

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF INDIANA  
INDIANAPOLIS DIVISION

EVA and HAROLD BARON, Individually and: No.  
on Behalf of All Others Similarly Situated, :

Plaintiffs, :

vs. :

ANGIE'S LIST, INC., WILLIAM S.  
OESTERLE, ANGELA R. HICKS  
BOWMAN, CHARLES HUNDT, ROBERT R.  
MILLARD and THAPAR MANU, :

Defendants. :

CLASS ACTION

COMPLAINT FOR VIOLATION OF THE  
FEDERAL SECURITIES LAWS

DEMAND FOR JURY TRIAL

Plaintiffs Eva and Harold Baron (“Plaintiffs”) allege the following based upon the investigation of Plaintiffs’ counsel, which included a review of United States Securities and Exchange Commission (“SEC”) filings by the Angie’s List, Inc. (“Angie’s List” or the “Company”), as well as regulatory filings and reports, securities analysts’ reports and advisories about the Company, press releases and other public statements issued by the Company, and media reports about the Company, and Plaintiffs believe that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

### **NATURE OF THE ACTION**

1. This is a federal securities class action on behalf of purchasers of the common stock of Angie’s List between February 14, 2013 and October 23, 2013, inclusive (the “Class Period”), seeking to pursue remedies under the Securities Exchange Act of 1934 (the “Exchange Act”).

### **JURISDICTION AND VENUE**

2. The claims asserted herein arise under and pursuant to §§10(b) and 20(a) of the Exchange Act [15 U.S.C. §§78j(b) and 78t(a)] and Rule 10b-5 promulgated thereunder by the SEC [17 C.F.R. §240.10b-5].

3. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §1331 and §27 of the Exchange Act [15 U.S.C. §78aa].

4. Venue is proper in this District pursuant to §27 of the Exchange Act, and 28 U.S.C. §1391(b), as many of the acts and practices complained of herein occurred in substantial part in this District.

5. In connection with the acts alleged in this Complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not

limited to, the mails, interstate telephone communications and the facilities of the national securities markets.

## PARTIES

6. Plaintiffs, Eva and Harold Baron, as set forth in the accompanying certification and incorporated by reference herein, purchased the common stock of Angie’s List during the Class Period and have been damaged thereby.

7. Defendant Angie’s List operates a website that provides customer referrals to local service providers across the U.S. and, using a subscription-based business model, provides reviews of local service providers purportedly authored by other locals. Following the Company’s 2011 initial public stock offering (“IPO”), the Company’s common stock has traded on the NASDAQ National Market (“NASDAQ”) under the ticker symbol “ANGI.” As of October 23, 2013, the Company had more than 58 million shares of common stock issued and outstanding.

8. Defendant William S. Oesterle (“Oesterle”) is, and was throughout the Class Period, a co-founder, Chief Executive Officer (“CEO”) and a director of Angie’s List. Defendant Oesterle made the following sales of Angie’s List stock during the Class Period at times and amounts that were unusual both in scope and timing in light of his past trading in Angie’s List stock:

DATE	NO. OF SHARES SOLD	PRICE	PROCEEDS
February 19, 2013	64,000	\$17.22	\$1,102,080
February 20, 2013	12,800	\$17.23	\$220,544
March 7, 2013	12,800	\$19.41	\$248,448
March 8, 2013	12,800	\$19.27	\$246,656
March 19, 2013	12,800	\$19.07	\$244,096
March 20, 2013	12,800	\$19.10	\$244,480
April 2, 2013	12,800	\$19.74	\$252,672
April 3, 2013	12,800	\$18.74	\$239,872
April 15, 2013	12,800	\$19.94	\$255,232
April 16, 2013	12,800	\$20.47	\$262,016
April 30, 2013	12,800	\$24.00	\$307,200
May 1, 2013	12,800	\$23.74	\$303,872

May 21, 2013	12,800	\$24.23	\$310,144
May 22, 2013	12,800	\$23.58	\$301,824
June 6, 2013	12,800	\$23.08	\$295,424
June 7, 2013	12,800	\$23.92	\$306,176
June 17, 2013	12,800	\$26.58	\$340,209
Jun 18, 2013	12,800	\$26.62	\$340,698
July 2, 2013	12,800	\$26.29	\$336,529
July 3, 2013	12,800	\$26.82	\$343,283
July 16, 2013	12,800	\$25.11	\$321,408
July 17, 2013	12,800	\$27.11	\$347,008
July 29, 2013	12,800	\$23.34	\$298,752
July 30, 2013	12,800	\$22.82	\$292,096
August 15, 2013	12,800	\$23.34	\$298,752
August 16, 2013	12,800	\$22.61	\$289,408
August 26, 2013	12,800	\$20.96	\$268,288
August 27, 2013	12,800	\$19.52	\$249,856
September 19, 2013	12,800	\$21.30	\$272,640
September 20, 2013	12,800	\$22.23	\$284,544
September 30, 2013	12,800	\$23.37	\$299,136
October 1, 2013	12,800	\$20.94	\$268,032
October 17, 2013	12,800	\$15.19	\$194,432
October 18, 2013	<u>12,800</u>	\$15.28	<u>\$195,584</u>
<b>Total</b>	<b>486,400</b>		<b>\$10,381,391</b>

