

ZILLOW INC
Form 10-Q
August 06, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

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

Commission File Number: 001-35237

ZILLOW, INC.

(Exact name of registrant as specified in its charter)

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Washington
(State or other jurisdiction of
incorporation or organization)

20-2000033
(I.R.S. Employer

Identification Number)

1301 Second Avenue, Floor 31, Seattle, Washington
(Address of principal executive offices)

98101
(Zip Code)

(206) 470-7000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer

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

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

As of July 31, 2013, 28,305,790 shares of Class A common stock and 7,088,892 shares of Class B common stock were outstanding.

Table of Contents

ZILLOW, INC.

Quarterly Report on Form 10-Q

For the Three Months Ended June 30, 2013

TABLE OF CONTENTS

	Page
PART I FINANCIAL INFORMATION	
Item 1. <u>Financial Statements (unaudited)</u>	2
<u>Condensed Balance Sheets</u>	2
<u>Condensed Statements of Operations</u>	3
<u>Condensed Statements of Cash Flows</u>	4
<u>Notes to Condensed Financial Statements</u>	5
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	28
Item 4. <u>Controls and Procedures</u>	29
PART II OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	30
Item 1A. <u>Risk Factors</u>	31
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	32
Item 4. <u>Mine Safety Disclosures</u>	32
Item 5. <u>Other Information</u>	32
Item 6. <u>Exhibits</u>	33
<u>Signatures</u>	34

Table of Contents

As used in this Quarterly Report on Form 10-Q, the terms Zillow, the Company, we, us and our refer to Zillow, Inc., unless the context indicates otherwise.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including Part I, Item 2 (Management's Discussion and Analysis of Financial Condition and Results of Operations), contains forward-looking statements based on our management's beliefs and assumptions and on information currently available to our management. Forward-looking statements include all statements that are not historical facts and generally may be identified by terms such as believe, may, will, estimate, continue, anticipate, intend, could, would, project, plan, expect or the negative or plural of expressions.

These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including but not limited to, our ability to maintain and effectively manage an adequate rate of growth; the impact of the real estate industry on our business; our ability to innovate and provide products and services that are attractive to our users and advertisers; our ability to increase awareness of the Zillow brand in a cost-effective manner; our ability to maintain or establish relationships with listings and data providers; our ability to attract consumers to our mobile applications and websites; our ability to successfully integrate and realize the benefits of our past or future strategic acquisitions or investments; our ability to compete successfully against existing or future competitors; the reliable performance of our network infrastructure and content delivery process; and our ability to protect our intellectual property. Further discussion of factors that may affect our business and results of operations is included in Part I, Item 1A (Risk Factors) in our Annual Report on Form 10-K for the year ended December 31, 2012. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the effect of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this report may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should not rely on forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur. Moreover, except as required by law, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements, and we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this report to conform these statements to actual results or to changes in our expectations.

WHERE YOU CAN FIND MORE INFORMATION

Our filings with the Securities and Exchange Commission, including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports are available on our website at www.zillow.com, free of charge, as soon as reasonably practicable after the electronic filing of these reports with the Securities and Exchange Commission. The information contained on our website is not a part of this quarterly report on Form 10-Q.

Investors and others should note that we announce material financial information to our investors using our investor relations website, press releases, SEC filings, and public conference calls and webcasts. We also use the following social media channels as a means of disclosing information about us, our services, and other matters, and for complying with our disclosure obligations under Regulation FD:

Zillow Twitter Account (<https://twitter.com/zillow>)

Zillow Facebook Page (<https://www.facebook.com/Zillow>)

Zillow Company Blog (<http://www.zillowblog.com/>)

The information we post through these social media channels may be deemed material. Accordingly, investors should monitor these accounts and the blog, in addition to following our investor relations website, press releases, SEC filings, and public conference calls and webcasts. This list may be updated from time to time. The information we post through these channels is not a part of this quarterly report on Form 10-Q.

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****ZILLOW, INC.****CONDENSED BALANCE SHEETS****(in thousands, except share data, unaudited)**

	June 30, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 131,552	\$ 150,040
Short-term investments	38,138	44,054
Accounts receivable, net of allowance for doubtful accounts of \$1,310 and \$965 at June 30, 2013 and December 31, 2012, respectively	13,083	8,655
Prepaid expenses and other current assets	3,081	2,652
Total current assets	185,854	205,401
Long-term investments	38,368	9,389
Property and equipment, net	19,117	13,634
Goodwill	54,284	54,284
Intangible assets, net	19,597	21,248
Other assets	312	279
Total assets	\$ 317,532	\$ 304,235
Liabilities and shareholders equity		
Current liabilities:		
Accounts payable	\$ 5,817	\$ 3,158
Accrued expenses and other current liabilities	3,473	6,318
Accrued compensation and benefits	3,853	2,514
Deferred revenue	9,308	8,349
Deferred rent, current portion	149	94
Total current liabilities	22,600	20,433
Deferred rent, net of current portion	3,308	3,485
Commitments and contingencies (Note 10)		
Shareholders equity:		
Preferred stock, \$0.0001 par value; 30,000,000 shares authorized as of June 30, 2013 and December 31, 2012; no shares issued and outstanding as of June 30, 2013 and December 31, 2012		
Class A common stock, \$0.0001 par value; 600,000,000 shares authorized as of June 30, 2013 and December 31, 2012; 28,129,164 and 26,414,414 shares issued and outstanding as of June 30, 2013 and December 31, 2012, respectively	3	3
Class B common stock, \$0.0001 par value; 15,000,000 shares authorized as of June 30, 2013 and December 31, 2012; 7,088,892 and 7,462,526 shares issued and outstanding as of June 30, 2013 and December 31, 2012, respectively	1	1
Additional paid-in capital	377,267	351,981
Accumulated deficit	(85,647)	(71,668)

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Total shareholders' equity	291,624	280,317
Total liabilities and shareholders' equity	\$ 317,532	\$ 304,235

See accompanying notes to condensed financial statements.

Table of Contents**ZILLOW, INC.****CONDENSED STATEMENTS OF OPERATIONS****(in thousands, except per share data, unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenue	\$ 46,920	\$ 27,765	\$ 85,886	\$ 50,598
Costs and expenses:				
Cost of revenue (exclusive of amortization) (1)	4,294	3,264	8,424	6,614
Sales and marketing	32,924	12,153	52,718	20,468
Technology and development	11,071	5,818	21,682	10,848
General and administrative	8,978	5,232	17,211	9,677
Total costs and expenses	57,267	26,467	100,035	47,607
Income (loss) from operations	(10,347)	1,298	(14,149)	2,991
Other income	115	34	170	65
Net income (loss)	\$ (10,232)	\$ 1,332	\$ (13,979)	\$ 3,056
Net income (loss) per share basic	\$ (0.30)	\$ 0.05	\$ (0.41)	\$ 0.11
Net income (loss) per share diluted	\$ (0.30)	\$ 0.04	\$ (0.41)	\$ 0.10
Weighted-average shares outstanding basic	34,553	28,946	34,164	28,647
Weighted-average shares outstanding diluted	34,553	31,320	34,164	31,163

(1) Amortization of website development costs and intangible assets included in technology and development

\$ 4,492	\$ 2,374	\$ 8,700	\$ 4,378
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See accompanying notes to condensed financial statements.

Table of Contents**ZILLOW, INC.****CONDENSED STATEMENTS OF CASH FLOWS****(in thousands, unaudited)**

	Six Months Ended	
	June 30,	
	2013	2012
Operating activities		
Net income (loss)	\$ (13,979)	\$ 3,056
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	9,934	5,085
Share-based compensation expense	14,613	2,643
Loss on disposal of property and equipment	668	69
Bad debt expense	765	280
Deferred rent	(122)	900
Amortization of bond premium	210	398
Changes in operating assets and liabilities:		
Accounts receivable	(5,193)	(2,397)
Prepaid expenses and other assets	(462)	1,464
Accounts payable	2,659	1,570
Accrued expenses	(1,506)	1,076
Deferred revenue	959	2,920
Net cash provided by operating activities	8,546	17,064
Investing activities		
Proceeds from maturities of investments	33,000	
Purchases of investments	(56,272)	
Purchases of property and equipment	(10,996)	(5,898)
Purchases of intangible assets	(1,707)	(1,688)
Acquisitions, net of cash acquired of \$0 in 2013 and \$2,029 in 2012		(36,405)
Net cash used in investing activities	(35,975)	(43,991)
Financing activities		
Proceeds from exercise of Class A common stock options	8,941	4,793
Net cash provided by financing activities	8,941	4,793
Net decrease in cash and cash equivalents during period	(18,488)	(22,134)
Cash and cash equivalents at beginning of period	150,040	47,926
Cash and cash equivalents at end of period	\$ 131,552	\$ 25,792
Supplemental disclosures of cash flow information		
Noncash transactions:		
Capitalized share-based compensation	\$ 1,732	\$ 1,081
Write-off of fully depreciated property and equipment	\$ 792	\$

See accompanying notes to condensed financial statements.

Table of Contents

ZILLOW, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

(unaudited)

Note 1. Organization and Description of Business

Zillow, Inc. was incorporated as a Washington corporation effective December 13, 2004, and we launched the initial version of our website, Zillow.com, in February 2006. Zillow operates the leading real estate and home-related information marketplaces on mobile and the Web, with a complementary portfolio of brands and products to help people find vital information about homes, and connect with local professionals. In addition to our websites, including Zillow.com, we also own and operate Zillow Mobile, our suite of home-related mobile applications, Zillow Mortgage Marketplace, where borrowers connect with lenders to find loans and get competitive mortgage rates, Zillow Digs, our home improvement marketplace where consumers can find visual inspiration and local cost estimates, Zillow Rentals, a marketplace and suite of tools for rental professionals, Postlets, Diverse Solutions, Agentfolio, Mortech and HotPads. Zillow provides products and services to help consumers through every stage of homeownership buying, selling, renting, borrowing and remodeling.

