proceeding against the Company and one of its employees, alleging possible anti-competitive behavior. The Company intends to vigorously defend itself against the allegations. The Company expects to incur additional costs during the course of this proceeding, which could include administrative fines if the MOJ concludes that the Company has engaged in anti-competitive behavior and such fines could have a material impact on the Company's financial position, results of operations and operating cash flows.

Legal and associated costs incurred by the Company on the above matters were not significant for the three and six-month periods ended June 30, 2011 and 2010. Since the beginning of the proceedings in 2007, the Company has incurred approximately $16 million in legal and associated costs on the above matters. At this time the Company is unable to estimate the range of loss or damages, if any, that might result as an outcome of any of these proceedings. These government investigations and the related litigation matters are subject to inherent uncertainties, and unfavorable rulings could occur. An unfavorable ruling could include substantial monetary damages and, in matters in which injunctive relief or other conduct remedies are sought, an injunction or other order relating to business conduct. Were unfavorable final outcomes to occur, the Company's business, financial position, results of operations, and operating cash flows could be materially harmed.

The Company is involved in other claims and lawsuits which arise in the ordinary course of business, none of which currently, in management's opinion, will have a significant effect on the Company's operations or financial position.

Note 7. Business Segment Information

The Company is organized functionally in geographic operating segments. Accordingly, management focuses its attention on revenues, net revenues, operating income, identifiable assets, capital expenditures, depreciation and amortization and equity generated in each of these geographical areas when evaluating the effectiveness of geographic management. The Company charges its subsidiaries and affiliates for services rendered in the United States on a cost recovery basis. Transactions among the Company's various offices are conducted using the same arms-length pricing methodologies the Company uses when its offices transact business with independent agents.

Financial information regarding the Company's operations by geographic area are as follows:

(in thousands)	UNITED STATES	OTHER NORTH AMERICA	LATIN AMERICA	ASIA PACIFIC	EUROPE and AFRICA	MIDDLE EAST and INDIA	ELIMI-NATIONS	CONSOLI-DATED
Three months ended June 30, 2011:								
Revenues from unaffiliated customers	$390,806	47,816	21,136	816,350	229,724	75,536	—	1,581,368
Transfers between geographic areas	25,973	2,783	5,220	10,170	11,355	4,500	(60,001)	—
Total revenues	$416,779	50,599	26,356	826,520	241,079	80,036	(60,001)	1,581,368
Net revenues	$181,603	21,581	15,157	150,616	78,828	24,776	—	472,561
Operating income	$57,752	5,761	4,486	61,542	16,877	5,857	—	152,275
Identifiable assets at quarter end	$1,411,881	91,678	58,396	678,668	479,852	155,503	2,026	2,878,004
Capital expenditures	$3,350	448	144	4,622	7,881	665	—	17,110
Depreciation and amortization	$4,926	277	264	1,847	1,416	527	—	9,257
Equity	$1,123,482	52,814	33,784	420,962	184,252	94,447	(30,591)	1,879,150
Three months ended June 30, 2010:								
Revenues from unaffiliated customers	$331,619	41,675	18,621	876,070	172,869	75,916	—	1,516,770
Transfers between geographic areas	25,429	2,346	4,231	8,158	10,429	3,894	(54,487)	—
Total revenues	$357,048	44,021	22,852	884,228	183,298	79,810	(54,487)	1,516,770
Net revenues	$163,036	$19,424	$ 12,729	$137,328	$ 64,054	$22,287	$—	418,858
Operating income	$52,516	$5,572	$ 3,787	$56,134	$ 14,888	$5,599	$—	138,496
Identifiable assets at quarter end	$1,324,522	$85,645	$ 46,951	$553,173	$ 394,430	$134,715	$7,106	2,546,542
Capital expenditures	$3,366	$149	$ 357	$1,424	$ 2,231	$591	$—	8,118
Depreciation and amortization	$4,848	$353	$ 211	$1,861	$ 1,225	$612	$—	9,110
Equity	$1,047,968	$46,978	$ 22,232	$338,102	$ 134,216	$77,541	$(32,229)	1,634,808

(in thousands)	UNITED STATES	OTHER NORTH AMERICA	LATIN AMERICA	ASIA PACIFIC	EUROPE and AFRICA	MIDDLE EAST and INDIA	ELIMI-NATIONS	CONSOLI-DATED
Six months ended June 30, 2011:								
Revenues from unaffiliated customers	$767,911	91,663	41,469	1,544,480	443,335	153,358	—	3,042,216
Transfers between geographic areas	49,938	5,465	10,841	19,353	22,062	8,709	(116,368)	—
Total revenues	$817,849	97,128	52,310	1,563,833	465,397	162,067	(116,368)	3,042,216
Net revenues	$359,537	42,282	30,260	292,104	152,753	49,540	—	926,476
Operating income	$111,486	11,550	9,249	120,980	34,584	11,656	—	299,505
Identifiable assets at quarter end	$1,411,881	91,678	58,396	678,668	479,852	155,503	2,026	2,878,004
Capital expenditures	$7,380	608	300	9,334	19,587	1,026	—	38,235

Depreciation and amortization	$9,911	580	533	3,816	2,526	1,065	—	18,431
Equity	$1,123,482	52,814	33,784	420,962	184,252	94,447	(30,591)	1,879,150
Six months ended June 30, 2010:								
Revenues from unaffiliated customers	$618,555	77,287	34,917	1,513,258	334,714	139,148	—	2,717,879
Transfers between geographic areas	44,172	4,155	7,892	15,268	18,362	7,470	(97,319)	—
Total revenues	$662,727	81,442	42,809	1,528,526	353,076	146,618	(97,319)	2,717,879
Net revenues	$309,941	35,846	24,247	244,437	123,977	42,233	—	780,681
Operating income	$90,690	9,471	7,318	94,892	26,742	9,924	—	239,037
Identifiable assets at quarter end	$1,324,522	85,645	46,951	553,173	394,430	134,715	7,106	2,546,542
Capital expenditures	$7,840	325	634	2,114	3,452	1,335	—	15,700
Depreciation and amortization	$9,870	706	416	3,757	2,537	1,219	—	18,505
Equity	$1,047,968	46,978	22,232	338,102	134,216	77,541	(32,229)	1,634,808

In the fourth quarter of 2010, the Company changed its geographical area organization by incorporating the management of its Australasia region with its Asia region. Accordingly, the financial information of the Company's Asia and Australasia segments, previously reported separately, have been combined in the Asia Pacific operating segment for all periods presented.

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

SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS UNDER PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995; CERTAIN CAUTIONARY STATEMENTS

Certain portions of this report on Form 10-Q including the sections entitled "Executive Summary," "Critical Accounting Estimates," "Results of Operations," "Currency and Other Risk Factors" and "Liquidity and Capital Resources" contain forward-looking statements. Words such as "expects," "goals," "plans," "believes," "continues," "may," "will," and variations words and similar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances are forward-looking statements. These statements must be considered in connection with the discussion of the important factors that could cause actual results to differ materially from the forward-looking statements. In addition to risk factors identified elsewhere in this report, attention should be given to the factors identified and discussed in the report on Form 10-K filed on February 28, 2011.

EXECUTIVE SUMMARY

Expeditors International of Washington, Inc. is engaged in the business of global logistics management, including international freight forwarding and consolidation, for both air and ocean freight. The Company acts as a customs broker in all domestic offices, and in many of its international offices. The Company also provides additional services for its customers including value-added distribution, purchase order management, vendor consolidation and other logistics solutions. The Company does not compete for overnight courier or small parcel business. The Company does not own or operate aircraft or steamships.

International trade is influenced by many factors, including economic and political conditions in the United States and abroad, currency exchange rates, regulatory environments, cargo and other security concerns, laws and policies relating to tariffs, trade restrictions, foreign investments and taxation. Periodically, governments consider a variety of changes to regulations, current tariffs and trade restrictions and accords. The Company cannot predict which, if any, of these proposals may be adopted, nor can the Company predict the effects the adoption of any such proposal will have on the Company's business. Doing business in foreign locations also subjects the Company to a variety of risks and considerations not normally encountered by domestic enterprises. In addition to being influenced by governmental policies concerning international trade, the Company's business may also be affected by political developments and changes in government personnel or policies, as well as economic turbulence, political unrest or security concerns in the nations in which it does business, such as the current events in the Middle East and the future impact that these events may have on international trade and oil prices. The global logistics services industry is intensely competitive and is expected to remain so for the foreseeable future. Consistent with current economic conditions, the Company's pricing and terms continue to be pressured by customers and service providers.

The Company derives its revenues from three principal sources: 1) airfreight services, 2) ocean freight and ocean services, and 3) customs brokerage and other services. These are the revenue categories presented in the financial statements.

As a non-asset based carrier, the Company does not own transportation assets. Rather, the Company generates the major portion of its air and ocean freight revenues by purchasing transportation services from direct (asset-based) carriers and reselling those services to its customers. The difference between the rate billed to customers (the sell rate) and the rate paid to the carrier (the buy rate) is termed "net revenue" or "yield." By consolidating shipments from multiple customers and concentrating its buying power, the Company is able to negotiate favorable buy rates from the direct carriers, while at the same time offering lower sell rates than customers would otherwise be able to negotiate themselves.

Customs brokerage and other services involves providing services at destination, such as helping customers clear shipments through customs by preparing required documentation, calculating and providing for payment of duties and other taxes on behalf of the customers as well as arranging for any required inspections by governmental agencies, and arranging for delivery. This is a complicated function requiring technical knowledge of customs rules and regulations in the multitude of countries in which the Company has offices.

The Company’s ability to provide services to its customers is highly dependent on good working relationships with a variety of entities including airlines, ocean steamship lines, and governmental agencies. The significance of maintaining acceptable working relationships with governmental agencies and asset-based carriers involved in global trade has gained increased importance as a result of ongoing concern over terrorism. As each carrier labors to comply with governmental regulations implementing security policies and procedures, inherent conflicts emerge which can and do affect global trade. A good reputation helps to develop practical working understandings that will assist in meeting security requirements while minimizing potential international trade obstacles. The Company considers its current working relationships with these entities to be satisfactory. However, the airline and ocean steamship line industries have incurred significant losses in recent years as a result of the global economic downturn and many carriers are highly leveraged with debt. This situation has required the Company to be increasingly selective in which carriers to utilize. Further changes in the financial stability, operating capabilities and capacity of asset-based carriers, space allotments available from carriers, governmental regulation or deregulation efforts, "modernization" of the regulations governing customs brokerage, and/or changes in governmental quota restrictions or trade accords could affect the Company's business in unpredictable ways.

Historically, the Company's operating results have been subject to a seasonal trend when measured on a quarterly basis. The first quarter has traditionally been the weakest and the third and fourth quarters have traditionally been the strongest. This pattern is the result of, or is influenced by, numerous factors including weather patterns, national holidays, consumer demand, economic conditions and a myriad of other similar and subtle forces. In addition, this historical quarterly trend has been influenced by the growth and diversification of the Company's international network and service offerings. The Company cannot accurately forecast many of these factors nor can the Company estimate accurately the relative influence of any particular factor and, as a result, there can be no assurance that historical patterns, if any, will continue in future periods.

A significant portion of the Company's revenues are derived from customers in retail industries whose shipping patterns are tied closely to consumer demand, and from customers in industries whose shipping patterns are dependent upon just-in-time production schedules. Therefore, the timing of the Company's revenues are, to a large degree, impacted by factors out of the Company's control, such as a sudden change in consumer demand for retail goods and/or manufacturing production delays. Additionally, many customers ship a significant portion of their goods at or near the end of a quarter, and therefore, the Company may not learn of a shortfall in revenues until late in a quarter. To the extent that a shortfall in revenues or earnings was not expected by securities analysts, any such shortfall from levels predicted by securities analysts could have an immediate and adverse effect on the trading price of the Company's stock.

In terms of the opportunities, challenges and risks that management is focused on in 2011, the Company operates in 60 countries throughout the world in the competitive global logistics industry and Company activities are tied directly to the global economy. From the inception of the Company, management has believed that the elements required for a successful global service organization can only be assured through recruiting, training, and ultimately retaining superior personnel. The Company's greatest challenge is now and always has been perpetuating a consistent global culture which demands:

- Total dedication, first and foremost, to providing superior customer service;
- Aggressive marketing of all of the Company's service offerings;
- Ongoing development of key employees and management personnel via formal and informal means;
- Creation of unlimited advancement opportunities for employees dedicated to hard work, personal growth, ethical behavior and continuous improvement;
- Individual commitment to the identification and mentoring of successors for every key position so that when inevitable change is required, a qualified and well-trained internal candidate is ready to step forward; and
- Continuous identification, design and implementation of system solutions, both technological and otherwise, to meet and exceed the needs of our customers while simultaneously delivering tools to make our employees more efficient and more effective.

The Company reinforces these values with a compensation system that rewards employees for profitably managing the things they can control. This compensation system has been in place since the Company became a publicly traded entity. There is no limit to how much a key manager can be compensated for success. The Company believes in a "real world" environment in every operating unit where individuals are not sheltered from the profit implications of their decisions. If these decisions result in operating losses, these losses must be made up from future operating profits, in the aggregate, before any cash incentive compensation can be earned. At the same time, the Company insists on continued focus on such things as accounts receivable collection, cash flow management and credit soundness in an attempt to insulate managers from the sort of catastrophic errors that might end a career.

Any failure to perpetuate this unique culture on a self-sustained basis throughout the Company provides a greater threat to the Company's continued success than any external force, which would be largely beyond our control. Consequently, management spends the majority of its time focused on creating an environment where employees can learn and develop while also building systems and taking preventative action to reduce exposure to negative events. The Company strongly believes that it is nearly impossible to predict events that, in the aggregate, could have a positive or a negative impact on future operations. As a result our focus is on building and maintaining a global culture of well-trained employees and managers that are prepared to identify and react to subtle changes as they develop and thereby help the Company adapt and thrive as major trends emerge.

Critical Accounting Estimates

Management believes that the nature of the Company’s business is such that there are few complex challenges in accounting for operations.

While judgments and estimates are a necessary component of any system of accounting, the Company’s use of estimates is limited primarily to the following areas:

- accounts receivable valuation;
- accrual of costs related to ancillary services the Company provides;
- accrual of insurance liabilities for the portion of the freight related exposure which the Company has self-insured;
- accrual of various tax liabilities;
- accrual of loss contingencies; and
- calculation of share-based compensation expense.

These estimates, other than the accrual of loss contingencies and calculation of share-based compensation expense, are not highly uncertain and have not historically been subject to significant change. Management believes that the methods utilized in all of these areas are non-aggressive in approach and consistent in application. Management believes that there are limited, if any, alternative accounting principles or methods which could be applied to the Company’s transactions. While the use of estimates means that actual future results may be different from those contemplated by the estimates, the Company believes that alternative principles and methods used for making such estimates, other than the calculation of share-based compensation expense, would not produce materially different results than those reported.

The outcomes of legal proceedings and claims brought against the Company are subject to significant uncertainty. An estimated loss from a contingency such as a legal proceeding or claim is accrued by a charge to income if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. Disclosure of a loss contingency is required if there is at least a reasonable possibility that a significant loss has been incurred. In determining whether a loss should be accrued, management evaluates several factors, including advice from outside counsel, in order to estimate the degree of probability of an unfavorable outcome and make a reasonable estimate of the amount of loss. Changes in these factors could have a material impact on the Company’s financial position, results of operations and operating cash flows.

As described in Note 2 in the condensed consolidated financial statements in this quarterly report, the Company accounts for share-based compensation based on an estimate of the fair value of options granted to employees under the Company’s stock option and stock purchase rights plans. This expense is recorded on a straight-line basis over the option vesting period.

Determining the appropriate option pricing model to use to estimate stock compensation expense requires judgment. Any option pricing model requires assumptions that are subjective and these assumptions also require judgment. Examples include assumptions about long-term stock price volatility, employee exercise patterns, pre-vesting option forfeitures, post-vesting option terminations, and the future interest rates and dividend yields. The Company uses the Black-Scholes model for estimating the fair value of stock options.

Management believes that the assumptions used are appropriate based upon the Company’s historical and currently expected future experience. Looking to future events, management has been strongly influenced by historical patterns which may not be valid predictors of future developments and any future deviation may be material. The fair value of an option is more significantly impacted by changes in the expected volatility and expected life assumptions. The pre-vesting forfeitures assumption is ultimately adjusted to the actual forfeiture rate. Therefore, changes in the forfeitures assumption would not impact the total amount of expense ultimately recognized over the vesting period. Different forfeitures assumptions would only impact the timing of expense recognition over the vesting period. Estimated forfeitures will be reassessed in subsequent periods and may change based on new facts and circumstances.

Results of Operations

The following table shows the consolidated net revenues (revenues less transportation expenses) attributable to the Company's principal services and the Company's expenses for the three and six-month periods ended June 30, 2011 and 2010, expressed as percentages of net revenues. Management believes that net revenues are a better measure than total revenues of the relative importance of the Company's principal services since total revenues earned by the Company as a freight consolidator include the carriers' charges to the Company for carrying the shipment whereas revenues earned by the Company in its other capacities include only the commissions and fees actually earned by the Company.

The table and the accompanying discussion and analysis should be read in conjunction with the condensed consolidated financial statements and related notes thereto which appear elsewhere in this quarterly report.

	Three months ended June 30,				Six months ended June 30,			
	2011		2010		2011		2010	
	Amount	Percent of net revenues	Amount	Percent of net revenues	Amount	Percent of net revenues	Amount	Percent of net revenues
	(Amounts in thousands)							
Net Revenues:								
Airfreight services	$173,581	37 %	$161,858	39 %	$349,868	38 %	$293,899	38 %
Ocean freight and ocean services	109,026	23	92,884	22	209,618	23	173,038	22
Customs brokerage and other services	189,954	40	164,116	39	366,990	39	313,744	40
Net revenues	472,561	100	418,858	100	926,476	100	780,681	100
Overhead Expenses:								
Salaries and related costs	249,114	53	221,105	53	486,929	53	420,953	54
Other	71,172	15	59,257	14	140,042	15	120,691	15
Total overhead expenses	320,286	68	280,362	67	626,971	68	541,644	69
Operating income	152,275	32	138,496	33	299,505	32	239,037	31
Other income, net	2,940	1	11,621	3	6,163	1	13,918	1
Earnings before income taxes	155,215	33	150,117	36	305,668	33	252,955	32
Income tax expense	60,195	13	59,708	14	119,441	13	101,236	13
Net earnings	95,020	20	90,409	22	186,227	20	151,719	19
Less: net earnings (losses) attributable to noncontrolling interest	20	—	91	—	(5)	—	154	—
Net earnings attributable to shareholders	$95,000	20 %	$90,318	22 %	$186,232	20 %	$151,565	19 %

Airfreight services net revenues increased 7% for the three-month period ended June 30, 2011, as compared with the same period for 2010. The increase in global airfreight services net revenues was primarily due to a 12% increase in net revenue per kilo offset by a 1% decrease in airfreight tonnage. Airfreight export tonnage for North America and Europe increased 7% and 6%, respectively, while it decreased 6% for Asia Pacific for the second quarter of 2011 as compared with the same period in 2010. Whereas, airfreight services net revenues increased 8%, 4% and 17% in North America, Asia Pacific and Europe, respectively, in the second quarter of 2011 as compared with the same period in 2010. The increase in net revenues can be attributed to a slower global economy in the second quarter of 2011, which led to the decrease in overall tonnage and the creation of limited spot market buying opportunities, particularly in Asia. The 1% decrease in global airfreight tonnage is due to a slow down in shipment volumes moving from Asia to North America and Europe. Management believes that uncertainty over a myriad of economic concerns has affected consumer buying patterns in these areas relative to the same period in 2010.

Airfreight services net revenues increased 19% for the six-month period ended June 30, 2011, as compared with the same period for 2010. The increase in global airfreight services net revenues was primarily due to a 7% increase in airfreight tonnage and a 16% increase in net revenue per kilo. Airfreight export tonnage for North America and Europe increased 20% and 9%, respectively, while it remained constant for Asia Pacific for the first half of 2011 as compared with the same period in 2010. Whereas, airfreight services net revenues increased 23%, 18% and 16% in

North America, Asia Pacific and Europe, respectively, during the six months ended June 30, 2011, as compared with the same period in 2010. The increase in airfreight tonnage is primarily due to growth in market share and higher customer volumes in the first quarter of 2011. Net revenue per kilo in the first half of 2011 was higher as the Company benefited from limited spot market buying opportunities primarily in Asia.

Ocean freight net revenues are comprised of three basic services: ocean freight consolidation, direct ocean forwarding and order management. The majority of the Company’s ocean freight net revenue is derived from ocean freight consolidation which represented 50% and 51% of ocean freight net revenue for the three and six-month periods ended June 30, 2011, respectively, and 51% and 50% for the same periods ended June 30, 2010, respectively.

Ocean freight and ocean services net revenues increased 17% for the three-month period ended June 30, 2011, as compared with the same period for 2010. North America, Asia Pacific and Europe ocean freight net revenues increased approximately 14%, 20% and 22%, respectively, for the second quarter of 2011 as compared with the same period in 2010. Ocean freight consolidation net revenue increased 15% for the second quarter of 2011, as compared with the same period in 2010 due to a 15% increase in net revenue per container. Volume, as measured in terms of forty-foot container equivalent units (FEUs), remained constant during the three months ended June 30, 2011, as compared with the same period in 2010.

Ocean freight and ocean services net revenues increased 21% for the six-month period ended June 30, 2011, as compared with the same period for 2010. North America, Asia Pacific and Europe ocean freight net revenues increased approximately 20%, 21% and 25%, respectively, for the first half of 2011 as compared with the same period in 2010. Ocean freight consolidation net revenue increased 23%, for the six-month period ended June 30, 2011 as compared with the same period in 2010, due to a 19% increase in net revenue per container and a 3% increase in volume as measured in FEUs. Management believes the overall growth rate in volume achieved in the first quarter of 2011 was not sustained in the second quarter of 2011 due to consumer uncertainties over the present economic environment. Similar to airfreight, the increase in revenue per container resulted from a slower global economy in the second quarter of 2011, leading to the creation of limited spot market buying opportunities, primarily in Asia.

Direct ocean freight forwarding and order management, which are primarily fee-based, increased 17% and 24%, respectively, for the three and six-month periods ended June 30, 2011 as compared with the same period in 2010, primarily due to an increase in volume.

Customs brokerage and other services net revenues increased 16% and 17%, respectively, for the three and six-month periods ended June 30, 2011, as compared with the same periods for 2010, primarily as a result of growth in market share and an increase in domestic time definite freight volumes. Customers continue to seek out customs brokers with sophisticated computerized capabilities critical to an overall logistics management program, including rapid responses to changes in the regulatory and security environment.

Salaries and related costs increased 13% and 16%, respectively, during the three and six-month periods ended June 30, 2011, as compared with the same period in 2010, primarily as a result of larger bonuses earned from achieving higher operating income and an increase in the number of employees.

The effects of including stock-based compensation expense in salaries and related costs are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Salaries and related costs	$249,114	$221,105	$486,929	$420,953
As a % of net revenue	52.7 %	52.8 %	52.6 %	53.9 %
Stock compensation expense	$10,236	$11,003	$20,708	$22,201
As a % of salaries and related costs	4.1 %	5.0 %	4.3 %	5.3 %
As a % of net revenue	2.2 %	2.6 %	2.2 %	2.8 %

Excluding stock compensation expense, salaries and related costs as a percentage of net revenue increased 39 basis points and decreased 76 basis points, respectively, for the three and six-month periods ended June 30, 2011, as compared with the same periods for 2010. The decrease can be attributed to productivity gains that resulted from more efficient staff utilization.

Historically, the relatively consistent relationship between salaries and net revenues is the result of a compensation philosophy that has been maintained since the inception of the Company: offer a modest base salary and the opportunity to share in a fixed and determinable percentage of the operating profit of the business unit controlled by each key employee. Using this compensation model, changes in individual incentive compensation will occur in proportion to changes in Company profits, creating a direct alignment between corporate performance and shareholder interests. Bonuses to field and corporate management for the first half of 2011 were up 23% as compared with the same period for 2010, primarily as a result of a 25% increase in operating income. The Company's management incentive compensation programs have always been incentive-based and performance driven and there is no built-in bias that favors or enriches management in a manner inconsistent with overall corporate performance.

Because the Company's management incentive compensation programs are also cumulative, no management bonuses can be paid unless the relevant business unit is, from inception, cumulatively profitable. Any operating losses must have been offset in their entirety by operating profits before management is eligible for a bonus. Since the most significant portion of management compensation comes from the incentive bonus programs, the Company believes that this cumulative feature is a disincentive to excessive risk taking by its managers. Due to the nature of the Company's services, it has a short operating cycle. The outcome of any higher risk transactions, such as overriding established credit limits, would be known in a relatively short time frame. Management believes that when the potential and certain impact on the bonus is fully considered in light of this short operating cycle, the potential for short term gains that could be generated by engaging in risky business practices is sufficiently mitigated to discourage excessive and inappropriate risk taking. Management believes that both the stability and the long term growth in revenues, net revenues and net earnings are a result of the incentives inherent in the Company's compensation program.

Other overhead expenses increased 20% and 16%, respectively, for the three and six-month periods ended June 30, 2011, as compared with the same periods in 2010, primarily as a result of higher business taxes, travel and other expenses related to increased activity. Legal and related expenses during the first half of 2011 remained constant as compared to the same period in 2010. The Company will continue to incur legal costs related to the anti-competition allegations as described in Part II—Item 1 in this report on Form 10-Q entitled "Legal Proceedings", until these legal proceedings are concluded. If the governmental regulatory agencies conclude that the Company has engaged in anti-competitive behavior or in the event of an adverse judgment in the class action lawsuit, such judgments, fines and/or penalties could have a material impact on the Company's financial condition, results of operations and operating cash flows. Further, the Company routinely incurs costs to conduct periodic reviews of the operations and procedures of its offices worldwide relating to compliance with applicable laws and regulations. Other overhead expenses as a percentage of net revenues remained fairly constant for the three and six-month periods ended June 30, 2011, as compared with the same periods in 2010.

Other income, net, decreased $9 million for the three-month period ended June 30, 2011, largely attributed to lower foreign exchange gains in 2011 as compared to 2010. For the six months ended June 30, 2011 compared to the same period in 2010, the $8 million decrease in other income, net is primarily due to foreign exchange gains in 2010 as compared to foreign exchange losses in 2011. These net foreign exchange gains in 2010 resulted primarily from holding U.S. dollars in Euro-based subsidiaries as the Euro weakened significantly against the dollar during the second quarter of 2010.

The Company pays income taxes in the United States and other jurisdictions, as well as other taxes which are typically included in costs of operations. The Company's consolidated effective income tax rate decreased to approximately 38.8% and 39.1%, respectively, for the three and six-month periods ended June 30, 2011, as compared to 39.8% and 40.0%, respectively, for the three and six-month periods ended June 30, 2010, primarily due to lower stock compensation expense.

Currency and Other Risk Factors

International air/ocean freight forwarding and customs brokerage are intensively competitive and are expected to remain so for the foreseeable future. There are a large number of entities competing in the international logistics industry; however, the Company's primary competition is confined to a relatively small number of companies within this group. Historically, the industry has experienced consolidations into larger firms striving for stronger and more complete multinational and multi-service networks. However, regional and local broker/forwarders remain a competitive force.

The primary competitive factors in the international logistics industry continue to be price and quality of service, including reliability, responsiveness, expertise, convenience, and scope of operations. The Company emphasizes quality customer service and believes that its prices are competitive with those of others in the industry. Larger customers utilize more sophisticated and efficient procedures for the management of their logistics supply chain by embracing strategies such as just-in-time inventory management. The Company believes that this trend has resulted in customers using fewer service providers with greater technological capacity and more consistent global coverage. Accordingly, sophisticated computerized customer service capabilities and a stable worldwide network have become significant factors in attracting and retaining customers.

Developing these systems and a worldwide network has added a considerable indirect cost to the services provided to customers. Smaller and middle-tier competitors, in general, do not have the resources available to develop customized systems and a worldwide network.

The nature of the Company's worldwide operations necessitates the Company dealing with a multitude of currencies other than the U.S. dollar. This results in the Company being exposed to the inherent risks of volatile international currency markets and governmental interference. Some of the countries where the Company maintains offices and/or agency relationships have strict currency control regulations which influence the Company's ability to hedge foreign currency exposure. The Company tries to compensate for these exposures by accelerating international currency settlements among its offices or agents. The Company enters into foreign currency hedging transactions only in limited locations where there are regulatory or commercial limitations on the Company’s ability to move money freely around the world or the short-term financial outlook in any country is such that hedging is the most time-sensitive way to avoid short-term exchange losses. Any such hedging activity during the three and six months ended June 30, 2011 and 2010 was insignificant. During the three and six months ended June 30, 2011, net foreign currency gains were approximately $363 and net foreign currency losses were approximately $330, respectively. For the same periods of 2010, the Company's net foreign currency gains were approximately $5,602 and $3,949, respectively. The Company had no foreign currency derivatives outstanding at June 30, 2011 and December 31, 2010.

Geographic Coverage

During the second quarter of 2011, the Company opened one full service office in Chengdu, People's Republic of China (formerly a satellite of Chongqing).

Acquisitions - Historically, growth through aggressive acquisition has proven to be a challenge for many of the Company’s competitors and typically involves the purchase of significant “goodwill,” the value of which can be realized in large measure only by retaining the customers and profit margins of the acquired business. As a result, the Company has pursued a strategy emphasizing organic growth supplemented by certain strategic acquisitions, where future economic benefit significantly exceeds the “goodwill” recorded in the transaction.

Internal Growth - Management believes that a comparison of “same store” results is critical in the evaluation of the quality and extent of the Company’s internally generated growth. The “same store” analysis isolates the financial contributions from offices that have been included in the Company’s operating results for at least one full year. There were no significant differences between the “same store” analysis and the Company’s results for the three and six months ended June 30, 2011 and 2010.