9. Defendant Angela R. Hicks Bowman (“Hicks Bowman”) is, and was throughout the Class Period, a co-founder, Chief Marketing Officer and a director of Angie’s List (since March 12, 2013). Defendant Hicks Bowman made the following sales of Angie’s List stock during the Class Period at times and amounts that were unusual both in scope and timing in light of her past trading in Angie’s List stock:

DATE	NO. OF SHARES SOLD	PRICE	PROCEEDS
March 25, 2013	3,000	\$18.84	\$56,520
April 25, 2013	3,000	\$23.00	\$69,000
May 28, 2013	3,000	\$23.92	\$71,760
June 25, 2013	3,000	\$26.62	\$79,860
July 25, 2013	3,000	\$25.02	\$75,060
August 26, 2013	3,000	\$21.04	\$63,120
September 25, 2013	<u>3,000</u>	\$24.06	<u>\$72,180</u>
	<b>21,000</b>		<b>\$487,500</b>

10. Defendant Charles Hundt (“Hundt”) has served as Angie’s List’s Contoller since 2007 and served as Angie’s List’s Interim Chief Financial Officer (“CFO”) between April 1, 2013 and August 21, 2013. Defendant Hundt made the following sales of Angie’s List stock

during the Class Period at times and amounts that were unusual both in scope and timing in light of his past trading in Angie’s List stock:

<b>DATE</b>	<b>NO. OF SHARES SOLD</b>	<b>PRICE</b>	<b>PROCEEDS</b>
April 3, 2013	5,000	\$19.59	\$97,950
April 10, 2013	5,000	\$19.23	\$96,150
April 17, 2013	5,000	\$20.56	\$102,800
April 24, 2013	5,000	\$20.39	\$101,950
May 1, 2013	5,000	\$24.19	\$120,950
May 8, 2013	5,000	\$23.01	\$115,050
May 15, 2013	5,000	\$25.21	\$126,050
May 22, 2013	5,000	\$23.99	\$119,950
<b>Total</b>	<b>40,000</b>		<b>\$880,850</b>

11. Defendant Robert R. Millard (“Millard”) served as Angie’s List’s CFO from 2011 through and including his March 14, 2013 resignation effective April 1, 2013.

12. Defendant Thapar Manu (“Manu”) was, from 2011 until his employment was terminated on September 30, 2013, the Chief Technology Officer of Angie’s List. Defendant Manu made the following sales of Angie’s List stock during the Class Period at times and amounts that were unusual both in scope and timing in light of his past trading in Angie’s List stock:

<b>DATE</b>	<b>NO. OF SHARES SOLD</b>	<b>PRICE</b>	<b>PROCEEDS</b>
February 14, 2013	3,500	\$17.39	\$60,865
February 19, 2013	3,500	\$16.49	\$57,715
February 21, 2013	3,500	\$16.68	\$58,380
February 25, 2013	3,500	\$16.68	\$58,380
February 27, 2013	3,500	\$16.00	\$56,000
March 4, 2013	3,500	\$17.24	\$60,340
March 6, 2013	3,500	\$17.85	\$62,475
March 11, 2013	3,500	\$19.32	\$67,620
March 13, 2013	3,500	\$19.11	\$66,885
March 18, 2013	3,500	\$19.40	\$67,900
March 20, 2013	3,500	\$18.93	\$66,255
March 25, 2013	3,500	\$18.84	\$65,940
March 27, 2013	1,746	\$19.72	\$34,431
May 6, 2013	2,624	\$23.45	\$61,532
May 13, 2013	1,000	\$23.45	\$23,450
May 20, 2013	1,000	\$24.55	\$24,550
May 28, 2013	1,000	\$23.68	\$23,680
June 3, 2013	1,000	\$23.50	\$23,500
June 10, 2013	1,000	\$25.31	\$25,310
June 17, 2013	1,000	\$26.00	\$26,000
June 24, 2013	1,000	\$26.93	\$26,930
July 1, 2013	1,000	\$26.17	\$26,170

July 8, 2013	1,000	\$28.11	\$28,110
July 15, 2013	1,000	\$24.75	\$24,750
July 22, 2013	1,000	\$27.01	\$27,010
July 29, 2013	1,000	\$23.38	\$23,380
August 5, 2013	1,000	\$23.13	\$23,130
August 12, 2013	1,000	\$23.92	\$23,920
August 19, 2013	1,000	\$22.52	\$22,520
August 26, 2013	1,000	\$21.04	\$21,040
September 9, 2013	2,000	\$21.00	\$42,000
September 16, 2013	2,000	\$21.23	\$42,460
September 23, 2013	<u>1,000</u>	\$22.00	<u>\$22,000</u>
<b>Total</b>	<b>67,370</b>		<b>\$1,344,628</b>

13. The defendants identified above in ¶¶8-12 are sometimes referred to herein as the “Individual Defendants.” Defendant Angie’s List and the Individual Defendants are referred to herein as “Defendants.”

14. Defendants are liable for: (i) making false statements; or (ii) failing to disclose adverse facts known to them about Angie’s List. Defendants’ fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of Angie’s List common stock was a success, as it: (i) deceived the investing public regarding Angie’s List’s prospects and business; (ii) artificially inflated the price of Angie’s List common stock; (iii) enabled certain of the Individual Defendants to sell more than **\$13 million** of their personally-held Angie’s List common stock to the unsuspecting public at fraud-inflated prices; and (iv) caused Plaintiffs and other members of the Class to purchase Angie’s List common stock at artificially inflated prices.