Certain Significant Risks and Uncertainties

We operate in a dynamic industry and, accordingly, can be affected by a variety of factors. For example, we believe that changes in any of the following areas could have a significant negative effect on us in terms of our future financial position, results of operations or cash flows: rates of revenue growth; engagement and usage of our products; scaling and adaptation of existing technology and network infrastructure; competition in our market; management of our growth; acquisitions and investments; qualified employees and key personnel; protection of our brand and intellectual property; changes in government regulation affecting our business; intellectual property infringement and other claims; protection of customers information and privacy concerns; and security measures related to our mobile applications and websites, among other things.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed financial statements have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) and applicable rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these interim condensed financial statements should be read in conjunction with the audited financial statements and accompanying notes as of and for the year ended December 31, 2012 included in the Company s Annual Report on Form 10-K, which was filed with the SEC on February 22, 2013. The condensed balance sheet as of December 31, 2012, included herein, was derived from the audited financial statements as of that date.

The unaudited condensed interim financial statements have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our financial position as of June 30, 2013, our results of operations for the three and six month periods ended June 30, 2013 and 2012, and our cash flows for the six month periods ended June 30, 2013 and 2012. The results of the three and six month periods ended June 30, 2013 are not necessarily indicative of the results to be expected for the year ended December 31, 2013 or for any interim period or for any other future year.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and the related disclosures at the date of the financial statements, as well as the reported amounts of revenue and expenses during the periods presented. Estimates are used for revenue recognition, the allowance for doubtful accounts, website development costs, goodwill, recoverability of intangible assets with definite lives and other long-lived assets, and for share-based compensation. To the extent there are material differences between these estimates, judgments, or assumptions and actual results, our financial statements will be affected.

Recently Issued Accounting Standards

In February 2013, the Financial Accounting Standards Board (FASB) issued guidance on the reporting of amounts reclassified out of accumulated other comprehensive income. An entity must report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide additional detail about those amounts. This guidance is effective for interim and annual reporting periods beginning after

Table of Contents

December 15, 2012, with earlier adoption permitted, and must be applied prospectively. We adopted this guidance on January 1, 2013. The adoption of this guidance did not have any impact on our financial position, results of operations or cash flows as we do not have any items of other comprehensive income in any period presented.

In July 2013, the FASB issued guidance on the presentation of certain unrecognized tax benefits in the financial statements. This guidance provides that a liability related to an unrecognized tax benefit must be offset against a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. This guidance is effective for interim and annual reporting periods beginning after December 15, 2013, with earlier adoption permitted, and may be applied prospectively or retrospectively. We expect to adopt this guidance on January 1, 2014. The adoption of this guidance is not expected to have a significant impact on our financial position, results of operations or cash flows as we have provided a full valuation allowance against our net deferred tax assets.

Note 3. Fair Value Measurements

Accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. The standards also establish a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Assets and liabilities valued based on observable market data for similar instruments, such as quoted prices for similar assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity; instruments valued based on the best available data, some of which is internally developed, and considers risk premiums that a market participant would require.

We applied the following methods and assumptions in estimating our fair value measurements:

Cash equivalents Cash equivalents are comprised of highly liquid money market funds with original maturities of less than three months. The fair value measurement of these assets is based on quoted market prices in active markets and, therefore, these assets are recorded at fair value on a recurring basis and classified as Level 1 in the fair value hierarchy.

Short-term and long-term investments Our investments consist of fixed income securities, which include U.S. government agency securities, commercial paper, and corporate notes and bonds. Investments with maturities greater than three months but less than one year are classified as short-term investments. Investments with maturities greater than one year are classified as long-term investments. The fair value measurement of these assets is based on observable market-based inputs or inputs that are derived principally from or corroborated by observable market data by correlation or other means. Our U.S. government agency securities are classified as Level 1 in the fair value hierarchy. Our commercial paper and corporate notes and bonds are classified as Level 2 in the fair value hierarchy. Our short-term and long-term investments are classified as held-to-maturity and are recorded at amortized cost, as we do not intend to sell the investments, and it is not more likely than not that we will be required to sell these investments prior to maturity. The amortized cost of our short-term and long-term investments approximates their fair value.

Of the short-term investments and long-term investments on hand as of June 30, 2013, 49.8% mature on or prior to June 30, 2014, and the remaining 50.2% mature on or prior to June 30, 2015.

The following tables present the balances of assets measured at fair value on a recurring basis as of the dates presented (in thousands):

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	Total	June 30, 2013	
		Level 1	Level 2
Cash equivalents:			
Money market funds	\$ 120,705	\$ 120,705	\$
Short-term investments:			
U.S government agency securities	25,853	25,853	
Commercial paper	8,992		8,992
Corporate notes and bonds	3,293		3,293
Long-term investments:			
U.S government agency securities	36,473	36,473	
Corporate notes and bonds	1,895		1,895
Total	\$ 197,211	\$ 183,031	\$ 14,180

Table of Contents

	December 31, 2012		
	Total	Level 1	Level 2
Cash equivalents:			
Money market funds	\$ 143,246	\$ 143,246	\$
Short-term investments:			
U.S government agency securities	26,085	26,085	
Commercial paper	16,965		16,965
Corporate notes and bonds	1,004		1,004
Long-term investments:			
U.S government agency securities	7,079	7,079	
Corporate notes and bonds	2,310		2,310
 Total	 \$ 196,689	 \$ 176,410	 \$ 20,279

We did not have any Level 3 assets or liabilities measured at fair value on a recurring basis as of June 30, 2013 or December 31, 2012.

Note 4. Property and Equipment, net

The following table presents the detail of property and equipment as of the dates presented (in thousands):

	June 30, 2013	December 31, 2012
Website development costs	\$ 39,720	\$ 33,448
Computer equipment	9,695	8,380
Leasehold improvements	1,728	831
Software	1,407	1,209
Construction-in-progress	4,759	3,093
Office equipment, furniture and fixtures	3,015	2,186
 Property and equipment	 60,324	 49,147
Less: accumulated amortization and depreciation	(41,207)	(35,513)
 Property and equipment, net	 \$ 19,117	 \$ 13,634

We recorded depreciation and amortization expense related to property and equipment (other than website development costs) of \$0.7 million and \$0.4 million, respectively, during the three months ended June 30, 2013 and 2012, and \$1.2 million and \$0.7 million, respectively, during the six months ended June 30, 2013 and 2012.

We capitalized \$4.1 million and \$3.1 million, respectively, in website development costs during the three months ended June 30, 2013 and 2012, and \$8.0 million and \$5.3 million, respectively, during the six months ended June 30, 2013 and 2012. Amortization expense for website development costs included in technology and development expenses was \$2.8 million and \$1.6 million, respectively, during the three months ended June 30, 2013 and 2012, and \$5.3 million and \$2.8 million, respectively, during the six months ended June 30, 2013 and 2012.

Construction-in-progress primarily consists of website development costs that are capitalizable, but for which the associated applications had not been placed in service.

Table of Contents**Note 5. Intangible Assets, net**

The following tables present the detail of intangible assets subject to amortization as of the dates presented (in thousands):

	Cost	June 30, 2013 Accumulated Amortization	Net
Developed technology	\$ 14,335	\$ (2,851)	\$ 11,484
Purchased content	10,750	(7,334)	3,416
Customer relationships	4,875	(929)	3,946
Trademarks	1,061	(310)	751
Total	\$ 31,021	\$ (11,424)	\$ 19,597

	Cost	December 31, 2012 Accumulated Amortization	Net
Developed technology	\$ 14,335	\$ (1,534)	\$ 12,801
Purchased content	9,044	(6,015)	3,029
Customer relationships	4,875	(387)	4,488
Trademarks	1,061	(131)	930
Total	\$ 29,315	\$ (8,067)	\$ 21,248

Amortization expense recorded for intangible assets for the three months ended June 30, 2013 and 2012 was \$1.7 million and \$0.8 million, respectively. Amortization expense recorded for intangible assets for the six months ended June 30, 2013 and 2012 was \$3.4 million and \$1.6 million, respectively. These amounts are included in technology and development expenses.

Note 6. Income Taxes

We are subject to federal and state income taxes in the United States. During the three and six month periods ended June 30, 2013 and 2012, we did not have reportable taxable income, and we are not projecting reportable taxable income for the year ending December 31, 2013. We have provided a full valuation allowance against our net deferred tax assets as of June 30, 2013 and December 31, 2012 because, based on the weight of available evidence, it is more likely than not (a likelihood of more than 50%) that some or all of the deferred tax assets will not be realized. Therefore, no tax liability or expense has been recorded in the financial statements. We have accumulated tax losses of approximately \$115.7 million as of December 31, 2012, which are available to reduce future taxable income.

Note 7. Shareholders Equity

Our board of directors has the authority to fix and determine and to amend the number of shares of any series of preferred stock that is wholly unissued or to be established and to fix and determine and to amend the designation, preferences, voting powers and limitations, and the relative, participating, optional or other rights, of any series of shares of preferred stock that is wholly unissued or to be established, subject in each case to certain approval rights of holders of our outstanding Class B common stock. There was no preferred stock issued and outstanding as of June 30, 2013 or December 31, 2012.