Liquidity and Capital Resources

The Company’s principal source of liquidity is cash and cash equivalents and cash generated from operating activities. Net cash provided by operating activities for the three and six months ended June 30, 2011, was approximately $78 million and $256 million, respectively, as compared with $21 million and $148 million, respectively, for the same periods in 2010. The increases of $57 million and $108 million for the three and six-month periods ended June 30, 2011, respectively, are primarily due to higher net earnings and changes in working capital accounts. At June 30, 2011, working capital was $1,392 million, including cash, cash equivalents and short-term investments of $1,227 million. The Company had no long-term debt at June 30, 2011.

The Company’s business is subject to seasonal fluctuations. Cash flow fluctuates as a result of this seasonality. Historically, the first quarter shows an excess of customer collections over customer billings. This results in positive cash flow. The increased activity associated with peak season (typically commencing late second or early third quarter) causes an excess of customer billings over customer collections. This cyclical growth in customer receivables consumes available cash.

As a customs broker, the Company makes significant cash advances for a select group of credit-worthy customers. These cash advances are for customer obligations such as the payment of duties to customs authorities in various countries throughout the world. Cash advances are a “pass through” and are not recorded as a component of revenue or expense. The billings of such advances to customers are accounted for as a direct increase in accounts receivable from the customer and a corresponding increase in accounts payable to governmental customs authorities. As a result of these “pass through” billings, the conventional Days Sales Outstanding or DSO calculation does not directly measure collection efficiency.

Cash used in investing activities for the three and six months ended June 30, 2011, was $18 million and $40 million, respectively. The largest use of cash in investing activities is cash paid for capital expenditures. The Company does have need, on occasion, to purchase or construct buildings to house staff and to facilitate the staging of customers’ freight. The Company routinely invests in technology, office furniture and equipment and leasehold improvements. In the second quarter of 2011, the Company made capital expenditures of $17 million, as compared with $8 million for the same period in 2010. Capital expenditures in the second quarter of 2011 related primarily to investments in real estate, buildings and leasehold improvements, technology, and office furniture and equipment. Total capital expenditures in 2011 are currently estimated to be $90 million. This includes normal capital expenditures as noted

above plus additional real estate development.
Cash used in financing activities during the three and six months ended June 30, 2011, was $81 million and $90 million, as compared with $81 million and $83 million for each of the same periods in 2010. The Company uses the proceeds from stock option exercises to repurchase the Company's common stock on the open market. In the second quarter of 2011, the Company continued its policy of repurchasing stock to limit growth in issued and outstanding shares as a result of stock option

exercises. The decrease in cash used as a result of this policy during the second quarter of 2011, as compared with the same period in 2010, is primarily due to fewer shares repurchased combined with an increase in exercise proceeds attributable to higher option exercise prices. During the three months ended June 30, 2011 and 2010, the Company paid dividends of $.25 per share and $.20 per share, respectively.

The Company follows established guidelines relating to credit quality, diversification and maturities of its investments to preserve principal and maintain liquidity. The Company's investment portfolio has not been adversely impacted by the disruptions in the credit markets. However, there can be no assurance that the Company's investment portfolio will not be adversely affected in the future.

The Company cannot forecast the impact that ongoing uncertainties in the global economy will have on its operating results. Management believes that the Company has effective credit control procedures, and historically has experienced relatively insignificant collection problems. The Company cannot predict what fallout any of these economic uncertainties may have on freight volumes, pricing, changes in consumer demand, supplier stability and capacity or on customers' abilities to pay.

The Company maintains international unsecured bank lines of credit. At June 30, 2011, the international bank lines of credit totaled $20 million. At June 30, 2011, the Company had no amounts outstanding on these lines of credit, but was contingently liable for $99 million from standby letters of credit and guarantees. The standby letters of credit and guarantees relate to obligations of the Company's foreign subsidiaries for credit extended in the ordinary course of business by direct carriers, primarily airlines, and for duty and tax deferrals available from governmental entities responsible for customs and value-added-tax (VAT) taxation. The total underlying amounts due and payable for transportation and governmental excises are properly recorded as obligations in the books of the respective foreign subsidiaries, and there would be no need to record additional expense in the unlikely event the parent company were to be required to perform.

Management believes that the Company's current cash position and operating cash flows will be sufficient to meet its capital and liquidity requirements for the foreseeable future, including meeting any contingent liabilities related to standby letters of credit and other obligations.

In some cases, the Company's ability to repatriate funds from foreign operations may be subject to foreign exchange controls. At June 30, 2011, cash and cash equivalent balances of $657 million were held by the Company's non-United States subsidiaries, of which $66 million was held in banks in the United States.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to market risks in the ordinary course of its business. These risks are primarily related to foreign exchange risk and changes in short-term interest rates. The potential impact of the Company's exposure to these risks is presented below:

Foreign Exchange Risk

The Company conducts business in many different countries and currencies. The Company's business often results in revenue billings issued in a country and currency which differs from that where the expenses related to the service are incurred. In the ordinary course of business, the Company creates numerous intercompany transactions and may hold currencies that are not the local functional currency. This brings foreign exchange risk to the Company's earnings.

Foreign exchange rate sensitivity analysis can be quantified by estimating the impact on the Company's earnings as a result of hypothetical changes in the value of the U.S. dollar, the Company's functional currency, relative to the other currencies in which the Company transacts business. All other things being equal, an average 10% weakening of the U.S. dollar, throughout the six months ended June 30, 2011, would have had the effect of raising operating income approximately $21 million. An average 10% strengthening of the U.S. dollar, for the same period, would have the effect of reducing operating income approximately $17 million. This analysis does not take into account changes in shipping patterns based upon this hypothetical currency fluctuation. For example, a weakening in the U.S. dollar would be expected to increase exports from the United States and decrease imports into the United States over some relevant period of time, but the exact effect of this change cannot be quantified without making speculative assumptions.

As of June 30, 2011, the Company had approximately $2 million of net unsettled intercompany transactions. The Company currently does not use derivative financial instruments to manage foreign currency risk and only enters into foreign currency hedging transactions in limited locations where regulatory or commercial limitations restrict the Company's ability to move money freely. Any such hedging activity during the three and six months ended June 30, 2011 and 2010 was insignificant. During the three and six months ended June 30, 2011, net foreign currency gains were approximately $363 and net foreign currency losses were approximately $330, respectively. For the same periods of 2010, the Company's net foreign currency gains were approximately $5,602 and $3,949, respectively. The Company had no foreign currency derivatives outstanding at June 30, 2011 and December 31, 2010. The Company instead follows a policy of accelerating international currency settlements to manage foreign exchange risk relative to intercompany billings. The majority of intercompany billings are resolved within 30 days and intercompany billings arising in the normal course of business are fully settled within 90 days.

Interest Rate Risk

At June 30, 2011, the Company had cash, cash equivalents and short-term investments of $1,227 million of which $696 million was invested at various short-term market interest rates. The Company had no short-term borrowings at June 30, 2011. A hypothetical change in the interest rate of 10 basis points would not have a significant impact on the Company’s earnings. In management’s opinion, there has been no material change in the Company’s interest rate risk exposure in the second quarter of 2011.

Item 4. Controls and Procedures

Evaluation of Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of its management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company’s “disclosure controls and procedures” (as defined in the Exchange Act Rule 13a-15(e)) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective as of the end of the period covered by this report at the reasonable assurance level.

Changes in Internal Controls

There were no changes in the Company’s internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

The Company's management has confidence in the Company’s internal controls and procedures. Nevertheless, the Company’s management, including the Company’s Chief Executive Officer and Chief Financial Officer, does not expect that the Company’s disclosure procedures and controls or the Company’s internal controls will prevent all errors or intentional fraud. An internal control system, no matter how well-conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of such internal controls are met. Further, the design of an internal control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all internal control systems, no evaluation of controls can provide absolute assurance that all the Company’s control issues and instances of fraud, if any, have been detected.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On October 10, 2007, the U. S. Department of Justice (DOJ) issued a subpoena ordering the Company to produce certain information and records relating to an investigation of alleged anti-competitive behavior amongst air cargo freight forwarders. The Company has retained the services of a law firm to assist in complying with the DOJ’s subpoena. As part of this process, the Company has met with and continues to co-operate with the DOJ. The Company expects to incur additional costs during the course of this ongoing investigation, which could include fines and/or penalties if the DOJ concludes that the Company has engaged in anti-competitive behavior and such fines and/or penalties could have a material impact on the Company’s financial position, results of operations and operating cash flows.

On January 3, 2008, the Company was named as a defendant, with seven other European and North American-based global logistics providers, in a Federal antitrust class action lawsuit filed in the United States District Court of the Eastern District of New York, Precision Associates, Inc. et al v. Panalpina World Transport, No. 08-CV0042. On

July 21, 2009, the plaintiffs filed an amended complaint adding a number of new third party defendants and various claims which they assert to violate the Sherman Act. The plaintiffs' amended complaint, which purports to be brought on behalf of a class of customers (and has not yet been certified), asserts claims that the defendants engaged in price fixing regarding eight discrete surcharges in violation of the Sherman Act. The allegations concerning the Company relate to two of these surcharges. The amended complaint seeks unspecified damages and injunctive relief. The Company believes that these allegations are without merit and intends to vigorously defend itself. At this time the Company has no way of predicting the ultimate outcome of this proceeding. The Company expects to incur ongoing attorneys' fees and other defense costs and, if there is an adverse judgment, monetary damages could be substantial. On August 13, 2009, the Company filed a motion to dismiss the amended complaint for failure to state a claim, which is currently pending before the Court. Plaintiffs filed their opposition to the Company's motion on January 30, 2010 and the motion is currently pending before the Court.

On June 18, 2008, the European Commission (EC) issued a request for information to the Company's UK subsidiary, Expeditors International (UK) Ltd., requesting certain information relating to an ongoing investigation of freight forwarders. The Company replied to the request. On February 18, 2009, the EC issued another request for information to the same subsidiary requesting certain additional information in connection with the EC's ongoing investigation of freight forwarders. The Company replied to the request. On February 10, 2010, the Company and its Hong Kong subsidiary, Expeditors Hong Kong Limited, received a Statement of Objections (SO) from the EC. The SO initiates a proceeding against the Company alleging anti-competitive behavior contrary to European Union rules on competition. Specific to the Company, the allegations in the SO are limited to the period from August 2005 to June 2006 and only concern airfreight trade lanes between South China/Hong Kong and the European Economic Area. The Company filed a response to the allegations in the SO on April 12, 2010 and participated in an oral hearing on July 6, 2010. At this time the Company has no way of predicting the ultimate outcome of this proceeding. The Company expects to incur ongoing attorneys' fees and other defense costs and, if there is an adverse judgment, monetary damages could be substantial. On January 20, 2011, the EC issued another request for information to the Company and its Hong Kong subsidiary requesting certain additional information in connection with its on-going investigation of freight forwarders. The Company replied to the request. The Company continues to vigorously defend itself against the allegations. The Company expects to incur additional costs during the course of this ongoing proceeding, which could include administrative fines if the EC concludes that the Company has engaged in anti-competitive behavior and such fines could have a material impact on the Company's financial position, results of operations and operating cash flows.

On August 17, 2010, the Company and its Brazilian subsidiary, Expeditors Internacional do Brasil Ltda received an Administrative Proceeding (AP) from the Brazilian Ministry of Justice (MOJ). The AP initiates a proceeding against the Company and one of its employees, alleging possible anti-competitive behavior. The Company intends to vigorously defend itself against the allegations. The Company expects to incur additional costs during the course of this proceeding, which could include administrative fines if the MOJ concludes that the Company has engaged in anti-competitive behavior and such fines could have a material impact on the Company's financial position, results of operations and operating cash flows.

Legal and associated costs incurred by the Company on the above matters were not significant for the three and six-month periods ended June 30, 2011 and 2010, respectively. Since the beginning of the proceedings in 2007, the Company has incurred approximately $16 million in legal and associated costs on the above matters. At this time the Company is unable to estimate the range of loss or damages, if any, that might result as an outcome of any of these proceedings. These government investigations and the related litigation matters are subject to inherent uncertainties, and unfavorable rulings could occur. An unfavorable ruling could include substantial monetary damages and, in matters in which injunctive relief or other conduct remedies are sought, an injunction or other order relating to business conduct. Were unfavorable final outcomes to occur, the Company's business, financial position, results of operations, and operating cash flows could be materially harmed.

The Company is involved in other claims and lawsuits which arise in the ordinary course of business, none of which currently, in management's opinion, will have a significant effect on the Company's operations or financial position.

Item 1A. Risk Factors

There have been no material changes in the Company's risk factors from those disclosed in the report on Form 10-K filed on February 28, 2011, except for the following:

RISK FACTOR	DISCUSSION AND POTENTIAL SIGNIFICANCE
Technology	Increasingly, the Company must compete based upon the flexibility and sophistication of the technologies utilized in performing its core businesses. Future results depend upon the Company's success in the cost effective development, maintenance and integration of secure communication and information system technologies, including those acquired from and maintained by third parties. Any significant disruptions to

these systems due to failures, attacks or other security breaches could negatively affect the Company's results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
ISSUER PURCHASES OF EQUITY SECURITIES

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Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
April 1-30, 2011	1,680	$52.39	1,680	30,313,856
May 1-31, 2011	740,345	53.74	740,345	29,759,663
June 1-30, 2011	114,404	50.85	114,404	29,629,938
Total	856,429	$53.35	856,429	29,629,938

In November 1993, the Company's Board of Directors authorized a Non-Discretionary Stock Repurchase Plan for the purpose of repurchasing the Company's common stock in the open market with the proceeds received from the exercise of stock options. On February 9, 2009, the Plan was further amended to increase the authorization to repurchase up to 40 million shares of the Company's common stock. This authorization has no expiration date. This plan was disclosed in the Company's report on Form 10-K filed March 31, 1995. In the second quarter of 2011, 312,701 shares of common stock were repurchased under the Non-Discretionary Stock Repurchase Plan.

In November 2001, under a Discretionary Stock Repurchase Plan, the Company's Board of Directors authorized the repurchase of such shares as may be necessary to reduce the issued and outstanding stock to 200 million shares of common stock. The maximum number of shares available for repurchase under this plan will increase as the total number of outstanding shares increases. This authorization has no expiration date. This plan was announced on November 13, 2001. In the second quarter of 2011, 543,728 shares of common stock were repurchased under the Discretionary Stock Repurchase Plan. These discretionary repurchases were made to limit the growth in the number of issued and outstanding shares resulting from stock option exercises.

Item 5. Other Information

(a) Not applicable.
(b) Not applicable.

Item 6. Exhibits

Exhibits required by Item 601 of Regulation S-K.

Exhibit Number	Description
10.57	The Company's 2011 Stock Option Plan. (Incorporated by reference to Appendix A of the Company's Notice of Annual Meeting of Shareholders and Proxy Statement pursuant to Regulation 14A filed on March 18, 2011.)
10.58	Form of Stock Option Agreement used in connection with options granted under the Company's 2011 Stock Option Plan. (Incorporated by reference to Appendix B of the Company's Notice of Annual Meeting of Shareholders and Proxy Statement pursuant to Regulation 14A filed on March 18, 2011.)
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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.

	EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.
August 5, 2011	/s/ PETER J. ROSE Peter J. Rose, Chairman and Chief Executive Officer
August 5, 2011	/s/ BRADLEY S. POWELL Bradley S. Powell, Chief Financial Officer

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.
AND SUBSIDIARIES
Form 10-Q Index and Exhibits
June 30, 2011

Exhibit Number	Description
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
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101.INS	Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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nbsp; **Year Ended December 31, Three Month Ended**
March 31, 2009 2010 2011 2011 2012 (unaudited) (in thousands)

Net cash used in operating activities

$(5,306) $(11,079) $(33,135) $(3,323) $(2,270)

Net cash used in investing activities

(175) (1,568) (4,276) (784) (1,783)

Net cash provided by (used in) financing activities

(289) 19,840 116,809 49,798 16

Net Cash Used in Operating Activities

We have experienced negative operating cash flows principally due to our aggressive investment in national advertising campaigns for the purpose of acquiring new members. Our operating cash flows will continue to be affected principally by the extent to which we continue to pursue our growth strategy, including investing in national advertising and spending to increase headcount in order to grow our business. Our largest source of operating cash flows is cash collections from our members and service providers. We anticipate that we will continue to incur net losses and use cash in operating activities as we continue to invest aggressively to grow and penetrate our markets.

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Our use of cash in operating activities for the three months ended March 31, 2012 was primarily attributable to our net loss of $13.5 million, reflecting continued investments in our national advertising campaigns, an increase in our sales personnel, as well as other headcount increases and other expenses to grow our business. This net loss was adjusted for $1.3 million of non-cash expenses, which included $0.7 million of stock-based compensation expense, $0.5 million of depreciation and amortization and $0.1 million attributable to the amortization of debt discount and deferred financing fees. Additional uses of cash included a $3.8 million increase in prepaid expenses primarily as a result of the timing of payment of commissions to our sales personnel and an increase in accounts receivable of $1.3 million attributable to an increase in service provider billings. These uses of cash in operating activities were offset in part by a $10.9 million net increase in accounts payable and accrued liabilities primarily attributable to increases in accrued marketing expenses and accrued but unpaid commissions and increases in deferred revenue of $4.1 million as a result of an increase both in the number of our paid memberships and in the number of service providers participating in our advertising programs.

Our use of cash in operating activities for the three months ended March 31, 2011 was primarily attributable to our net loss of $9.6 million, reflecting continued investments in our national advertising campaigns, an increase in our sales personnel, as well as other headcount increases and other expenses to grow our business. This net loss was adjusted for $1.4 million of non-cash expenses, which included $0.6 million of stock-based compensation expense, $0.4 million of depreciation and amortization, $0.3 million of accrued interest due on debt at maturity and $0.1 million attributable to the amortization of debt discount and deferred financing fees. Additional uses of cash included a $1.4 million increase in prepaid expenses primarily as a result of the timing of payment of commissions to our sales personnel and an increase in accounts receivable of $0.3 million attributable to an increase in service provider billings. These uses of cash in operating activities were offset in part by a $4.8 million net increase in accounts payable and accrued liabilities primarily attributable to increases in accrued marketing expenses and accrued but unpaid commissions and increases in deferred revenue of $1.7 million as a result of an increase both in the number of our paid memberships and in the number of service providers participating in our advertising programs.

Our use of cash in operating activities for 2011 was primarily attributable to our net loss of $49.0 million, reflecting continued investments in our national advertising campaigns, an increase in our sales personnel, as well as other headcount increases and other expenses to grow our business. This net loss was adjusted for $7.8 million of non-cash expenses, which included $3.8 million of stock-based compensation expense, $1.7 million of depreciation and amortization, $0.6 million of accrued interest on debt maturity and $0.6 million attributable to the amortization of debt discount and deferred financing fees. Non-cash expenses also included a $1.1 million write-off attributable to our debt refinancing during 2011. Additional uses of cash included a $6.1 million increase in prepaid expenses primarily as a result of the timing of payment of commissions to our sales personnel and the cash payment of accrued interest of $2.7 million. These uses of cash in operating activities were offset in part by a $6.6 million increase in accounts payable and accrued liabilities primarily attributable to increases in accrued marketing expenses and accrued but unpaid commissions and increases in deferred revenue of $11.5 million as a result of an increase both in the number of our paid memberships and in the number of service providers participating in our advertising programs.

Our use of cash in operating activities for 2010 was primarily attributable to our net loss of $27.2 million, reflecting our continued significant investments in our national advertising campaigns, headcount and other expenses to grow our business. This net loss was adjusted for $10.1 million of non-cash expenses that included $6.7 million in stock-based compensation expense $1.8 million of amortization of debt discount, deferred financing fees and accrued interest and $1.4 million of depreciation and amortization. Additional uses of cash included a $1.7 million increase in prepaid expenses and other current assets primarily as a result of the timing of payment of commissions to our sales personnel on service provider contracts with participating service providers due to an increase in service provider contracts. These uses of cash were offset in part by cash generated from a $5.2 million increase in deferred revenue attributable to increased memberships and service provider advertising and a $3.2 million increase in accounts payable and accrued liabilities primarily related to marketing expense that had not yet been paid.

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Our use of cash in operating activities in 2009 was attributable to our net loss of $12.0 million, reflecting our investments in our national advertising campaigns, headcount and other expenses, adjusted for $2.6 million of non-cash expenses that included $1.5 million of depreciation and amortization and $1.0 million of amortization of debt discount, deferred financing fees and accrued interest. These uses of cash were offset in part by a $3.6 million increase in deferred revenue as a result of increases in memberships and service providers participating in our advertising programs and a $1.0 million increase in accounts payable and accrued commissions related to increases in sales commissions and marketing expenditures that had not yet been paid.

Net Cash Used in Investing Activities

Net cash used in investing activities has primarily related to investments in information technology to support our growth and purchases of third-party data from research companies that gather and record information about service providers from consumers.

Our use of cash in investing activities in the three months ended March 31, 2012 was attributable to $1.3 million in information technology investments to further improve our hardware, our software for members, service providers and our growing employee base and $0.7 million for data acquisition. Theses uses of cash were offset in part by a decrease in restricted cash of $0.3 million during the period, which had previously been established as a reserve required under our credit card agreements.

Our use of cash in investing activities in the three months ended March 31, 2011 was attributable to $0.6 million in information technology hardware and software as well as leasehold improvements and $0.2 million for data acquisition.

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

Our use of cash in investing activities in 2010 was primarily attributable to $0.8 million in purchases of third-party data to improve the content of our website and $0.5 million in information technology investments to continue to maintain our website.

Our use of cash in investing activities in 2009 was primarily attributable to $0.6 million in purchases of third-party data and $0.4 million in information technology investments and leasehold improvements. Lower purchases for capital expenditures were planned to preserve cash balances during the period. These uses of cash were offset in part by a decrease in restricted cash of $0.9 million during the period which had previously been established as a reserve required under our credit card agreements.

Net Cash Provided by (Used in) Financing Activities

Net cash provided by financing activities for the three months ended March 31, 2012 consisted solely of proceeds from the exercise of employee stock options.

Net cash provided by financing activities for the three months ended March 31, 2011 included proceeds from the sale of preferred stock of $51.6 million. These proceeds were offset in part by $1.8 million of principal payments on long-term debt.

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

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Net cash provided by financing activities for 2010 included proceeds from sale of preferred stock of $23.9 million, offset in part by $2.0 million of scheduled repayments of debt obligations and $1.8 million in repurchases of common shares.

Net cash used in financing activities for 2009 included payments on debt and capital lease obligations.

Debt Obligations

Term Loan and Revolving Credit Facility. On August 31, 2011, we entered into a loan and security agreement that provides for a $15.0 million term loan and a $15.0 million revolving credit facility. A portion of the revolving credit facility is available for letters of credit and corporate credit cards. The term loan bears interest at a per annum rate equal to the greater of (i) the current cash interest rate of LIBOR plus 10% or (ii) 10.5%, and requires monthly interest-only payments until maturity in August 2015. The revolving credit facility requires monthly interest-only payments on advances, which bear interest at a per annum rate equal to LIBOR plus 5%. In addition, when less than 50% of the revolving credit facility is drawn, we are required to pay a non-usage charge of 0.50% per annum of the average unused portion of the revolving credit facility. The term loan provides for penalties for early prepayment. The term loan and revolving credit facility provide for additional interest upon an event of default and are secured by substantially all of our assets. In connection with entering into the loan and security agreement, we issued a warrant to purchase 88,240 shares of common stock to one of the lenders. The fair value of this warrant was recorded as a discount to the term loan, with the amount of the discount being amortized as interest expense through the loan s maturity. As of March 31, 2012, we had $15.0 million in outstanding borrowings under the term loan and available credit of $15.0 million under the revolving credit facility.

The loan and security agreement contains various restrictive covenants, including restrictions on our ability to dispose of assets, make acquisitions or investments, incur debt or liens, make distributions to our stockholders or enter into certain types of related party transactions. We also are required to comply with certain financial covenants, including a minimum asset coverage ratio, and non-financial covenants. Upon an event of default, which includes a material adverse change, the lenders may accelerate amounts outstanding, terminate the agreement and foreclose on all collateral. We were in compliance with all financial and non-financial covenants at March 31, 2012.

Prior Debt Obligations. On August 31, 2011, we repaid in full the outstanding balance of $14.2 million and prepayment penalties in the amount of $0.2 million under our prior term loan and terminated the related amended and restated loan and security agreement, which we entered into in November 2009. On the same date, we also paid $6.1 million to the holders of the senior subordinated note in satisfaction of the principal, interest and other fees due thereunder. The term loan bore interest at a fixed rate of 6.71% per annum, was secured by substantially all of our assets and matured in January 2013. In connection with the term loan, we issued certain convertible warrants. The senior subordinated note, which we sold to a third party in November 2008, bore cash interest at a fixed rate of 12.0% per annum and was to mature in November 2013. Incremental interest was computed at 4.25% per annum accruing monthly and was payable monthly or, at our option, could be deferred and added to the outstanding principal balance.

Off-Balance Sheet Arrangements

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

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Contractual Obligations

We enter into long-term contractual obligations and commitments in the normal course of business, primarily debt obligations and non-cancellable operating leases. Our contractual cash obligations at December 31, 2011 are set forth below.

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term Debt Obligations, including interest	20,775	1,575	3,150	16,050	
Operating Lease Obligations	2,346	1,086	1,256	4	
Total Contractual Obligations	23,121	2,661	4,406	16,054	

Critical Accounting Estimates

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

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

Revenue Recognition

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

Our revenue includes membership revenue, which includes non-refundable initiation fees and membership fees for monthly, annual and multi-year memberships, and service provider revenue, which includes revenue from service provider advertising and revenue from service provider vouchers.

We recognize revenue from membership fees on a straight-line basis during the contractual period over which the service is delivered. We amortize revenue from the initiation fees of members over the average membership life on a straight-line basis. The estimated membership lives of monthly members and annual members are 13 months and 60 months, respectively, based on historical experience. Estimates made by us may differ from actual customer lives. These differences may impact initiation fee revenue, depending on whether the estimated customer life decreases or increases. A change in the estimated customer life by one year in either direction would have a minimal impact to total revenue. We recognize service provider revenue on a straight-line basis over the contract period.

Deferred revenue includes the unamortized portion of revenue associated with membership and service provider revenue for which we have received payment in advance of services or advertising to be provided.

Data Acquisition Costs

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

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These costs are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by comparison of the carrying amount to future net undiscounted cash flows expected to be generated by the related asset. We make assumptions regarding the levels of cash flows to be generated from current data acquisition costs based on historical, market-specific cash flows, which may differ from the actual cash flows generated. A decrease in the generated cash flows may result in a future impairment of data acquisitions costs. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount exceeds the fair market value of the assets. To date, there have been no adjustments to the respective carrying values.

Stock-Based Compensation

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

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

The following table summarizes the assumptions relating to our stock options granted during 2010 and 2011:

	2010	2011
Dividend yield	0.0%	0.0%
Volatility	37%	50%
Risk free interest rate	0.62%	1.26%
Expected term, in years	4.0	4.7

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

Recent Accounting Pronouncements

In January 2010, the FASB issued additional guidance that improves disclosure about fair value measures that were originally required. The new guidance is effective for interim and annual periods beginning after December 15, 2009, except for disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures are effective for years beginning after December 15, 2010, and for interim periods within those years. The adoption of this guidance did not have an impact on our financial position or results of operations.

In September 2011, the FASB issued Accounting Standards Update 2011-08 (ASU 2011-08), *Testing Goodwill for Impairment,* which amends Accounting Standards Codification 350, *Intangibles Goodwill and Other* (ASC 350). The amended guidance permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in ASC 350. The guidance provided in ASU 2011-08 is effective for annual and interim periods beginning after December 15, 2011 with early adoption permitted. We adopted this standard on December 31, 2011. The adoption of this standard did not have a significant effect on our consolidated financial statements.

Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Fluctuations

We had cash and cash equivalents of $84.6 million at March 31, 2012, which was held in bank deposit accounts. Declines in interest rates are expected to reduce future investment income on these deposits. We do not enter into investments for trading or speculative purposes. We pay interest on our borrowings at variable rates.

We do not believe that a hypothetical 10% increase or decrease in interest rates as of March 31, 2012 would have had a material impact on our investment income.

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

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BUSINESS

Our Mission

Our mission is to help consumers find the best service providers and promote happy transactions.

Our Company

We operate a consumer-driven solution for our members to research, hire, rate and review local professionals for critical needs, such as home, health care and automotive services. Our ratings and reviews, which are available only to our members, help our members to find the best provider for their local service needs. We currently have more than 1.2 million paid memberships. We allow local service providers who are highly rated by our members to advertise discounts and other promotions to our members.

We help consumers purchase high cost of failure services in an extremely fragmented local marketplace. These services, which include home remodeling, plumbing, roof repair, health care and automobile repair, are typically expensive and carry a high cost to the consumer if performed poorly. Consumers seeking reputable providers of these services generally are forced to rely on incomplete 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 accept no anonymous reviews. As a result, we believe our reviews are a trusted resource for consumers to find high quality local service providers.

We also help local service providers find quality customers and differentiate themselves in a competitive marketplace. Our members 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 has an annual household income of at least $100,000, based on information derived and interpreted by us as a result of our own analysis from general demographic data provided by LogicLab. In 2011, 36% of our members wrote a review on at least one service provider.

The value proposition we offer to both consumers and local service providers strengthens our position as a trusted resource and allows us to derive revenue from both members and service providers. As more members contribute reviews to our service, we increase the breadth and depth of content offered to members, attracting more members and enhancing the value of our service to reputable local service providers, for whom our members constitute a large pool of qualified customers for their services. We believe our high level of member engagement and our consistently high membership and service provider renewal rates are evidence of the value we offer both members and service providers.