### **SUBSTANTIVE ALLEGATIONS**

15. Defendant Angie’s List was originally founded as Brownstone Publishing, LLC in 1995. The Company, which is headquartered in Indianapolis, Indiana, changed its name to Angie’s List, Inc. in April 2010 prior to its IPO.

16. Defendant Angie’s List operates a consumer-driven website that facilitates its members’ researching, hiring, rating, and reviewing of local professionals for home, health care, and automotive service needs. The Company offers both member-generated and non-member

generated ratings and reviews in 550 categories. During fiscal years 2012, 2011, and 2010, respectively, membership revenues accounted for approximately 31%, 38% and 43% of the Company's total revenues. Angie's List emphatically maintains that "You can't pay to be on Angie's List," a slogan which is of critical importance to buttressing the profitability of its business model of providing purportedly *unbiased reviews* in a world where consumers can obtain online reviews *for free* from a variety of reputable sources – including Yelp.com – which do not charge membership fees.

17. The Company has also traditionally charged service providers "listing fees" to be listed as an Angie's List preferred service provider, and given those preferred service providers priority in its search results. During fiscal years 2012, 2011, and 2010, respectively, these service provider revenues accounted for approximately 69%, 62% and 57% of the Company's total revenues. During the Class Period, however, Angie's List would change this part of its business model and actually begin collecting payment for the services being provided, deducting the Company's cut of the sales proceeds, and then paying the service provider the remainder of the fees collected.

18. The Class Period commences on February 14, 2013. On the evening of February 13, 2013, after the close of trading, Angie's List issued a press release announcing its financial results for its fourth quarter and fiscal 2012, ended December 31, 2012, and Angie's List's first quarter 2013 guidance. The release emphasized in its title, in pertinent part, as follows:

- *Fourth quarter revenues increased to \$46.2 million, up 68% over the prior year quarter*
- *Fourth quarter service provider revenue increased to \$32.5 million, up 83% over the prior year quarter*
- *Cost per acquisition ("CPA") in the fourth quarter was \$39, a decrease of 24% over the prior year period*

- *Fiscal year 2012 revenues increased to \$155.8 million, up 73% compared to fiscal year 2011*
- *Total paid memberships of 1,787,394 at December 31, 2012, up 66% year-over-year*

19. As to the Company's first quarter 2013, guidance, the release emphasized that the Company was then on track to achieve "[t]otal revenue in the range of \$51.0 million to \$52.0 million for the first quarter of 2013[,]" handily beating analyst expectations of just \$49.5 million, and "[m]arketing expense in the range of \$19.0 million to \$20.0 million for the first quarter of 2013."

20. The release also quoted Defendant Oesterle stating, in pertinent part, as follows about the Company's purported then-present strong business metrics and how they supported the Company's strong financial guidance:

*We had a great fourth quarter concluding an exceptional year. Entering 2012, we set specific operational objectives, and we exceeded them. We made significant investments in our business during the year and achieved meaningful strides in our ability to monetize our membership base.*

\* \* \*

We saw continued improvement in each of our cohorts marked by strong membership growth, higher penetration rates and increasing average revenue per market. Our penetration rate within the markets in our oldest cohort increased nearly 40 percent during 2012 with continued membership growth and high contribution. *The operating characteristics of our oldest cohort continue to demonstrate the potential for the entire business.*<sup>1</sup>

21. Later that evening, Angie's List held a conference call for analysts and investors to discuss the Company's financial results and operations – and in particular the strength of its business model. During the call, Defendants Oesterle, Hicks Bowman and Millard spoke positively about the Company's businesses and prospects.

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<sup>1</sup> All emphasis in bold in italics is added, unless otherwise noted.



22. On this news, the price of Angie's List stock increased from its close of \$13.62 on February 13, 2013 to close at \$16.86 per share on February 14, 2013, on unusually high trading volume of almost seven million shares trading.

23. As reported by *Investor's Business Daily* that day, in addition to reporting the Company's first quarterly profit in at least four years of \$.04 per share, where the market had previously been led to expect a \$.02 loss, and beating the market's revenue expectations of only \$45.7 million in sales, the market was encouraged by the statements that Angie's List was "paying less in marketing cost to attract new subscribers." Citing Defendant Hicks Bowman's comments on the conference call, *Investor's Business Daily* reiterated that "the [C]ompany's cost-per-acquisition for new subscribers fell 24% in Q4" and quoted Defendant Hicks Bowman, stating that the Company had "increased new member sales by 45% on an increase of only 10% in spend."

24. *Bloomberg's* report published that day, entitled "Angie's List Gains Most Since 2011 Trading Debut," added, in pertinent part, that the price of the Company's stock "surged to the highest price in more than 10 months *after forecasting sales that beat estimates* as more members pay to use the service." *Bloomberg* cited Aaron Kessler, an analyst at Raymond James & Associates, stating in his research report that "[l]ower marketing costs and bigger base of paid service providers have positioned the [C]ompany to rapidly grow revenues and boost investment in new products and technology," noting that he had upgraded the Company's stock rating to "buy" and raised his target price to \$22 from \$17.