Our Class A common stock has no preferences or privileges and is not redeemable. Holders of Class A common stock are entitled to one vote for each share.

Our Class B common stock has no preferences or privileges and is not redeemable. At any time after the date of issuance, each share of Class B common stock, at the option of the holder, may be converted into one share of Class A common stock, or automatically converted upon the

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affirmative vote by or written consent of holders of a majority of the shares of the Class B common stock. During the three and six month periods ended June 30, 2013, 179,734 shares and 373,634 shares of Class B common stock, respectively, were converted into Class A common stock at the option of the holders. During the year ended December 31, 2012, 2,065,787 shares of Class B common stock were converted into Class A common stock at the option of the holders. Holders of Class B common stock are entitled to 10 votes for each share.

Table of Contents

In September 2012, we sold 3,844,818 shares of our Class A common stock, including 419,818 shares of our Class A common stock pursuant to the underwriters' option to purchase additional shares, and certain shareholders sold 575,000 shares of our Class A common stock, at a price of \$43.00 per share. We received net proceeds of \$156.7 million after deducting underwriting discounts and commissions and estimated offering expenses payable by us. We received no proceeds from the sale of our Class A common stock by the selling shareholders.

Note 8. Share-Based Awards

On July 19, 2011, our 2011 Incentive Plan (as amended and/or restated from time to time, the 2011 Plan) became effective and was subsequently amended and restated effective as of June 1, 2012, to, among other things, increase the total number of authorized shares and include the material terms of performance goals for performance-based awards. The 2011 Plan was amended effective as of May 31, 2013 to increase the number of authorized shares of Class A common stock available for awards under the 2011 Plan by 1,500,000 shares. The 2011 Plan is administered by the compensation committee of the board of directors. Under the terms of the 2011 Plan, the compensation committee of the board of directors may grant equity awards, including incentive stock options, nonqualified stock options, restricted stock or restricted stock units, to employees, officers, directors, consultants, agents, advisors and independent contractors. The compensation committee has also authorized certain senior executive officers to grant equity awards under the 2011 Plan, within limits prescribed by the compensation committee.

Stock Options

All stock options outstanding as of June 30, 2013 are nonqualified stock options, with the exception of substituted incentive stock options for 15,143 shares of Zillow's Class A common stock that were granted in connection with the December 14, 2012 acquisition of HotPads, Inc. Options under the 2011 Plan are granted with an exercise price per share not less than 100% of the fair market value of our Class A common stock on the date of grant, with the exception of substituted stock options granted in connection with acquisitions, and are exercisable at such times and under such conditions as determined by the compensation committee. Under the 2011 Plan, the maximum term of an option is ten years from the date of grant. Any portion of an option that is not vested and exercisable on the date of a participant's termination of service expires on such date. Employees generally forfeit their rights to exercise vested options after 3 months following their termination of employment or 12 months in the event of termination by reason of death, disability or retirement. Options granted under the 2011 Plan are typically granted with seven-year terms and typically vest 25% after 12 months and ratably thereafter over the next 36 months, except for options granted under the Stock Option Grant Program for Nonemployee Directors (Nonemployee Director Awards), which are fully vested and exercisable on the date of grant, and except for certain options granted to the Company's chief executive officer in December 2012 and January 2013.

The following table summarizes stock option activity for the year ended December 31, 2012 and the six months ended June 30, 2013:

	Shares Available for Grant	Number of Shares Subject to Existing Options	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2012	979,024	5,361,256	\$ 6.23	4.51	\$ 89,749,207
Authorized increase in plan shares	1,068,374				
Granted	(1,884,079)	1,884,079	30.01		
Exercised		(1,624,304)	4.59		
Forfeited or cancelled	158,359	(158,359)	21.42		
Outstanding at December 31, 2012	321,678	5,462,672	14.48	4.88	78,912,364
Authorized increase in plan shares	2,887,064				
Granted	(1,716,793)	1,716,793	38.37		
Exercised		(1,111,474)	8.05		
Forfeited or cancelled	151,082	(151,082)	27.94		
Outstanding at June 30, 2013	1,643,031	5,916,909	22.27	5.46	201,399,169
Vested and exercisable at June 30, 2013		1,891,515	9.65	3.64	88,246,779

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As of June 30, 2013, the numbers above do not include 139,000 shares of restricted stock and 63,432 restricted stock units granted pursuant to our 2011 Plan.

Table of Contents

The fair value of options granted, excluding Nonemployee Director Awards described below and certain options granted to the Company's chief executive officer in December 2012 and January 2013, is estimated at the date of grant using the Black-Scholes-Merton option-pricing model, assuming no dividends and with the following assumptions for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Expected volatility	50%	52%	50%-51%	52%
Expected dividend yields				
Risk-free interest rate	0.59%-1.22%	0.59%-0.71%	0.59%-1.22%	0.59%-0.91%
Weighted-average expected life	4.58 years	4.58 years	4.58 years	4.58 years
Weighted-average fair value of options granted	\$ 23.22	\$ 19.65	\$ 16.53	\$ 14.45

In March 2013, stock options for an aggregate of 30,690 shares of our Class A common stock were granted as Nonemployee Director Awards. The fair value of options granted for the Nonemployee Director Awards, \$16.29 per share, is estimated at the date of grant using the Black-Scholes-Merton option-pricing model, assuming no dividends, expected volatility of 51%, a risk-free interest rate of 0.36%, and a weighted-average expected life of 3.5 years. During the three and six month periods ended June 30, 2013, share-based compensation expense recognized in our statement of operations related to Nonemployee Director Awards was \$0 and \$0.5 million, respectively, and is included in general and administrative expenses.

Restricted Stock Awards

The following table summarizes restricted stock award activity for the year ended December 31, 2012 and the six months ended June 30, 2013:

	Shares of Restricted Stock	Weighted- Average Grant- Date Fair Value
Unvested outstanding at January 1, 2012	75,000	\$ 29.69
Granted	299,213	30.43
Vested	(34,110)	29.41
Forfeited or cancelled		
Unvested outstanding at December 31, 2012	340,103	30.34
Granted	3,673	44.66
Vested	(16,173)	33.09
Forfeited or cancelled	(6,540)	26.28
Unvested outstanding at June 30, 2013	321,063	30.70

The fair value of the outstanding shares of restricted stock awards will be recorded as share-based compensation expense over the vesting period. As of June 30, 2013, there was \$8.5 million of total unrecognized compensation cost related to restricted stock awards.

Table of Contents**Restricted Stock Units**

The following table summarizes activity for restricted stock units for the year ended December 31, 2012 and the six months ended June 30, 2013:

	Restricted Stock Units	Weighted- Average Grant- Date Fair Value
Unvested outstanding at January 1, 2012		\$
Granted	300,961	38.77
Vested		
Forfeited or cancelled	(4,957)	39.69
Unvested outstanding at December 31, 2012	296,004	38.76
Granted	4,875	52.96
Vested	(230,912)	39.69
Forfeited or cancelled	(6,535)	39.69
Unvested outstanding at June 30, 2013	63,432	40.71

In April 2013, pursuant to the terms of a Restricted Stock Unit Award Notice and Restricted Stock Unit Award Agreement between Zillow and a former employee, 218,071 unvested restricted stock units held by such employee became vested, such that the former employee received one share of Zillow's Class A common stock for each outstanding restricted stock unit. As a result of the accelerated vesting of the restricted stock units, we recognized approximately \$7.1 million of share-based compensation expense within sales and marketing expense during the three and six month periods ended June 30, 2013.

The fair value of restricted stock units will be recorded as share-based compensation expense over the vesting period. As of June 30, 2013, there was \$2.2 million of total unrecognized compensation cost related to restricted stock units.

Share-Based Compensation Expense

The following table presents the effects of share-based compensation in our statements of operations during the periods presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Cost of revenue	\$ 176	\$ 92	\$ 339	\$ 177
Sales and marketing	7,777	289	9,004	479
Technology and development	1,034	498	2,068	808
General and administrative	1,480	346	3,202	1,179
Total	\$ 10,467	\$ 1,225	\$ 14,613	\$ 2,643

Note 9. Net Income (Loss) Per Share

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted-average number of common shares (including Class A common stock and Class B common stock) outstanding during the period. In the calculation of basic net income (loss) per share, undistributed earnings are allocated assuming all earnings during the period were distributed.

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Diluted net income (loss) per share is computed by dividing net income (loss) by the weighted-average number of common shares (including Class A common stock and Class B common stock) outstanding during the period and potentially dilutive Class A common stock equivalents, except in cases where the effect of the Class A common stock equivalent would be antidilutive. Potential Class A common stock equivalents consist of Class A common stock issuable upon exercise of stock options and Class A common stock underlying unvested restricted stock and unvested restricted stock units using the treasury stock method.

Table of Contents

For the periods presented, the following Class A common stock equivalents were included in the computation of diluted net income per share because they had a dilutive impact (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Class A common stock issuable upon the exercise of stock options		2,324		2,459
Class A common stock underlying unvested restricted stock awards		50		57
Total Class A common stock equivalents		2,374		2,516

For the periods presented, the following Class A common stock equivalents were excluded from the calculations of diluted net loss per share because their effects would have been antidilutive (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Class A common stock issuable upon the exercise of stock options	2,950		2,899	
Class A common stock underlying unvested restricted stock awards	86		78	
Class A common stock underlying unvested restricted stock units	44		102	
Total Class A common stock equivalents	3,080		3,079	

In the event of liquidation, dissolution, distribution of assets or winding-up of the Company, the holders of all classes of common stock have equal rights to receive all the assets of the Company after the rights of the holders of outstanding preferred stock have been satisfied. We have not presented net income (loss) per share under the two-class method for our Class A common stock and Class B common stock because it would be the same for each class due to equal dividend and liquidation rights for each class.