As of March 31, 2012, we offered our service to paying members in 186 local markets in the United States. From December 31, 2008 to March 31, 2012, we grew from approximately 333,000 to approximately 1.2 million paid memberships, representing a compound annual growth rate of more than 49%. Our membership growth has been driven largely by our national advertising strategy, which resulted in our marketing expense of $56.1 million and $17.6 million in 2011 and the three months ended March 31, 2012, respectively. We continue to scale our investment in advertising to grow our membership base. In 2011 and the three months ended March 31, 2012, our revenue was $90.0 million and $31.1 million, respectively. In the same periods, our net loss was $49.0 million and $13.5 million, respectively.

Market Overview

The local services market is large, highly fragmented and inefficient. According to ESRI, consumers spent more than $400 billion on local service providers in 2010, including remodeling services, furniture repair and cleaning, movers, appliance repair and pest control. In addition, according to the U.S. Center for Medicare and Medicaid Services, in 2010 U.S. consumers and private health insurers spent more than $425 billion on physician and clinical services, dental services and services performed by other healthcare professionals. Millions of small businesses and health care professionals vie for those dollars every year.

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Despite the size of this market, consumers and local service providers have historically lacked an efficient way to connect. Consumers traditionally have been forced to rely on a variety of inefficient sources to navigate the difficult landscape of the local services marketplace, often turning to friends and neighbors for recommendations of companies to hire. These referrals are usually based on a single interaction, and it can be difficult or impossible for a consumer to confirm a word-of-mouth recommendation before making a purchase decision. For example, it is improbable that a homeowner can find multiple neighbors who recommend the same plumber in the limited time available to address a plumbing problem.

Similarly, local service providers are faced with significant challenges in finding customers who are motivated to purchase and in distinguishing themselves from their competitors on the basis of quality. Historically, local service providers relied upon traditional offline advertising services such as newspapers and the Yellow Pages that do not provide them with the ability to target high quality, motivated customers or to differentiate themselves from their competitors.

While the Internet has transformed the way that information is accessed and shared, profoundly impacting the local services marketplace, it has not by itself solved these problems for either the consumer or the local service provider. The Internet has inherent limitations for both consumers and local service providers:

For consumers, the Internet has replaced the dearth of information with a deluge. Consumers searching for service providers can find a vast amount of information, but sorting and digesting this information can consume countless hours. In addition, the anonymity of the Internet renders it inherently susceptible to outright manipulation by unscrupulous service providers and unhappy customers, so consumers have limited means for discerning which information they should trust. While anonymous and potentially misleading reviews may be good enough for helping consumers choose a bar or a restaurant, for consumers hiring a roofer, pediatrician or veterinarian, the stakes are simply too high.

For reputable local service providers, Internet-based marketing has not solved their fundamental problems of how to reach the right consumers those eager to purchase their services and how to differentiate themselves from competitors on the basis of the quality and value of their services. Online auction-based marketplaces for display advertisements and local search engine optimization are indiscriminate. These marketing channels do not always provide an effective means of targeting high quality, motivated customers. The Internet also provides no means for reputable service providers to credibly demonstrate the quality and value of their services. It does, however, provide the means for a single nefarious competitor to embellish its own reputation or tarnish the reputations of its competitors. Additionally, a single unhappy customer can damage the public perception of any service provider, regardless of whether the customer s grievance is warranted.

We believe that solving these inefficiencies of the local services marketplace requires a trusted intermediary to compile, organize and make available reliable information on local service providers. We offer an efficient way for consumers and reputable service providers to find each other.

The Angie s List Solution

Our solution to the problems of the local services marketplace starts with our unwavering commitment to placing the interests of the consumer first. Our consumer-centric approach provides the following benefits:

For consumers:

A trusted and efficient way to find the best local service provider. Applying the ask-your-neighbor approach across our target markets, we compile a breadth of highly relevant, member-generated ratings and reviews that provide insights consumers cannot obtain on their own. We collect reviews from both members and non-members, and we prohibit anonymous reviews. Only our members reviews factor into service providers ratings, and consumers must subscribe to access our ratings and reviews. We actively monitor for fraudulent reviews. Consumers can rely on our service to quickly find a reputable service provider in their area.

A robust and convenient resource. Our members reviews span more than 550 categories of high cost of failure services such as home, health care and automotive services. We provide convenient access to these reports however our members want to receive them on the Internet, by smartphone, telephone or text message and in our monthly magazine. We also provide our members with live customer support from our inbound member call center and help our members resolve disputes with service providers through our complaint resolution process.

Money-saving benefits from quality local service providers. Member ratings determine which local service providers are eligible to offer discounts or other money-saving promotions. We believe that our members often may recoup the cost of membership through the savings they realize using our service.

For local service providers:

An efficient way to reach target consumers. Our members are looking for reputable providers of high cost of failure services, and use our service to find them. Consumers subscribe to our service when they are ready to purchase. Local service providers with high ratings from our members benefit from access to this large, qualified pool of demand.

An effective way for reputable local service providers to shine. Because our membership, not Angie s List, determines which local service providers are eligible to advertise with us based on their reviews, service providers who advertise are known to be reputable. We believe that smaller local service providers particularly benefit from our service because they can compete based on the quality and value of their services rather than the size of their marketing budgets.

Our Strengths

Since our inception 17 years ago, we have developed and are leveraging the following key strengths of our business model:

Loyal and engaged membership. We have an active and dedicated member base. Our members renew their subscriptions at high annual rates, which in 2011 ranged from approximately 75% for first-year members to approximately 89% for members who had purchased annual memberships for five years or more. In addition, our membership is highly engaged, generating more than 65,000 new service provider reviews monthly in 2011. This loyal and highly engaged membership provides us with a predictable source of revenue from membership fees.

Extensive and reliable database of member-generated content. We collect reviews from members on their real-life experiences with local service providers. Since 1995, we have collected approximately 3.5 million reviews, and we actively solicit reviews of local service providers in all of our markets. We believe the fact that consumers pay for our service and cannot post reviews anonymously deters fraudulent activity and enhances the credibility of our ratings and reviews. In addition, we deploy a variety of resources, including internal audit personnel and fraud detection technology, to ensure the integrity of the information we provide. We believe that our database of member-generated content differentiates us from other sources of consumer ratings and reviews.

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Strong service provider loyalty. Our value proposition to local service providers is evidenced by the high retention rate of service providers who participate in service provider promotions. For example, 50% of advertising service providers at the beginning of 2008 were still active advertisers at the beginning of 2012. The contract value for these remaining service providers as of January 1, 2012 equaled 199% of the contract value for those same service providers as of January 1, 2008. The recurring nature of these service provider contracts provides us with another predictable revenue stream.

Powerful network effect. As more members contribute to our service, we increase the breadth and depth of content offered to members. The resulting value of deeper content and access to money-saving offers from trusted local service providers in turn attracts more members. This increased membership increases the value of the service to reputable local service providers because it drives a large pool of highly-qualified customers for their services.

Scalable and leverageable operations. From the beginning of 2008 through the end of 2011, we grew our operations from 45 to 186 paid membership markets across the United States, and we have aggressively sought to penetrate these markets. Our member acquisition activity is highly centralized through national and online media purchases, and our service provider sales operations focus exclusively on qualified sales leads that we contact through our centralized outbound call center. We have replicated our business model in these markets without substantially increasing our operations and support expense.

Our Strategy

Our goal is to establish our service as the go to solution for consumers making purchasing decisions about their most important local services transactions. Our strategy includes the following key components:

Increase penetration of our markets. Our revenue per member is higher in markets where we have greater household penetration, driven by the powerful network effect and greater membership and service provider revenue per member compared to less penetrated markets. We plan to continue to invest aggressively in national advertising to further increase market penetration and revenue per paid membership. Our largest potential markets, such as New York City and Los Angeles, are among our least penetrated, providing us with significant opportunity.

Increase number of service providers offering discounts to our members. As of March 31, 2012, approximately 243,000 local service providers rated by our members were eligible based on member ratings to offer discounts and other promotions to our members. We are growing our service provider sales force and account management personnel to increase our ability to establish and cultivate direct relationships with eligible service providers, expand the number of local service providers offering discounts and other promotions to our members, increase the value of existing service provider relationships and maintain high service provider renewal rates.

Expand into new categories. We started our business focused on home improvement and have expanded to cover other high cost of failure service categories. In 2008, in response to member feedback and interest, we launched Angie s List Health & Wellness with the addition of new categories of health and wellness services. Our health and wellness offerings have grown to more than 150 categories today. In recent years, we entered other new categories such as classic car restoration, and we continue to evaluate additional categories. By expanding our category coverage, we intend to drive increased member engagement, increase the value of our service to members and local service providers and help to promote our growth.

New product development. We plan to leverage our position as a trusted resource in the local services marketplace to introduce new products, functionality and features designed to promote local commerce, such as prepaid vouchers for discounts on local services. We believe these enhancements will drive increased business to service providers and provide us with new monetization opportunities. Our goal is to influence and bring efficiency to the local service transaction from beginning to end, ensuring that the customer and the service provider have successful interactions every step of the way.

Expand internationally. We believe our business model is readily adaptable to markets outside the United States that have similarly fragmented relationships between customers and local service providers. We are in the initial stages of expanding into new international English-speaking markets and have opened two test markets in Canada.

Members and Markets

Members. We currently have over 1.2 million paid memberships. Based on member surveys, we believe each membership may represent multiple individual consumers. Our typical member is between the ages of 35 and 64, is married, owns a home, is college educated and has an annual household income of at least $100,000, based on information derived and interpreted by us as a result of our own analysis from general demographic data provided by LogicLab.

Markets. As of March 31, 2012, we had launched Angie s List in 186 paid membership markets. We are advertising aggressively to increase our penetration of each of our local markets over time. As our market penetration increases, revenue per membership in that market has historically grown as a greater number of members enhances the value of our services to members and service providers in that market and supports more profitable pricing structures. We serve markets ranging from Abilene, Texas, with a population of approximately 160,000, to the largest cities in the United States, including New York City, Los Angeles and Chicago.

Member Services

We focus on three primary goals: delivering our members trusted ratings and reviews of local service providers; providing the opportunity for highly-rated service providers to offer our members discounts and other promotions on local services; and advocating for our members to resolve their complaints with local service providers. Consumers may purchase monthly, annual and multi-year memberships to Angie s List, Angie s List Health & Wellness or Angie s List Classic Cars in certain markets, or bundled membership packages that include access to reports on local service providers in all three lists.

We offer the following products and services to our members:

Access to ratings and reviews by members. Our members submit more than 65,000 reviews each month on their real-life experiences with local service providers in more than 550 categories of home remodeling, plumbing, roof repair, health care, automobile repair and other services. Our original Angie s List covers 320 categories, including home, lawn, car and pets. Angie s List Health & Wellness, which we launched in 2008, has grown rapidly and now includes 157 categories. Angie s List Classic Cars, which we launched in 2009, offers members ratings and reviews in 90 categories. The following table highlights some of the service provider categories included in each of these lists.

Angie s List	Angie s List Health & Wellness	Angie s List Classic Cars
Carpet cleaning	Dentists	Appraisals
Electrical	Dermatologists	Bodywork
Handymen	Elder care	Chrome work
Heating & A/C	Hospitals	Custom painting
Housecleaning	OB/GYN	Detailing
Painting	Ophthalmologists	Engine modification
Plumbing	Pediatricians	Parts locators
Remodeling	Plastic surgeons	Restoration
Roofing	Primary care	Storage
Windows	Psychiatrists	Wheels and tires

Our members rate local service providers on an A through F grading scale based on six criteria: overall experience, price, quality, responsiveness, punctuality and professionalism. Ratings on each 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, which constituted approximately 3% of all submitted reviews as of March 31, 2012, do not factor into the 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 to provide a detailed description and commentary on the service experience. We also ask for the approximate cost of the service, the date that the service was provided and whether the member would hire the local service provider again. Members can report on each unique experience they have with a service provider. However, if a member submits more than one review on the same service provider within 180 days, the second review is published only if we determine that it is for a separate service experience.

We do not allow our members to submit reviews anonymously. We believe that this policy is critical to maintaining the integrity of our reviews. We permit local service providers to respond to reviews, both positive and negative, to provide our members 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 reviews they find through our service. We use automated techniques to screen all reviews for fraudulent activity, duplicate reviews and vulgar language prior to their publication. Flagged reviews receive additional screening to ensure their accuracy, reliability and propriety.

Members search for local service providers through our website, publications and in-bound member call center. Members can search based on service category, keyword or company name. When a member searches by category, results are ordered based on service providers current rating and number of reviews. Service providers with the same rating are divided into groups based on number of reviews, with groups of service providers with more reviews generally appearing in search results ahead of groups of service providers with the same rating but fewer reviews. When a member searches by keyword or company name, our search technology presents service provider results based on relevance to the searched field. In all search methods, service providers offering discount coupons to members appear before service providers not offering discounts, unless the member opts not to see service providers offering discounts first.

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Member discounts. We give highly-rated local service providers the opportunity to advertise by offering discounts and other promotions to members in their market. We believe our members often may recoup the cost of an annual membership through the savings they realize using our service.

Call center. We strive to offer the very best customer service to our members and service providers. A live receptionist answers each call and directs the caller to the appropriate department. We field on average more than 8,000 calls each week from members looking for help accessing reports or providing their reviews, or seeking information on service providers in their local area.

Angie s List Magazine. Each month, members in 48 markets receive a print edition of *Angie s List Magazine* filled with local content, feature stories, consumer awareness articles and discounts and other promotions from highly-rated local service providers. Members in all other markets receive an electronic version of the national content. We have received several awards for writing and design for *Angie s List Magazine*. We believe that our magazine is an important component of membership because it allows us to interact with our members monthly and, in print markets, serves as a tangible representation of the benefits of membership.

Complaint resolution. Through our complaint resolution process, we help our members resolve disputes with local service providers, whether or not the member found the company using our service. When a member reports a negative service experience, we offer to contact the local service provider on the member s behalf to attempt to resolve the dispute. We feature selected complaint resolution cases and a list of all companies currently in the Penalty Box our list of local service providers to avoid in local editions of *Angie s List Magazine*.

Service Provider Services and Sales

Local service providers cannot pay to be added to Angie s List, and a decision to advertise to our members will not impact their reports. Nor does a local service provider need to purchase anything from us to be included on Angie s List or to manage its online profile.

Service providers. We encourage local service providers to take an active role in managing their profiles and monitoring members ratings and reviews through our free Company Connect service. Through this service, local service providers can update their profile contact information, sign up for email notification when we receive a new review of their services and respond to members reviews. In addition, we offer all local service providers an e-commerce product that enables them to offer their services directly to our members from their profile pages. As of March 31, 2012, approximately 500,000 companies were registered with Company Connect.

We offer local service providers with an average grade of B or better and at least two reviews submitted in the last three years the opportunity to offer exclusive discounts to our members through their online profiles, through our inbound member call center and in *Angie s List Magazine*. In addition, we offer these service providers the opportunity to offer limited time, deep discounts to our members by email. As of March 31, 2012, approximately 25% of service providers rated by our members were eligible to participate. If a service provider s grade falls below a B during the term of its contract, or if a service provider refuses to engage in our complaint resolution process or engages in what we determine to be dishonest behavior on our service, we immediately terminate its contract and suspend its discounts and other promotions. This policy, which may cause us to forgo revenue that we otherwise would receive, is guided by our commitment to our consumer-first philosophy.

In addition to advertising contracts, we offer our service providers the opportunity to provide discounts to members directly through our website. These e-commerce initiatives, Angie s List Big Deal and Storefront, give our members the option to receive alerts of deals or search our website for deals.

As of March 31, 2012 we employed 408 sales representatives in our outbound service provider sales call center located at our headquarters in Indianapolis, Indiana, who call upon eligible local service providers in our 186 paid membership markets in the United States.

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Marketing

We focus our marketing efforts primarily on acquiring new members to increase our market penetration. Our marketing strategy includes a mix of advertising offline on national cable and broadcast television, national broadcast radio and magazines as well as online through search engine marketing and online display. Our co-founder and Chief Marketing Officer, Angie Hicks, serves as the company spokeswoman and our internal content team generates articles and video content resulting in more than 4,500 attributable media mentions or interviews annually. Additionally, we use our original content to supplement our advertising spend and further strengthen our brand through search engine optimization.

Competition

We compete for members with traditional, offline consumer resources, and 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, breadth, depth and timeliness of information and strength and recognition of our brand. We also compete for a share of local 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 member discount program, our pricing structure and recognition of our brand. Our competitors include:

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

Online competitors. We compete for members with free to consumer online ratings websites and referral services funded directly by service providers or by service provider advertising, such as ServiceMagic, Inc., the Diamond Certified directory operated by American Ratings Corporation, Yelp, Inc., Kudzu, an indirect subsidiary of Cox Enterprises, Inc., and Insider Pages, an indirect subsidiary of IAC/InterActiveCorp. In our Angie s List Health & Wellness categories, we compete for members with other online resources for patients, such as RateMDs, Inc. and Health Grades, Inc. Across all categories, we also compete with established Internet companies such as 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 members, to enable us to collect and verify the integrity of our members reviews and to help us to connect our members with relevant local service providers. We have a team of product and engineering professionals at our headquarters in Indianapolis, Indiana, dedicated to enhancing our technology platform, developing new solutions for members 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 allow members to search for service providers in numerous categories. Our search uses a number of factors such as grade, number of reviews, service area and current discounts or other promotions to connect our members with the most relevant local service providers.

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

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Fraud detection. We use various technology-based algorithms and filters to detect fraudulent reviews. Because most of our memberships are paid, our reviews are not anonymous and provide a degree of traceability and accountability not present in other sites.

Service provider sales lead targeting. We use a lead scoring engine to identify the most qualified service provider leads for our service provider sales representatives to target. This engine assigns scoring weights to a variety of attributes which we believe make service providers a good prospect for our sales representatives.

Membership, contracts and renewal tools. We have developed 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.

We have developed our website and related infrastructure with the goal of maximizing the availability of our service to our members and service providers. Our website and related infrastructure are hosted on a network located at our headquarters and in a redundant third-party facility in Pittsburgh, Pennsylvania.

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 March 31, 2012, we have registered 22 trademarks in the United States, including Angie s List, two pending trademark applications in the United States and one registered trademark and one pending trademark application in Canada. We have no issued patents or pending patent applications.

Circumstances outside of our control could pose a threat to our intellectual property rights. For example, effective intellectual property protection may not be available in the United States or other countries in which our products and services may be distributed in the future, and the efforts we have taken to protect our proprietary rights may not be sufficient or effective. Any significant impairment of our intellectual property rights could harm our business or our ability to compete. In addition, protecting our intellectual property rights may be costly and time-consuming. Any unauthorized disclosure or use of our intellectual property could make it more expensive to do business and harm our operating results. In the future we may face allegations that we have infringed the trademarks, copyrights, patents or other intellectual property rights of third parties.

Personnel

At March 31, 2012, we had 953 full-time personnel in the United States. None of our personnel is covered by a collective bargaining agreement. We believe that relations with our personnel are good.

Facilities

At March 31, 2012, we leased approximately 95,000 square feet of space in our headquarters in Indianapolis, Indiana under leases that expire in 2012 and 2014. We believe our current facilities will be adequate or that additional space will be available to us on commercially reasonable terms for the foreseeable future.

Legal Proceedings

From time to time we are involved in legal proceedings arising in the ordinary course of our business. Although the results of litigation and claims cannot be predicted with certainty, we believe that there is no litigation pending that is likely to have a material adverse effect on our business.

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MANAGEMENT

Executive Officers and Directors

The following table sets forth certain information regarding our executive officers and directors as of April 30, 2012:

Name	Age	Position
William S. Oesterle	46	Chief Executive Officer and Director
Robert R. Millard	54	Chief Financial Officer
Angela R. Hicks Bowman	39	Chief Marketing Officer
Manu Thapar	48	Chief Technology Officer
Michael M. Holt	47	Executive Vice President
Michael D. Rutz	37	Vice President of Sales
John W. Biddinger(1)	71	Director
Mark Britto(2)(3)	47	Director
John H. Chuang(3)	46	Director
Steven M. Kapner(1)(2)	46	Director
Keith J. Krach(3)	55	Chairman of the Board
Roger H. Lee(2)	40	Director
Michael S. Maurer(1)	69	Director

(1) Member of the audit committee.

(2) Member of the compensation committee.

(3) Member of the nominating and corporate governance committee.

Executive Officers

William S. Oesterle is our co-founder, has served as our Chief Executive Officer since January 1999 and has served on our board of directors since our inception in June 1995. Since 2007, Mr. Oesterle has served on the board of directors of The National Bank of Indianapolis Corporation. He also took on additional outside responsibilities from July 2003 until December 2004 when he managed the political campaign of Indiana Governor Mitch Daniels. Prior to joining us, Mr. Oesterle was a partner with CID Equity Partners, a Midwest-based venture capital firm from January 1994 to December 1998. Mr. Oesterle holds a Bachelor of Science in Economics from Purdue University and a Master of Business Administration from Harvard Business School. We believe Mr. Oesterle is qualified to serve on our board of directors due to the perspective, leadership and operational experience he brings as our Chief Executive Officer, as well as the historical knowledge and continuity he brings as our co-founder.

Robert R. Millard has served as our Chief Financial Officer since May 2011. Prior to joining us, he served from October 1998 to April 2011 as Chief Financial Officer of FinishMaster, Inc., an Indianapolis-based and formerly publicly-traded national distributor of automotive paints, coatings and paint-related accessories. From February 1996 to September 1998, Mr. Millard served as Chief Financial Officer at Personnel Management, Inc., a publicly-traded industrial staffing company. Mr. Millard is a Certified Public Accountant and previously has held leadership positions at Lacy Diversified Industries, Ltd. and Callahan Enterprises, Inc. Mr. Millard began his financial career with positions at Arthur Andersen & Co. and Ernst & Young LLP. Mr. Millard holds a Bachelor of Music in Music Business from DePauw University and a Master of Business Administration from Indiana University.

Angela R. Hicks Bowman, who goes by Angie Hicks, is our co-founder and has served as our Chief Marketing Officer since May 2000. As the sole employee in June 1995, Ms. Hicks Bowman started what would become Angie s List in Columbus, Ohio, serving as President from our inception in June 1995 until December

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1998. She took a leave of absence from her position as President from December 1998 to May 2000 to pursue a Master of Business Administration. Ms. Hicks Bowman holds a Bachelor of Arts in Economics from DePauw University and a Master of Business Administration from Harvard Business School.

Manu Thapar has served as our Chief Technology Officer since October 2011. Prior to joining us, Mr. Thapar served from January 2010 to October 2011 as Vice President of Engineering for Walmart.com, an e-commerce website. From September 2008 to October 2009, he served as Senior Vice President of Engineering for Myspace, a social networking site. From October 2005 to August 2008, he served as Vice President of Engineering for Yahoo!, Inc., a digital media company. Prior to that, Mr. Thapar served as Senior Director of Engineering for Cisco Systems, Inc., a designer, manufacturer and seller of internet protocol-based networking and other products. Mr. Thapar holds a Bachelor of Engineering degree in Electrical Engineering from Punjab University and a Doctor of Philosophy degree in Computer Systems from Stanford University.

Michael M. Holt has served as our Executive Vice President since August 2006. Prior to joining us, Mr. Holt served in several roles including President and a member of the board of directors of Holt Sublimation Printing and Products, Inc., a supplier of sublimation printing and products manufacturing, from April 2001 to August 2006. Prior to that, Mr. Holt served as Vice President of Holt Hosiery Mills, Inc. from 1997 to 2001 and as Executive Manufacturing Manager of Burlington Industries, Inc. from 1992 to 1997. Mr. Holt currently serves on the boards of directors of a number of privately-held companies. Mr. Holt holds a Bachelor of Science in Economics from Davidson College and a Master of Business Administration from Harvard Business School.

Michael D. Rutz has served as our Vice President of Sales since February 2011. He previously served as Director of Account Management in 2006 and was appointed to develop our health care category offerings in 2008. In 2010 he continued to manage Angie s List Health & Wellness while starting up other projects. Prior to joining us in 2006, Mr. Rutz served as President of Care Ambulance, a private ambulance company. He also has served as a key strategist in political and advocacy roles for several political campaigns ranging from mayoral to congressional to statewide contests, and held a key role in the campaigns for Indiana Governor Mitch Daniels in 2004 and 2008. Mr. Rutz holds Bachelor of Science in Public Affairs and a Bachelor of Arts in French, both from Indiana University.

Nonemployee Directors

John W. Biddinger has served on our board of directors since April 2006. Mr. Biddinger has served on the board of directors at City Financial Corporation, an Indianapolis-based investment banking firm, since 1981, and currently is Managing Director of City Investment Group, LLC since July 2005. Mr. Biddinger currently serves on the boards of directors of a number of privately-held companies. Mr. Biddinger joined City Securities Corporation in 1963 and held various securities-related positions before becoming President in 1979, a position that he held until 1980. Mr. Biddinger was also President of Biddinger Investment Capital Corporation, a leveraged buy-out firm, from 1981 to 1999. Mr. Biddinger holds a Bachelor of Science in Business from Indiana University. We believe Mr. Biddinger is qualified to serve on our board of directors due to his extensive investment and securities experience as well as his experience serving on the boards of other companies.

Mark Britto has served on our board of directors since September 2011. Mr. Britto currently serves as President and Chief Executive Officer of Boku, Inc., a mobile online payments company, a position he has held since January 2009. He also currently serves on the boards of directors of a number of privately-held technology companies. Prior to joining Boku, Inc., Mr. Britto served as President and Chief Executive Officer of Ingenio Inc., a service marketplace and performance advertising company acquired by AT&T Inc. in 2007, from July 2002 to December 2008. In 1998, Mr. Britto co-founded Accept.com Financial Services Corporation, an online payments company that was acquired by Amazon.com, Inc., an e-commerce company, in June 1999. From June 1999 until June 2002, Mr. Britto served as Senior Vice President, Worldwide Services and Sales at Amazon.com. Mr. Britto began his career in senior credit and risk management roles at First USA and NationsBank, N.A. Mr. Britto holds a Bachelor of Science in Operations Research and a Masters of Science in Industrial

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Engineering and Operations Research, both from the University of California, Berkeley. We believe that Mr. Britto is qualified to serve on our board of directors due to his experience as Chief Executive Officer of technology companies, including an online payment company, and his perspective as a Silicon Valley technology entrepreneur.

John H. Chuang has served on our board of directors since April 1996. Mr. Chuang co-founded and since 1986 has served as Chief Executive Officer of Aquent LLC, a leading marketing staffing firm. Mr. Chuang holds a Bachelor of Arts in Economics and a Master of Business Administration, both from Harvard University. We believe Mr. Chuang is qualified to serve on our board of directors due to his leadership and business development experience, his broad understanding of the operational, financial and strategic issues facing growing companies and the perspective he brings as an affiliate of our largest stockholder.

Steven M. Kapner has served on our board of directors since April 2008. Mr. Kapner currently serves as Managing Director of Aquent LLC, a leading marketing staffing firm, which he co-founded in 1986. At Aquent he has held various positions including Chief Financial Officer, General Manager of an internal technology start-up, and President of two operating divisions. He currently runs Aquent s operations in Japan. Mr. Kapner also serves as Chairman of The Aspire Group, Aquent s staffing business for security-cleared personnel. He has managed venture capital investments for Harvard University s endowment fund and worked as a strategy consultant for the Boston Consulting Group. Mr. Kapner holds a Bachelor of Arts in History and a Master of Business Administration, both from Harvard University. We believe Mr. Kapner is qualified to serve on our board of directors due to his deep operating and leadership experience, his financial management experience as Aquent s Chief Financial Officer and his global perspective.

Keith J. Krach has served on our board of directors as Chairman since April 2011. Mr. Krach currently serves as Chief Executive Officer, President and Chairman of the Board of DocuSign Corp, an electronic signature network company, positions which he has held since July 2003 and August 2011, respectively. He also holds the position of Chairman of the Purdue University Board of Trustees. Since 2003, Mr. Krach has been Chief Executive Officer of 3Points, Inc., an investment holding company. In 1996, Mr. Krach co-founded Ariba, Inc., a provider of collaborative business commerce solutions for buying and selling goods and services, serving as Chief Executive Officer and Chairman of the Board from October 1996 until July 2003. Prior to founding Ariba, Mr. Krach joined the founding team and served as the Chief Operating Officer at Rasna Corporation, a developer and marketer of mechanical design and analysis software, which was sold in 1995 to Parametric Technologies. Mr. Krach began his career at General Motors, where he led GM s first-ever Japanese joint venture, GMF Robotics, and was GM s youngest-ever vice president. Mr. Krach holds a Bachelor of Science in Industrial Engineering from Purdue University and a Master of Business Administration from Harvard Business School. We believe Mr. Krach is qualified to serve on our board of directors due to his extensive operational, senior management and board experience with technology companies.

Roger H. Lee has served on our board of directors since April 2008. Mr. Lee is affiliated with Battery Ventures, a venture capital firm, where he focuses on consumer, internet and digital media markets. Mr. Lee joined Battery Ventures in December 2001, and has been a managing member of the general partners of various investment funds affiliated with Battery Ventures. He currently serves on the boards of directors of a number of privately-held technology companies. Prior to joining Battery Ventures, Mr. Lee spent ten years as an entrepreneur and operator and most recently was the co-founder of Corio, a managed services provider that was acquired by IBM, where he oversaw all business development activities and later became a General Manager. Mr. Lee holds a Bachelor of Arts in Political Science from Yale University. We believe that Mr. Lee is qualified to serve on our board of directors due to his experience with a wide variety of internet and technology companies, as well as the perspective he brings as an affiliate of one of our major stockholders.

Michael S. Maurer has served on our board of directors since February 2012. Mr. Maurer has served as Chairman of the Board of The National Bank of Indianapolis Corporation, a financial institution he founded in 1993, and its wholly-owned subsidiary, The National Bank of Indianapolis, since 1993. He also has served as Chairman of the Board of IBJ Corp., a publishing company which owns *The Indianapolis Business Journal*, since

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1990, where he also served as Chief Executive Officer from 1990 to 2012. Mr. Maurer served as President of the Indiana Economic Development Corporation from 2005 to 2006 and also served as Indiana Secretary of Commerce in 2006. From 1991 to 1992, he served as a director and member of the Executive Committee of Merchants National Bank/National City Bank, Indianapolis, Indiana, a financial institution. Mr. Maurer was self-employed as an attorney from 1969 to 1988. Mr. Maurer holds a Bachelors of Science in accounting from the University of Colorado and a Juris Doctor degree from the Indiana University Maurer School of Law. He successfully completed the CPA examination. We believe that Mr. Maurer is qualified to serve on our board of directors due to his financial experience as well as his extensive leadership experience serving on the boards of other companies.