25. On February 25, 2013, Angie's List filed its 2012 annual financial report on Form 10-K with the SEC, which was signed and certified as to veracity under the Sarbanes Oxley Act of 2002 by Defendants Oesterle and Millard. In a section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" ("MD&A"), the Form 10-K

described what it characterized as Angie’s List’s “predicable revenue stream” that the Company’s business model provided, stating, in pertinent part, as follows:

We generate revenue from both our members and our service providers. We derive membership revenue from subscription fees and, in certain cases, non-refundable initiation fees for monthly, annual and multi-year memberships. These fees typically are charged in advance. Subscription fees are recognized ratably over the subscription period and initiation fees are recognized ratably over the expected life of the membership. As of December 31, 2012, approximately 91% of our total membership base had purchased annual or multi-year memberships. ***These subscription fees represent a significant source of working capital and provide a relatively predictable revenue stream.***

We derive service provider revenue principally from term-based sales of advertising to local service providers. Our members grade local service providers on an “A” to “F” scale, and we invite local service providers with an average grade of “B” or better and at least two reviews submitted in the last three years to advertise to our members through any or all of our website, email promotions, monthly magazine and call center. As of December 31, 2012 approximately 332,000 local service providers rated by our members were eligible to offer discounts and other promotions to our members based on these criteria. Service provider contracts can be prepaid or invoiced monthly at the option of the service provider and carry an early termination penalty. We recognize service provider revenue ratably over the period in which an advertising campaign is run. We are expanding our service provider sales force to drive increased service provider revenue. ***Our high service provider renewal rates, both in number of service providers renewing and as a percentage of initial contract value renewed, have provided us with a relatively predictable revenue stream.***

26. The Form 10-K’s MD&A also discussed the Company’s purportedly growing paid memberships, revenues and profits, highlighting the purported success Angie’s List was then having with monetizing what was essentially word of mouth advertising:

As described further in the “Market Cohort Analysis” below, ***we believe that our estimated penetration rate and average revenue per market will increase*** as markets mature, and over the long term, we believe that ***these increased revenues will more than offset our operating expenses. . . . We believe that our high membership renewal rates and “word of mouth” referrals from existing members, combined with effective purchasing of lower volumes of advertising and increasing utilization of search engine optimization, or SEO, would enable us to maintain and potentially grow the size of our paid membership base at a lower level of overall advertising spending.***

\* \* \*

### *Market Cohort Analysis*

To analyze *our progress in executing our expansion plan*, we compile certain financial and operating data regarding markets we have entered grouped by the years in which the markets transitioned to paid membership status. The table below summarizes this data for 2012 by the following cohorts. The pre-2003 cohort includes our ten most established markets, where we initially built out our business model. The markets in this cohort include several mid-sized urban markets in the midwest as well as Chicago and Boston. The 2003 through 2007 cohort includes the first major subset of markets, including many of our largest potential markets, that we targeted in our national expansion strategy. ***The markets in these older cohorts have begun to achieve penetration rates that allow us to transition beyond introductory membership and advertising rates.*** The 2008-2010 and post-2010 cohorts include markets that have most recently converted to paid status and that still have predominantly introductory membership and advertising rates. The markets in these cohorts generally are smaller markets that we entered to fill out our national presence.

	# of Markets	Avg. Revenue/Market <sup>(1)</sup>	Membership Revenue/Paid Membership <sup>(2)</sup>	Service Provider Revenue/Paid Membership <sup>(3)</sup>	Avg. Marketing Expense/Market <sup>(4)</sup>	Total Paid Memberships <sup>(5)</sup>	Estimated Penetration Rate <sup>(6)</sup>	Annual Membership Growth Rate <sup>(7)</sup>
Pre-2003	10	\$ 4,689,796	\$ 43.08	\$ 111.48	1,241,670	358,180	8.5%	44%
2003-2007	35	2,716,037	37.59	85.12	1,292,726	973,101	6.3%	69%
2008-2010	103	125,483	15.86	23.66	182,286	414,710	6.5%	73%
Post 2010	71	10,606	12.92	16.05	52,555	41,403	3.3%	n/a
Total	219					1,787,394		

27. On March 5, 2013, Defendant Millard represented Angie’s List at the Deutsche Bank Securities dbAccess Media, Internet & Telecom Conference and provided additional positive comments about the Company’s then-present business metrics and financial guidance – emphasizing in particular the strength of the Company’s business model and the fact that the Company had been able to significantly reduce its customer acquisition costs in the fourth quarter of 2012.

28. On March 14, 2013, Angie’s List disclosed that Defendant Millard was stepping down as the Company’s CFO and that Defendant Hundt would serve as the Company’s Interim CFO until a permanent replacement could be located. The Company also disclosed that day that Defendant Hicks Bowman had been made a director of Angie’s List effective March 12, 2013.

29. On April 22, 2013, Angie’s List issued a press release entitled “Angie’s List Surpasses 2 Million Paid Households – More Than 16 Years to 1 Million; *18 Months to 2 Million.*” The release – which emphasized the purported gains the Company was *then making* with customers – stated, in pertinent part, as follows:

*Continuing its aggressive member growth pattern*, national consumer review service Angie’s List has topped the 2 million, paid-households mark.

Angie’s List passed the 2 million mark on Sunday, April 21, 2013.

“It took us more than 16 years to get to one million paid households but just 18 months to double it,” said Angie Hicks, who in 1995 co-founded the company with CEO Bill Oesterle in Columbus, Ohio.

“Realizing such momentum in membership growth is truly a testament to our commitment to help consumers find the best local service providers,” she added. *“Our members drive Angie’s List.”*

Angie’s List passed the 1 million paid household mark in October 2011 and finished March 31, 2013, with 1,951,774 paid households nationwide.