Note 10. Commitments and Contingencies**Lease Commitments**

We have various operating leases for office space and equipment. In March 2011, we entered into a lease for approximately 66,000 square feet of office space that houses our corporate headquarters in Seattle, Washington, for which we are obligated to make escalating monthly lease payments that began in December 2012 and continue through November 2022. In June 2012, we entered into a lease amendment for our corporate headquarters in Seattle, Washington, which increased the rentable area of the premises by 21,575 square feet, for which we are obligated to make escalating monthly lease payments that began in January 2013 and continue through November 2022. In April 2013, we entered into a lease amendment for our corporate headquarters in Seattle, Washington, which will increase the rentable area of the premises by 22,583 square feet as of October 1, 2013, and will increase the rentable area of the premises by an additional 22,583 square feet as of September 1, 2014, for which we are obligated to make escalating monthly lease payments beginning in January 2014 and continuing through November 2022. In April 2012, we entered into an operating lease in Irvine, California for 20,025 square feet under which we are obligated to make escalating monthly lease payments which began in August 2012 and continue through July 2022. In November 2012, we entered into an operating lease in San Francisco, California for 18,353 square feet under which we are obligated to make escalating monthly lease payments which began in December 2012 and continue through November 2018. We lease additional office space in Chicago, Illinois, Lincoln, Nebraska, and New York, New York.

Future minimum payments for all operating leases as of June 30, 2013 are as follows (in thousands):

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Remainder of 2013	\$ 1,922
2014	5,010
2015	6,067
2016	6,599
2017	6,795
All future years	28,893
Total future minimum lease payments	\$ 55,286

Table of Contents

Rent expense for the three months ended June 30, 2013 and 2012 was \$1.1 million and \$0.6 million, respectively. Rent expense for the six months ended June 30, 2013 and 2012 was \$2.2 million and \$1.1 million, respectively.

Purchase Commitments

As of June 30, 2013, we had non-cancelable purchase commitments for content related to our mobile applications and websites totaling \$14.7 million. The amounts due for this content as of June 30, 2013 are as follows (in thousands):

Remainder of 2013	\$ 2,042
2014	4,157
2015	4,291
2016	3,435
2017	817
 Total future purchase commitments	 \$ 14,742

Line of Credit and Letters of Credit

During March 2011, we entered into a loan and security agreement with a financial institution to establish a line of credit of \$4.0 million. In April 2012, we amended our loan and security agreement to increase our line of credit from \$4.0 million to \$25.0 million. The line of credit is secured by substantially all our assets, including our intellectual property, and provides us with flexibility for future potential financing needs. The revolving line of credit contains customary financial covenants, including the maintenance of a minimum adjusted quick ratio (calculated as (i) unrestricted cash plus net accounts receivable divided by (ii) current liabilities less the sum of deferred revenue and any indebtedness owing from borrower to bank), measured on a monthly basis, of 1.50 to 1.00, and minimum Adjusted EBITDA, measured on a quarterly basis, of greater than or equal to negative \$5 million for each quarterly period through December 31, 2012 and greater than or equal to \$0 for each quarterly period thereafter. In addition, the revolving line of credit contains customary restrictions on our ability to, among other things, engage in certain mergers and acquisition transactions and create liens on assets. The revolving line of credit contains customary events of default that include, among others, non-payment of principal, interest or fees, violation of certain covenants, inaccuracy of representations and warranties, bankruptcy and insolvency events and material judgments. The occurrence of an event of default will increase the applicable rate of interest by five percentage points and could result in the acceleration of Zillow's obligations under the revolving line of credit. As of June 30, 2013, we were in compliance with all covenants, and there were no amounts outstanding under the line of credit. The line of credit is available through April 2016.

In March 2011, we executed a standby letter of credit of \$1.5 million in connection with the lease of our Seattle offices, and in July 2012, we amended the standby letter of credit to increase the amount to approximately \$1.7 million. In connection with the April 2013 amendment to the lease of our Seattle offices, we amended our standby letter of credit to increase the amount from approximately \$1.7 million to approximately \$2.0 million. In November 2012, we executed a letter of credit of approximately \$0.2 million in connection with the lease of our San Francisco office. The letters of credit are secured by our investments and are effective until 60 days after the expiration date of the lease.

Legal Proceedings

In March 2010, Smarter Agent, LLC (Smarter Agent) filed a complaint against us for patent infringement in the U.S. District Court for the District of Delaware. The complaint seeks, among other things, a judgment that we may have infringed certain patents held by Smarter Agent, an injunctive order against the alleged infringing activities and an award for damages. In November 2010, the U.S. Patent Office granted our petition for re-examination of the three patents-in-suit, and in an initial office action rejected all claims. In March 2011, the court granted a stay of the litigation pending the completion of the re-examination proceedings. We were granted a stay against the patent infringement complaint. In addition, in October 2011, Smarter Agent filed a substantially similar complaint against Diverse Solutions, Inc. (Diverse Solutions), and other defendants, for patent infringement in the U.S. District Court for the District of Delaware. On October 31, 2011, we acquired substantially all of the operating assets and certain liabilities of Diverse Solutions, including the Smarter Agent complaint against Diverse Solutions. In addition, in March 2010, Smarter Agent filed a substantially similar complaint against HotPads, Inc. (HotPads), and other defendants, for patent infringement in the U.S. District Court for the District of Delaware. On December 14, 2012, we acquired HotPads, including the Smarter Agent complaint against HotPads. We have not recorded an accrual related to these complaints as of June 30, 2013 or December 31, 2012 as we do not believe a material loss is probable. It is a reasonable possibility that a loss may be incurred; however, the possible loss or range of loss is not estimable.

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In September 2010, LendingTree, LLC filed a complaint against us for patent infringement in the U.S. District Court for the Western District of North Carolina. The complaint seeks, among other things, a judgment that we may have infringed certain patents held by LendingTree, an injunctive order against the alleged infringing activities and an award for damages. We have denied the allegations and asserted counterclaims seeking declarations that we are not infringing the patents and that the patents are

Table of Contents

unenforceable and invalid. We have not recorded an accrual related to this complaint as of June 30, 2013 or December 31, 2012 as we do not believe a material loss is probable. It is a reasonable possibility that a loss may be incurred; however, the possible loss or range of loss is not estimable.

In November 2012, a securities class action lawsuit was filed against us and certain of our executive officers seeking unspecified damages in the U.S. District Court for the Western District of Washington at Seattle. The complaint purports to state claims for violations of federal securities laws on behalf of a class of those who purchased our common stock between February 15, 2012 and November 6, 2012. A consolidated amended complaint was filed in June 2013. In general, the complaint alleges, among other things, that during the period between February 15, 2012 and November 6, 2012, we issued materially false and misleading statements regarding our business practices and financial results. We intend to deny the allegations of any wrongdoing and vigorously defend the claims in the lawsuit. We have not recorded an accrual related to this lawsuit as of June 30, 2013 or December 31, 2012 as we do not believe a material loss is probable. It is a reasonable possibility that a loss may be incurred; however, the possible loss or range of loss is not estimable.

In January 2013, a shareholder derivative lawsuit was filed against certain of our executive officers and directors seeking unspecified damages on behalf of Zillow in the U.S. District Court for the Western District of Washington at Seattle. In general, the complaint alleges, among other things, that the defendants breached their fiduciary obligations owed to Zillow, and that as a result of the breach of such fiduciary duties, Zillow wasted corporate assets defending itself in the securities class action lawsuit described above, and that defendants were unjustly enriched by selling shares of our common stock on the basis of knowledge of adverse trends before such information was publicly disclosed. The derivative action is the subject of a stipulated order staying proceedings until the District Court rules on a motion to dismiss the consolidated amended complaint in the securities action. The defendants intend to deny the allegations of wrongdoing and vigorously defend the claims in the lawsuit. We have not recorded an accrual related to this lawsuit as of June 30, 2013 or December 31, 2012 as we do not believe a material loss is probable. It is a reasonable possibility that a loss may be incurred; however, the possible loss or range of loss is not estimable.

In addition to the aforementioned, from time to time, we are involved in litigation and claims that arise in the ordinary course of business. Although we cannot be certain of the outcome of any litigation and claims, nor the amount of damages and exposure that we could incur, we currently believe that the final disposition of such matters will not have a material effect on our financial position, results of operations or cash flow. This forward-looking statement is based on management's current understanding of the relevant law and facts, and it is subject to various contingencies, including the potential costs and risks associated with litigation and the actions of arbitrators, judges and juries. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

Note 11. Segment Information and Revenue

We have one reportable segment. Our reportable segment has been identified based on how our chief operating decision-maker manages our business, makes operating decisions and evaluates operating performance. The chief executive officer acts as the chief operating decision-maker and reviews financial and operational information on an entity-wide basis. We have one business activity and there are no segment managers who are held accountable for operations, operating results or plans for levels or components. Accordingly, we have determined that we have a single reporting segment and operating unit structure.