Board Composition

Our business and affairs are managed under the direction of our board of directors. The number of directors will be fixed by our board of directors, subject to the terms of our amended and restated certificate of incorporation and our amended and restated bylaws. Our board of directors currently consists of eight directors consisting of seven non-employee members and our Chief Executive Officer. Our board of directors has determined that all of our directors, other than Mr. Oesterle, are independent within the meaning of applicable NASDAQ listing standards, constituting a majority of independent directors of our board of directors as required by NASDAQ listing standards.

In accordance with our amended and restated certificate of incorporation our board of directors is divided into three classes with staggered three-year terms. Only one class of directors will be elected at each annual meeting of our stockholders, with the other classes continuing for the remainder of their respective three-year terms. Our directors will be divided among the three classes as follows:

- the Class I directors are Messrs. Chuang, Lee and Oesterle, and their terms will expire at the annual general meeting of stockholders to be held in 2012;

- the Class II directors are Messrs. Biddinger, Kapner and Krach, and their terms will expire at the annual general meeting of stockholders to be held in 2013; and

- the Class III directors are Messrs. Britto and Maurer and his term will expire at the annual general meeting of stockholders to be held in 2014.

Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of our directors.

The division of our board of directors into three classes with staggered three-year terms may delay or prevent a change of our management or a change in control.

Lead Independent Director

Our corporate governance guidelines provide that one of our independent directors should serve as a lead independent director at any time when the chief executive officer serves as the chairman of the board, or if the chairman of the board is not otherwise independent. The lead independent director would preside over periodic meetings of our independent directors, serve as a liaison between our chairman and the independent directors and perform such additional duties as our board of directors may otherwise determine and delegate. Because our board of directors has determined that Mr. Krach, the chairman of the board, is an independent director, our board of directors has not appointed a lead independent director. Our board of directors believes that the current board leadership structure is best for the Company and its stockholders at this time.

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Board Committees

Our board of directors has the following standing committees: an audit committee, a compensation committee and a nominating and corporate governance committee. The composition and responsibilities of each committee are described below. Under our corporate governance guidelines, committee members are appointed by our board of directors based on the recommendation of the nominating and corporate governance committee, except that members of the nominating and corporate governance committee are appointed by the independent members of the board of directors. Members serve on these committees until their resignation or until otherwise determined by our board of directors. Our board of directors may establish other committees to facilitate the management of our business.

Audit Committee

Our audit committee charter provides that our audit committee has responsibility for, among other things:

- overseeing management s maintenance of the reliability and integrity of our accounting policies, financial reporting and disclosure practices;
- overseeing management s establishment and maintenance of processes to assure that an adequate system of internal control is functioning;
- reviewing our annual and quarterly financial statements prior to their filing;
- serving as a qualified legal compliance committee to review reports and violations of law; and
- appointing and evaluating the independent registered public accountants and considering and approving any non-audit services proposed to be performed by the independent registered public accountants.

The current members of our audit committee are Messrs. Biddinger, Kapner and Maurer, with Mr. Biddinger serving as the committee s chair. Messrs. Biddinger, Kapner and Maurer are independent as defined under the NASDAQ listing standards, and Messrs. Biddinger and Maurer are independent as defined under Rule 10A-3(b)(1) of the Securities Exchange Act of 1934, as amended, or the Exchange Act. We are relying on the phase-in rules of the SEC with respect to the independence of our audit committee under Rule 10A-3(b)(1). These rules permit us to have an audit committee that has a majority of members that are independent within 90 days after the effectiveness of our Registration Statement on Form S-1 related to our initial public offering and all members that are independent within one year thereafter. The reliance on such phase-in rules will not materially adversely affect the ability of the audit committee to act independently or satisfy the other requirements of an audit committee member. Each member of the audit committee meets the requirements for financial literacy under the applicable rules and regulations of the SEC and the NASDAQ. Our board has determined that Mr. Biddinger is an audit committee financial expert, as that term is defined by the applicable rules of the SEC. Our audit committee operates under a written charter that satisfies the applicable standards of the SEC and the NASDAQ.

Compensation Committee

Our compensation committee charter provides that our compensation committee has responsibility for, among other things:

- reviewing key employee compensation policies, plans and programs;
- monitoring performance and compensation of our employee-directors, officers and other key personnel;

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preparing recommendations and periodic reports to the board of directors concerning these matters; and

reviewing and approving any incentive compensation and equity-based plans and the grants thereunder.

The members of our compensation committee are Messrs. Britto, Kapner and Lee, with Mr. Britto serving as the committee s chair. Messrs. Britto, Kapner and Lee are independent as defined under the NASDAQ listing standards. For further information about the compensation committee s process for determining executive compensation, including the role of the executive officers and the compensation committee s use of an independent consultant, see the section captioned Executive Compensation Compensation Discussion and Analysis below.

Nominating and Corporate Governance Committee

Our nominating and corporate governance committee charter provides that our nominating and corporate governance committee has responsibility for, among other things:

recommending persons to be selected by the board as nominees for election as directors and to fill any vacancies on the board;

considering and recommending to the board qualifications for the position of director and policies concerning the term of office of directors and the composition of the board; and

considering and recommending to the board other actions relating to corporate governance.

The members of our nominating and corporate governance committee are Messrs. Britto, Chuang and Krach, with Mr. Krach serving as the committee s chair. Messrs. Britto, Chuang and Krach are independent as defined under the NASDAQ listing standards.

Director Compensation

In August 2011, our board of directors approved the following annual compensation for our non-employee directors:

Position	Cash ($)	Equity Grants ($)
Board Chairman	20,000	
Board Member	30,000	50,000
Audit Committee Chair	10,000	
Compensation Committee Chair	7,000	
Nominating and Corporate Governance Committee Chair	5,000	
Audit Committee Member	5,000	
Compensation Committee Member	3,500	
Nominating and Corporate Governance Committee Member	2,500	

In addition, we reimburse our non-employee directors for their travel, lodging and other reasonable expenses incurred in attending meetings of the board of directors and committees of the board of directors.

At our 2012 annual stockholders meeting, all non-employee directors, other than Mr. Krach, will receive the full amount of cash compensation prorated for any partial year of service as set forth in the table above for services performed through such date. Going forward, these cash retainers will be paid quarterly. At our 2012 annual stockholders meeting, non-employee directors will receive the equity grant set forth in the table

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above in the form of stock options, which will vest quarterly and will be fully vested at the next annual stockholders meeting. However, Mr. Krach will not receive any cash or equity compensation as a non-employee director until our 2014 annual stockholders meeting.

In February 2012, in connection with his appointment to the board of directors, the board of directors approved a one-time grant of an option to purchase 1,471 shares of our common stock under our Amended and Restated Omnibus Incentive Plan at an exercise price of $15.47 per share to Mr. Maurer, which will be fully vested at our 2012 annual stockholders meeting.

2011 Director Compensation

The following table sets forth information concerning the compensation of the Company s non-employee directors during 2011. Our employee director, Mr. Oesterle, did not receive separate compensation for his services as a director.

Name	Fees Earned or Paid in Cash ($)(1)	Option Awards ($)(2)	Total ($)
John F. Ackerman(3)			
John W. Biddinger	54,643(4)	374,100(5)	428,743
Mark Britto	16,929	50,973(6)	67,902
John H. Chuang	13,929		
Steven M. Kapner	16,500		
Keith Krach		1,524,829(7)	1,524,829
Roger H. Lee	14,357		
Mathias Schilling(8)			

(1) Includes the portion of the cash compensation described above that was earned for services in 2011 although not paid until the date of the 2012 annual stockholders meeting.
(2) The amount reflects the aggregate grant date fair value of the option and stock awards granted during the year, computed in accordance with FASB ASC Topic 718. We provide information regarding the assumptions used to calculate the value of the option and stock awards in note 10 to our consolidated financial statements included elsewhere in this prospectus. There can be no assurance that awards will vest or will be exercised, or that the value upon exercise will approximate the aggregate grant date fair value.
(3) Mr. Ackerman resigned from our board of directors in August 2011.
(4) Mr. Biddinger received $37,500 in recognition of his extensive service as chairman of the audit and compensation committees in prior years.
(5) In August 2011, the board of directors approved the grant of an option to purchase 120,000 shares of common stock at an exercise price of $8.50 per share to Mr. Biddinger in recognition of his extensive service as chairman of the audit and compensation committees in prior years. The option vested as to 25% of the shares on the grant date and will vest as to 25% of the shares subject to the stock option on August 23rd of each of 2012, 2013 and 2014.
(6) In October 2011, in connection with his appointment to our board of directors, we granted an option to purchase 16,624 shares of common stock to Mr. Britto at an exercise price equal to the fair market value of our common stock of $9.49. This option will vest quarterly with full vesting at our 2012 annual stockholder meeting date.
(7) In April 2011, in connection with his appointment to our board of directors and election as chairman of the board, our compensation committee approved a one-time grant of an option to purchase 508,200 shares of common stock at an exercise price of $8.50 per share to Mr. Krach. This option vested as to 25% of the shares on the grant date and will vest as to 25% of the shares subject to the stock option on April 26th of each of 2012, 2013 and 2014. In light of this one-time grant, Mr. Krach agreed to forego the annual automatic equity grants and cash compensation to which he would otherwise be entitled as a director and as chairman of the board through the period in which his option vests.
(8) Mr. Schilling resigned from our board of directors in August 2011.

Compensation Committee Interlocks and Insider Participation

The members of our compensation committee are Messrs. Britto, Kapner and Lee. Prior to the appointment of Mr. Britto to the compensation committee in September 2011, Mr. Biddinger served on our

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compensation committee. In October and November 2011, Mr. Britto purchased shares of common stock from our Chief Executive Officer and us, respectively, as set forth under the sections captioned Certain Relationships and Related Party Transactions Secondary Transfer by Chief Executive Officer and Certain Relationships and Related Party Transactions Sales of Unregistered Securities Sale of Common Stock to Mark Britto. In April, September and October 2010, an affiliate of Mr. Lee purchased Class E units and Series C preferred stock from us as set forth under the section captioned Certain Relationships and Related Party Transactions Sales of Unregistered Securities. In December 2010 as well as April and June 2011, we repurchased shares of common stock, Series B preferred stock and Series C preferred stock from certain holders of such stock, including affiliates of Mr. Biddinger and Mr. Lee. Such transactions are described in further detail under the section captioned Certain Relationships and Related Party Transactions Repurchase of Common and Preferred Stock. None of our executive officers currently serves, or has served during the last completed year, as a member of the board or the compensation committee of any entity that has one or more executive officers serving as a member of our board or compensation committee.

Code of Business Conduct and Ethics

We have adopted a code of business conduct and ethics for directors, officers (including our Chief Executive Officer and Chief Financial Officer) and employees, known as the Code of Business Conduct and Ethics. The Code of Business Conduct and Ethics is available on our Investor Relations website at *investor.angieslist.com* in the Corporate Governance section. Stockholders may request a free copy of the Code of Business Conduct and Ethics by sending an email request to investor@angieslist.com. We expect that any amendments to the code, or any waivers of its requirements, will be disclosed on our website. The inclusion of our website address in this prospectus does not include or incorporate by reference the information on or accessible through our website into this prospectus.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

This section discusses the principles underlying our policies and decisions with respect to the compensation of our executive officers who are named in the 2011 Summary Compensation Table and the most important factors relevant to an analysis of these policies and decisions. These named executive officers for 2011 are William S. Oesterle, our Chief Executive Officer; Robert R. Millard, our Chief Financial Officer; Angela Hicks Bowman, our Chief Marketing Officer; Manu Thapar, our Chief Technology Officer; Michael Rutz, our Vice President of Sales; and Charles Hundt, our Controller who also served as our interim principal financial officer until May 2011.

Executive Compensation Overview

We recognize that the ability to excel depends on the integrity, knowledge, imagination, skill, diversity and teamwork of our employees. To this end, we strive to create an environment of mutual respect, encouragement and teamwork that rewards commitment and performance and that is responsive to the needs of our employees. The principles and objectives of our compensation and benefits programs for our employees generally, and for our named executive officers specifically, are to:

- attract, engage and retain individuals of superior ability, experience and managerial talent enabling us to be an employer of choice in the highly-competitive and dynamic Internet and technology industry;
- ensure compensation is closely aligned with our corporate strategies, business and financial objectives and the long-term interests of our stockholders;
- motivate and reward executives whose knowledge, skills and performance ensure our continued success;
- ensure that the elements of compensation, individually and in the aggregate, do not encourage excessive risk-taking; and
- ensure that total compensation is fair and reasonable.

Each of our compensation components fulfills one or more of these principles and objectives. As further described below, the primary components are (1) base salary, (2) performance bonuses and (3) equity incentives. We also offer limited other types of employee benefits as described below. We view each component of executive compensation as related but distinct, and we also review total compensation of our executive officers to ensure that our overall compensation objectives are met. We determine the appropriate level for each compensation component based in part, but not exclusively, on our understanding of the market for executive talent based on the experience of members of our compensation committee and consistent with our recruiting and retention goals, our view of internal equity and consistency, the length of service of our executives, our overall performance and other considerations we deem relevant.

While we were a private company, we preferred to focus our cash resources on growing the business and so a significant part of executive compensation was in equity. We believe that because the achievement of our business and financial objectives will be reflected in the value of our equity, our executive officers will be incentivized to achieve these objectives when a portion of their compensation is tied to the value of our equity. To this end, we use equity awards (in particular, stock options) as a significant component of compensation because we believe that this is an effective way to tie individual compensation to the creation of stockholder value. We believe stock-based compensation is a significant motivator in attracting employees for Internet-related and other technology companies.

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We have not adopted any formal policies for allocating compensation between long-term and short-term compensation, between cash and non-cash compensation or among different forms of non-cash compensation. Instead, our compensation programs are designed to be flexible and complementary and to collectively serve all of the executive compensation objectives described above.

Compensation Determination Process

In determining the appropriate level of total compensation for our named executive officers, the compensation committee reviews and considers our corporate performance along with the performance of each named executive officer. The compensation committee also evaluates comparative compensation data, which includes salary, equity and other compensation components from a peer group of companies. The Chief Executive Officer typically makes recommendations to the compensation committee regarding compensation for each named executive officer other than himself. The compensation committee reviews and discusses the information and determines the compensation for each named executive officer, including the Chief Executive Officer, as it deems appropriate.

We strive to achieve an appropriate mix between equity incentive awards and cash payments in order to meet our objectives. Any apportionment goal is not applied rigidly and does not control our compensation decisions, and our compensation committee does not have formal policies for allocating compensation between long-term and short-term compensation or cash and non-cash compensation. Our mix of compensation elements is designed to reward recent results and motivate long-term performance through a combination of cash and equity incentive awards. We believe the most important indicator of whether our compensation objectives are being met is our ability to motivate our named executive officers to deliver superior performance and retain them to continue their careers with us on a cost-effective basis.

In determining executive compensation for 2011, because we were taking steps towards becoming a public company, our compensation committee engaged Mercer Consulting to review publicly available compensation data aggregated for a peer group of companies and pre-initial public offering (pre-IPO) companies pay levels, using pre-IPO data for companies in the public peer group described below that recently completed initial public offerings and survey compensation data from the Dow Jones Competitive Pro Database and Mercer databases of private company data. This comparative data is valuable in that it provides insight into ranges and components of total compensation as well as confirms the reasonableness of our own compensation decisions. The peer group reviewed by the committee in its July 2010 compensation review consisted of technology companies with market capitalizations similar to ours and included:

Ancestry.com Inc.	Vocus, Inc.
Constant Contact, Inc.	LoopNet, Inc.
comScore, Inc.	OpenTable, Inc.
Dice Holdings Inc.	TheStreet.com, Inc.
The Knot, Inc.	Local.com Corporation
Internet Brands, Inc.	Archipelago Learning, Inc.
Travelzoo Inc.	Support.com, Inc.
LivePerson, Inc.	

As a public company, the Chief Executive Officer s compensation is determined by the compensation committee in executive session without the presence of the Chief Executive Officer. As a result of our compensation committee s assessment of the Chief Executive Officer s roles and responsibilities within our company, particularly as we began and completed our initial public offering process (which required significant public efforts and responsibilities for our Chief Executive Officer), there is a significant difference between his compensation levels and those of our other named executive officers.

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Base Salaries

In general, base salaries for our named executive officers are initially established through arm s-length negotiation at the time the executive is hired, taking into account such executive s qualifications, experience and prior salary. Our aim is to offer base salaries that are cost-effective while also remaining competitive for the retention and recruitment of talented executives. Adjustments to base salaries are based on the scope of a named executive officer s responsibilities, individual contribution, and sustained performance. Base salaries are also reviewed in the case of promotions or other significant changes in responsibility. No formulaic base salary increases are provided to our named executive officers. This strategy is consistent with our intent of offering base salaries that are cost-effective while remaining competitive.

In approving salaries for 2011, we tried to make salary levels more equal among executive officers, except that our Chief Executive Officer has the highest salary because of his role as head of our company with the highest level of responsibilities. Prior to those actions, we had not made material changes to base salaries in the last several years, which was consistent with our desire to focus cash resources on growing the business.

As part of the compensation committee s comprehensive review of executive compensation levels during July 2010 as described above, we found that our base salaries generally fell significantly below the median in both the pre-IPO and public companies studies described above. Therefore, we made adjustments to base salaries effective January 2011 to bring our executive officers closer to the 75th percentile of pre-IPO companies and closer to the median of public companies. These significant increases were in recognition of both the growth of our company over the last few years and the efforts that would be required of all our executive officers as we began to move toward becoming a public company. In August 2011, we further increased base salaries for our Chief Executive Officer and Chief Marketing Officer to be at the public company peer group median because we were moving closer to becoming a public company and the base salaries for those two positions were below the public company median.

The actual base salaries paid to all of our named executive officers during fiscal 2011 are set forth in the 2011 Summary Compensation Table.

2011 Cash Bonuses

For 2011, our cash bonus program for named executive officers was intended to align their cash compensation opportunities with our corporate goals. The compensation committee approved payout of bonuses on a semi-annual, rather than quarterly basis as in fiscal 2010, although the compensation committee reviewed our performance results quarterly. The compensation committee expects to move to an annual payout for 2012. The purpose of this change is to encourage longer-term business results during the year by paying bonuses to our executive officers less frequently. The exception was for Mr. Rutz who, because he is in sales, is paid on a quarterly basis consistent with our sales commission plans. The actual cash bonuses paid to our named executive officers for fiscal 2011 performance are set forth in the 2011 Summary Compensation Table.

Chief Executive Officer Bonus. Our Chief Executive Officer had an annual target bonus payout of $174,000 for the first half of the year and annual target payout of $287,000 for the second half of the year (for a total of $230,500 for the year). His target amount was determined by increasing the prior year s target in order to place more weight on achievement of goals as we took steps towards becoming a public company. The compensation committee determined his actual bonus by considering a combination of results for our performance metrics listed below, our Chief Executive Officer s assessment of the business successes and areas for improvement, and the compensation committee s own subjective assessment of both the financial metrics and other factors considered important. In considering our performance metrics, the compensation committee gave equal weighting to each of the following metrics (which were also used for a portion of the other named executive officers bonuses as described below):

Number of new paid memberships;

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- Average marketing cost per paid membership acquisition (or average CPA);
- Total revenue;
- Free cash flow (comprised of cash flow after operating and investing activities but before marketing expense); and
- Goals related to member retention, renewals, revenues and servicing costs.

Following the completion of fiscal 2011, the compensation committee determined that we met or exceeded most of these goals. In particular:

- our achievement of 1,074,757 new paid memberships exceeded our goal of 960,223;
- our average CPA of $78.00 was better than our goal of $81.00;
- our $90.0 million in revenue was approximately 99% of our goal of $91.3 million;
- our member-related goals were successful; and
- our free cash flow before advertising of $23.6 million was less than our target of $32.0 million.

On a purely formulaic basis, the weighted result would have exceeded 100% achievement for both the first half and second half of the year. The compensation committee also took into account strategic business decisions such as the success of completing our initial public offering in 2011 (the IPO). As a result, the compensation committee determined that our corporate performance metrics should result in 100% achievement, and Mr. Oesterle received 100% of his target bonus for both the first half and the second half of fiscal 2011.

Other named executive officers bonuses. Each other named executive officer (except for Mr. Thapar which is explained below) received bonus amounts with a portion (50% for the second half of the year) of their bonus tied to the corporate performance metrics (which, as described above, were deemed achieved at the 100% level) and the remainder dependent on the achievement of the following specific performance objectives:

- Mr. Millard received a discretionary bonus of $25,000 for the first half of the year for his work related to the IPO and received a $75,000 bonus (100% of his target) for the second half of the year, with 25% of his bonus based on his successful achievement of refinancing the credit facility, 25% based on the IPO process and 50% on the corporate performance metrics.
- Angela Hicks Bowman received a $55,351 bonus for the second half of the year (104% of her target), with 12.5% of her bonus based on her 112% achievement of our new paid membership goal, 12.5% based on achieving 103.8% of her goal regarding average CPA (each based on the targets and results described above), 12.5% based on her 111% achievement of our membership revenue goal, 12.5% based on her 101% attainment of our membership cash goals which are confidential but were higher than the prior year s results and 50% based on the corporate performance metrics described above. For the first half of the year, Ms. Hicks Bowman received a $79,830 bonus (106% of her target). In calculating her bonus for the first half of the year, the corporate performance metrics accounted for 20% of her bonus in which she achieved 100%, along with 20% of her bonus based on her 113% achievement of our new paid memberships goal, 20% based on achieving 120% of our goal regarding average CPA (each based on the targets and results described above), 20% based on her 101% achievement of our membership revenue goal

and 20% based on her 99% attainment of membership cash goals which are confidential but were higher than the prior year s results.

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Manu Thapar received a $160,000 bonus per his offer letter, which provided him 100% payment of his annual bonus. This amount was guaranteed because of a combination of him starting mid-year after corporate objectives had been set and as an incentive to him agreeing to accept employment with us.

Michael Rutz was paid on a quarterly basis. Overall for the year, he received $124,374 bonus payment for the fiscal year based on number of service providers, advertising revenue, advertising cash and new advertising sales. Because we performed well in these areas, he received 101% of his target.

Mr. Hundt received a bonus of $62,500 because, although he was not an executive officer at year-end, his efforts as principal financial officer prior to Mr. Millard s arrival, as well as his efforts in our initial public offering process, were recognized.

CEO s long-term bonus. Mr. Oesterle had a long-term bonus program for 2011 that the compensation committee could pay in equity awards following the end of the year, subject to the compensation committee s review of performance. In reviewing his performance following the end of 2011, the compensation committee assessed the achievement of the financial goals set forth in the information regarding the fiscal results above and considered his success in leading us through our IPO and the improvements shown in our fiscal results. After taking all of these considerations into account, the compensation committee determined that a 100% payout ($278,450 value) was appropriate and therefore, in February 2012, approved a grant of options in the amount of 33,999 shares with a per share price of $15.47, vesting over four years. This award of $278,450 is reflected in the Summary Compensation Table for 2011 below because it was based on 2011 performance.

Long-Term Equity Incentives

The primary goal of our long-term, equity-based incentive awards is to align the interests of our named executive officers with the interests of our stockholders. Because vesting is based on continued employment, our equity-based incentives also encourage the retention of our named executive officers through the vesting period of the awards. We have granted equity awards to executive officers and other key personnel to incentivize them to increase the value of our stock and thereby align their interests with those of our stockholders. We have granted both stock options, which permit the employee to exercise the option at a fixed price (the fair market value of the stock on the grant date) in the future, and, in limited circumstances, restricted stock awards, which do not have an exercise price.

The compensation committee or board of directors determines the size and type of equity awards, taking into account the recommendations of our Chief Executive Officer (for executive officers other than himself), and also determines the vesting schedule of equity awards. To date, the amount of our equity grants has not been based on a specific formula or targeted a specific percentile within a peer group, but rather was based on a combination of the compensation committee s subjective judgment about the appropriate level of compensation for the executive given both individual responsibilities and length of service, dilution considerations and the negotiation process with the individual. During 2011, the following determinations were made in granting stock options to our named executive officers:

For Messrs. Millard and Thapar, both new hires, the main determination for the amount of options was a negotiation with the individual for the amount of shares to incentivize the individual to accept employment with the Company.

For Messrs. Rutz and Hundt, the number of shares provided to each was based on a subjective view as to the appropriate number to provide incentives for long-term performance and their role in the IPO process, as well as offering the opportunity for them to be rewarded based on their strong historical work performance.

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Mr. Oesterle and Ms. Hicks Bowman did not receive new equity grants in 2011 because the compensation committee felt that their existing equity holdings offered sufficient retentive and incentive value at that time.

For 2011, we used stock options as the primary incentive vehicles for long-term compensation. We believe that stock options are an effective tool for meeting our compensation goal of increasing long-term stockholder value by tying the value of the stock options to our future performance. Because named executive officers are able to profit from stock options only if our stock price increases relative to the stock option s exercise price, we believe stock options provide meaningful incentives to named executive officers to achieve increases in the value of our stock over time.

Typically, we grant stock options that vest over four years, which we believe offers long-term retentive value, except that periodically our compensation committee may grant equity awards with different vesting schedules.

Special Long-Term Bonus. In 2011, the compensation committee approved a long-term bonus for Mr. Thapar, to be paid in four equal annual installments of $116,643.50 each, starting on October 31, 2012, if he remains employed with us on each payment date. The reason for this long-term bonus opportunity was because when he commenced employment with us, the exercise price of his stock option was higher than expected at the time he agreed to join us and significantly higher than the prices for other executive officers. Taking the potential value of his new hire equity grant into account, the committee felt it was appropriate to offer him a long-term cash bonus to encourage his retention over a number of years and believed that the amount proposed was reasonable given his level of authority and expertise.

Stock Ownership Guidelines

The board of directors believes that our directors and executive officers should own and hold our common stock to further align their interests with the interests of our stockholders and to further promote our commitment to sound corporate governance. Therefore, in August 2011, the board of directors adopted the following minimum stock ownership guidelines applicable for our executive officers and non-employee directors:

Executive Officer Guidelines. Each of our executive officers is expected to accumulate the equivalent of Angie s List common stock equal to 3 times (or 5 times, in the case of our CEO) his or her annual base salary, within five years from the adoption of these guidelines or from date that the executive officer assumes their position, whichever is later.

Director Guidelines. Directors of Angie s List are expected to accumulate 15,000 shares of Angie s List common stock within five years of the adoption of these guidelines or within three years of first appointment to the board of directors.

Retirement and other benefits

Our named executive officers are eligible to participate in our employee benefit plans provided for other personnel. These benefits include a 401(k) plan, group health insurance, and short- and long -term disability insurance. Currently, we contribute up to 3% of total salary (which includes base salary, bonuses, and commissions, where applicable) to the 401(k) to all eligible employees.

Some of our named executive officers have agreements that would provide severance benefits on specified involuntary terminations of employment. The terms and estimated amounts of these benefits are described below under Potential Payments upon Termination and Change in Control. Most of these arrangements were negotiated when the applicable named executive officer was hired and had terms that we believed were reasonably necessary to hire and retain these individuals in our market for executive talent. We have granted equity awards to our named executive officers that provide for accelerated vesting of equity upon a

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future change in control, as further described under Potential Payments upon Termination and Change in Control. We believe these provisions are reasonable because the possibility of a change in control could cause uncertainty among executive officers and concern over potential loss of equity awards (which has been a significant component of their potential compensation) and, therefore, could result in their departure or distraction to the detriment of our company and our stockholders.

Tax Considerations

We do not require executive compensation to be tax deductible for our company, but instead balance the cost and benefits of tax deductibility to comply with our executive compensation goals. Section 162(m) disallows a tax deduction for any publicly held corporation for individual compensation exceeding $1.0 million in any taxable year for our Chief Executive Officer and each of the other named executive officers (other than our Chief Financial Officer), unless compensation is performance-based. In approving the amount and form of compensation for our executive officers in the future, our compensation committee expects to consider all elements of the cost to our company of providing such compensation, and so it may consider the potential impact of Section 162(m). However, our compensation committee may, in its judgment, authorize compensation payments that are not exempt from Section 162(m) when it believes that such payments are appropriate to attract and retain executive talent.