30. On April 24, 2013, after the close of trading, Angie’s List issued a press release announcing its first quarter 2013 financial results for the quarter ended March 30, 2013, and its second quarter 2013 financial guidance. The release highlighted the Company’s achievements as follows:

- *First quarter revenues increased to \$52.2 million, up 68% over the prior year quarter*
- *First quarter service provider revenue increased to \$37.5 million, up 78% over the prior year quarter*
- *Cost per acquisition (“CPA”) in the first quarter was \$72, a decrease of 12% over the prior year period*
- *Total paid memberships of 1,951,774 at March 31, 2013, up 60% year-over-year*
- *First quarter cash provided by operations of \$9.9 million*

31. In addition to providing second quarter 2013 financial guidance of “[t]otal revenue[s] in the range of \$58.5 million to \$59.5 million[,]” handily beating market expectations

of just \$57.2 million, and “[m]arketing expense[s] in the range of \$27.8 million to \$28.8 million[,]” the release quoted Defendant Oesterle touting the Company’s purportedly strong business model and its metrics being on track to achieve that guidance, stating, in pertinent part, as follows:

Our business grew very well in the first quarter, *achieving new records for membership*, service provider revenue and total revenue, *due to continued strong and consistent operating metrics*. We continue to gain operating leverage and produced cash flow from our operations. *Our first quarter performance demonstrates our ability to continue to rapidly grow our business and produce cash flow, while simultaneously, and significantly, increasing our investments in technology and products. These results reinforce our confidence in our strategy and the long-term operating and financial results we expect to produce.*

\* \* \*

Our cohorts continued to perform very well in the first quarter. *Each cohort recorded significant membership growth with higher penetration rates and increasing total revenue per average paid member.*

32. The release also quoted Defendant Hundt making the following positive statements about the Company’s then-present business metrics:

We remain focused on our unit economics and they continued to improve in the first quarter. We are pleased with the continued leverage we have achieved as well as our cash generated from operations during the period. We will continue to invest in acquiring new members, adding advertising service providers and innovating products to drive further scale and penetration, while maintaining secure levels of liquidity.

33. Later that afternoon, Angie’s List held a conference call for analysts and investors to discuss the Company’s financial performance and operations – and in particular the purported strength of its business model. During the call, Defendants Oesterle, Hicks Bowman and Hundt spoke positively about the Company’s businesses and prospects.

34. As reported by the *Associated Press* that day, rather than the loss of \$.14 per share on revenues of \$52.2 million reported that day, analysts had only been expecting a first quarter 2013 “loss of 17 cents per share on \$51.6 million in revenue.” The *Associated Press* lauded

Angie's List, saying that despite that the Company's "marketing expenses grew 12 percent to \$19.7 million," *"the investment is paying off in more subscribers and increased revenue."*

35. On this news, the price of Angie's List stock again increased precipitously from its close of \$20.11 on April 24, 2013, to close at \$25.92 per share on April 25, 2013, on unusually high trading volume of more than seven million shares trading.

36. On May 21, 2013, Defendant Oesterle represented Angie's List at the Stifel Nicolaus Internet, Media & Technology Conference and provided additional positive comments purportedly about the Company's then-present business metrics and financial guidance – again emphasizing in particular the strength of the Company's business model.

37. On June 4, 2013, Defendant Oesterle represented Angie's List at the Bank of America Merrill Lynch Global Technology Conference and provided additional positive comments about the Company's purported then-present business metrics and financial guidance – again emphasizing in particular the strength of the Company's business model.

38. On July 24, 2013, the Company issued a press release announcing its second quarter 2013 results for the period ended June 30, 2013, and its third quarter 2013 guidance. The release emphasized the following financial achievements in the quarter:

- *Second quarter revenues increased to \$59.2 million, up 62% over the prior year quarter*
- *Second quarter cash provided by operations of \$4.3 million; cash provided by operations for the six months ended June 30, 2013 of \$14.2 million*
- *Cost per acquisition ("CPA") in the second quarter was \$80, a decrease of 12% compared to the prior year period*

39. In addition to providing third quarter 2013 guidance of "[t]otal revenue[s] in the range of \$65.5 million to \$66.5 million" and "[m]arketing expense[s] in the range of \$28.1 million to \$29.1 million[,]" the press release quoted Defendant Oesterle emphasizing that the Company was on track to meet that guidance, stating, in pertinent part, as follows:

*We are reporting record levels for memberships added, service provider revenue and total revenue, as well as continued efficiencies in our cost per member acquired.* We achieved these results while simultaneously improving our operating leverage and producing cash flow.

\* \* \*

We recorded very good performance from each of our cohorts in the second quarter. *Each cohort recorded strong membership growth, higher penetration rates, and increasing average revenue per market and contribution.*

40. The release also quoted Defendant Hundt stating, in pertinent part, as follows:

We achieved record results in our financial and operating metrics, highlighted by a 40 percent improvement in our operating leverage and continued cash generation. *Our second quarter financial results, along with our strong operating metrics, demonstrate that our strategy continues to deliver growth and gives us confidence as we continue to invest in acquiring new members and advertising service providers and develop innovative products.*

41. Later that afternoon, Angie's List held a conference call for analysts and investors to discuss the Company's financial performance and operations – and in particular the strength of its business model. During the call, Defendants Oesterle, Hicks Bowman and Hundt spoke positively about the Company's businesses and prospects.