The chief executive officer reviews information about revenue categories, including marketplace revenue and display revenue. The following table presents our revenue categories during the periods presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Marketplace revenue:				
Real estate	\$ 30,637	\$ 17,046	\$ 56,746	\$ 31,231
Mortgages	5,814	2,577	10,723	4,985
Total Marketplace revenue	36,451	19,623	67,469	36,216
Display revenue	10,469	8,142	18,417	14,382
Total revenue	\$ 46,920	\$ 27,765	\$ 85,886	\$ 50,598

Table of Contents

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q. In addition to historical financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Statements containing words such as may, believe, anticipate, expect, intend, plan, project, projections, business outlook, estimate, or similar expressions constitute forward-looking statements. Our actual results may differ materially from those contained in or implied by any forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Quarterly Report on Form 10-Q, including in the section titled Note Regarding Forward-Looking Statements, and also those items listed in Part 1, Item 1A (Risk Factors) in our Annual Report on Form 10-K for the year ended December 31, 2012.

Overview

Zillow operates the leading real estate and home-related information marketplaces on mobile and the Web, with a complementary portfolio of brands and products to help people find vital information about homes, and connect with local professionals. In addition to our websites, including Zillow.com, we also own and operate Zillow Mobile, our suite of home-related mobile applications, Zillow Mortgage Marketplace, where borrowers connect with lenders to find loans and get competitive mortgage rates, Zillow Digs, our home improvement marketplace where consumers can find visual inspiration and local cost estimates, Zillow Rentals, a marketplace and suite of tools for rental professionals, Postlets, Diverse Solutions, Agentfolio, Mortech and HotPads.

Zillow provides products and services to help consumers through every stage of homeownership—buying, selling, renting, borrowing and remodeling. We are transforming the way people make home-related decisions, and enabling homeowners, buyers, sellers and renters to find and connect with local professionals best suited to meet their needs.

Our living database of more than 110 million U.S. homes—homes for sale, homes for rent and homes not currently on the market—attracts an active and vibrant community of users. Individuals and businesses that use Zillow have updated information on nearly 42 million homes and added more than 173 million home photos, creating exclusive home profiles available nowhere else. These profiles include detailed information about homes, including property facts, listing information and purchase and sale data. We provide this information to our users where, when and how they want it, through our industry-leading mobile applications that enable consumers to access our information when they are curbside, viewing homes, and through our websites. Using industry-leading automated valuation models, we provide current home value estimates, or Zestimates, and current rental price estimates, or Rent Zestimates, on approximately 100 million U.S. homes.

We generate revenue from local real estate professionals, primarily on an individual subscription basis, and from mortgage professionals, rental professionals, and brand advertisers. Our revenue includes marketplace revenue, consisting primarily of subscriptions sold to real estate agents based on the number of impressions delivered in zip codes purchased, and advertising sold on a cost per click, or CPC, basis to mortgage lenders, as well as display revenue, which consists of advertising placements sold primarily on a cost per thousand impressions, or CPM, basis.

During the three months ended June 30, 2013, we generated revenue of \$46.9 million, as compared to \$27.8 million in the three months ended June 30, 2012, an increase of 69%. This increase is primarily the result of a 71% increase in our Premier Agent subscribers to 38,807 as of June 30, 2013 from 22,696 as of June 30, 2012, as well as significant growth in traffic to our mobile applications and websites. There were approximately 54.3 million average monthly unique users of our mobile applications and websites for the three months ended June 30, 2013 compared to 33.5 million average monthly unique users for the three months ended June 30, 2012, representing year-over-year growth of 62%.

As of June 30, 2013, we had 688 full-time employees, compared to 560 full-time employees as of December 31, 2012.

Key Growth Drivers

To analyze our business performance, determine financial forecasts and help develop long-term strategic plans, we frequently review the following key growth drivers:

Unique Users

Measuring unique users is important to us because our marketplace revenue depends in part on our ability to enable our users to connect with real estate, rental and mortgage professionals, and our display revenue depends in part on the number of impressions delivered. Furthermore, our community of users improves the quality of our living database of homes with their contributions. We count a unique user the first time an individual accesses our mobile applications using a mobile device during a calendar month and the first time an individual accesses one of our websites using a web browser during a calendar month. If an individual accesses our mobile applications using different mobile devices within a

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given month, the first instance of access by each such mobile device is counted as a separate unique user. If an individual accesses our websites using different web browsers within a given month, the first

Table of Contents

access by each such web browser is counted as a separate unique user. If an individual accesses more than one of our websites in a single month, the first access to each website is counted as a separate unique user since unique users are tracked separately for each domain. We measure unique users with Google Analytics. Beginning in December 2012, the reported monthly unique users reflect the effect of Zillow's December 14, 2012 acquisition of HotPads, Inc.

	Average Monthly Unique Users for the Three Months Ended June 30,		2012 to 2013 % Change
	2013	2012	
Unique Users	54,317	33,474	62%
<i>Premier Agent Subscribers</i>			

The number of Premier Agent subscribers is an important driver of revenue growth because each subscribing agent pays us a subscription fee to participate in the program. We define a Premier Agent subscriber as an agent with a paid subscription at the end of a period.

	At June 30,		2012 to 2013 % Change
	2013	2012	
Premier Agent Subscribers	38,807	22,696	71%

Basis of Presentation**Revenue**

We generate revenue from local real estate professionals, primarily on an individual subscription basis, and from mortgage professionals, rental professionals, and brand advertisers. Our revenue includes marketplace revenue and display revenue.

Marketplace Revenue. Marketplace revenue consists of real estate revenue and mortgages revenue. Real estate revenue primarily includes subscriptions sold to real estate agents under our Premier Agent program, as well as revenue generated by Zillow Rentals. Mortgages revenue primarily includes CPC advertising related to our Zillow Mortgage Marketplace sold to mortgage lenders, as well as revenue generated by Mortech, Inc., a company we acquired in November 2012 that provides subscription-based mortgage software solutions, including a product and pricing engine and lead management platform.

Zillow's Premier Agent program offers a suite of marketing and business technology solutions to help real estate agents grow their businesses and personal brands. The Premier Agent program allows agents to select products and services that they can tailor to meet their business and advertising needs. The program has three tiers of participation including Premier Platinum, our original flagship subscription product, as well as Premier Gold and Premier Silver, to meet different marketing and business needs of a broad range of agents. All tiers of Premier Agents receive access to a dashboard portal on our website that provides individualized program performance analytics, as well as our personalized website service, and our customer relationship management, or CRM, tool that captures detailed information about each contact made with a Premier Agent through our mobile and web platforms. Our Premier Gold product also includes featured listings whereby the agent's listings will appear at the top of search results on our mobile and web platforms. Our Premier Platinum product includes the dashboard portal on our website, our personalized website service, our CRM tool, featured listings, and inclusion on our buyer's agent list, whereby the agent appears as the agent to contact for listings in the purchased zip code.

We charge for our Platinum Premier Agent subscription product based on the number of impressions delivered on our buyer's agent list in zip codes purchased based on a contracted maximum cost per impression. Our Platinum Premier Agent subscription product includes multiple deliverables which are accounted for as a single unit of accounting, as the delivery or performance of the undelivered elements is based on traffic to our mobile applications and websites. We recognize revenue related to our impression-based Platinum Premier Agent subscription product based on the lesser of (i) the actual number of impressions delivered on our buyer's agent list during the period multiplied by the contracted maximum cost per impression, or (ii) the contractual maximum spend on a straight-line basis during the contractual period over which the services are delivered, typically over a period of six months or twelve months and then month-to-month thereafter.

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We charge a fixed subscription fee for our Premier Gold and Premier Silver subscription products. Subscription advertising revenue for our Premier Gold and Premier Silver subscription products is recognized on a straight-line basis during the contractual period over which the services are delivered, typically over a period of six months and then month-to-month thereafter.

In Zillow Mortgage Marketplace, participating qualified mortgage lenders make a prepayment to gain access to consumers interested in connecting with mortgage professionals. Consumers who request rates for mortgage loans in Zillow Mortgage Marketplace are presented with personalized lender quotes from participating lenders. We only charge mortgage lenders a fee when users click on their links for more information regarding a mortgage loan quote. Mortgage lenders who exhaust their initial prepayment can then prepay additional funds to continue to participate in the marketplace. We recognize revenue when a user clicks on a mortgage advertisement or on a link to obtain additional information about a mortgage loan quote.

Table of Contents

Display Revenue. Display revenue primarily consists of graphical mobile and web advertising sold on a CPM basis to advertisers primarily in the real estate industry, including real estate brokerages, home builders, mortgage lenders and home services providers. Our advertising customers also include telecommunications, automotive, insurance and consumer products companies. We recognize display revenue as impressions are delivered to users interacting with our mobile applications or websites. Growth in display revenue depends on continuing growth in traffic to our mobile applications and websites and migration of advertising spend online from traditional broadcast and print media.

Costs and Expenses

Cost of Revenue. Our cost of revenue consists of expenses related to operating our mobile applications and websites, including associated headcount expenses, such as salaries and benefits and share-based compensation expense and bonuses. Cost of revenue also includes credit card fees, ad serving costs paid to third parties, revenue-sharing costs related to our commercial business relationships, and facilities costs allocated on a headcount basis.

Sales and Marketing. Sales and marketing expenses consist of headcount expenses, including salaries, commissions, benefits, share-based compensation expense and bonuses for sales, sales support, customer support, marketing and public relations employees. Sales and marketing expenses also include advertising costs and other sales expenses related to promotional and marketing activities, and facilities costs allocated on a headcount basis.