2011 Summary Compensation Table

The following table sets forth information concerning the compensation of William S. Oesterle, our Chief Executive Officer, Robert Millard, our Chief Financial Officer, Charles Hundt, our Controller who also served as our interim principal financial and accounting officer from May 2010 until May 2011, and the three other most highly compensated executive officers for 2011. We refer to these officers in this proxy statement as our named executive officers.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)(1)	Option Awards ($)(1)	Non-Equity Incentive Plan Compensation ($)(2)	All Other Compensation ($)	Total ($)
William S. Oesterle, Chief Executive Officer and Director	2011	355,692				508,950	20,609(4)	885,251
	2010	254,995		1,440,847(3)		301,875	19,711(4)	2,017,428
Robert R. Millard, Chief Financial Officer	2011	179,808(9)	62,500		1,818,721	37,500	7,549(5)	2,106,078
Charles Hundt, Controller and Former Interim Principal Financial and Accounting Officer	2011	140,962	62,500		694,250		6,104(6)	903,816
	2010	117,619	33,250		45,375		4,732(6)	200,976
Manu Thapar, Chief Technology Officer	2011	63,462(10)	160,000		2,443,312			2,666,774
Michael Rutz, Vice President of Sales	2011	135,962	24,167		555,400	100,207	7,128(7)	822,964
	2010	126,875	50,000		45,375		6,019(7)	228,269
Angela R. Hicks Bowman, Chief Marketing Officer	2011	217,692				135,181	19,266(8)	372,139
	2010	148,550	194,659	2,969,355	848,698		19,344(8)	4,180,606

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(1) The amount reflects the aggregate grant date fair value of the option and stock awards granted during the year, computed in accordance with FASB ASC Topic 718. We provide information regarding the assumptions used to calculate the value of the option and stock awards in note 10 to our consolidated financial statements included elsewhere in this prospectus. There can be no assurance that awards will vest or will be exercised, or that the value upon exercise will approximate the aggregate grant date fair value.
(2) Reflects the amount paid under our cash incentive program for the year based upon satisfaction of the performance criteria described under Compensation Discussion and Analysis 2011 Cash Bonuses. For Mr. Oesterle, includes $278,450 and $180,000 for 2011 and 2010, respectively, representing the amount awarded under his long-term bonus program described under Compensation Discussion and Analysis 2011 Cash Bonuses CEO s long-term bonus, which amount was determined based on performance, but that the compensation committee decided to award in the form of stock options. Related to the 2010 long-term bonus the compensation committee awarded 79,288 shares granted in February 2011 at an exercise price of $7.63 per share that vests in equal annual installments over the four years following the grant date. Related to the 2011 long-term bonus the compensation committee awarded 33,999 shares granted on February 23, 2012 at an exercise price of $15.47 per share that vests in equal annual installments over the four years following the grant date.
(3) In 2010 additional stock awards of an aggregate of 7,568 units with a grant date fair value of $266,702 were granted in January and March 2010, but were cancelled in April 2010 as a result of our conversion to a Delaware corporation. The stock award in December 2010 was partially a subsequent acknowledgement of these cancelled awards. The number of units of our predecessor have not been adjusted for our eight-for-one stock split effected in October 2011.
(4) Represents (i) $7,350 401(k) matching contributions in 2011 and 2010, (ii) $13,259 and $12,161 for 2011 and 2010, respectively, for medical, dental and vision insurance premiums paid by us and (iii) $200 fringe compensation in 2010.
(5) Represents (i) $7,549 for medical, dental and vision insurance premiums paid by us.
(6) Represents (i) $6,104 and $4,532 of 401(k) matching contributions in 2011 and 2010, respectively, and (ii) $200 fringe compensation in 2010.
(7) Represents (i) $7,128 and $5,219 of 401(k) matching contributions in 2011 and 2010, respectively, and (ii) $200 fringe compensation in 2010.
(8) Represents (i) $7,350 401(k) matching contributions in 2011 and 2010, (ii) $11,816 and $11,894 for 2011 and 2010, respectively, for medical, dental and vision insurance premiums paid by us and (iii) $100 fringe compensation in 2010.
(9) Reflects the portion of salary paid since Mr. Millard was hired by us on May 2, 2011.
(10) Reflects the portion of salary paid since Mr. Thapar was hired by us on October 10, 2011.

Grants of Plan-Based Awards

The following table sets forth information concerning grants of plan-based awards made to our named executive officers during 2011.

Name	Grant Date	Board or Committee Approval Date (if different)	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(1) Target ($)	All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)	Fair Market Value of Stock on Date of Option Grant ($/Sh)	Grant Date Fair Value of Stock and Option Awards ($)(2)
William S. Oesterle	N/A		230,500					
	N/A		278,450(3)					
Robert R. Millard	5/19/2011	4/26/11	37,500		508,200	8.50	8.50	1,818,721
Charles Hundt	8/11/2011		N/A		200,000	8.50	8.50	694,250
Manu Thapar	10/18/2011	9/27/11	N/A		472,480	9.4875	9.4875	2,443,312
Michael Rutz	8/11/2011		99,000		160,000	8.50	8.50	555,400
Angela R. Hicks Bowman			128,500				N/A	

(1) We do not provide for thresholds or maximums as part of our non-equity incentive plan. Our non-equity incentive plan is described above in Compensation Discussion and Analysis 2011 Cash Bonuses.

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(2) The amount reflects the grant date fair value of the stock and option awards granted during the year, computed in accordance with FASB ASC Topic 718. We provide information regarding the assumptions used to calculate the value of the option awards in note 10 to our consolidated financial statements included elsewhere in this prospectus. Except as noted below, all grants were made under our Amended and Restated Omnibus Incentive Plan.

(3) Represents the target amount under Mr. Oesterle s long-term bonus program for 2011 described under Compensation Discussion and Analysis 2011 Cash Bonuses CEO s long-term bonus . The actual amount ($278,450) was determined based on 2011 performance, but the compensation committee decided to award this bonus in the form of a stock option for 33,999 shares granted in February 2012 at an exercise price of $15.74 per share that vests in equal annual installments over the four years following the grant date. This excludes the grant made in 2011 related to Mr. Oesterle s long-term bonus program for 2010 as described in footnote 2 to the Summary Compensation Table above.

Outstanding Equity Awards at Year End

The following table summarizes the number of shares of our common stock underlying outstanding equity incentive plan awards for each named executive officer as of December 31, 2011. Other than the equity awards listed below, there were no unvested or unearned equity awards held by our named executive officers as of December 31, 2011.

	Option Awards			
Name	**Numbers of Securities Underlying Unexercised Options (#) Exercisable**	**Numbers of Securities Underlying Unexercised Options (#) Unexercisable**	**Option Exercise Price ($)**	**Option Expiration Date**
William S. Oesterle		79,288(1)	7.6275	2/11/2021
Robert R. Millard		508,200(2)	8.50	5/19/2021
Charles Hundt		200,000(3)	8.50	8/11/2021
	6,600(4)	13,400(4)	7.6275	10/4/2020
Manu Thapar		472,480(5)	9.4875	10/18/2021
Michael Rutz		160,000(6)	8.50	8/11/2021
	6,600(7)	13,400(7)	7.6275	10/4/2020
Angela R. Hicks Bowman				

(1) A grant of a stock option to purchase 79,288 shares of our common stock was granted to Mr. Oesterle on February 11, 2011. This option will vest as to 25% of the shares subject to the stock option on each of the first, second, third and fourth anniversaries of the grant date.

(2) A grant of a stock option to purchase 508,200 shares of our common stock was granted to Mr. Millard on May 19, 2011. This option will vest as to 25% of the shares subject to the stock option on each of the first, second, third and fourth anniversaries of the grant date.

(3) A grant of a stock option to purchase 200,000 shares of our common stock was granted to Mr. Hundt on August 11, 2011. This option will vest as to 25% of the shares subject to the stock option on each of the first, second, third and fourth anniversaries of the grant date.

(4) A grant of a stock option to purchase 20,000 shares of our common stock was granted to Mr. Hundt on October 4, 2010. This option will vest as to 33% of the shares subject to the stock option on the first and second anniversaries of the grant date and 34% on the third anniversary of the grant date.

(5) A grant of a stock option to purchase 472,480 shares of our common stock was granted to Mr. Thapar on October 18, 2011. This option will vest as to 25% of the shares subject to the stock option on each of the first, second, third and fourth anniversaries of the grant date.

(6) A grant of a stock option to purchase 160,000 shares of our common stock was granted to Mr. Rutz on August 11, 2011. This option will vest as to 25% of the shares subject to the stock option on each of the first, second, third and fourth anniversaries of the grant date.

(7) A grant of a stock option to purchase 20,000 shares of our common stock was granted to Mr. Rutz on October 4, 2010. This option will vest as to 33% of the shares subject to the stock option on the first and second anniversaries of the grant date and 34% on the third anniversary of the grant date.

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Option Exercises and Stock Vested

The following table summarizes stock option exercises by and vesting of stock applicable to our named executive officers during 2011. None of our named executive officers exercised stock options in 2011.

	Stock Awards	
Name	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)(1)
William S. Oesterle	22,176	288,288
Robert R. Millard		
Charles Hundt		
Manu Thapar		
Michael Rutz		
Angela R. Hicks Bowman		

(1) The value realized on vesting of the stock represents the fair market value of our common stock at our initial public offering on November 17, 2011.

Pension Benefits

We do not maintain any defined benefit pension plans.

Nonqualified Deferred Compensation

We do not maintain any nonqualified deferred compensation plans.

Potential Payments on Termination and Change in Control

We have entered into agreements with several of our named executive officers that may provide for benefits under the circumstances described below if the officer s employment is terminated or we experience a change in control (such as a change in the beneficial ownership of our company by more than 50% or a sale of substantially all of our assets).

Severance

Under the terms of his September 2011 offer letter, if, Mr. Thapar is terminated without cause, he will be entitled to a severance payment equal to 12 months of his base salary and his targeted bonus for the year of termination. If, in connection with a change in control, Mr. Thapar is terminated, the scope of his responsibilities or duties is reduced or diminished in any material respect or his compensation is reduced by the Company, he is entitled to receive an amount equal to two years of his then base salary.

Under the terms of his April 2011 offer letter, if, in connection with a change in control, Mr. Millard is terminated, the scope of his responsibilities or duties is reduced or diminished in any material respect or his compensation is reduced by us, he is entitled to receive an amount equal to two years of his then base salary.

Change in Control Equity Acceleration

The terms of our Incentive Stock Option and Non-Qualified Stock Option Agreements with our named executive officers provide that should we undergo a change in control, all unvested options would be automatically accelerated and become fully exercisable. Such options will terminate if not exercised prior to the closing of the transaction causing the change in control.

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The table below provides an estimate of the value of the compensation due to each of our named executive officers in the events described below, assuming that the change in control was effective on December 31, 2011, under the agreements described above. The actual amounts to be paid can only be determined at the time of the termination of employment or change in control, as applicable.

	Involuntary Termination	Change in Control Followed by Involuntary Termination		
Name	**Cash($)**	**Cash($)**	**Equity($)[1]**	**Total($)**
William S. Oesterle			671,768	671,768
Robert R. Millard		550,000	3,862,320	4,412,320
Charles Hundt			1,689,450	1,689,450
Manu Thapar	460,000	600,000	3,124,274	3,724,274
Michael Rutz			1,385,450	1,385,450
Angela R. Hicks Bowman				

(1) The value of accelerated vesting of stock options and stock awards is based on the difference between the market price at December 31, 2011 of $16.10 per share and the per share exercise price.

Risk Assessment of Compensation Programs

Our compensation committee has considered an assessment of compensation-related risks for all of our personnel. Based on this assessment, the compensation committee concluded that our compensation programs do not create risks that are reasonably likely to have a material adverse effect on the company. In making this evaluation, the committee considered the key design elements of our compensation programs. For example, the committee retains discretion to determine final executive cash bonus awards rather than being required to pay large awards based on any one factor. The committee also believes that the equity ownership of executive officers encourages a long-term commitment and focus on sustainable performance rather than short-term risk-taking.

Employee Benefit Plan

Amended and Restated Omnibus Incentive Plan

Our Amended and Restated Omnibus Incentive Plan, referred to as the 2010 Plan, was originally adopted in April 2010. The 2010 Plan was most recently amended and restated by our board of directors and approved by our stockholders in August 2011.

Authorized shares. On August 11, 2011, our board of directors approved an increase in the shares issuable under the 2010 Plan to 5,090,496 shares and also allowed for the number of shares that have been authorized for issuance under the 2010 Plan to be automatically increased on the first day of each year through 2021, in an amount equal to the least of (i) 5% of the outstanding shares on the last day of the immediately preceding year, (ii) 5,090,496 shares or (iii) such lesser number of shares determined by our board of directors.

Stock options. Incentive and/or nonstatutory stock options may be granted under our 2010 Plan. In general, the term of an option may not exceed 10 years. With respect to stock options granted under the 2010 Plan, the exercise price may not be less than 100% of the fair market value of our common stock on the date of grant. In addition, no incentive stock option may be granted to any employee who at the time of grant owns or is deemed to own more than 10% of our total combined voting power unless the exercise price is at least 110% of the fair market value of our common stock on the date of grant and the incentive stock option is not exercisable after five years from the date of grant. Except as otherwise provided, stock options are exercisable at such time or times and subject to such terms and conditions as shall be determined by the administrator and may be exercised, in whole or in part, at any time after they become exercisable. After the termination of service of an employee, director or consultant, the participant may exercise his or her stock option, to the extent vested as of such date of

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termination, for a period of three months after the termination date, except that the award is forfeited immediately on a termination for cause. If termination is due to death or disability, the participant or his or her estate may exercise his or her stock option, to the extent vested as of such date of termination, for a period of one year after the termination date.

Stock appreciation rights. Stock appreciation rights may be granted under our 2010 Plan. Stock appreciation rights allow the recipient, upon exercise, to receive the appreciation in the fair market value of our common stock between the exercise date and the date of grant. Stock appreciation rights may only be exercised when the fair market value of the shares exceeds the fair market value of the shares covered by the stock appreciation right on the date of grant. Subject to the provisions of our 2010 Plan, the administrator determines the terms of stock appreciation rights, including when such rights vest and become exercisable and whether to settle such awards in cash or with shares of our common stock, or a combination thereof. Other specific terms will be set forth in an award agreement. After the termination of service of an employee, director or consultant, the participant may exercise his or her stock appreciation right, to the extent vested as of such date of termination for a period of three months after the termination date, except that the award is forfeited immediately on a termination for cause. If termination is due to death or disability, the participant or his or her estate may exercise his or her stock appreciation right, to the extent vested as of such date of termination, for a period of one year after the termination date.

Restricted stock. Restricted stock may be granted under our 2010 Plan. Restricted stock awards are grants of shares of our common stock that are subject to various restrictions, including restrictions on transferability and forfeiture provisions. Shares of restricted stock will vest and the restrictions on such shares will lapse, in accordance with terms and conditions established by the administrator. The administrator, in its sole discretion, may accelerate or waive any or all restrictions. Recipients of restricted stock awards generally will have all the rights of our stockholders, including voting and dividend rights, with respect to such shares. Other specific terms will be set forth in an award agreement.

Performance awards. Performance awards may be granted under our 2010 Plan. Performance awards are awards that will result in a payment to a participant only if performance goals established by the administrator are achieved or the awards otherwise vest. The administrator will establish performance goals in its discretion, the duration of the award cycle, the number of performance awards to be paid out to participants and any other terms and conditions of the performance award. The administrator may condition vesting or settlement upon the continued service of the participant or upon any other term or condition. After the grant of a performance award, the administrator, in its sole discretion, may accelerate or waive any limitations with respect to such performance awards. At the expiration of the award cycle, the administrator shall evaluate the participant s continued service, performance in light of the performance goals and any other terms and conditions and determine the performance awards granted to the participant which have vested and been earned.

Restricted stock units. Restricted stock units may be granted under our 2010 Plan. The administrator determines the terms and conditions of restricted stock units including the number of shares to be awarded, the conditions for vesting or lapsing of restrictions and the time or times within which such awards may be subject to forfeiture. The administrator may, prior to grant, condition the vesting of or the lapsing of restrictions upon the attainment of performance goals, the continued service of the participant or upon any other term or condition. The administrator, in its sole discretion, may accelerate or waive any or all restrictions with respect to such restricted stock unit. The administrator determines in its sole discretion whether an award will be settled in stock, cash or a combination of both.

Share repurchase rights upon termination of service. Upon termination of employment without cause or as a result of death or disability, we have the right for a period of one year after the termination date of the stock option or stock appreciation right to purchase all or a portion of the award that is vested (or otherwise exercised or for which restrictions have lapsed) and any other of our equity interests, shares or other performance units or interests that are held by the participant for an amount equal to the fair market value of such securities

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determined as of the termination date. Upon voluntary resignation, we have the same right to repurchase described above for an amount equal to eighty percent (80%) of the fair market value of such securities determined as of the termination date.

Adjustments; corporate transactions. In the event of certain changes in our corporate structure, including a stock split, spin-off, merger, recapitalization or merger, the administrator will make appropriate adjustments to outstanding awards to prevent diminution or enlargement of the benefits or potential benefits available under the 2010 Plan. In the event of certain corporate transactions specified in the plan, including a merger, consolidation, sale of all or substantially all of our assets or a change of control, as defined in the plan, each outstanding award will terminate, subject to any provision that has been made by us through a plan of reorganization or otherwise for the substitution, assumption, settlement or other continuation of the awards.

Amendment or termination. According to its terms, our board of directors has the authority to amend or terminate the 2010 Plan at any time, provided that such amendment does not materially impair the rights under outstanding awards without the award holder s consent. No amendment can be effective prior to its approval by our stockholders, to the extent that such approval is required by applicable laws and regulations.

401(k) Plan

We have established a tax-qualified Section 401(k) retirement savings plan for all personnel who satisfy certain eligibility requirements. Under this plan, participants may elect to make pre-tax contributions to the plan of up to a certain portion of their current compensation, not to exceed the applicable statutory income tax limitation. We intend for the plan to qualify under Section 401(a) of the Internal Revenue Code, such that contributions to the plan, and income earned on those contributions, are not taxable to participants until withdrawn from the plan.

Indemnification of Directors and Executive Officers and Limitations on Liability

Our amended and restated certificate of incorporation limits the personal liability of our directors for monetary damages to the fullest extent permitted by Delaware law. Consequently, our directors will not be personally liable to us or our stockholders for monetary damages for any breach of fiduciary duties as directors, except liability for:

- any breach of the director s duty of loyalty to us or to our stockholders;
- acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law;
- unlawful payment of dividends or unlawful stock repurchases or redemptions; and
- any transaction from which the director derived an improper personal benefit.

Our amended and restated certificate of incorporation provides that we must indemnify our directors and officers to the fullest extent permitted by Delaware law. Our amended and restated certificate of incorporation permits us to secure insurance on behalf of any officer, director, employee or other agent for liability arising out of his or her actions in that capacity, regardless of whether we would otherwise be permitted to indemnify him or her under the provisions of Delaware law. In addition, we have entered into agreements to indemnify our directors and executive officers, and other personnel as determined by our board of directors, against expenses and liabilities to the fullest extent permitted by Delaware law. These agreements also provide, subject to certain exceptions, for indemnification for related expenses including, among others, attorneys fees, judgments, fines and settlement amounts incurred by any of these individuals in any action or proceeding. We believe that these provisions of our amended and restated certificate of incorporation and indemnification agreements are necessary to attract and retain qualified persons as directors and officers. We also maintain directors and officers liability insurance.

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The limitation of liability and indemnification provisions in our amended and restated certificate of incorporation may discourage stockholders from bringing a lawsuit against our directors for breach of their duty of care. They may also reduce the likelihood of derivative litigation against our directors and officers, even though an action, if successful, might benefit us and other stockholders. Further, a stockholder s investment may be adversely affected to the extent that we pay the costs of settlement and damage awards against directors and officers. At present, there is no pending litigation or proceeding involving any of our directors, officers or personnel for which indemnification is sought, and we are not aware of any threatened litigation that may result in claims for indemnification.

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CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

In addition to the compensation arrangements with directors and executive officers described above in the section entitled Management, the following is a description of each transaction since January 1, 2009 and each currently proposed transaction in which (i) we have been or are to be a participant, (ii) the amount involved exceeded or will exceed $120,000 and (iii) any of our directors, executive officers, holders of more than 5% of our capital stock, or any member of their immediate families or person sharing their household had or will have a direct or indirect material interest. For purposes of this section, numbers of shares of our common stock have been adjusted for our eight-for-one stock split effected in October 2011; however, numbers of shares of our preferred stock and units of our predecessor limited liability company have not been so adjusted.

Sales of Unregistered Securities

In April 2010, we issued 27,690,024 shares of common stock, 1,695,699 shares of preferred stock and warrants to purchase up to an aggregate of 272,304 shares of common stock to members and warrant holders of Brownstone Publishing, LLC, a Delaware limited liability company and our sole stockholder, in connection with our conversion to a Delaware corporation. In addition, in connection with our conversion, entities affiliated with BV Capital exchanged their interests in AL BV Investment, Inc., which held shares of Brownstone Publishing, LLC, for 4,110,656 shares of common stock and 204,136 shares of Series A preferred stock, and AL BV Investment, Inc. became our wholly-owned subsidiary. The following sets forth information regarding securities sold by Brownstone Publishing, LLC since January 1, 2008 through the date of such conversion and all securities sold by us since such conversion that involved any of our directors, executive officers, holders of more than 5% of our capital stock, or any member of their immediate families or person sharing their household that had or will have a direct or indirect material interest. For purposes of the discussion below, we refers to both us and Brownstone Publishing, LLC.

Sales of Preferred Stock

In April, September and October 2010, we issued and sold 370,786 shares of Series C preferred stock at a purchase price of $67.42 per share for aggregate consideration of approximately $25.0 million. In March and May 2011, we issued and sold an aggregate of 848,210 shares of Series D preferred stock at a purchase price of $70.74 per share for aggregate consideration of approximately $60.0 million. Each of these transactions involved both new and pre-existing investors. We believe that the terms obtained and consideration received in connection with each of the Series C and Series D financings are comparable to terms available and the amounts we would have received in arm s-length transactions.

The following table summarizes the shares of preferred stock purchased by our executive officers, directors and holders of more than 5% of our capital stock in connection with each of the Series C and Series D financings. The terms of these purchases were the same as those made available to unaffiliated purchasers.

Purchasers	Series C Preferred Stock	Series D Preferred Stock
Battery Ventures VIII, L.P.(1)	29,663	
T. Rowe Price Associates, Inc.(2)	200,224	401,490

(1) Roger H. Lee, an affiliate of Battery Ventures VIII, L.P., is one of our directors.

(2) Consists of (a) 185,013 shares of Series D preferred stock and 188,700 shares of Series C preferred stock purchased by T. Rowe Price New Horizons Fund, Inc., (b) 12,100 shares of Series D preferred stock and 11,124 shares of Series C preferred stock purchased by T. Rowe Price New Horizons Trust, (c) 493 shares of Series D preferred stock and 400 shares of Series C preferred stock purchased by T. Rowe Price U.S. Equities Trust, (d) 37,393 shares of Series D preferred stock purchased by T. Rowe Price Global Technology Fund, Inc., (e) 135,483 shares of Series D preferred stock purchased by T. Rowe Price Science & Technology Fund, Inc., (f) 9,277 shares of Series D preferred stock purchased by TD Mutual Funds TD Science and Technology Fund, (g) 11,979 shares of Series D preferred stock purchased by VALIC Company I Science and Technology Fund and (h) 9,752 shares of Series D preferred stock purchased by John Hancock Variable Insurance Trust Science and Technology Trust (formerly known as John Hancock Trust Science and Technology Trust).

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Each share of our preferred stock converted into eight shares of our common stock upon the closing of our initial public offering. The purchasers of shares of our preferred stock are entitled to certain registration rights with respect to the common stock issued upon conversion of their preferred stock. See Description of Capital Stock Registration Rights.

Sale of Common Stock to Mark Britto

In November 2011, one of our directors, Mark Britto, purchased 19,230 shares of our common stock from us, concurrent with the consummation of our initial public offering, at the initial public offering price of $13.00 per share.

Investor Rights Agreement

We are party to an amended and restated investor rights agreement which provides that certain of our investors, including entities with which certain of our directors are affiliated, are entitled to registration rights with respect to the common stock issued or issuable upon conversion of our preferred stock. For a description of these registration rights, see Description of Capital Stock Registration Rights.

Indemnification Agreements

We have entered, or will enter, into an indemnification agreement with each of our directors and executive officers. The indemnification agreements and our amended and restated certificate of incorporation require us to indemnify our directors and executive officers to the fullest extent permitted by Delaware law. See Executive Compensation Indemnification of Directors and Executive Officers and Limitations on Liability.

Repurchase of Common and Preferred Stock

In December 2010 as well as April and June 2011, we repurchased 2,814,968 shares of common stock for a total of $23.7 million. Prior to the repurchase, 14,096 shares of Series B preferred stock and 29,663 shares of Series C preferred stock were converted into common stock for the repurchase. The following table summarizes the shares of common and preferred stock repurchased from our executive officers, directors and holders of more than 5% of our capital stock.

Sellers	Shares of Common Stock Repurchased	Aggregate Repurchase Price
TRI Investments, LLC[(1)]	805,792	$ 6,849,232
Entities affiliated with Battery Ventures[(2)]	350,072	2,975,612
William S. Oesterle	316,984	2,660,050
City Investment Group, LLC[(3)]	250,872	2,132,412
Michael M. Holt	255,656	2,098,718
Scott A. Brenton[(4)]	235,360	2,000,560
Angela R. Hicks Bowman	128,032	1,038,197
Cardinal Ventures, LLC[(5)]	74,648	634,508
Gary W. Rush	63,392	489,106

(1) John H. Chuang and Steven M. Kapner, both affiliates of TRI Investments, LLC, are our directors.
(2) Consists of 14,096 shares of Series B preferred stock held by Battery Ventures VIII (AIV III), L.P. and 29,663 shares of Series C preferred stock held by Battery Ventures VIII, L.P. that were converted into common stock and then repurchased by us. Roger H. Lee, an affiliate of Battery Ventures, is one of our directors.
(3) John W. Biddinger, an affiliate of City Investment Group, LLC, is one of our directors.
(4) Scott A. Brenton was our Chief Operating Officer at the time. As disclosed in the 8-K filed with the SEC on April 12, 2012, Mr. Brenton resigned as Chief Operating Officer on April 11, 2012, effective April 30, 2012.
(5) John F. Ackerman, an affiliate of Cardinal Ventures, LLC, was one of our directors at the time.

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Office Leases

Our headquarters are located in office buildings owned by a partnership, Henry Amalgamated, LLC. The owners of the partnership are William S. Oesterle, our Chief Executive Officer, who has a 70% interest in the partnership, and a business partner, who has a 30% interest in the partnership. We paid $0.6 million in 2009, $0.7 million in 2010 and $0.9 million in 2011 in rent and related costs (including rent for parking lots adjacent to the office buildings) to this partnership under various leases that expire on various dates from 2012 to 2014. The dollar value of Mr. Oesterle s interest in these lease payments was $0.6 million in 2011.

In October 2011, we entered into an agreement with the City of Indianapolis pursuant to which the City has agreed to provide up to $11.1 million in funding and tax credits to support redevelopment and infrastructure improvements in and around our headquarters. Because Henry Amalgamated historically has maintained ownership of the Company s headquarters properties and the Company has not been a property owner, a portion of the City s funding has been and will be used by Henry Amalgamated to purchase and improve buildings around our headquarters.

Vendor Relationship

In February 2009, we entered into a relationship with Millennial Services LLC, which provides email and transcription services for us. Logan R. Rush, an immediate family member of Gary W. Rush, one of our officers at the time, is the President and primary owner of Millennial Services LLC. We paid $163,000 and $474,000 in 2010 and 2011, respectively, to Millennial Services LLC. We are invoiced for services provided and no formal contract exists between the parties.

Secondary Transfer by Chief Executive Officer

In October 2011, one of our directors, Mark Britto, agreed to purchase 26,344 shares of common stock from our chief executive officer, William S. Oesterle, at $9.49 per share. Our participation in this transaction is limited to the waiver of our right of first refusal with respect to the shares being sold.

Participation in our Follow-on Offering

Mark Britto and Michael S. Maurer, two of our directors, and TRI Investments, LLC, a greater than 5% stockholder and affiliate of one of our directors, have indicated an interest in purchasing up to 38,461, 38,461 and 230,769 shares, respectively, of our common stock in this offering at the offering price. Because these indications of interest are not binding agreements or commitments to purchase, these persons may elect not to purchase shares in this offering. The underwriters will receive the same discount from any shares of our common stock purchased by such persons as they will from any other shares of our common stock sold to the public in this offering. Any shares sold to these persons will be subject to the lock-up agreements described under Shares Eligible for Future Sale Lock-up Agreements.

Policies and Procedures for Related Party Transactions

Our board of directors has adopted a written related party transaction policy setting forth the policies and procedures for the review and approval or ratification of related party transactions. This policy will cover any transaction, arrangement or relationship, or any series of similar transactions, arrangements or relationships, in which we were or are to be a participant and a related party had or will have a direct or indirect material interest, as determined by the audit committee of our board of directors, including, without limitation, purchases of goods or services by or from the related party or entities in which the related party has a material interest, and indebtedness, guarantees of indebtedness or employment by us of a related party.

The related party transactions entered into prior to September 2011 described in this section occurred prior to adoption of this policy and as such, these transactions were not subject to the approval and review procedures set forth in the policy. However, these transactions were reviewed and approved by our board of directors and all transactions entered into after September 2011 were approved pursuant to the policy.

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PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth information regarding beneficial ownership of our common stock as of March 31, 2012 for:

- each person whom we know to own beneficially more than 5% of our common stock;
- our directors and named executive officers individually;
- all of our directors and executive officers as a group; and
- the selling stockholders, which consist of the entities and individuals shown as having shares listed in the column Shares Being Offered.

In accordance with the rules of the SEC, beneficial ownership includes sole or shared voting or investment power with respect to securities and includes the shares issuable pursuant to stock options that are exercisable within 60 days of the determination date, which in the case of the following table is March 31, 2012. Shares issuable pursuant to stock options are deemed outstanding for computing the percentage of the person holding such options but are not outstanding for computing the percentage of any other person. The percentage of beneficial ownership for the following table is based on 57,055,281 shares of our common stock issued and outstanding on March 31, 2012 and 57,758,516 shares of common stock outstanding after completion of this offering assuming no exercise of the underwriters option to purchase additional shares. Unless otherwise indicated, the address for each listed stockholder is: c/o Angie s List, Inc., 1030 E. Washington Street, Indianapolis, IN 46202. To our knowledge, except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of common stock.