42. On August 14, 2013, Mark Howell ("Howell"), the Company's Chief Operating Officer, represented Angie's List at the Oppenheimer Technology Conference and provided additional positive comments about the Company's purported then-present business metrics and financial guidance – again emphasizing in particular the strength of the Company's business model.

43. On August 15, 2013, Howell represented Angie's List at the Canaccord Genuity Growth Conference and provided additional positive comments about the Company's purported then-present business metrics and financial guidance – again emphasizing in particular the strength of the Company's business model.

44. On August 21, 2013, Angie's List announced the appointment of Thomas R. Fox as the Company's CFO, effective September 24, 2013.

45. On September 12, 2013, Defendant Oesterle represented Angie's List at the Deutsche Bank dbAccess Technology Conference and provided additional positive comments about the Company's purported then-present business metrics and financial guidance – again emphasizing in particular the strength of the Company's business model.

46. Based on the positive mantra Defendants repeatedly provided about the purported strength of the Company's business model and demand for its services during the Class Period, the price of the Company's common stock soared, reaching a Class Period high of more than \$28 per share in intraday trading on July 18, 2013. Meanwhile, with the price of the Company's stock artificially-inflated based on their misstatements, certain of the Individual Defendants cashed in, with Defendant Oesterle selling 486,400 shares of Angie's List stock for more than \$10.38 million, Defendant Hicks Bowman selling 21,000 shares for \$487,500, Defendant Hundt selling 40,000 shares for \$880,850, and Defendant Manu selling 67,370 shares for more than \$1.34 million.

47. The statements in ¶¶18-21, 25-27, 29-33, 36-43 and 45 were each materially false and misleading because they failed to disclose the following adverse facts, which were known to Defendants or recklessly disregarded by them:

(a) that Angie's List was increasingly relying on providing free memberships in order to artificially boost its subscriber figures;

(b) that contrary to Angie's List's repeated Class Period statements that the online reviews providing the membership fees side of its business were unbiased because Angie's List did not permit service providers to buy ratings on its website ("You can't pay to be on Angie's List"), the Company was consistently deriving more than half of its revenues from



the service provider side of its business – where it relied heavily on collecting fees for listing paid service providers more prominently;

(c) that because Angie’s List charged services providers hundreds of dollars for “hot leads,” service providers were faced with the hobson’s choice of charging above market prices for basic, run-of-the-mill services (that could be procured by consumers for cheaper prices) in order to absorb the extraordinarily high referral fees Angie’s List was charging – or simply abandoning Angie’s List;

(d) that the legitimacy of the service provider side of Angie’s List’s business model was dubious, as service providers were forced to pay Angie’s List thousands of dollars a year in order to be listed as highly rated service providers, and if they did not, they would not get customer referrals from Angie’s List;

(e) that Angie’s List did not vet the service providers listed and recommended on its website, either for qualifications or for safety, leading many consumers to question the value of its recommendations, causing them to be unwilling to pay outsized membership fees; and

(f) as a result of the foregoing, Defendants lacked a reasonable basis for their positive statements about Angie’s List and its business, earnings and financial prospects.

48. Suddenly, on September 30, 2013, Angie’s List disclosed that Defendant Manu’s employment with the Company as its Chief Technology Officer had been terminated effective immediately on September 27, 2013 – without explanation – and without naming a replacement. On this news, the price of the Company’s common stock declined approximately 10%, falling from its close of \$22.49 per share on September 30, 2013, to close at \$20.30 per share on October 1, 2013, on unusually high trading volume of more than 3.4 million shares trading, more than twice the average daily trading volume over the preceding ten days.

49. Then, on October 2, 2013, approximately ten minutes before the close of regular market hours trading on the NASDAQ, the *Wall Street Journal* published a report entitled “Cheaper Advice: Angie’s List Cuts Prices,” disclosing, in pertinent part, as follows:

***Consumer-review site Angie’s List Inc. has slashed membership prices by roughly 75% in several key markets, in a bid to attract new members.***

Chief Executive William Oesterle told The Wall Street Journal that new members in New York, Washington D.C., Chicago, San Francisco and Indianapolis, among other markets, are ***now paying around \$10 for an annual membership, down from around \$40.***

“We have a reduced-price test running” in several markets, Mr. Oesterle said. He said executives are “trying to understand the impact on member acquisition and retention.”

\* \* \*

***The transition is an effort by the company to build an online marketplace whereby those looking for home services like carpet-cleaning can pay Angie’s List, rather than the service provider. Historically, Angie’s List has simply provided online listings, like the Yellow Pages, but not handled transactions.***

***Under the new model, Angie’s List pays the service provider.*** Mr. Oesterle says that there were 116,000 transactions of this type on his site in the second quarter, generating \$21 million of total sales, of which Angie’s List kept \$5 million. The company reported \$59 million in revenue for that quarter.

***The price cuts would continue a trend for the company. Per-subscriber fees declined to \$31.72 in the second quarter, from \$49.57 in the fourth quarter of 2010.***

The company also generates revenue from service providers who advertise on the site. That revenue has increased to \$79.36 per subscriber, from \$66.55, over the same period.

Customers that sign up at the new lower prices will not face higher prices when they renew, according to Mr. Oesterle: “The price you sign up at is the one you’ll get renewed at.”