Technology and Development. Technology and development expenses consist of headcount expenses, including salaries and benefits, share-based compensation expense and bonuses for salaried employees and contractors engaged in the design, development and testing of our mobile applications and websites, equipment and maintenance costs, and facilities costs allocated on a headcount basis. Technology and development expenses also include amortization costs related to capitalized website and development activities, amortization of certain intangibles and other data agreement costs related to the purchase of data used to populate our mobile applications and websites, and amortization of intangible assets recorded in connection with acquisitions.

General and Administrative. General and administrative expenses consist of headcount expenses, including salaries, benefits, share-based compensation expense and bonuses for executive, finance, accounting, legal, human resources, recruiting and administrative support. General and administrative expenses also include legal, accounting and other third-party professional service fees, bad debt expense and facilities costs allocated on a headcount basis.

Other Income

Other income consists primarily of interest income earned on our cash, cash equivalents and investments.

Income Taxes

We are subject to federal and state income taxes in the United States. During the three and six month periods ended June 30, 2013 and 2012, we did not have reportable taxable income, and we are not projecting reportable taxable income for the year ending December 31, 2013. We have provided a full valuation allowance against our net deferred tax assets as of June 30, 2013 and December 31, 2012 because, based on the weight of available evidence, it is more likely than not (a likelihood of more than 50%) that some or all of the deferred tax asset will not be realized. Therefore, no tax liability or expense has been recorded in the financial statements. We have accumulated federal tax losses of approximately \$115.7 million as of December 31, 2012, which are available to reduce future taxable income.

Results of Operations

The following tables present our results of operations for the periods indicated and as a percentage of total revenue:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in thousands, except per share data, unaudited)			
Statements of Operations Data:				
Revenue	\$ 46,920	\$ 27,765	\$ 85,886	\$ 50,598
Costs and expenses:				

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Cost of revenue (exclusive of amortization) (1) (2)	4,294	3,264	8,424	6,614
Sales and marketing (1)	32,924	12,153	52,718	20,468

Table of Contents

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in thousands, except per share data, unaudited)			
Technology and development (1)	11,071	5,818	21,682	10,848
General and administrative (1)	8,978	5,232	17,211	9,677
Total costs and expenses	57,267	26,467	100,035	47,607
Income (loss) from operations	(10,347)	1,298	(14,149)	2,991
Other income	115	34	170	65
Net income (loss)	\$ (10,232)	\$ 1,332	\$ (13,979)	\$ 3,056
Net income (loss) per share basic	\$ (0.30)	\$ 0.05	\$ (0.41)	\$ 0.11
Net income (loss) per share diluted	\$ (0.30)	\$ 0.04	\$ (0.41)	\$ 0.10
Weighted-average shares outstanding basic	34,553	28,946	34,164	28,647
Weighted-average shares outstanding diluted	34,553	31,320	34,164	31,163
Other Financial Data:				
Adjusted EBITDA (3)	\$ 5,275	\$ 5,272	\$ 10,398	\$ 10,719

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in thousands, unaudited)			
(1) Includes share-based compensation as follows:				
Cost of revenue	\$ 176	\$ 92	\$ 339	\$ 177
Sales and marketing	7,777	289	9,004	479
Technology and development	1,034	498	2,068	808
General and administrative	1,480	346	3,202	1,179
Total	\$ 10,467	\$ 1,225	\$ 14,613	\$ 2,643

(2) Amortization of website development costs and intangible assets included in technology and development	\$ 4,492	\$ 2,374	\$ 8,700	\$ 4,378
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(3) See Adjusted EBITDA below for more information and for a reconciliation of Adjusted EBITDA to net income (loss), the most directly comparable financial measure calculated and presented in accordance with U.S. generally accepted accounting principles, or GAAP.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(unaudited)			
Percentage of Revenue:				
Revenue	100%	100%	100%	100%
Costs and expenses:				
Cost of revenue (exclusive of amortization)	9	12	10	13
Sales and marketing	70	44	61	40
Technology and development	24	21	25	21
General and administrative	19	19	20	19
Total costs and expenses	122	95	116	94

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Income (loss) from operations	(22)	5	(16)	6
Other income	0	0	0	0
Net income (loss)	(22%)	5%	(16%)	6%

Adjusted EBITDA

To provide investors with additional information regarding our financial results, we have disclosed Adjusted EBITDA within this Quarterly Report on Form 10-Q, a non-GAAP financial measure. We have provided a reconciliation below of Adjusted EBITDA to net income (loss), the most directly comparable GAAP financial measure.

Table of Contents

We have included Adjusted EBITDA in this Quarterly Report on Form 10-Q because it is a key metric used by our management and board of directors to measure operating performance and trends and to prepare and approve our annual budget. In particular, the exclusion of certain expenses in calculating Adjusted EBITDA facilitates operating performance comparisons on a period-to-period basis.

Our use of Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;

Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

Adjusted EBITDA does not consider the potentially dilutive impact of share-based compensation;

Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements; and

Other companies, including companies in our own industry, may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, you should consider Adjusted EBITDA alongside other financial performance measures, including various cash flow metrics, net income (loss) and our other GAAP results.

The following table presents a reconciliation of Adjusted EBITDA to net income (loss) for each of the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
(in thousands, unaudited)				
Reconciliation of Adjusted EBITDA to Net Income (Loss):				
Net income (loss)	\$ (10,232)	\$ 1,332	\$ (13,979)	\$ 3,056
Other income	(115)	(34)	(170)	(65)
Depreciation and amortization expense	5,155	2,749	9,934	5,085
Share-based compensation expense	10,467	1,225	14,613	2,643
Adjusted EBITDA	\$ 5,275	\$ 5,272	\$ 10,398	\$ 10,719

Table of Contents**Three Months Ended June 30, 2013 Compared to Three Months Ended June 30, 2012****Revenue**

	Three Months Ended June 30,		2012 to 2013 % Change
	2013	2012	
Revenue:			
Marketplace revenue:			
Real estate	\$ 30,637	\$ 17,046	80%
Mortgages	5,814	2,577	126%
Total Marketplace revenue	36,451	19,623	86%
Display revenue	10,469	8,142	29%
Total revenue	\$ 46,920	\$ 27,765	69%

	Three Months Ended June 30,	
	2013	2012
Percentage of Total Revenue:		
Marketplace revenue:		
Real estate	65%	61%
Mortgages	12%	9%
Total Marketplace revenue	78%	71%
Display revenue	22%	29%
Total revenue	100%	100%

Overall revenue increased by \$19.2 million, or 69%, for the three months ended June 30, 2013 compared to the three months ended June 30, 2012. Marketplace revenue increased by 86%, and display revenue increased by 29%.

Marketplace revenue grew to \$36.5 million for the three months ended June 30, 2013 from \$19.6 million for the three months ended June 30, 2012, an increase of \$16.8 million. Marketplace revenue represented 78% of total revenue for the three months ended June 30, 2013 compared to 71% of total revenue for the three months ended June 30, 2012. The increase in marketplace revenue was primarily attributable to the \$13.6 million increase in real estate revenue, which was primarily a result of growth in the number of subscribers in our Premier Agent program to 38,807 as of June 30, 2013 from 22,696 as of June 30, 2012, representing growth of 71%. The increase in real estate revenue was also partially attributable to price increases supported by growth in our audience across our mobile and desktop platforms, as well as increased sales to existing Premier Agent subscribers looking to expand their presence on our platform. Average monthly revenue per subscriber increased by 1% to \$266 for the three months ended June 30, 2013 from \$263 for the three months ended June 30, 2012. We calculate our average monthly revenue per subscriber by dividing the revenue generated by our Premier Agent subscription products in the period by the average number of Premier Agent subscribers in the period, divided again by the number of months in the period. The average number of Premier Agent subscribers is derived by calculating the average of the beginning and ending number of Premier Agent subscribers for the period.

Mortgage revenue, which is included in marketplace revenue, also increased by \$3.2 million, or 126%, for the three months ended June 30, 2013 compared to the three months ended June 30, 2012. Approximately \$1.5 million of the increase was the result of our November 2012 acquisition of Mortech, Inc. The remaining increase of \$1.7 million was primarily a result of an increase in the number of loan requests submitted by consumers in Zillow Mortgage Marketplace. There were approximately 5.3 million mortgage loan requests submitted by consumers for the three months ended June 30, 2013 compared to 2.9 million mortgage loan requests submitted by consumers for the three months ended June 30, 2012, an increase of 86%. The growth in loan requests submitted by consumers increases the likelihood that users will click on a mortgage

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advertisement or on a link to obtain additional information about a mortgage loan quote, but there is not a direct correlation between the number of loan requests and mortgage revenue because loan requests do not always result in revenue recognition.

Display revenue was \$10.5 million for the three months ended June 30, 2013 compared to \$8.1 million for the three months ended June 30, 2012, an increase of \$2.3 million. Display revenue represented 22% of total revenue for the three months ended June 30, 2013 compared to 29% of total revenue for the three months ended June 30, 2012. The increase in display revenue was primarily the result of an increase in the number of unique users to our mobile applications and websites, which increased to 54.3 million average monthly unique users for the three months ended June 30, 2013 from 33.5 million average monthly unique users for the three

Table of Contents

months ended June 30, 2012, representing growth of 62%. The growth in unique users increased the number of graphical display impressions available for sale and advertiser demand for graphical display inventory. Although there is a relationship between the number of average monthly unique users and display revenue, there is not a direct correlation, as the Company does not sell its entire display inventory each period and some of the inventory is sold through networks and not directly through our sales team which impacts the cost per impression we charge to customers. As a result, similar to prior periods, the growth rate in the Company's average monthly unique users outpaced the growth rate of display revenue.