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Name and Address of Beneficial Owner	Beneficial Ownership Prior to the Offering[1] Number	Percent (%)	Shares Being Offered	Beneficial Ownership After the Offering[2] Number	Percent (%)
Greater than 5% Stockholders:					
TRI Investments, LLC[3]	11,388,000	20.0		11,388,000	19.7
Battery Ventures VIII (AIV III), L.P.[4]	8,575,512	15.0	3,810,837	4,764,675	8.2
T. Rowe Price Associates, Inc.[5]	6,966,860	12.2		6,966,860	12.1
Entities affiliated with BV Capital[6]	5,169,368	9.1	2,584,685	2,584,683	4.5
Capital Research Global Investors[7]	3,902,618	6.8		3,902,618	6.8
Directors and Named Executive Officers:					
William S. Oesterle[8]	3,524,006	6.2	220,641	3,303,365	5.7
Robert R. Millard[9]	127,050	*		127,050	*
Charles Hundt[10]	6,600	*		6,600	*
Manu Thapar					
Michael D. Rutz[11]	6,600	*		6,600	*
Angela R. Hicks Bowman	836,672	1.5	27,074	809,598	1.4
John W. Biddinger[12]	523,704	*	125,930	397,774	*
Mark Britto[13]	82,198	*		82,198	*
John H. Chuang[3]	11,388,000	20.0		11,388,000	19.7
Steven M. Kapner[3]	11,388,000	20.0		11,388,000	19.7
Keith J. Krach[14]	254,100	*		254,100	*
Roger H. Lee[4]	8,575,512	15.0	3,810,837	4,764,675	8.2
Michael S. Maurer[15]	1,471	*		1,471	*
Directors and Officers as a Group (13 persons)[16]	26,625,767	46.3	4,234,381	22,391,386	38.5
Other Selling Stockholders:					
Scott A. Brenton[17]	600,000	1.1	314,826	285,174	*
Lighthouse Capital Partners VI, L.P.[18]	487,472	*	306,937	180,535	*
OSON V.I., LLC[19]	226,192	*	142,421	83,771	*
Prism Mezzanine Fund SBIC, L.P.[20]	223,520	*	140,740	82,780	*
City Investment Group, LLC[21]	400,000	*	125,930	274,070	*
Michael M. Holt[22]	1,306,454	2.3	49,899	1,256,555	2.2
AL I Co-Invest LLC[23]	20,960	*	13,198	7,762	*

* Represents beneficial ownership of less than one percent (1%) of the outstanding common stock.

(1) Shares shown in the table above include shares held in the beneficial owner s name or jointly with others, or in the name of a bank, nominee or trustee for the beneficial owner s account.

(2) Assumes no exercise of the underwriters option to purchase additional shares. See Underwriting.

(3) Based on information set forth in the Schedule 13G filed with the SEC on February 14, 2012, TRI Investments LLC is the record owner of 11,388,000 shares of our common stock. TRI Ventures, Inc., as the managing member of TRI Investments LLC, may be deemed to beneficially own such shares. Mr. Chuang and Mr. Kapner, two of our directors, are Chief Executive Officer and Managing Director, respectively, of TRI Ventures, Inc., the parent company of TRI Investments, LLC and, therefore, may be deemed to share voting and dispositive power over the shares held by this entity. Mr. Chuang and Mr. Kapner disclaim beneficial ownership with respect to shares beneficially owned by TRI Investments LLC, except to the extent of their pecuniary interests therein. The address for TRI Investments LLC is 711 Boylston Avenue, Boston, MA 02116. TRI Investments, LLC has indicated an interest in purchasing up to 230,769 shares of our common stock in this offering at the offering price. Because this indication of interest is not a binding agreement or commitment to purchase, TRI Investments, LLC may elect not to purchase shares in this offering. The underwriters will receive the same discount from any shares of our common stock purchased by such persons as they will from any other shares of our common stock sold to the public in this offering. However, if any shares are purchased by TRI Investments, LLC, the number of shares of common stock beneficially owned after this offering and the percentage of common stock beneficially owned after this offering will differ from that set forth in the table above. If TRI Investments, LLC were to purchase all of these shares at the public offering price of $13.00 per share, it would beneficially own 11,618,769 shares, or 20.1%, of our outstanding common stock after this offering.

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(4) Based on information set forth in the Schedule 13G filed with the SEC on February 14, 2012, Battery Ventures VIII (AIV III), L.P. (BV8 AIV) is the record owner of 8,575,512 shares of our common stock, except that Battery Partners VIII (AIV III), LLC (BP8 AIV LLC), the general partner of BV8 AIV may be deemed to have sole voting and dispositive power over these shares; Neeraj Agrawal, a managing member of BP8 AIV LLC, may be deemed to have shared voting and dispositive power over these shares; Michael Brown, a managing member of BP8 AIV LLC, may be deemed to have shared voting and dispositive power over these share; Thomas J. Crotty, a managing member of BP8 AIV LLC, may be deemed to have shared voting and dispositive power over these share; Sunil Dhaliwal, a managing member of BP8 AIV LLC, may be deemed to have shared voting and dispositive power over these share; Richard D. Frisbie, a managing member of BP8 AIV LLC, may be deemed to have shared voting and dispositive power over these share; Kenneth P. Lawler, a managing member of BP8 AIV LLC, may be deemed to have shared voting and dispositive power over these share; Roger H. Lee, one of our directors and a managing member of BP8 AIV LLC, may be deemed to have shared voting and dispositive power over these share; R. David Tabors, a managing member of BP8 AIV LLC, may be deemed to have shared voting and dispositive power over these share; and Scott R. Tobin, a managing member of BP8 AIV LLC, may be deemed to have shared voting and dispositive power over these share. Each of Messrs. Agrawal, Brown, Crotty, Dhaliwal, Frisbie, Lawler, Lee, Tabors and Tobin disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein. BV8 AIV is an affiliate of a registered broker dealer. BV8 AIV has certified that it has purchased the shares being offered by it in the ordinary course of business, and at the time of purchase of such shares, it had no agreements or understandings, directly or indirectly, with any person to distribute such shares. The address of Battery Ventures is 930 Winter Street, Suite 2500, Waltham, MA 02451.

(5) Based on information set forth in the Schedule 13G/A filed with the SEC on February 14, 2012, T. Rowe Price Associates, Inc. (TRPA) has sole voting power with respect to 856,168 of such shares and sole dispositive power with respect to 6,966,860 of such shares and T. Rowe Price New Horizons Fund, Inc. has sole voting power with respect to 3,741,352 of such shares. TRPA is the wholly owned subsidiary of T. Rowe Price Group, Inc., which is a publicly traded financial services holding company. The address for T. Rowe Price Associates, Inc. is 100 East Pratt Street, Baltimore, MD 21202.

(6) Based on information set forth in the Schedule 13G filed with the SEC on February 14, 2012, this includes (i) 2,702,584 shares held by BV Capital GMBH & Co Beteiligungs KG No. 1 (BV KG), (ii) 2,059,920 shares held by BV Capital Fund II, L.P. (BV II) and (iii) 406,864 shares held by BV Capital Fund II-A, L.P. (BV II-A). The general partner of BV II and BV II-A is BV Capital GP II, LLC (BV GPII). As such, BV GP II has voting and investment control over the shares owned by BV II and BV II-A, and may be deemed to own beneficially the shares held by BV II and BV II-A. BV GP II owns none of our securities directly. BV Capital Management, LLC (BV Management) serves as the Managing Limited Partner of BV KG. As such, BV Management has voting and investment control over the shares owned by BV KG, and may be deemed to own beneficially the shares held by BV KG. BV Management owns none of our securities directly. The address for the BV Capital funds is 600 Montgomery Street, 43rd Floor, San Francisco, CA 94111.

(7) Based on information set forth in the Schedule 13G filed with the SEC on February 14, 2012, Capital Research Global Investors is the record owner of 3,902,618 shares of our common stock. The address for Capital Research Global Investors is 333 South Hope Street, Los Angeles, CA 90071.

(8) Includes stock options to purchase 19,822 shares of our common stock exercisable within 60 days of March 31, 2012.

(9) Consists solely of stock options to purchase 127,050 shares of our common stock exercisable within 60 days of March 31, 2012.

(10) Consists solely of stock options to purchase 6,600 shares of our common stock exercisable within 60 days of March 31, 2012.

(11) Consists solely of stock options to purchase 6,600 shares of our common stock exercisable within 60 days of March 31, 2012.

(12) Includes (i) 93,704 shares held by Mr. Biddinger, (ii) 400,000 shares held by City Investment Group, LLC and (iii) stock options to purchase 30,000 shares of our common stock exercisable within 60 days of March 31, 2012. Mr. Biddinger, a member of our board of directors, is Managing Director of City Investment Group, LLC, and therefore may be deemed to share voting and dispositive power over the shares held by this entity. Mr. Biddinger disclaims beneficial ownership with respect to shares beneficially owned by this entity, except to the extent of his pecuniary interest therein. The address for City Investment Group, LLC is 30 South Meridian Street, Suite 600, Indianapolis, IN 46204.

(13) Includes stock options to purchase 16,624 shares of our common stock exercisable within 60 days of March 31, 2012. Mark Britto has indicated an interest in purchasing up to 38,461 shares of our common stock in this offering at the offering price. Because this indication of interest is not a binding agreement or commitment to purchase, Mr. Britto may elect not to purchase shares in this offering. The underwriters will receive the same discount from any shares of our common stock purchased by such persons as they will from any other shares of our common stock sold to the public in

this offering. However, if any shares are purchased by Mr. Britto, the number of shares of common stock beneficially owned after this offering and the percentage of common stock beneficially owned after this offering will differ from that set forth in the table above. If Mr. Britto were to purchase all of these shares at the public offering price of $13.00 per share, he would beneficially own 120,659 shares, or 0.2%, of our outstanding common stock after this offering.

(14) Consists solely of stock options to purchase 254,100 shares of our common stock exercisable within 60 days of March 31, 2012.

(15) Consists solely of stock options to purchase 1,471 shares of our common stock exercisable within 60 days of March 31, 2012. Michael S. Maurer has indicated an interest in purchasing up to 38,461 shares of our common stock in this offering at the offering price. Because this indication of interest is not a binding agreement or commitment to purchase, Mr. Maurer may elect not to purchase shares in this offering. The underwriters will receive the same discount from any shares of our common stock purchased by such persons as they will from any other shares of our common stock sold to the public in this offering. However, if any shares are purchased by Mr. Maurer, the number of shares of common stock beneficially owned after this offering and the percentage of common stock beneficially owned after this offering will differ from that set forth in the table above. If Mr. Maurer were to purchase all of these shares at the public offering price of $13.00 per share, he would beneficially own 39,932 shares, or 0.1%, of our outstanding common stock after this offering.

(16) Includes stock options to purchase 455,667 shares of our common stock exercisable within 60 days of March 31, 2012.

(17) Mr. Brenton is our former Chief Operating Officer. The address for Mr. Brenton is 5725 Washington Boulevard, Indianapolis, IN 46220.

(18) The sole general partner of Lighthouse Capital Partners VI, L.P. is Lighthouse Management Partners VI, L.L.C. The Managing Directors of Lighthouse Management Partners VI, L.L.C. are Cristy Barnes, Ryan Turner, Jeff Griffor, Ned Hazen and Gwill York, who share voting power and investment control of the shares held by Lighthouse Capital Partners VI, L.P. Each of Messrs. Turner, Griffor and Hazen and Mses. Barnes and York disclaims beneficial ownership of these shares, except to the extent of his or her pecuniary interest therein. Lighthouse Capital Partners VI, L.P. was our lender under our prior term loan, under which we could borrow up to $18.0 million. In connection with this loan agreement, we issued a warrant exercisable for 272,304 shares of our common stock to Lighthouse Capital Partners VI, L.P., which was net exercised for 120,096 shares of common stock in March 2012. We repaid the outstanding balance under this term loan in August 2011. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Debt Obligations Prior Debt Obligations. The address for Lighthouse Capital Partners VI, L.P. is 3555 Alameda de las Pulgas, Suite 200, Menlo Park, CA 94025, Attn: Contracts Administration.

(19) Dale LeFebvre, as Managing Partner, has voting power and investment control of the shares held by this entity. The address for OSON V.I., LLC is 2710 Foxhall Road, NW, Washington, DC 20007.

(20) Robert Finkel, as Managing Partner, and Stephen J. Vivian, William Harlan and Blaine Crissman, each as Partner, share voting power and investment control of the shares held by Prism Mezzanine Fund SBIC, L.P. Each of Messrs. Finkel, Vivian, Harlan and Crissman disclaims his beneficial ownership of these shares, except to the extent of his pecuniary interest therein. In November 2008, Prism Mezzanine Fund SBIC, L.P. purchased a senior unsecured subordinated note from us in the principal amount of $6.0 million, which we repaid in August 2011. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Debt Obligations Prior Debt Obligations. The address for Prism Mezzanine Fund SBIC, L.P. is 444 North Michigan Avenue, Suite 1910, Chicago, IL 60611.

(21) City Investment Group, LLC is a subsidiary of City Financial Corporation. Michael Bosway, as President and Chief Executive Officer of City Financial Corporation, has sole voting power and investment control of the shares held by City Investment Group, LLC. John W. Biddinger, one of our directors, is also a Managing Director of City Investment Group, LLC. City Financial Corporation is an affiliate of a registered broker dealer. Mr. Bosway has certified that City Investment Group, LLC purchased the shares being offered by it in the ordinary course of business, and at the time of purchase of such shares, it had no agreements or understandings, directly or indirectly, with any person to distribute such shares. The address for City Investment Group, LLC is 30 South Meridian Street, Suite 600, Indianapolis, IN 46204.

(22) Mr. Holt is our Executive Vice President.

(23) David R. Guttman has sole voting power and investment control of the shares held by AL I Co-Invest LLC. Mr. Guttman disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein. In October 2009, AL I Co-Invest LLC purchased approximately $515,000 of our debt that we had previously issued to Prism Mezzanine Fund SBIC, L.P. in November 2008. We repaid this debt in August 2011. The address for AL I Co-Invest LLC is 444 North Michigan Avenue, Suite 1910, Chicago, IL 60611.

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DESCRIPTION OF CAPITAL STOCK

General

Our amended and restated certificate of incorporation authorizes us to issue up to 300,000,000 shares of common stock, par value $0.001 per share, and 10,000,000 shares of preferred stock, par value $0.001, all of which preferred stock will be undesignated.

As of March 31, 2012 we had issued and outstanding:

- 57,055,281 shares of common stock held by approximately 54 stockholders of record;
- 88,240 shares of common stock issuable upon exercise of a warrant at an exercise price of $8.50 per share; and
- 2,850,358 shares of common stock issuable upon exercise of outstanding stock options.

The following descriptions of our capital stock and provisions of our amended and restated certificate of incorporation and amended and restated bylaws are summaries and are qualified by reference to the amended and restated certificate of incorporation and the amended and restated bylaws and applicable law. Copies of these documents have been filed with the SEC as exhibits to our registration statement relating to our initial public offering.

Common Stock

Dividend Rights

Subject to preferences that may be applicable to any then outstanding preferred stock, holders of our common stock are entitled to receive dividends, if any, as may be declared from time to time by our board of directors out of legally available funds. We never have declared or paid cash dividends on any of our capital stock and currently do not anticipate paying any cash dividends after the offering or in the foreseeable future.

Voting Rights

Each holder of our common stock is entitled to one vote for each share on all matters submitted to a vote of the stockholders, including the election of directors. Our stockholders do not have cumulative voting rights in the election of directors. Accordingly, holders of a majority of the voting shares are able to elect all of the directors.

Liquidation

In the event of our liquidation, dissolution or winding up, holders of our common stock will be entitled to share ratably in the net assets legally available for distribution to stockholders after the payment of all of our debts and other liabilities and the satisfaction of any liquidation preference granted to the holders of any then outstanding shares of preferred stock.

Rights and Preferences

Holders of our common stock have no preemptive, conversion, subscription or other rights, and there are no redemption or sinking fund provisions applicable to our common stock. The rights, preferences and privileges of the holders of our common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of our preferred stock that we may designate in the future.

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Preferred Stock

Our board of directors has the authority, without further action by our stockholders, to issue up to 10,000,000 shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof. These rights, preferences and privileges could include dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences, sinking fund terms and the number of shares constituting any series or the designation of such series, any or all of which may be greater than the rights of common stock. The issuance of our preferred stock could adversely affect the voting power of holders of common stock and the likelihood that such holders will receive dividend payments and payments upon liquidation. In addition, the issuance of preferred stock could have the effect of delaying, deferring or preventing a change of control of our company or other corporate action. No shares of preferred stock are outstanding, and we have no present plan to issue any shares of preferred stock.

Warrants

As of March 31, 2012, there was one warrant outstanding exercisable for 88,240 shares of common stock at an exercise price of $8.50 per share. It may be exercised at any time prior to its termination date of August 31, 2018 and will be automatically exercised if not exercised prior to the termination date and the fair market value of our common stock is greater than the exercise price. The warrant contains provisions for the adjustment of the exercise price and the number of shares issuable upon the exercise of the warrant in the event of certain stock dividends, stock splits, reorganizations, reclassifications and consolidations. The holder of the shares issuable upon exercise of the warrant is entitled to registration rights with respect to such shares as described in greater detail under the caption Registration Rights.

Registration Rights

Certain holders of our common stock are entitled to rights with respect to the registration of their shares under the Securities Act. These registration rights are contained in our Amended and Restated Investors Rights Agreement, dated as of March 15, 2011, and are described in additional detail below. These registration rights will expire five years following the completion of our initial public offering, or, with respect to any particular stockholder, when such stockholder is able to sell all of its shares pursuant to Rule 144 of the Securities Act or a similar exemption during any three month period without volume limitations. We will pay the registration expenses (other than underwriting discounts and selling commissions) of the holders of the shares registered pursuant to the registrations describe below. In an underwritten offering, the underwriters have the right, subject to specified conditions, to limit the number of shares such holders may include. In connection with this offering, holders of approximately 39,060,256 shares, or 67.6%, of our common stock after giving effect to this offering, not including any shares purchased by Mark Britto, Michael S. Maurer and TRI Investments, LLC as described under Underwriting, have agreed not to exercise their registration rights for a period of 90 days after the date of this prospectus, subject to certain terms and conditions. See section entitled Underwriting.

Demand Registration Rights

The holders of approximately 39,060,256 shares, or 67.6%, of our common stock after giving effect to this offering, not including any shares purchased by Mark Britto, Michael S. Maurer and TRI Investments, LLC as described under Underwriting, and 2,938,598 shares of common stock issuable upon the exercise of outstanding options and warrants as of March 31, 2012 or their transferees will be entitled to certain demand registration rights. The holders of at least 30% of these shares can request that we register all or a portion of their shares. The request for registration must cover at least that number of shares with an anticipated gross offering price of at least $25.0 million. If we determine that it would be materially detrimental to us and our stockholders to effect such a demand registration, we have the right to defer such registration, not more than twice in any 12-month period, for a period of up to 60 days. Additionally, we will not be required to effect a demand registration during the period beginning with the date of filing of and ending 180 days following the effectiveness of a registration statement initiated by us (i) if we have effected two demand registrations and they have been declared or ordered effective or (ii) if such shares to be registered can be immediately registered on Form S-3 pursuant to the description below under S-3 Registration Rights.

Piggyback Registration Rights

In the event that we propose to register any of our securities under the Securities Act in connection with the public offering of such securities, the holders of approximately 39,060,256 shares, or 67.6%, of our common stock after giving effect to this offering, not including any shares purchased by Mark Britto, Michael S. Maurer and TRI Investments, LLC as described under Underwriting, and 2,938,598 shares of common stock issuable upon the exercise of outstanding options and warrants as of March 31, 2012 or their transferees will be entitled to certain piggyback registration rights allowing the holder to include their shares in such registration, subject to certain marketing and other limitations. As a result, whenever we propose to file a registration statement under the Securities Act, other than with respect to (i) a registration related to a company or subsidiary stock option, stock purchase or similar plan, (ii) a registration related to the exchange of securities in certain corporate reorganizations or certain other transactions, (iii) a registration on any form that does not include substantially the same information as would be required to be included in a registration statement covering the shares entitled to registration rights and (iv) a registration of common stock issuable upon conversion of debt securities also being registered, the holders of these shares are entitled to notice of the registration and have the right, subject to limitations that the underwriters may impose on the number of shares included in the registration, to include their shares in the registration.

S-3 Registration Rights

The holders of approximately 39,060,256 shares, or 67.6%, of our common stock after giving effect to this offering, not including any shares purchased by Mark Britto, Michael S. Maurer and TRI Investments, LLC as described under Underwriting, and 2,938,598 shares of common stock issuable upon the exercise of outstanding options and warrants as of March 31, 2012 or their transferees will be entitled to request that we register their shares on Form S-3 if we are eligible to file a registration statement on Form S-3 so long as the request covers at least that number of shares with an anticipated aggregate offering price, net of underwriting discounts and selling commissions, of at least $5.0 million. These stockholders may make an unlimited number of requests for registration on Form S-3. However, we are not required to effect a registration on Form S-3 during the period beginning with the date of filing of and ending 90 days following the effectiveness of a registration statement initiated by us or if we have effected two registrations on Form S-3 in a given 12-month period. Additionally, if we determine that it would be materially detrimental to us and our stockholders to effect such a registration, we have the right to defer such registration, not more than twice in any 12-month period, for a period of up to 60 days.

Anti-Takeover Effects of Delaware Law and Our Amended and Restated Certificate of Incorporation and Bylaws

Section 203 of the General Corporation Law of the State of Delaware

We are subject to the business combination provisions of Section 203 of the DGCL. In general, such provisions prohibit a publicly held Delaware corporation from engaging in various business combination transactions with any interested stockholder for a period of three years after the date of the transaction in which the person became an interested stockholder, unless

- the transaction is approved by the board of directors prior to the date the interested stockholder obtained such status;

upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced; or

on or subsequent to such date the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders by the affirmative vote of at least 66 $^{2}/3$% of the outstanding voting stock which is not owned by the interested stockholder.

In general, a business combination is defined to include mergers, asset sales and other transactions resulting in financial benefit to a stockholder and an interested stockholder is a person who, together with affiliates and associates, owns or, within three years prior to the determination of interested stockholder status, did own 15% or more of a corporation s outstanding voting stock. The statute could prohibit or delay mergers or other takeover or change in control attempts and, accordingly, may discourage attempts to acquire us even though such a transaction may offer our stockholders the opportunity to sell their stock at a price above the prevailing market price.

Amended and Restated Certificate of Incorporation and Bylaws

Our amended and restated certificate of incorporation and amended and restated bylaws provide the following defensive measures:

our board of directors shall be divided into three classes with staggered three-year terms. Only one class of directors will be elected at each annual meeting of our stockholders, with the other classes continuing for the remainder of their respective three-year terms;

our stockholders do not have cumulative voting rights and, therefore, our stockholders holding a majority of the shares of common stock outstanding will be able to elect all of our directors;

our board of directors may issue shares of preferred stock and determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval;

our directors may be removed by stockholders only for cause, and only our board of directors may fill vacancies created by expansion of our board or the resignation, death or removal of a director;

subject to the rights of holders of any series of preferred stock then outstanding, all stockholder actions must be effected at a duly called meeting of stockholders and not by a consent in writing, and that only a majority of our board of directors, the Chairman of our board of directors, our Chief Executive Officer, President and our Secretary may call a special meeting of stockholders;

our stockholders must comply with advance notice provisions to bring business before or nominate directors for election at a stockholder meeting; and

subject to the rights of holders of any series of preferred stock then outstanding, a 66 $^{2}/3$% stockholder vote is required for the rescission, alteration, amendment or repeal of the foregoing provisions of our amended and restated certificate of incorporation or our amended and restated bylaws by stockholders, and our board of directors may amend the bylaws by majority vote.

The combination of the classification of our board of directors, the lack of cumulative voting and the 66 $^{2}/3$% stockholder voting requirements will make it more difficult for our existing stockholders to replace our board of directors as well as for another party to obtain control of us by replacing our board of directors. Since our board of directors has the power to retain and discharge our officers, these provisions could also make it more difficult for existing stockholders or another party to effect a change in management. In addition, the

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authorization of undesignated preferred stock makes it possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to change our control.

These provisions may have the effect of deterring hostile takeovers or delaying changes in our control or management. They are intended to enhance our long-term value to our stockholders by increasing the likelihood of continued stability in the composition of our board of directors and its policies and discouraging certain types of transactions that may involve an actual or threatened acquisition of us. These provisions are also designed to reduce our vulnerability to an unsolicited acquisition proposal and to discourage certain tactics that may be used in proxy fights. However, such provisions could have the effect of discouraging others from making tender offers for our shares and, as a consequence, they also may inhibit fluctuations in the market price of our stock that could result from actual or rumored takeover attempts.

Listing

Our common stock is listed on the NASDAQ Global Market under the symbol ANGI.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Computershare Trust Company, N.A.

MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES FOR NON-U.S. HOLDERS

The following is a general discussion of the material U.S. federal income and estate tax consequences of the ownership and disposition of our common stock by a beneficial owner that is a Non-U.S. Holder, other than a Non-U.S. Holder that owns, or has owned, actually or constructively, more than 5% of our common stock. A Non-U.S. Holder is a person or entity that, for U.S. federal income tax purposes, is a:

- nonresident alien individual, other than certain former citizens and residents of the United States subject to tax as expatriates;
- foreign corporation; or
- foreign estate or trust.

A Non-U.S. Holder does not include a nonresident alien individual who is present in the United States for 183 days or more in the taxable year of disposition of our common stock. Such an individual is urged to consult his or her own tax advisor regarding the U.S. federal income tax consequences of the sale, exchange or other disposition of our common stock.

If an entity or arrangement that is classified as a partnership for U.S. federal income tax purposes holds our common stock, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships holding our common stock and partners in such partnerships are urged to consult their tax advisors as to the particular U.S. federal income tax consequences of holding and disposing of our common stock.

This discussion is based on the Internal Revenue Code of 1986, as amended (the Code), and administrative pronouncements, judicial decisions and final, temporary and proposed Treasury Regulations, changes to any of which subsequent to the date of this prospectus may affect the tax consequences described herein. This discussion does not address all aspects of U.S. federal income and estate taxation that may be relevant to a Non-U.S. Holder in light of its particular circumstances and does not address any tax consequences arising under the laws of any state, local or foreign jurisdiction. Prospective holders are urged to consult their tax advisors with respect to the particular tax consequences to them of owning and disposing of our common stock, including the consequences under the laws of any state, local or foreign jurisdiction.

Dividends

As discussed under Dividend Policy above, we do not currently expect to pay dividends. In the event that we do pay dividends, dividends paid to a Non-U.S. Holder of our common stock generally will be subject to withholding tax at a 30% rate or a reduced rate specified by an applicable income tax treaty. In order to obtain a reduced rate of withholding, a Non-U.S. Holder will be required to provide an Internal Revenue Service Form W-8BEN certifying its entitlement to benefits under a treaty.

If dividends paid to a Non-U.S. Holder are effectively connected with the Non-U.S. Holder s conduct of a trade or business in the United States (and, if required by an applicable income tax treaty, are attributable to a permanent establishment maintained by the Non-U.S. Holder in the United States), the Non-U.S. Holder, although exempt from the withholding tax discussed in the preceding paragraph, will generally be taxed in the same manner as a U.S. person, except that the Non-U.S. Holder will generally be required to provide a properly executed Internal Revenue Service Form W-8ECI in order to claim an exemption from withholding tax. A non-U.S. corporation receiving effectively connected dividends may also be subject to an additional branch profits tax imposed at a rate of 30% (or a lower treaty rate).

Gain on Disposition of Our Common Stock

Subject to the discussion below regarding FATCA withholding, a Non-U.S. Holder generally will not be subject to U.S. federal income tax on gain realized on a sale or other disposition of our common stock unless:

- the gain is effectively connected with a trade or business of the Non-U.S. Holder in the United States (subject to an applicable income tax treaty providing otherwise), or

- we are or have been a United States real property holding corporation, as defined in the Code, at any time within the five-year period preceding the disposition or the Non-U.S. Holder s holding period, whichever period is shorter, and our common stock has ceased to be traded on an established securities market prior to the beginning of the calendar year in which the sale or disposition occurs.

We believe that we are not, and do not anticipate becoming, a United States real property holding corporation.

If a Non-U.S. Holder is engaged in a trade or business in the United States and gain recognized by the Non-U.S. Holder on a sale or other disposition of our common stock is effectively connected with a conduct of such trade or business, the Non-U.S. Holder will generally be taxed in the same manner as a U.S. person, subject to an applicable income tax treaty providing otherwise. Such Non-U.S. Holders are urged to consult their own tax advisors with respect to the U.S. tax consequences of the ownership and disposition of our common stock, including the possible imposition of a branch profits tax at a rate of 30% (or lower treaty rate).

Information Reporting Requirements and Backup Withholding

Information returns will be filed with the Internal Revenue Service in connection with payments of dividends on our common stock. Unless the Non-U.S. Holder complies with certification procedures to establish that it is not a U.S person, information returns may be filed with the Internal Revenue Service in connection with the proceeds from a sale or other disposition of our common stock and the Non-U.S. Holder may be subject to U.S. backup withholding on dividend payments on our common stock or on the proceeds from a sale or other disposition of our common stock. The Non-U.S. Holder s provision of a properly completed Internal Revenue Service Form W-8BEN certifying its non-U.S. status will satisfy the certification requirements necessary to avoid backup withholding. The amount of any backup withholding from a payment to a Non-U.S. Holder will be allowed as a credit against such holder s U.S. federal income tax liability and may entitle such holder to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

FATCA Withholding

Legislation enacted in 2010 generally imposes withholding at a rate of 30% on payments to certain foreign entities (including financial intermediaries) of dividends on and the gross proceeds of dispositions of U.S. common stock, unless various U.S. information reporting and due diligence requirements (generally relating to ownership by U.S. persons of interests in or accounts with those entities) have been satisfied. Under certain transition rules, the withholding would apply to dividends paid on our common stock after December 31, 2013, and on gross proceeds from sales or other dispositions of our common stock after December 31, 2014. Non-U.S. Holders should consult their tax advisors regarding the possible implications of this legislation on their investment in our common stock.

Federal Estate Tax

Individual Non-U.S. Holders and entities the property of which is potentially includible in such an individual s gross estate for U.S. federal estate tax purposes (for example, a trust funded by such an individual and with respect to which the individual has retained certain interests or powers), should note that, absent an applicable treaty benefit, our common stock will be treated as U.S. situs property subject to U.S. federal estate tax.