But the CEO said the lower prices would not immediately be available to older subscribers. ***Complaints from existing subscribers about renewing at higher prices will be handled on a “one-off basis,” said Mr. Oesterle. He added that “if we decide to permanently move the price point, then we’ll adjust everyone.”***

Angie’s List says that its members are more valuable for advertisers in part because they pay subscription fees. That is unlike a site like Yelp, where users

need not pay to read business reviews. “It’s important that people pay, but *we want to lower the friction point for them participating as a paid member*,” Mr. Oesterle said.

50. On the news that Angie’s list had both slashed its membership fees in certain locales by 75% and was effectively lowering its advertising costs, the price of Angie’s List stock further plummeted, falling *\$3.68 per share, or more than 17%*, on October 3, 2013, on extremely high trading volume of more than 12 million shares trading, or more than six times the average daily trading volume over the already volatile preceding ten trading days.

51. Finally, after the close of trading on October 23, 2013, Angie’s List issued a press release announcing its third quarter 2013 financial results and fourth quarter 2013 guidance. Angie’s List reported a loss of \$13.5 million, or \$.23 a share, on revenue of only \$65.5 million, compared to a loss of \$18.5 million, or \$.32 a share, on \$42 million in sales in the third quarter of 2012. As reported by the *Associated Press* that day, based on Defendants’ bullish Class Period statements, analysts had been led to expect Angie’s List to post a loss of only \$.20 a share on \$66.1 million in revenues. Angie’s List also disclosed that its marketing expenses rose by \$2.1 million from the third quarter of 2012, increasing to \$28.2 million. For its fourth quarter 2013, the Company estimated reporting revenues of \$68 million to \$69 million, while analysts had been led to expect sales of \$70.4 million based on Defendants’ bullish Class Period statements.

52. On October 24, 2013, stock blog *SeekingAlpha.com* published a report entitled “Angie’s List – a Deferred Revenue Train Wreck,” which stated, in pertinent part, that Angie’s List had been receiving cash, booking it as “deferred revenue,” then rapidly spending it at a rate that, unless the Company suddenly became profitable, it would be unable to fulfill its commitments and faced insolvency. The *SeekingAlpha.com* report also stated that all of the analysts that had been serving as cheerleaders to support the stock price – rather than providing critical analysis – had conflicts of interest in that they had served as underwriters in the

Company's IPO and follow-on offerings and were unlikely to be critical as they sought additional investment banking work from Angie's List in the future.

53. On this news, the price of the Company's stock dropped to close at \$14.64 on October 24, 2013, on unusually high trading volume of almost seven million shares trading.

54. The market for Angie's List common stock was open, well-developed and efficient at all relevant times. As a result of these materially false and misleading statements and failures to disclose, Angie's List common stock traded at artificially inflated prices during the Class Period. Plaintiffs and other members of the Class purchased or otherwise acquired Angie's List common stock relying upon the integrity of the market price of Angie's List common stock and market information relating to Angie's List, and have been damaged thereby.

55. During the Class Period, Defendants materially misled the investing public, thereby inflating the price of Angie's List common stock by publicly issuing false and misleading statements and omitting to disclose material facts necessary to make Defendants' statements, as set forth herein, not false and misleading. Said statements and omissions were materially false and misleading in that they failed to disclose material adverse information and misrepresented the truth about the Company, its business and operations, as alleged herein.

56. At all relevant times, the material misrepresentations and omissions particularized in this Complaint directly or proximately caused or were a substantial contributing cause of the damages sustained by Plaintiffs and other members of the Class. As described herein, during the Class Period, Defendants made or caused to be made a series of materially false or misleading statements about Angie's List's business, prospects and operations. These material misstatements and omissions had the cause and effect of creating in the market an unrealistically positive assessment of Angie's List and its business, prospects and operations, thus causing the price of Angie's List common stock to be overvalued and artificially inflated at all relevant

times. Defendants' materially false and misleading statements during the Class Period resulted in Plaintiffs and other members of the Class purchasing Angie's List common stock at artificially inflated prices, thus causing the damages complained of herein. When the true facts about the Company were revealed to the market, the inflation in the price of Angie's List stock was removed and the price of Angie's List stock declined dramatically, causing loss to Plaintiffs and the other members of the Class.

57. As a result of Defendants' false statements, Angie's List common stock traded at artificially inflated levels during the Class Period. After the above revelations seeped into the market, the price of Angie's List common stock was hammered by massive sales, causing damage to Class members.

#### **ADDITIONAL SCIENTER ALLEGATIONS**

58. As alleged herein, Defendants acted with scienter in that Defendants knew that the public documents and statements issued or disseminated in the name of the Company were materially false and misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws. As set forth elsewhere herein in detail, Defendants, by virtue of their receipt of information reflecting the true facts regarding Angie's List, their control over, and/or receipt and/or modification of Angie's List's allegedly materially misleading misstatements and/or their associations with the Company which made them privy to confidential proprietary information concerning Angie's List, participated in the fraudulent scheme alleged herein.