Cost of Revenue

	Three Months Ended June 30,		2012 to 2013 % Change
	2013	2012	
	(in thousands, unaudited)		
Cost of revenue	\$ 4,294	\$ 3,264	32%

Cost of revenue was \$4.3 million for the three months ended June 30, 2013 compared to \$3.3 million for the three months ended June 30, 2012, an increase of \$1.0 million, or 32%. The increase in cost of revenue was attributable to increased headcount-related expenses of \$0.4 million, including share-based compensation expense, driven by growth in headcount, increased credit card and ad serving fees of \$0.3 million, a \$0.3 million increase in data center operations costs, a \$0.5 million increase in various miscellaneous expenses, including connectivity costs and other costs paid to third parties, partially offset by a \$0.5 million decrease in revenue sharing costs. We expect our cost of revenue to increase in absolute dollars in future years as we continue to incur more expenses that are associated with growth in revenue.

Sales and Marketing

	Three Months Ended June 30,		2012 to 2013 % Change
	2013	2012	
	(in thousands, unaudited)		
Sales and marketing	\$ 32,924	\$ 12,153	171%

Sales and marketing expenses were \$32.9 million for the three months ended June 30, 2013 compared to \$12.2 million for the three months ended June 30, 2012, an increase of \$20.8 million, or 171%. The increase in sales and marketing expense was primarily due to an \$8.4 million increase in marketing and advertising expenses, primarily related to advertising spend to acquire shoppers across online and offline channels, which supports our growth initiatives, and a \$7.5 million increase in share-based compensation expense. We also incurred a \$0.8 million increase in consulting costs to support our marketing and advertising spend. We believe we have considerable opportunity to increase brand awareness and grow traffic through targeted advertising programs. As such, we plan to continue to selectively advertise to consumers and professionals in various online and offline channels that have tested well for us to drive traffic and brand awareness for Zillow.

For the three months ended June 30, 2013, share-based compensation expense includes the impact of \$7.1 million of expense related to the accelerated vesting of 218,071 unvested restricted stock units. In April 2013, pursuant to the terms of a Restricted Stock Unit Award Notice and Restricted Stock Unit Award Agreement between Zillow and a former employee, all unvested restricted stock units held by such employee became vested, such that the former employee received one share of Zillow's Class A common stock for each outstanding restricted stock unit.

In addition to the increases in marketing and advertising and share-based compensation expense, headcount-related expenses increased by \$3.7 million, driven primarily by growth in the size of our sales team to promote our marketplace business.

We expect our sales and marketing expenses to increase in absolute dollars in future years as we continue to expand our sales team and invest more resources in extending our audience through marketing and advertising initiatives.

Technology and Development

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	Three Months Ended June 30,		2012 to 2013 % Change
	2013 (in thousands, unaudited)	2012	
Technology and development	\$ 11,071	\$ 5,818	90%

Table of Contents

Technology and development expenses, which include research and development costs, were \$11.1 million for the three months ended June 30, 2013 compared to \$5.8 million for the three months ended June 30, 2012, an increase of \$5.3 million, or 90%. Approximately \$2.1 million of the increase related to growth in headcount-related expenses, including share-based compensation expense, as we continue to grow our engineering headcount to support current and future product initiatives. Approximately \$2.1 million of the increase was the result of increased amortization of intangible assets, including website development costs, purchased content and acquired intangible assets. The increase in technology and development expenses was also attributable to a \$0.3 million increase in consulting costs, a \$0.2 million increase in depreciation expense, and a \$0.6 million increase in various miscellaneous expenses, including connectivity costs and travel.

Amortization expense included in technology and development for capitalized website development costs was \$2.8 million and \$1.6 million, respectively, for the three months ended June 30, 2013 and 2012. Amortization expense included in technology and development for purchased data content intangible assets was \$0.7 million and \$0.5 million, respectively, for the three months ended June 30, 2013 and 2012. Amortization expense included in technology and development related to intangible assets recorded in connection with acquisitions was \$1.0 million and \$0.3 million, respectively, for the three months ended June 30, 2013 and 2012. Other data content expense was \$0.1 million and \$0.1 million, respectively, for the three months ended June 30, 2013 and 2012. We expect our technology and development expenses to increase in absolute dollars over time as we continue to build new mobile and website functionality.

General and Administrative

	Three Months Ended		
	June 30,		
	2013	2012	2012 to 2013
	(in thousands, unaudited)		% Change
General and administrative	\$ 8,978	\$ 5,232	72%

General and administrative expenses were \$9.0 million for the three months ended June 30, 2013 compared to \$5.2 million for the three months ended June 30, 2012, an increase of \$3.7 million, or 72%. The increase in general and administrative expenses was a result of a \$2.2 million increase in headcount-related expenses, including share-based compensation expense, driven primarily by growth in headcount and increases in compensation, a \$0.7 million increase in building lease-related expenses including rent, utilities and insurance, a \$0.2 million increase in bad debt expense, and a \$0.6 million increase in various other miscellaneous expenses, including consulting costs, professional services fees, state and local taxes, and travel and meals expense. We expect general and administrative expenses to increase over time in absolute dollars as we continue to expand our business.

Table of Contents**Six Months Ended June 30, 2013 Compared to Six Months Ended June 30, 2012****Revenue**

	Six Months Ended June 30,		2012 to 2013 % Change
	2013	2012	
	(in thousands, unaudited)		
Revenue:			
Marketplace revenue:			
Real estate	\$ 56,746	\$ 31,231	82%
Mortgages	10,723	4,985	115%
Total Marketplace revenue	67,469	36,216	86%
Display revenue	18,417	14,382	28%
Total revenue	\$ 85,886	\$ 50,598	70%

	Six Months Ended June 30,	
	2013	2012
Percentage of Total Revenue:		
Marketplace revenue:		
Real estate	66%	62%
Mortgages	12%	10%
Total Marketplace revenue	79%	72%
Display revenue	21%	28%
Total revenue	100%	100%

Overall revenue increased by \$35.3 million, or 70%, for the six months ended June 30, 2013 compared to the six months ended June 30, 2012. Marketplace revenue increased by 86%, and display revenue increased by 28%.

Marketplace revenue grew to \$67.5 million for the six months ended June 30, 2013 from \$36.2 million for the six months ended June 30, 2012, an increase of \$31.3 million. Marketplace revenue represented 79% of total revenue for the six months ended June 30, 2013 compared to 72% of total revenue for the six months ended June 30, 2012. The increase in marketplace revenue was primarily attributable to the \$25.5 million increase in real estate revenue, which was primarily a result of growth in the number of subscribers in our Premier Agent program to 38,807 as of June 30, 2013 from 22,696 as of June 30, 2012, representing growth of 71%. The increase in real estate revenue was also partially attributable to price increases supported by growth in our audience across our mobile and desktop platforms, as well as increased sales to existing Premier Agent subscribers looking to expand their presence on our platform. Average monthly revenue per subscriber increased by 1.5% to \$262 for the six months ended June 30, 2013 from \$258 for the six months ended June 30, 2012.

Mortgage revenue, which is included in marketplace revenue, also increased by \$5.7 million, or 115%, for the six months ended June 30, 2013 compared to the six months ended June 30, 2012. Approximately \$2.8 million of the increase was the result of our November 2012 acquisition of Morteck, Inc. The remaining increase of \$2.9 million was primarily a result of an increase in the number of loan requests submitted by consumers in Zillow Mortgage Marketplace. There were approximately 9.9 million mortgage loan requests submitted by consumers for the six months ended June 30, 2013 compared to 5.5 million mortgage loan requests submitted by consumers for the six months ended June 30, 2012, an increase of 80%. The growth in loan requests submitted by consumers increases the likelihood that users will click on a mortgage advertisement or on a link to obtain additional information about a mortgage loan quote, but there is not a direct correlation between the number of loan requests and mortgage revenue because loan requests do not always result in revenue recognition.

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Display revenue was \$18.4 million for the six months ended June 30, 2013 compared to \$14.4 million for the six months ended June 30, 2012, an increase of \$4.0 million. Display revenue represented 21% of total revenue for the six months ended June 30, 2013 compared to 28% of total revenue for the six months ended June 30, 2012. The increase in display revenue was primarily the result of an increase in the number of unique users to our mobile applications and websites, which increased to 54.3 million average monthly unique users for the three months ended June 30, 2013 from 33.5 million average monthly unique users for the three months ended June 30, 2012, representing growth of 62%. The growth in unique users increased the number of graphical display impressions available for sale and advertiser demand for graphical display inventory. Although there is a relationship between the number of

Table of Contents

average monthly unique users and display revenue, there is not a direct correlation, as the Company does not sell its entire display inventory each period and some of the inventory is sold through networks and not directly through our sales team which impacts the cost per impression we charge to customers. As a result, similar to prior periods, the growth rate in the Company's average monthly unique users outpaced the growth rate of display revenue.

Cost of Revenue

	Six Months Ended June 30,		2012 to 2013 % Change
	2013	2012	
	(in thousands, unaudited)		
Cost of revenue	\$ 8,424	\$ 6,614	27%

Cost of revenue was \$8.4 million for the six months ended June 30, 2013 compared to \$6.6 million for the six months ended June 30, 2012, an increase of \$1.8 million, or 27%. The increase in cost of revenue was attributable to increased credit card and ad serving fees of \$0.8 million, increased headcount-related expenses of \$0.7 million, including share-based compensation expense, driven by growth in headcount, a \$0.5 million increase in data center operations costs, a \$0.2 million increase in connectivity costs, a \$0.7 million increase in various miscellaneous expenses, including royalties and other costs paid to third parties, partially offset by a \$1.1 million decrease in revenue sharing costs.