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SHARES ELIGIBLE FOR FUTURE SALE

Future sales of substantial amounts of our common stock, including shares issued upon the exercise of outstanding options or warrants, in the public market could adversely affect market prices prevailing from time to time. Furthermore, because only a limited number of shares will be available for sale shortly after this offering due to existing contractual and legal restrictions on resale as described below, there may be sales of substantial amounts of our common stock in the public market after the restrictions lapse. This may adversely affect the prevailing market price and our ability to raise equity capital in the future.

Upon completion of this offering, we will have 57,758,516 shares of common stock outstanding, assuming no exercise of the underwriters option to purchase additional shares and no exercise of any options and warrants outstanding as of March 31, 2012. As of the lock-up termination date of May 15, 2012 with respect to our initial public offering, all of these shares will be freely transferable without restriction or registration under the Securities Act of 1933, as amended, or the Securities Act, except for any shares purchased by one of our existing affiliates, as that term is defined in Rule 144 under the Securities Act, and as set forth in the following sentence. Subject to certain exceptions described under the caption Underwriting, in connection with this offering, we, our directors and executive officers and the selling stockholders, who hold in aggregate approximately 25,160,424 shares, or 43.6%, of our common stock after giving effect to this offering, not including any shares purchased by Mark Britto, Michael S. Maurer and TRI Investments, LLC as described under Underwriting, have agreed not to offer, sell or agree to sell, directly or indirectly, any shares of our common stock without permission of Merrill Lynch, Pierce, Fenner & Smith Incorporated for a period of 90 days from the date of this prospectus. When the lock-up period expires, we and our locked-up stockholders will be able to sell our shares in the public market, subject to prior registration or qualification for an exemption from registration including, the case of shares held by affiliates, compliance with the volume limitation, manner of sale and notice provisions of Rule 144.

Rule 144

In general, under Rule 144 as currently in effect, an affiliate who has beneficially owned restricted shares of our common stock for at least six months would be entitled to sell within any three-month period beginning 90 days after the date of this prospectus a number of shares that does not exceed the greater of either of the following:

- 1% of the number of shares of common stock then outstanding, which will equal approximately 577,585 shares immediately after this offering; and

- the average weekly reported volume of trading of our common stock during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale.

In addition, any sales by affiliates under Rule 144 are also limited by manner of sale provisions and notice requirements and the availability of current public information about us.

The volume limitation, manner of sale and notice provisions described above will not apply to sales by non-affiliates. For purposes of Rule 144, a non-affiliate is any person or entity who is not our affiliate at the time of sale and has not been our affiliate during the preceding three months. A non-affiliate who has beneficially owned restricted shares of our common stock for six months may rely on Rule 144 provided that certain public information regarding us is available. However, a non-affiliate who has beneficially owned the restricted shares proposed to be sold for at least one year will not be subject to any restrictions under Rule 144.

We are unable to estimate the number of shares that will be sold under Rule 144 since this will depend on the market price for our common stock, the personal circumstances of the stockholder and other factors.

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Rule 701

Rule 701 under the Securities Act generally allows a stockholder who purchased shares of our common stock from us in connection with a compensatory stock or option plan or other written agreement prior to the effective date of our initial public offering, and who is not deemed to have been our affiliate during the immediately preceding 90 days, to sell these shares in reliance upon Rule 144, but without having to comply with the public information, holding period, volume limitation, manner of sale or notice provisions of Rule 144. Rule 701 also permits our affiliates to sell their Rule 701 shares under Rule 144 without complying with the holding period requirements of Rule 144. The shares that may be sold in compliance with Rule 701 that are subject to lock-up agreements as described above and under the section titled Underwriters below will not become eligible for sale until expiration or waiver of the restrictions set forth in those agreements.

Registration Rights

The holders of approximately 39,060,256 shares, or 67.6%, of our common stock after giving effect to this offering, not including any shares purchased by Mark Britto, Michael S. Maurer and TRI Investments, LLC as described under Underwriting, and 2,938,598 shares of common stock issuable upon the exercise of outstanding options and warrants as of March 31, 2012 or their transferees, will be entitled to various rights with respect to the registration of these shares under the Securities Act. Registration of these shares under the Securities Act would result in these shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration, except for shares purchased by our affiliates. See Description of Capital Stock Registration Rights.

Stock Options

On November 23, 2011 and March 15, 2012, we filed registration statements on Form S-8 under the Securities Act covering an aggregate of 6,784,827 shares of common stock subject to outstanding options or issuable pursuant to our equity plans. These shares are available for sale in the open market, subject to Rule 144 volume limitation, manner of sale and notice provisions applicable to affiliates, vesting restrictions with us or the contractual restrictions described below.

Lock-up Agreements

As of the lock-up termination date of May 15, 2012 with respect to our initial public offering, all shares of our common stock will be freely transferable without restriction or registration under the Securities Act, subject to the restrictions in Rule 144 under the Securities Act except as set forth in the following sentence. In connection with this offering, our directors and executive officers and the selling stockholders, who will hold an aggregate of approximately 25,160,424 shares, or 43.6%, of our common stock after giving effect to this offering, not including any shares purchased by Mark Britto, Michael S. Maurer and TRI Investments, LLC as described under Underwriting, have agreed, subject to limited exceptions described under the heading Underwriting, not to offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of common stock beneficially owned (as such term is used in Rule 13d-3 of the Exchange Act) or any other securities so owned convertible into or exercisable or exchangeable for common stock or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any shares of common stock or any securities convertible into or exercisable or exchangeable for shares of common stock for a period of 90 days after the date of this prospectus, without the prior written consent of Merrill Lynch, Pierce, Fenner & Smith Incorporated.

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The 90-day restricted period described above is subject to extension such that, in the event that either (i) during the last 17 days of the restricted period, we issue an earnings release or material news or a material event relating to us occurs; or (ii) prior to the expiration of the restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the period, the restrictions described above will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material new or material event.

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UNDERWRITING

Merrill Lynch, Pierce, Fenner & Smith Incorporated is acting as representative of each of the underwriters named below. Subject to the terms and conditions set forth in an underwriting agreement among us, the selling stockholders and the underwriters, the selling stockholders have agreed to sell to the underwriters, and each of the underwriters has agreed, severally and not jointly, to purchase from the selling stockholders, the number of shares of common stock set forth opposite its name below.

Underwriter	Number of Shares
Merrill Lynch, Pierce, Fenner & Smith Incorporated	4,220,211
Stifel, Nicolaus & Company, Incorporated	1,181,660
Allen & Company LLC	844,043
RBC Capital Markets, LLC	506,426
Janney Montgomery Scott LLC	506,426
Oppenheimer & Co. Inc.	422,021
Code Advisors LLC	337,616
Wells Fargo Securities, LLC	253,212
ThinkEquity LLC	168,808
Total	8,440,423

Subject to the terms and conditions set forth in the underwriting agreement, the underwriters have agreed, severally and not jointly, to purchase all of the shares sold under the underwriting agreement if any of these shares are purchased. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the nondefaulting underwriters may be increased or the underwriting agreement may be terminated.

We and the selling stockholders have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the shares, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the shares, and other conditions contained in the underwriting agreement, such as the receipt by the underwriters of officer s certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Commissions and Discounts

The representative has advised us and the selling stockholders that the underwriters propose initially to offer the shares to the public at the public offering price set forth on the cover page of this prospectus and to dealers at that price less a concession not in excess of $0.37 per share. After the initial offering, the public offering price, concession or any other term of the offering may be changed.

The following table shows the public offering price, underwriting discount and proceeds before expenses to the selling stockholders. The information assumes either no exercise or full exercise by the underwriters of their option to purchase additional shares.

	Per Share	Without Option	With Option
Public offering price	$13.0000	$109,725,499	$126,184,318
Underwriting discount	$0.6175	$5,211,961	$5,993,755
Proceeds, before expenses, to us	$12.3825	$8,707,807	$8,707,807
Proceeds, before expenses, to the selling stockholders	$12.3825	$95,805,730	$111,482,756

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The expenses of the offering, not including the underwriting discount, are estimated at $0.7 million and are payable by us and the selling stockholders.

Option to Purchase Additional Shares

Certain selling stockholders have granted an option to the underwriters, exercisable for 30 days after the date of this prospectus, to purchase up to 1,266,063 additional shares at the public offering price, less the underwriting discount. If the underwriters exercise this option, each will be obligated, subject to conditions contained in the underwriting agreement, to purchase a number of additional shares proportionate to that underwriter s initial amount reflected in the above table.

Indications of Interest

Mark Britto and Michael S. Maurer, two of our directors, and TRI Investments, LLC, a greater than 5% stockholder and affiliate of one of our directors, have indicated an interest in purchasing up to 38,461, 38,461 and 230,769 shares, respectively, of our common stock in this offering at the offering price. Because these indications of interest are not binding agreements or commitments to purchase, these persons may elect not to purchase shares in this offering. The underwriters will receive the same discount from any shares of our common stock purchased by such persons as they will from any other shares of our common stock sold to the public in this offering. Any shares sold to these persons will be subject to the lock-up agreements described under Shares Eligible for Future Sale Lock-up Agreements.

No Sales of Similar Securities

We, our directors and executive officers and the selling stockholders have agreed not to sell or transfer any common stock or securities convertible into, exchangeable for, exercisable for, or repayable with common stock, for 90 days after the date of this prospectus without first obtaining the written consent of Merrill Lynch, Pierce, Fenner & Smith Incorporated. Specifically, we and these other persons have agreed, with certain limited exceptions, not to directly or indirectly:

- offer, pledge, sell or contract to sell any common stock;
- sell any option or contract to purchase any common stock;
- purchase any option or contract to sell any common stock;
- grant any option, right or warrant for the sale of any common stock;
- lend or otherwise dispose of or transfer any common stock;
- request or demand that we file a registration statement related to the common stock; or
- enter into any swap or other agreement that transfers, in whole or in part, the economic consequence of ownership of any common stock whether any such swap or transaction is to be settled by delivery of shares or other securities, in cash or otherwise.

This lock-up provision applies to common stock and to securities convertible into or exchangeable or exercisable for or repayable with common stock. It also applies to common stock owned now or acquired later by the person executing the agreement or for which the person executing the agreement later acquires the power of disposition. In the event that either (x) during the last 17 days of the lock-up period referred to above, we issue an earnings release or material news or a material event relating to us occurs or (y) prior to the expiration of the lock-up period, we announce that we will release earnings results or become aware that material news or a material event will occur during the 16-day period beginning on the last day of the lock-up period, the

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restrictions described above shall continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

Listing

Our common stock is listed on the NASDAQ Global Market under the symbol ANGI.

The underwriters do not expect to sell more than 5% of the shares in the aggregate to accounts over which they exercise discretionary authority.

Price Stabilization, Short Positions and Penalty Bids

Until the distribution of the shares is completed, SEC rules may limit underwriters and selling group members from bidding for and purchasing our common stock. However, the representative may engage in transactions that stabilize the price of the common stock, such as bids or purchases to peg, fix or maintain that price.

In connection with the offering, the underwriters may purchase and sell our common stock in the open market. These transactions may include short sales, purchases on the open market to cover positions created by short sales and stabilizing transactions. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering. Covered short sales are sales made in an amount not greater than the underwriters option to purchase additional shares described above. The underwriters may close out any covered short position by either exercising their option to purchase additional shares or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the option granted to them. Naked short sales are sales in excess of such option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of our common stock in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of various bids for or purchases of shares of common stock made by the underwriters in the open market prior to the completion of the offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representative has repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

Similar to other purchase transactions, the underwriters purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of our common stock. As a result, the price of our common stock may be higher than the price that might otherwise exist in the open market. The underwriters may conduct these transactions on the NASDAQ Global Market, in the over-the-counter market or otherwise.

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

Electronic Distribution

In connection with the offering, certain of the underwriters or securities dealers may distribute prospectuses by electronic means, such as email.

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Other Relationships

Some of the underwriters and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the underwriters and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. The underwriters and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Notice to Prospective Investors in the European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date), no offer of shares may be made to the public in that Relevant Member State other than:

A. to any legal entity which is a qualified investor as defined in the Prospectus Directive;

B. to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the representative; or

C. in any other circumstances falling within Article 3(2) of the Prospectus Directive;

provided that no such offer of shares shall require the company or the representative to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

Each person in a Relevant Member State who initially acquires any shares or to whom any offer is made will be deemed to have represented, acknowledged and agreed that (A) it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive, and (B) in the case of any shares acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, the shares acquired by it in the offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors as defined in the Prospectus Directive, or in circumstances in which the prior consent of the representative has been given to the offer or resale. In the case of any shares being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, each such financial intermediary will be deemed to have represented, acknowledged and agreed that the shares acquired by it in the offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer of any shares to the public other than their offer or resale in a Relevant Member State to qualified investors as so defined or in circumstances in which the prior consent of the representative has been obtained to each such proposed offer or resale.

The company, the representative and their affiliates will rely upon the truth and accuracy of the foregoing representation, acknowledgement and agreement.

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This prospectus has been prepared on the basis that any offer of shares in any Relevant Member State will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of shares. Accordingly any person making or intending to make an offer in that Relevant Member State of shares which are the subject of the offering contemplated in this prospectus may only do so in circumstances in which no obligation arises for the company or any of the underwriters to publish a prospectus pursuant to Article 3 of the Prospectus Directive in relation to such offer. Neither the company nor the underwriters have authorized, nor do they authorize, the making of any offer of shares in circumstances in which an obligation arises for the company or the underwriters to publish a prospectus for such offer.

For the purpose of the above provisions, the expression an offer to the public in relation to any shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the shares to be offered so as to enable an investor to decide to purchase or subscribe the shares, as the same may be varied in the Relevant Member State by any measure implementing the Prospectus Directive in the Relevant Member State and the expression Prospectus Directive means Directive 2003/71/EC (including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member States) and includes any relevant implementing measure in the Relevant Member State and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

Notice to Prospective Investors in the United Kingdom

In addition, in the United Kingdom, this document is being distributed only to, and is directed only at, and any offer subsequently made may only be directed at persons who are qualified investors (as defined in the Prospectus Directive) (i) who have professional experience in matters relating to investments falling within Article 19 (5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the Order) and/or (ii) who are high net worth companies (or persons to whom it may otherwise be lawfully communicated) falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as relevant persons). This document must not be acted on or relied on in the United Kingdom by persons who are not relevant persons. In the United Kingdom, any investment or investment activity to which this document relates is only available to, and will be engaged in with, relevant persons.

Notice to Prospective Investors in Switzerland

The shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange (SIX) or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the shares or the offering may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering or marketing material relating to the offering, the company, the shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of shares will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA (FINMA), and the offer of shares has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes (CISA). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of shares.

Notice to Prospective Investors in the Dubai International Financial Centre

This prospectus relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (DFSA). This prospectus is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other

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person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this prospectus nor taken steps to verify the information set forth herein and has no responsibility for the prospectus. The shares to which this prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the shares offered should conduct their own due diligence on the shares. If you do not understand the contents of this prospectus you should consult an authorized financial advisor.

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LEGAL MATTERS

The validity of the issuance of the shares of common stock offered hereby will be passed upon for us by Davis Polk & Wardwell LLP, Menlo Park, California. Latham & Watkins LLP, Menlo Park, California, is representing the underwriters in this offering.

EXPERTS

The consolidated financial statements of Angie s List, Inc. at December 31, 2010 and 2011, and for each of the three years in the period ended December 31, 2011, appearing in the prospectus and registration statement have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We electronically file our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, with the SEC. Any materials that we file with the Securities and Exchange Commission, including a copy of the registration statement and exhibits and schedules thereto, may be read and copied at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet website that contains reports, proxy and information statements and other information about issuers, like us, that file electronically with the SEC. The address of that site is www.sec.gov. You may obtain a free copy of our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and amendments to those reports with the SEC on our website at www.AngiesList.com. Our website and the information contained on or accessible through our website shall not be deemed to be incorporated into this prospectus or the registration statement of which it forms a part.

We have filed with the SEC, Washington, D.C. 20549, a registration statement on Form S-1 under the Securities Act with respect to the common stock offered hereby. This prospectus does not contain all of the information set forth in the registration statement and the exhibits and schedules thereto. For further information with respect to the company and its common stock, reference is made to the registration statement and the exhibits and any schedules filed therewith. Statements contained in this prospectus as to the contents of any contract or other document referred to are not necessarily complete and in each instance, if such contract or document is filed as an exhibit, reference is made to the copy of such contract or other document filed as an exhibit to the registration statement, each statement being qualified in all respects by such reference. You may read and obtain a copy of the registration statement and its exhibits and schedules from the SEC, as described in the preceding paragraph.

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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Angie s List, Inc.

We have audited the accompanying consolidated balance sheets of Angie s List, Inc. as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders and members equity (deficit), and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Angie s List, Inc. as of December 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Indianapolis, Indiana

March 15, 2012

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Angie s List, Inc.

Consolidated Balance Sheets

(in thousands, except share data)

	December 31, 2010	December 31, 2011
Assets		
Cash and cash equivalents	$ 9,209	$ 88,607
Restricted cash	300	300
Accounts receivable, net of allowance for doubtful accounts of $241 and $535 at December 31, 2010 and 2011	2,662	3,937
Related-party receivable	64	
Prepaid expenses and other current assets	5,703	11,835
Total current assets	17,938	104,679
Property and equipment, net	1,677	3,883
Goodwill	415	415
Amortizable intangible assets, net	1,145	1,555
Deferred financing fees, net	1,426	866
Total assets	$ 22,601	$ 111,398
Liabilities and stockholders equity (deficit)		
Accounts payable	$ 3,177	$ 5,266
Accrued liabilities	6,036	10,532
Deferred membership revenue	11,648	17,153
Deferred advertising revenue	8,188	13,643
Current maturities of long-term debt	7,267	
Total current liabilities	36,316	46,594
Long-term debt, including accrued interest	16,463	14,820
Deferred membership revenue, noncurrent	3,164	3,751
Deferred advertising revenue, noncurrent	261	239
Deferred income taxes	154	158
Total liabilities	56,358	65,562
Commitments and contingencies (*Note 8*)		
Stockholders equity (deficit):		
Convertible preferred stock, $0.001 par value: 2,789,719 shares authorized, 2,270,621 shares issued and 2,066,485 shares outstanding at December 31, 2010; no shares authorized, issued or outstanding at December 31, 2011	2	
Preferred stock, $0.001 par value: 10,000,000 shares authorized, no shares issued or outstanding at December 31, 2011; no shares authorized, issued or outstanding at December 31, 2010		
Common stock, $0.001 par value: 300,000,000 shares authorized, 65,491,897 and 32,953,008 shares issued and 56,933,185 and 28,245,600 shares outstanding at December 31, 2011 and December 31, 2010, respectively	33	65
Additional paid-in-capital	85,453	235,950
Treasury stock, at cost: 8,558,712 shares of common stock at December 31, 2011; 4,349,592 shares of common stock and 204,136 shares of convertible preferred stock at December 31, 2010	(1,822)	(23,719)

Accumulated deficit	(117,423)	(166,460)
Total stockholders equity (deficit)	(33,757)	45,836
Total liabilities and stockholders equity (deficit)	$ 22,601	$ 111,398

See accompanying notes.

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Angie s List, Inc.

Consolidated Statements of Operations

(in thousands, except share and per share data)

	Year Ended December 31, 2009	2010	2011
Revenue			
Membership	$ 20,434	$ 25,149	$ 33,815
Service provider	25,166	33,890	56,228
Total revenue	45,600	59,039	90,043
Operating expenses			
Operations and support	11,654	12,464	16,417
Selling	12,671	16,892	33,815
Marketing	16,114	30,237	56,122
Technology	5,062	6,270	9,109
General and administrative	8,699	16,302	18,740
Operating loss	(8,600)	(23,126)	(44,160)
Interest expense	3,381	3,966	3,004
Loss on debt extinguishment			1,830
Loss before income taxes	(11,981)	(27,092)	(48,994)
Income tax expense		154	43
Net loss	$ (11,981)	$ (27,246)	$ (49,037)
Net loss per common share basic and diluted	$ (0.45)	$ (0.99)	$ (1.60)
Weighted average number of common shares outstanding basic and diluted	26,666,918	27,603,927	30,655,532

See accompanying notes.

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Angie s List, Inc.

Consolidated Statements of Stockholders and Members Equity (Deficit)

(in thousands)

	Member Contributions	Convertible Preferred Stock	Common Stock	Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Total Equity/ (Deficit)
Balance at December 31, 2008	$ 53,518	$	$	$	$	$ (78,196)	$ (24,678)
Net loss						(11,981)	(11,981)
Class B vesting	76						76
Issuance of warrants	315						315
Balance at December 31, 2009	$ 53,909	$	$	$	$	$ (90,177)	$ (36,268)
Reorganization *(Note 1)*	(53,942)	2	33	53,907			
Net loss						(27,246)	(27,246)
Sale of preferred stock, net of costs				23,875			23,875
Distribution to stockholders	(60)			(36)			(96)
Repurchase of stock					(1,822)		(1,822)
Stock-based compensation	93			6,633			6,726
Issuance of warrants				1,074			1,074
Balance at December 31, 2010	$	$ 2	$ 33	$ 85,453	$ (1,822)	$ (117,423)	$ (33,757)
Net loss						(49,037)	(49,037)
Sale of preferred stock, net of costs		1		57,922			57,923
Preferred stock conversion		(3)	3				
Issuance of common stock, net of costs			29	88,536			88,565
Repurchase of stock					(21,897)		(21,897)
Stock-based compensation				3,842			3,842
Issuance of warrants				197			197
Balance at December 31, 2011	$	$	$ 65	$ 235,950	$ (23,719)	$ (166,460)	$ 45,836

See accompanying notes.

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Angie s List, Inc.

Consolidated Statements of Cash Flows

(in thousands)

	Year Ended December 31,		
	2009	**2010**	**2011**
Operating activities			
Net loss	$ (11,981)	$ (27,246)	$ (49,037)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	1,517	1,378	1,660
Deferred income taxes		154	4
Accrued interest due on debt maturity date	716	1,226	625
Amortization of debt discount and deferred financing fees	283	615	596
Noncash compensation expense	76	6,699	3,842
Noncash loss on debt extinguishment			1,075
Changes in certain assets:			
Accounts receivable	(440)	(662)	(1,275)
Prepaid expenses and other current assets	(106)	(1,688)	(6,068)
Changes in certain liabilities:			
Accounts payable	864	718	2,089
Accrued liabilities	120	2,490	4,497
Accrued interest on long-term debt			(2,668)
Deferred advertising revenue	1,729	1,859	5,433
Deferred membership revenue	1,916	3,378	6,092
Net cash used in operating activities	(5,306)	(11,079)	(33,135)
Investing activities			
Restricted cash	850	(150)	
Property and equipment	(449)	(629)	(3,085)
Data acquisition costs	(576)	(789)	(1,191)
Net cash used in investing activities	(175)	(1,568)	(4,276)
Financing activities			
Borrowings under lines of credit			10,000
Payments under lines of credit			(10,000)
Principal payments on long-term debt	(168)	(2,036)	(21,797)
Proceeds from long-term debt			15,000
Payments on capital lease obligations	(107)	(81)	(41)
Purchases of treasury stock		(1,822)	(21,897)
Distributions to stockholders		(96)	
Cash paid for financing costs	(14)		(944)
Proceeds from initial public stock offering, net of fees			88,565
Sale of preferred stock, net of costs		23,875	57,923
Net cash provided by (used in) financing activities	(289)	19,840	116,809
Net increase (decrease) in cash	(5,770)	7,193	79,398
Cash and cash equivalents, beginning of period	7,786	2,016	9,209
Cash and cash equivalents, end of period	$ 2,016	$ 9,209	$ 88,607

Supplemental cash flow disclosures			
Cash paid for interest	$ 2,393	$ 2,057	$ 4,899
Cash paid for income taxes			

See accompanying notes.

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Angie s List, Inc.

Notes to Consolidated Financial Statements

Years Ended December 31, 2009, 2010, and 2011

(in thousands, except share and per share data)

1. Summary of Significant Accounting Policies

Nature of Operations and Reorganization

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

Angie s List, Inc. was formed as a Delaware corporation effective April 23, 2010, for the purpose of reorganizing the structure of Brownstone Publishing, LLC (Brownstone). Effective April 30, 2010, the unit holders of Brownstone contributed all of their units to Angie s List, Inc. in return for shares of common and preferred stock. Brownstone had certain debt and warrants outstanding which were assumed by Angie s List, Inc., including the note payable and subordinated note payable discussed in Note 7. Certain warrants were converted to common shares and new warrants were issued, as discussed in Note 15.

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

Principles of Consolidation

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

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

Estimates

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

Common Stock Split

On October 31, 2011, the Company effected an eight-for-one split of its common stock by way of a stock dividend. As a result of the stock split, holders of the Company s common stock received seven additional

Angie s List, Inc.

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

shares of common stock for every share held on such date, and a proportionate adjustment was made to the applicable conversion prices for each share of the Company s outstanding convertible preferred stock (see Note 11). All share and per share amounts for all periods presented in these consolidated financial statements and notes thereto have been adjusted retroactively, where applicable, to reflect this stock split and the adjustment of the convertible preferred stock conversion prices.

Revenue Recognition and Deferred Revenue

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

Membership Revenue

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

At the time a member joins, the Company may receive a one-time nonrefundable enrollment fee. Enrollment fees are deferred and recognized on a straight-line basis over an estimated average membership life of 60 months for annual or multi-year members and 13 months for monthly members, which is based on historical membership experience. The Company reviews the estimated average membership life on an annual basis, or more frequently if circumstances change. Changes in member behavior, performance, competition, and economic conditions may cause attrition levels to change, which could impact the estimated average membership life.

Service Provider Revenue

Revenue from the sale of advertising in the Company s publication is recognized in the month in which the Company s monthly publication is published and distributed. Revenue from the sale of website and call center advertising is recognized ratably over the time period the advertisements run.

Deferred Revenue

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

Cash and Cash Equivalents

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

Restricted Cash

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

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Angie s List, Inc.

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Accounts Receivable

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

Property and Equipment

Property and equipment, including assets from capital leases, are stated at cost and are depreciated over the estimated useful life of each asset. The Company s estimated lives for property and equipment range from 3 to 10 years. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the improvements. Depreciation is computed using the straight-line method. Repairs and routine maintenance are charged to expense as incurred.

Data Acquisition Costs

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

Long-Lived Assets

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

Goodwill

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

Sales Commissions

Commissions expense from the sale of service provider advertisements is recognized ratably over the term of the associated advertisement. The Company defers the recognition of commission expense until such

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Angie s List, Inc.

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

time as the revenue related to the customer contract for which the commission was paid is recognized. Deferred commissions for each contract are amortized to expense in a manner consistent with how revenue is recognized for such contract, resulting in straight-line recognition of expense over the contractual term. Unamortized commission expense of $10,486, and $5,301, as of December 31, 2011 and 2010, respectively, is included in prepaid expenses and other current assets in the accompanying consolidated balance sheets.

Deferred Financing Fees

In November 2009, the Company refinanced its senior debt with the lender, resulting in financing costs of $328, which were being amortized into interest expense over the amended term of the credit agreement. In April 2010, the Company refinanced its senior debt with the lender in connection with its reorganization, resulting in financing costs of $1,074, which were being amortized into interest expense over the remaining term of the credit agreement. In August 2011, in connection with its entry into a loan and security agreement, the Company incurred certain costs associated with these financing activities of $944, which are being amortized into interest expense over the term of the credit facility. Deferred financing fees, net of accumulated amortization, totaled $1,426 $866 and $866 at December 31, 2010 and 2011, respectively. Amortization expense of $201, $533, and $524 are included in interest expense in the consolidated statements of operations for the fiscal years ended December 31, 2009, 2010, and 2011, respectively. In connection with the extinguishment of its senior and subordinated loan agreements in August 2011, the Company expensed the unamortized portion of deferred financing fees associated with these loan agreements, which are included in the loss on debt extinguishment.

Income Taxes

Prior to April 30, 2010, the Company was a limited liability corporation (LLC) and elected to be treated as a partnership for income tax purposes. Therefore, the Company was not subject to federal and state income taxes for 2008 and 2009 (subject to exception in a limited number of state and local jurisdictions that did not recognize the LLC status). The Company reorganized and on April 30, 2010, the Company became subject to corporate-level federal and state income taxes at prevailing corporate rates. As a result of this conversion, the Company accounts for income taxes and the related accounts using the liability method in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes*. Under this method, the Company accrues income taxes payable or refundable and recognizes deferred tax assets and liabilities based on differences between the book and tax basis of assets and liabilities. The Company measures deferred tax assets and liabilities using enacted rates in effect for the years in which the differences are expected to reverse, and recognizes the effect of a change in enacted rates in the period of enactment. After determining the total amount of deferred tax assets, the Company determines whether it is more likely than not that some portion of the deferred tax assets will not be realized. If the Company determines that a deferred tax asset is not likely to be realized, a valuation allowance will be established against that asset to record it at its expected realizable value.

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

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Angie s List, Inc.

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Marketing Expense

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

Stock-Based Compensation

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

Fair Value of Financial Instruments

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

Sales and Use Tax

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

Recent Accounting Pronouncements

In January 2010, the FASB issued additional guidance that improves disclosure about fair value measures that were originally required. The new guidance is effective for interim and annual periods beginning after December 15, 2009, except for disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those years. The adoption of this guidance did not have an impact on the Company s financial position or results of operations.

In September 2011, the FASB issued Accounting Standards Update 2011-08 (ASU 2011-08), *Testing Goodwill for Impairment,* which amends Accounting Standards Codification 350, *Intangibles Goodwill and Other* (ASC 350). The amended guidance permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in ASC 350. The guidance provided in ASU 2011-08 is effective for annual and interim periods beginning after December 15, 2011 with early adoption permitted. The Company adopted this standard on December 31, 2011. The adoption of this standard did not have a significant effect on our consolidated financial statements.