#### **APPLICABILITY OF PRESUMPTION OF RELIANCE**

59. At all relevant times, the market for Angie's List common stock was an efficient market for the following reasons, among others:

(a) Angie's List stock met the requirements for listing, and was listed and actively traded on the NASDAQ, a highly efficient and automated market;

(b) The Company had more than 58 million shares issued and outstanding during the Class Period. During the Class Period, on average, more than 1.3 million shares of Angie's List stock were traded on a daily basis, demonstrating a very active and broad market for Angie's List stock and permitting a very strong presumption of an efficient market;

(c) As a regulated issuer, Angie's List filed periodic public reports with the SEC and the NASDAQ;

(d) Angie's List regularly communicated with public investors via established market communication mechanisms, including through regular disseminations of press releases on the national circuits of major newswire services and through other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and

(e) Angie's List was followed by several securities analysts employed by major brokerage firms who wrote reports which were distributed to the sales force and certain customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace.

60. As a result of the foregoing, the market for Angie's List common stock promptly digested current information regarding Angie's List from all publicly available sources and reflected such information in the price of Angie's List common stock. Under these circumstances, all purchasers of Angie's List common stock during the Class Period suffered similar injury through their purchase of Angie's List common stock at artificially inflated prices and a presumption of reliance applies.

61. A Class-wide presumption of reliance is also appropriate in this action under the Supreme Court's holding in *Affiliated Ute Citizens of Utah v. U.S.*, 406 U.S. 128 (1972), because the Class' claims are grounded on Defendants' material omissions. Because this action involves Defendants' failure to disclose material adverse information regarding Angie's List's business operations and financial prospects, and how defects in its business model were changing the business – information that Defendants were obligated to disclose – positive proof of reliance is not a prerequisite to recovery. All that is necessary is that the facts withheld be material in the sense that a reasonable investor might have considered them important in making investment decisions. Given the importance of the Class Period material misstatements and omissions set forth above, that requirement is satisfied here.

#### **NO SAFE HARBOR**

62. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this Complaint. Many of the specific statements pleaded herein were not identified as “forward-looking statements” when made. To the extent there were any forward-looking statements, there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. Alternatively, to the extent that the statutory safe harbor does apply to any forward-looking statements pleaded herein, Defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements was made, the particular speaker knew that the particular forward-looking statement was false, and/or the forward-looking statement was authorized and/or approved by an executive officer of Angie's List who knew that those statements were false when made.

## CLASS ACTION ALLEGATIONS

63. Plaintiffs bring this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a class consisting of all those who purchased the common stock of Angie's List during the Class Period and who were damaged thereby (the "Class"). Excluded from the Class are Defendants, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which Defendants have or had a controlling interest.

64. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, Angie's List shares were actively traded on the NASDAQ. While the exact number of Class members is unknown to Plaintiffs at this time and can only be ascertained through appropriate discovery, Plaintiffs believe that there are hundreds or thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by Angie's List or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

65. Plaintiffs' claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by Defendants' wrongful conduct in violation of federal law that is complained of herein.

66. Plaintiffs will fairly and adequately protect the interests of the members of the Class and have retained counsel competent and experienced in class and securities litigation.

67. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:



(a) whether the federal securities laws were violated by Defendants' acts as alleged herein;

(b) whether statements made by Defendants to the investing public during the Class Period misrepresented material facts about the business, operations and management of Angie's List; and

(c) to what extent the members of the Class have sustained damages and the proper measure of damages.

68. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

## COUNT I

### **Violation of §10(b) of the Exchange Act and Rule 10b-5 Promulgated Thereunder Against All Defendants**

69. Plaintiffs incorporate ¶¶1-68 by reference.

70. During the Class Period, Defendants disseminated or approved the false statements specified above, which they knew or deliberately disregarded were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

71. Defendants violated §10(b) of the Exchange Act and Rule 10b-5 in that they:

(a) Employed devices, schemes, and artifices to defraud;

(b) Made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or

(c) Engaged in acts, practices, and a course of business that operated as a fraud or deceit upon Plaintiffs and others similarly situated in connection with their purchases of Angie's List common stock during the Class Period.

72. Plaintiffs and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for Angie's List common stock. Plaintiffs and the Class would not have purchased Angie's List common stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by Defendants' misleading statements.

73. As a direct and proximate result of Defendants' wrongful conduct, Plaintiffs and the other members of the Class suffered damages in connection with their purchases of Angie's List common stock during the Class Period.

## **COUNT II**

### **Violation of §20(a) of the Exchange Act Against All Defendants**

74. Plaintiffs incorporate ¶¶1-73 by reference.

75. The Individual Defendants acted as controlling persons of Angie's List within the meaning of §20(a) of the Exchange Act. By reason of their positions as officers and/or directors of Angie's List, and their ownership of Angie's List stock, the Individual Defendants had the power and authority to cause Angie's List to engage in the wrongful conduct complained of herein. Angie's List controlled each of the Individual Defendants and all of its employees. By reason of such conduct, the Individual Defendants and Angie's List are liable pursuant to §20(a) of the Exchange Act.

**PRAYER FOR RELIEF**

WHEREFORE, Plaintiffs pray for relief and judgment, as follows:

- A. Determining that this action is a proper class action, designating Plaintiffs as Lead Plaintiff and certifying Plaintiffs as Class representatives under Rule 23 of the Federal Rules of Civil Procedure and Plaintiffs' counsel as Lead Counsel;
- B. Awarding compensatory damages in favor of Plaintiffs and the other Class members against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;
- C. Awarding Plaintiffs and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and
- D. Such other and further relief as the Court may deem just and proper.

**JURY DEMAND**

Plaintiffs hereby demand a trial by jury.

DATED: December 20, 2013

PARR RICHEY OBREMSKEY FRANDBEN  
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