Angie s List, Inc.

Notes to Consolidated Financial Statements (continued)

2. Net Loss Per Common Share

Basic and diluted net loss per common share is computed by dividing consolidated net loss by the weighted average number of common shares outstanding for the period. The weighted average number of common shares for all periods prior to April 30, 2010 is based on member units assuming conversion to common stock at the applicable ratios effective upon reorganization on April 30, 2010.

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

	December 31, 2010	December 31, 2011
Stock options	160,000	2,814,888
Restricted stock	357,816	
Preferred shares[1]	16,531,880	
Warrants	272,304	360,544

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

3. Prepaid Expenses and Other Current Assets

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

	December 31,	
	2010	2011
Prepaid and deferred commissions	$ 5,301	$ 10,486
Other	402	1,349
Total prepaid expenses and other current assets	$ 5,703	$ 11,835

4. Property and Equipment

Property and equipment was comprised of the following:

	December 31,	
	2010	2011
Furniture and equipment	$ 2,795	$ 4,490
Software	659	1,044
Leasehold improvements	786	917
	4,240	6,451
Less accumulated depreciation	(2,563)	(2,568)
	$ 1,677	$ 3,883

Depreciation expense for the years ended December 31, 2009, 2010, and 2011, was $675, $682, and $879, respectively.

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Angie s List, Inc.

Notes to Consolidated Financial Statements (continued)

5. Amortizable Intangible Assets

The Company has certain amortizable intangible assets consisting of data acquisition costs and an acquired member list. Amortization is computed using the straight-line method over the estimated lives of the assets, which approximates 36 months. Amortizable intangible assets at December 31 are as follows:

	Cost	Accumulated Amortization	Net	Weighted-Average Remaining Useful Life
2010				
Data acquisition costs	$ 1,992	$ 858	$ 1,134	2.0
Member list	782	771	11	0.1
	$ 2,774	$ 1,629	$ 1,145	
2011				
Data acquisition costs	$ 2,572	$ 1,017	$ 1,555	1.7

Amortization expense for the years ended December 31, 2009, 2010, and 2011, was $842, $696, and $781, respectively. The estimated amortization expense related to amortizable intangible assets at December 31, 2011, for each of the next five years is as follows: $768 in 2012, $563 in 2013, $224 in 2014 and none in 2015 or 2016.

6. Accrued Liabilities

Accrued liabilities were comprised of the following:

	December 31, 2010	December 31, 2011
Accrued sales commissions	$ 1,938	$ 3,609
Sales and use tax	1,550	1,430
Accrued compensation	1,026	2,293
Uninvoiced accounts payable	1,297	1,646
Other	225	1,554
Total accrued liabilities	$ 6,036	$ 10,532

7. Debt and Credit Arrangements

Debt was comprised of the following:

December 31,

	2010	2011
Term loan	$	$ 15,000
Note payable	15,797	
Accrued interest related to note payable	2,043	
Unsecured subordinated note payable	6,000	
Capital leases	41	
Debt discount on note payable	(151)	
Debt discount on term loan		(180)
	23,730	14,820
Less current maturities	(7,267)	
Total long-term debt, including accrued interest	$ 16,463	$ 14,820

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Angie s List, Inc.

Notes to Consolidated Financial Statements (continued)

7. Debt and Credit Arrangements (continued)

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

The loan and security agreement contains various restrictive covenants, including restrictions on the Company s ability to dispose of assets, make acquisitions or investments, incur debt or liens, make distributions to stockholders or enter into certain types of related party transactions. The Company is also required to comply with certain financial covenants, including a minimum asset coverage ratio, and non-financial covenants. Upon an event of default, which includes a material adverse change, the lenders may accelerate amounts outstanding, terminate the agreement and foreclose on all collateral. The Company was in compliance with all financial and non-financial covenants at December 31, 2011.

On November 1, 2009, the Company entered into an amended and restated note payable with a minority stockholder for $18,000, which bore interest at 6.71% and required monthly installments of $183, including interest, from November 2009 through October 2010; and $675, including interest, from November 2010 through maturity in January 2013. The note was secured by substantially all of the Company s assets. The note also required a payment due on the maturity date of $3,200 in additional interest, which was being accrued using the effective interest method. At December 31, 2010, the total amount accrued related to this payment was $2,043, which is included in the long-term debt balance. In connection with the note payable, the Company issued certain common stock warrants (see Note 15). The fair value of these warrants has been recorded as a discount to the note payable, with $151 remaining to be amortized as interest expense as of December 31, 2010.

On November 26, 2008, the Company entered into an unsecured subordinated note payable with a minority stockholder for $6,000, which bore interest at 12% per annum and was set to mature in November 2013. In addition, incremental interest is computed at 4.25% per annum, accruing monthly, and payable monthly or, at the option of the Company, deferred and added to the outstanding principal balance. All principal and remaining interest were due upon maturity.

On August 31, 2011, the Company repaid in full the outstanding balance of $14,178, including additional interest of $3,200 ($2,668 of which had been accrued as of August 31, 2011), and prepayment penalties in the amount of $220 under the prior note payable and terminated the related amended and restated loan and security agreement. On the same date, the Company also paid $6,087 to the holders of the senior subordinated note in satisfaction of the principal, interest and other fees due thereunder. The prepayment penalties, unaccrued additional interest and other fees are included in the loss on debt extinguishment within the consolidated statement of operations for 2011.

Angie s List, Inc.

Notes to Consolidated Financial Statements (continued)

7. Debt and Credit Arrangements (continued)

The Company has entered into various capital leases, which were payable in monthly installments, with interest imputed at rates ranging from 12.165% to 15.566%. At December 31, 2011, there were no outstanding obligations under capital leases. Property and equipment include $88 of property under capital leases at December 31, 2010.

8. Commitments and Contingencies

Operating Leases

The Company has several long-term noncancellable operating leases for offices, parking lots, and equipment that expire in various years through 2015. These leases generally contain renewal options for periods ranging from three to five years and require the Company to pay all executory costs (property taxes, maintenance, and insurance). Rental payments include minimum rentals.

The leases for office space and parking lots are with an entity majority owned by the Company s Chief Executive Officer, as discussed in Note 16. These lease agreements have terms of 60 months.

Future minimum lease payments required under long-term noncancellable operating leases at December 31, 2011, were:

	Unrelated Lessors	Related Parties	Total
Payable in			
2012	$ 45	$ 1,041	$ 1,086
2013	45	1,018	1,063
2014	23	170	193
2015	4		4
	$ 117	$ 2,229	$ 2,346

Rental expense for all operating leases totaled $725, $726, and $915, and in 2009, 2010, and 2011, respectively.

Legal Matters

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

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Angie s List, Inc.

Notes to Consolidated Financial Statements (continued)

9. Profit-Sharing Plan

The Company sponsors a 401(k) profit-sharing plan (the Plan) covering substantially all of its personnel. The Company s contributions to the Plan are discretionary. The Company contributed 3% for all eligible personnel, which totaled $437, $562, and $745 in 2009, 2010, and 2011, respectively.

10. Stock-Based Compensation

In April 2010, the Company adopted an Omnibus Incentive Plan (the Incentive Plan) in order to provide an incentive to certain executive officers, personnel, and directors. The plan was amended and restated effective August 2011 increasing the number of shares issuable to 5,090,496. As of December 31, 2011, there were 3,938,168 shares of common stock reserved under the Incentive Plan, of which 1,123,280 shares remained available for future grants.

Prior to April 30, 2010, the Company had two fixed option plans under which the Company granted options to its personnel to purchase membership units that vested over a period of time. All options outstanding under these plans were fully vested at April 30, 2010.

Stock and Member Unit Options

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

In connection with the contribution of all member units to the Company on April 30, 2010, all outstanding member unit options were cancelled. A summary of stock and member option activity, including options for member units prior to contribution and conversion, under the plans as of December 31, 2010 and 2011, and changes during the periods then ended are as follows:

	Number of Shares	Weighted-Average Price/Share	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2009	518,400	$ 0.23		
Granted	276,800	4.51		
Exercised	(116,800)	(0.23)		
Cancelled	(518,400)	(0.23)		
Outstanding at December 31, 2010	160,000	$ 7.63	9.75	$ 0
Granted	2,666,888	8.65		
Exercised				
Cancelled	(12,000)	(7.63)		
Outstanding at December 31, 2011	2,814,888	$ 8.60	9.52	$ 21,122

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Angie s List, Inc.

Notes to Consolidated Financial Statements (continued)

10. Stock-Based Compensation (continued)

	Number of Shares	Weighted-Average Price/Share	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Vested and Exercisable at December 31, 2010		$		$ 0
Unvested at December 31, 2010	160,000	7.63	9.75	
Vested and Exercisable at December 31, 2011	211,375	8.53	9.50	$ 1,601
Unvested at December 31, 2011	2,603,513	8.62	9.53	

As of December 31, 2010, all outstanding options had an exercise price of $7.63. The following table summarizes information about the stock options outstanding as of December 31, 2011:

			Exercisable	
Range of Exercise	Number of Shares Outstanding	Weighted Average Remaining Contractual Term	Number of Shares	Weighted-Average Remaining Contractual Term
$7.63	247,288	8.90	48,840	8.76
$8.50	2,074,496	9.51	157,050	9.48
$9.49	493,104	9.80	5,485	9.80

The fair value of the stock and member unit option grants under the plans was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions (no options were granted during 2009):

Year of Grant	Risk-free Interest Rate	Dividend Yield	Expected Term (In Years)	Volatility Factor
2010	0.62%	0%	4.0	37.0%
2011	1.26%	0%	4.7	50.0%

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

The weighted-average grant date fair value of options granted during 2010 and 2011 was $4.38 and $3.71 per share, respectively. No options were granted during 2009. The total intrinsic value of options exercised during 2009 and 2010 was $0 and $849, respectively. There were no options exercised in 2011. The Company recognized compensation expense of $0, $849, and $1,673 in the consolidated statements of operations related to stock and member unit options in 2009, 2010, and 2011, respectively. As of December 31, 2011, total compensation expense related to non-vested options not yet recognized was $7,114 which will be recognized over the remaining weighted-average life of the awards.

Restricted Stock

The restricted stock granted vests over various periods in accordance with the respective grant agreement. The fair value of restricted stock on the date of grant is amortized on a straight-line basis over the

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Angie s List, Inc.

Notes to Consolidated Financial Statements (continued)

10. Stock-Based Compensation (continued)

requisite vesting period, with the amount of compensation expense recognized at any date at least equal to the portion of the grant date value of the award that is vested at that date.

A summary of restricted stock (units) activity is as follows:

	Number of Shares (Units)	Weighted-Average Price / Share (Unit)	Average Remaining Life (In Years)
Outstanding at December 31, 2009		$	
Granted	1,106,248	7.41	
Vested and issued	(687,888)	7.56	
Cancelled	(60,544)	4.41	
Outstanding at December 31, 2010	357,816	7.63	1.02
Granted			
Vested and issued	(357,816)	7.63	
Cancelled			
Outstanding at December 31, 2011			

There were no restricted stock grants during 2009.

The Company recognized compensation expense of $5,790 and $2,169 in the consolidated statement of operations related to restricted stock in 2010 and 2011, respectively.

Profits Interest Plan

Prior to 2010, the Company issued Class B member units representing profits interest units to certain key personnel and members under a Profits Interest Plan. These units, when vested, had voting rights and typically vested immediately or over a three to five year period unless a change in control of the Company occurred, as defined in the agreement. If a Class B unit holder left the Company, these units could be repurchased by the Company at or below their fair market value, as determined by the Company s Board of Managers.

At December 31, 2009, there were 427,514 Class B member units authorized, 349,129 units issued and 236,067 units outstanding. At December 31, 2009, there were 113,062 non-vested Class B member units, of which 81,241 vested prior to the reorganization of the Company on April 30, 2010. Vested Class B member units were converted into common shares upon the Company s reorganization and the remaining non-vested units were cancelled.

The fair value of the Class B units granted under the Profits Interest Plan was estimated at the date of grant using the Black-Scholes option-pricing model.

The estimated fair value of the Class B unit grants issued to members was amortized to expense over the requisite vesting period. The Company recorded compensation expense of $60 related to the Profits Interest Plan in 2010.

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Angie s List, Inc.

Notes to Consolidated Financial Statements (continued)

11. Convertible Preferred Stock

The Company has authorized and issued shares of convertible preferred stock as of December 31, 2010, as follows:

Convertible Preferred Stock	Authorized	Issued	Outstanding
Series A	763,397	763,397	559,261
Series B	1,136,438	1,136,438	1,136,438
Series C	889,884	370,786	370,786

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

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

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

12. Treasury Stock

In April 2011, the Company repurchased 1,940,744 shares of common stock for $16,496. Prior to the repurchase, a certain stockholder converted 14,096 shares of Series B and 29,663 shares of Series C preferred shares into common stock. Additionally, in June 2011, the Company repurchased 635,288 shares of common stock for $5,400. In December 2010, the Company repurchased 238,936 shares of common stock for $1,822.

The Company has 8,558,712 shares of its common stock in treasury stock as of December 31, 2011. Of these shares, the Company s wholly-owned subsidiary holds 5,743,744 shares of common stock.

13. Member Units

Brownstone had issued ownership interests to its investors in the form of member units. Each unit entitled the member to equal governance and voting rights. Allocations of net profits or losses varied by

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Angie s List, Inc.

Notes to Consolidated Financial Statements (continued)

13. Member Units (continued)

membership class, as stated in the Company s operating agreement. The Class D and E members were protected from further dilution. The personal liability of each member was limited to the amount of the member s capital contribution less any distributions. These member units were converted to common and preferred stock upon conversion to a C corporation on April 30, 2010.

At December 31, 2009, there were the following units authorized, issued, and outstanding:

Unit Class	Authorized	Issued	Outstanding
Class A	3,518,009	2,427,001	2,427,001
Class B	427,514	349,129	236,067
Class C	693,390	693,390	693,390
Class D	559,261	559,261	559,261
Class E	1,136,438	1,136,438	1,136,438

14. Income Taxes

Prior to April 30, 2010, the Company was an LLC and was treated as a partnership for income tax purposes. Therefore the Company was not subject to federal and state income taxes. On April 30, 2010, the Company reorganized and became a C corporation subject to corporate-level federal and state income taxes at prevailing corporate rates. As a result of the conversion, on April 30, 2010, the Company recorded a net deferred tax asset, before valuation allowance, of $25,443.

Deferred tax assets and liabilities are determined based on the difference between the book and tax basis of assets and liabilities using enacted tax rates to be in effect during the year in which the basis differences reverse.

Because management believes that it is more likely than not that the Company will not realize the full amount of the net deferred tax assets, the Company has recorded a valuation allowance for the deferred tax assets as of December 31, 2010 and 2011, respectively.

The components of income tax expense are summarized as follows:

	2010	2011
Current:		
U.S. federal	$	$
State		40
		40
Deferred:		
U.S. federal	128	6
State	26	(3)
	154	3

Income tax expense	$ 154	$ 43

Angie s List, Inc.

Notes to Consolidated Financial Statements (continued)

14. Income Taxes (continued)

The reconciliation of income tax expense computed at the U.S. federal statutory rate to the Company s effective tax rate for the year ended December 31, 2010 and 2011 is as follows:

	2010	2011
U.S. federal income tax rate	34.0%	34.0%
State income taxes, net of federal benefit	6.8	5.6
Valuation allowance	(40.2)	(36.7)
Other		(2.8)
Effective income tax rate	0.6%	0.1%

Had the Company been a C Corporation for the year ended December 31, 2009, the unaudited pro forma adjustment for income tax expense at an assumed combined federal, state, and local effective income tax rate of 40%, which approximates the statutory tax rate for each period, would have been zero because management believes that it is more likely than not that the Company will not realize the full amount of its net deferred tax assets, and thus, a full valuation allowance would have been included in the pro forma tax provision.

Deferred tax assets and liabilities reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company s deferred tax assets and liabilities as of December 31, 2010 and 2011, are as follows:

	2010	2011
Deferred tax assets:		
Deferred revenue	$ 5,436	$ 13,847
Intangibles other	15,655	14,313
Net operating loss carryforwards	14,156	27,317
Equity compensation		316
Other	1,030	1,027
Total deferred tax assets	36,277	56,820
Valuation allowance	(34,228)	(52,217)
Total net deferred tax assets	2,049	4,603
Deferred tax liabilities:		
Prepaids	(1,624)	(4,227)
Equity compensation	(408)	
Property and equipment	(17)	(376)
Goodwill	(154)	(158)
Total deferred tax liabilities	(2,203)	(4,761)

Total net deferred tax liability	$ (154)	$ (158)

As of December 31, 2011, the Company had net operating loss carryforwards for federal and state tax purposes of approximately $62,700 and $69,500, respectively. The federal net operating loss carryforwards will expire in future years beginning in 2027. The net operating losses may be subject to annual limitations of use

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Angie s List, Inc.

Notes to Consolidated Financial Statements (continued)

14. Income Taxes (continued)

under Internal Revenue Code Section 382. The Company files income tax returns in the U.S. federal jurisdiction and in various state jurisdictions. Income tax returns for calendar 2007 to present are open for examination in the federal jurisdiction and in significant state jurisdictions.

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

At December 31, 2010 and 2011, the Company did not have any material unrecognized income tax benefits recorded in its consolidated balance sheets.

15. Warrants

During 2011, the Company issued warrants to purchase 88,240 shares of common stock in connection with its loan and security agreement. These warrants are exercisable at the fair market value as of the grant date for a period of seven years from the grant date. The grant date fair value of the warrants was $2.23 per share, using the Black-Scholes option-pricing model.

During 2010, the Company issued warrants to purchase 272,304 shares of common stock in connection with an amendment to its note payable. On March 7, 2012, the holder of these 272,304 warrants to purchase common stock completed a net issuance exercise in accordance with the terms of their agreement, resulting in the issuance of 120,096 shares of common stock. During 2008 and 2009, the Company issued warrants to purchase 61,884 and 25,785 Class A units, respectively. These warrants are exercisable at the fair market value of the Company s common stock as of the grant date and are exercisable for a period of seven years from the grant date. The warrants were issued in 2009 and 2010 at prices of $26.18 and $8.43 per unit or share, respectively. The weighted average grant date fair value of warrants issued during 2009 and 2010 was $12.23 and $3.95 per unit or share, respectively, and were calculated using the Black-Scholes option-pricing model.

A summary of warrant activity is as follows:

	Warrants	Weighted-Average Exercise Price
Outstanding at December 31, 2009	87,669	$ 26.18
Issued	272,304	8.43
Exercised		
Forfeited		
Cancelled		
Converted to common stock in connection with reorganization	(87,669)	26.18
Outstanding at December 31, 2010	272,304	$ 8.43
Issued	88,240	8.50

Outstanding at December 31, 2011	360,544	$	8.45

Angie s List, Inc.

Notes to Consolidated Financial Statements (continued)

15. Warrants (continued)

In connection with the Company s reorganization on April 30, 2010, warrants to purchase 87,669 units were converted into 429,048 shares of common stock. Outstanding warrants at December 31, 2010 and 2011, had a weighted-average remaining contractual life of 6.3 years and 5.7 years, respectively. All outstanding warrants are exercisable as of December 31, 2011.

16. Related-Party Transactions

The Company is a party to agreements to lease office space and parking lots from an entity majority owned by its Chief Executive Officer. Rent expense and payments to this entity were $555, $660 and $856 for 2009, 2010 and 2011, respectively. The Company did not owe this entity any amounts as of December 31, 2010 and 2011.

At December 31, 2010, the lenders of the Company s senior debt owned 429,048 shares of the Company s common stock, respectively. At December 31, 2010, the lenders of the Company s subordinated debt owned 279,408 shares of the Company s common stock. Substantially all interest expense in 2011, 2010, and 2009 was a result of financing arrangements with these related parties. The outstanding balance of the senior debt and related accrued interest were paid in full during the year ended December 31, 2011.

In February 2009, the Company entered into a relationship with a vendor which provides email and transcription services. The vendor s president and primary owner is an immediate family member of one of the Company s officers. During 2010 and 2011, the Company paid $163 and $474, respectively, to this vendor for services provided. No formal contract exists between the Company and the vendor.

At December 31, 2010, the Company was owed approximately $64 by one of its stockholders. This amount was related to certain taxes incurred by the Company on behalf of the stockholder and is included in related-party receivables. The full amount was repaid in January 2011. There were no amounts receivable from stockholders as of December 31, 2011.

17. Quarterly Financial Information (Unaudited)

The table below sets forth selected quarterly financial data for each of the last two fiscal years ($ in thousands, except per share data). Each of the quarters presented was thirteen weeks in duration.

	Fiscal Year Ended December 31, 2010			
	First Quarter (unaudited)	Second Quarter (unaudited)	Third Quarter (unaudited)	Fourth Quarter (unaudited)
Total Revenue	$ 12,993	$ 14,480	$ 15,457	$ 16,109
Operating Loss	(3,115)	(5,756)	(7,026)	(7,229)
Net loss	(4,062)	(6,895)	(8,053)	(8,236)
Net loss per common share basic and diluted	$ (0.15)	$ (0.25)	$ (0.29)	$ (0.30)

	Fiscal Year Ended December 31, 2011			
	First Quarter (unaudited)	Second Quarter (unaudited)	Third Quarter (unaudited)	Fourth Quarter (unaudited)
Total Revenue	$ 17,628	$ 20,958	$ 24,008	$ 27,449

Operating Loss	(8,701)	(15,288)	(14,827)	(5,344)
Net loss	(9,636)	(16,160)	(17,369)	(5,872)
Net loss per common share basic and diluted	$ (0.34)	$ (0.60)	$ (0.66)	$ (0.14)

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Angie s List, Inc.

Notes to Consolidated Financial Statements (continued)

17. Quarterly Financial Information (Unaudited) (continued)

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

The 2011 information presented above includes a loss on debt extinguishment in the third quarter of $1,830 related to the refinancing of the Company s debt obligations and $1,069 of non-cash stock-based compensation expense in the fourth quarter related to the immediate vesting of restricted stock units. The 2010 information presented above includes $5,757 of non-cash stock-based compensation expense in the fourth related to the grant of stock options and restricted stock units.

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Angie s List, Inc.

Consolidated Balance Sheets

(in thousands, except share and per share data)

	December 31, 2011	March 31, 2012 (Unaudited)
Assets		
Cash and cash equivalents	$ 88,607	$ 84,570
Restricted cash	300	50
Accounts receivable, net of allowance for doubtful accounts of $755 and $535 at March 31, 2012 and December 31, 2011	3,937	5,230
Prepaid expenses and other current assets	11,835	15,589
Total current assets	104,679	105,439
Property and equipment, net	3,883	4,915
Goodwill	415	415
Amortizable intangible assets, net	1,555	2,027
Deferred financing fees, net	866	813
Total assets	$ 111,398	$ 113,609
Liabilities and stockholders equity		
Accounts payable	$ 5,266	$ 2,804
Accrued liabilities	10,532	23,848
Deferred membership revenue	17,153	18,293
Deferred advertising revenue	13,643	16,401
Total current liabilities	46,594	61,346
Long-term debt, including accrued interest	14,820	14,832
Deferred membership revenue, noncurrent	3,751	3,919
Deferred advertising revenue, noncurrent	239	272
Deferred income taxes	158	158
Total liabilities	65,562	80,527
Commitments and contingencies (*Note 6*)		
Stockholders equity:		
Preferred stock, $0.001 par value: 10,000,000 shares authorized, no shares issued or outstanding at March 31, 2012 and December 31, 2011		
Common stock, $0.001 par value: 300,000,000 shares authorized, 65,613,993 and 65,491,897 shares issued and 57,055,281 and 56,933,185 shares outstanding at March 31, 2012 and December 31, 2011, respectively	65	66
Additional paid-in-capital	235,950	236,645
Treasury stock, at cost: 8,558,712 shares of common stock at March 31, 2012 and December 31, 2011	(23,719)	(23,719)
Accumulated deficit	(166,460)	(179,910)
Total stockholders equity	45,836	33,082
Total liabilities and stockholders equity	$ 111,398	$ 113,609

See accompanying notes.

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Angie s List, Inc.

Consolidated Statements of Operations

(in thousands, except share and per share data)

	Three Months Ended March 31, 2011	2012
	(Unaudited)	
Revenue		
Membership	$ 7,033	$ 9,975
Service provider	10,595	21,119
Total revenue	17,628	31,094
Operating expenses		
Operations and support	3,399	5,775
Selling	6,084	12,409
Marketing	11,099	17,606
Technology	1,843	3,127
General and administrative	3,904	5,171
Operating loss	(8,701)	(12,994)
Interest expense	935	456
Loss before income taxes	(9,636)	(13,450)
Income tax expense		
Net loss	$ (9,636)	$ (13,450)
Net loss per common share basic and diluted	$ (0.34)	$ (0.24)
Weighted average number of common shares outstanding basic and diluted	28,346,204	56,963,649

See accompanying notes.

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Angie s List, Inc.

Consolidated Statements of Cash Flows

(in thousands)

	Three Months Ended March 31, 2011	2012
	(Unaudited)	
Operating activities		
Net loss	$ (9,636)	$ (13,450)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	370	529
Accrued interest due on debt maturity date	261	
Amortization of debt discount and deferred financing fees	188	65
Noncash compensation expense	593	680
Changes in certain assets:		
Accounts receivable	(304)	(1,293)
Prepaid expenses and other current assets	(1,387)	(3,754)
Changes in certain liabilities:		
Accounts payable	(1,951)	(2,462)
Accrued liabilities	6,795	13,316
Deferred advertising revenue	1,443	2,791
Deferred membership revenue	305	1,308
Net cash used in operating activities	(3,323)	(2,270)
Investing activities		
Restricted cash		250
Property and equipment	(617)	(1,318)
Data acquisition costs	(167)	(715)
Net cash used in investing activities	(784)	(1,783)
Financing activities		
Principal payments on long-term debt	(1,782)	
Proceeds from exercise of stock options		16
Payments on capital lease obligations	(12)	
Sale of preferred stock, net of costs	51,592	
Net cash provided by financing activities	49,798	16
Net increase (decrease) in cash	45,691	(4,037)
Cash and cash equivalents, beginning of period	9,209	88,607
Cash and cash equivalents, end of period	$ 54,900	$ 84,570

See accompanying notes.

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Angie s List, Inc.

Notes to Consolidated Financial Statements

(Unaudited)

(in thousands, except share and per share data)

1. Summary of Significant Accounting Policies

Nature of Operations and Reorganization

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

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

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

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

Principles of Consolidation

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

Revenue Recognition and Deferred Revenue

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

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Membership Revenue

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

At the time a member joins, the Company may receive a one-time nonrefundable enrollment fee. Enrollment fees are deferred and recognized on a straight-line basis over an estimated average membership life of 68 months for annual or multi-year members and 12 months for monthly members, which is based on historical membership experience. The Company reviews the estimated average membership life on an annual basis, or more frequently if circumstances change. Changes in member behavior, performance, competition, and economic conditions may cause attrition levels to change, which could impact the estimated average membership life.

Service Provider Revenue

Revenue from the sale of advertising in the Company s publication is recognized in the month in which the Company s monthly publication is published and distributed. Revenue from the sale of website and call center advertising is recognized ratably over the time period the advertisements run. Revenue from e-commerce vouchers is recognized on a net basis when the voucher has been delivered to the purchaser. During the three months ended March 31, 2011 and 2012 our e-commerce revenue was $661 and $3,771 of total service provider revenue, respectively.

2. Net Loss Per Common Share

Basic and diluted net loss per common share is computed by dividing consolidated net loss by the weighted average number of common shares outstanding for the period.

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

	March 31, 2011	March 31, 2012
Stock options	259,288	2,850,358
Restricted stock	236,776	
Preferred shares[(1)]	22,593,672	
Warrants	272,304	88,240

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

3. Prepaid and other current assets

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

	December 31, 2011	March 31, 2012
Prepaid and deferred commissions	$ 10,486	$ 13,843
Other	1,349	1,746
Total prepaid expenses and other current assets	$ 11,835	$ 15,589

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4. Accrued liabilities

Accrued liabilities were comprised of the following:

	December 31, 2011	March 31, 2012
Accrued sales commissions	$ 3,609	$ 5,383
Sales and use tax	1,430	1,495
Accrued compensation	2,293	3,028
Uninvoiced accounts payable	1,646	10,112
Other	1,554	3,830
Total accrued liabilities	$ 10,532	$ 23,848

5. Debt and Credit Arrangements

On August 31, 2011, the Company entered into a loan and security agreement that provides for a $15,000 term loan and a $15,000 revolving credit facility. As of March 31, 2012 and December 31, 2011, the Company had $15,000 in outstanding borrowings under the term loan and available credit of $15,000 under the revolving credit facility.

The loan and security agreement contains various restrictive covenants, including restrictions on the Company s ability to dispose of assets, make acquisitions or investments, incur debt or liens, make distributions to stockholders or enter into certain types of related party transactions. The Company is also required to comply with certain financial covenants, including a minimum asset coverage ratio, and non-financial covenants. Upon an event of default, which includes a material adverse change, the lenders may accelerate amounts outstanding, terminate the agreement and foreclose on all collateral. The Company was in compliance with all financial and non-financial covenants at March 31, 2012 and December 31, 2011.

6. Commitments and Contingencies

Legal Matters

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

7. Warrants

During 2010, the Company issued warrants to purchase 272,304 shares of common stock in connection with an amendment to its note payable. During the quarter ended March 31, 2012, the holder of these 272,304 warrants completed a net issuance exercise in accordance with the terms of the warrants, resulting in the issuance of 120,096 shares of common stock.

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8,440,423 Shares

Common Stock

PROSPECTUS

BofA Merrill Lynch

Stifel Nicolaus Weisel

Allen & Company LLC

RBC Capital Markets

Janney Montgomery Scott

Oppenheimer & Co.

CODE Advisors

Wells Fargo Securities

ThinkEquity LLC

May 15, 2012