Sales and Marketing

	Six Months Ended June 30,		2012 to 2013 % Change
	2013	2012	
	(in thousands, unaudited)		
Sales and marketing	\$ 52,718	\$ 20,468	158%

Sales and marketing expenses were \$52.7 million for the six months ended June 30, 2013 compared to \$20.5 million for the six months ended June 30, 2012, an increase of \$32.3 million, or 158%. The increase in sales and marketing expense was primarily due to a \$13.1 million increase in marketing and advertising expenses, primarily related to advertising spend to acquire shoppers across online and offline channels, which supports our growth initiatives, and an \$8.5 million increase in share-based compensation expense. We also incurred a \$2.1 million increase in consulting costs to support our marketing and advertising spend. We believe we have considerable opportunity to increase brand awareness and grow traffic through targeted advertising programs. As such, we plan to continue to selectively advertise to consumers and professionals in various online and offline channels that have tested well for us to drive traffic and brand awareness for Zillow.

For the six months ended June 30, 2013, share-based compensation expense includes the impact of \$7.1 million of expense related to the accelerated vesting of 218,071 unvested restricted stock units. In April 2013, pursuant to the terms of a Restricted Stock Unit Award Notice and Restricted Stock Unit Award Agreement between Zillow and a former employee, all unvested restricted stock units held by such employee became vested, such that the former employee received one share of Zillow's Class A common stock for each outstanding restricted stock unit. The remaining increase in share-based compensation expense of \$1.4 million was driven primarily by growth in the size of our sales team to promote our marketplace business.

In addition to the increases in marketing and advertising and share-based compensation expense, headcount-related expenses increased by \$7.6 million, driven primarily by growth in the size of our sales team. We also incurred a \$0.5 million increase in tradeshow expenses, including related travel costs, and a \$0.5 million increase in various miscellaneous sales and marketing expenses.

Technology and Development

	Six Months Ended June 30,		2012 to 2013 % Change
	2013	2012	
	(in thousands, unaudited)		

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Technology and development	\$ 21,682	\$ 10,848	100%
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Table of Contents

Technology and development expenses, which include research and development costs, were \$21.7 million for the six months ended June 30, 2013 compared to \$10.8 million for the six months ended June 30, 2012, an increase of \$10.8 million, or 100%. Approximately \$4.9 million of the increase related to growth in headcount-related expenses, including share-based compensation expense, as we continue to grow our engineering headcount to support current and future product initiatives. Approximately \$4.3 million of the increase was the result of increased amortization of intangible assets, including website development costs, purchased content and acquired intangible assets. The increase in technology and development expenses was also the result of a \$0.5 million increase in consulting costs, a \$0.4 million increase in depreciation expense, and a \$0.7 million increase in various miscellaneous expenses.

Amortization expense included in technology and development for capitalized website development costs was \$5.3 million and \$2.8 million, respectively, for the six months ended June 30, 2013 and 2012. Amortization expense included in technology and development for purchased data content intangible assets was \$1.3 million and \$1.0 million, respectively, for the six months ended June 30, 2013 and 2012. Amortization expense included in technology and development related to intangible assets recorded in connection with acquisitions was \$2.0 million and \$0.6 million, respectively, for the six months ended June 30, 2013 and 2012. Other data content expense was \$0.2 million and \$0.2 million, respectively, for the six months ended June 30, 2013 and 2012.

General and Administrative

	Six Months Ended		2012 to 2013 % Change
	June 30,		
	2013	2012	
	(in thousands, unaudited)		
General and administrative	\$ 17,211	\$ 9,677	78%

General and administrative expenses were \$17.2 million for the six months ended June 30, 2013 compared to \$9.7 million for the six months ended June 30, 2012, an increase of \$7.5 million, or 78%. The increase in general and administrative expenses was a result of a \$3.8 million increase in headcount-related expenses, including share-based compensation expense, driven primarily by growth in headcount and increases in compensation, a \$1.4 million increase in building lease-related expenses including rent, utilities and insurance, a \$0.6 million increase in professional services fees, a \$0.5 million increase in bad debt expense, a \$0.3 million increase in travel and meals expense, a \$0.3 million increase in consulting costs, and a \$0.6 million increase in various other miscellaneous expenses, including connectivity costs and state and local taxes.

Liquidity and Capital Resources

Prior to our initial public offering in July 2011, we funded our operations primarily from the issuance of common and preferred stock. Through 2007, we raised approximately \$81.0 million through various offerings of our convertible preferred stock and approximately \$5.9 million from the sale of our common stock.

On July 25, 2011, we sold and issued 3,981,300 shares of our Class A common stock, including 519,300 shares of Class A common stock pursuant to the underwriters' option to purchase additional shares, at a public offering price of \$20.00 per share, and we sold and issued 274,999 shares of our Class A common stock at a price of \$20.00 per share in a private placement. As a result of the offerings, we received net proceeds of approximately \$76.3 million, after deducting underwriting discounts and commissions of approximately \$5.6 million and additional offering-related expenses of \$3.3 million, for total expenses of \$8.9 million. The net offering proceeds were invested into money market funds, certificates of deposit and fixed income U.S. government agency securities.

In September 2012, we sold and issued 3,844,818 shares of our Class A common stock, including 419,818 shares of our Class A common stock pursuant to the underwriters' option to purchase additional shares, and certain shareholders sold 575,000 shares of our Class A common stock, at a price of \$43.00 per share. The net proceeds for all shares sold by us in the public offering were approximately \$156.7 million after deducting underwriting discounts and commissions of approximately \$7.9 million and additional offering-related expenses of \$0.7 million, for total expenses of \$8.6 million. We received no proceeds from the sale of our Class A common stock by the selling shareholders. The net offering proceeds were invested into money market funds and U.S. government agency securities.

As of June 30, 2013 and December 31, 2012, we had cash, cash equivalents and investments of \$208.1 million and \$203.5 million, respectively. Cash and cash equivalents balances consist of operating cash on deposit with financial institutions and money market funds. Investments as of June 30, 2013 and December 31, 2012 consist of fixed income securities, which include U.S. government agency securities, commercial paper and corporate notes and bonds. Amounts on deposit with third-party financial institutions exceed the applicable Federal Deposit Insurance Corporation and the Securities Investor Protection Corporation insurance limits, as applicable. We believe that cash from operations and cash,

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cash equivalents and investment balances will be sufficient to meet our ongoing operating activities, working capital, capital expenditures and other capital requirements for at least the next 12 months.

Table of Contents

During March 2011, we entered into a loan and security agreement with a financial institution to establish a line of credit of \$4.0 million. In April 2012, we amended our loan and security agreement to increase our line of credit from \$4.0 million to \$25.0 million. The line of credit is secured by substantially all our assets, including our intellectual property, and provides us with flexibility for future potential financing needs. The revolving line of credit contains customary financial covenants, including the maintenance of a minimum adjusted quick ratio (calculated as (i) unrestricted cash plus net accounts receivable divided by (ii) current liabilities less the sum of deferred revenue and any indebtedness owing from borrower to bank), measured on a monthly basis, of 1.50 to 1.00, and minimum Adjusted EBITDA, measured on a quarterly basis, of greater than or equal to negative \$5 million for each quarterly period through December 31, 2012 and greater than or equal to \$0 for each quarterly period thereafter. In addition, the revolving line of credit contains customary restrictions on our ability to, among other things, engage in certain mergers and acquisition transactions and create liens on assets. The revolving line of credit contains customary events of default that include, among others, non-payment of principal, interest or fees, violation of certain covenants, inaccuracy of representations and warranties, bankruptcy and insolvency events and material judgments. The occurrence of an event of default will increase the applicable rate of interest by five percentage points and could result in the acceleration of Zillow's obligations under the revolving line of credit. As of June 30, 2013, we were in compliance with all covenants, and there were no amounts outstanding under the line of credit. The line of credit is available through April 2016.

In March 2011, we executed a standby letter of credit of \$1.5 million in connection with the lease of our Seattle offices, and in July 2012, we amended the standby letter of credit to increase the amount to approximately \$1.7 million. In connection with the April 2013 amendment to the lease of our Seattle offices, we amended our standby letter of credit to increase the amount from approximately \$1.7 million to approximately \$2.0 million. In November 2012, we executed a letter of credit of approximately \$0.2 million in connection with the lease of our San Francisco office. The letters of credit are secured by our investments and are effective until 60 days after the expiration date of the lease.

The following table presents selected cash flow data for the six months ended June 30, 2013 and 2012:

	Six Months Ended June 30,	
	2013	2012
	(in thousands, unaudited)	
Cash Flow Data:		
Cash flows provided by operating activities	\$ 8,546	\$ 17,064
Cash flows used in investing activities	(35,975)	(43,991)
Cash flows provided by financing activities	8,941	4,793

Cash Flows Provided By Operating Activities

For the six months ended June 30, 2013, net cash provided by operating activities was \$8.5 million. This was primarily driven by a net loss of \$14.0 million, adjusted by depreciation and amortization expense of \$9.9 million, share-based compensation expense of \$14.6 million, bad debt expense of \$0.8 million, and loss on disposal of property and equipment of \$0.7 million. Changes in operating assets and liabilities decreased cash provided by operating activities by \$3.5 million.

For the six months ended June 30, 2012, net cash provided by operating activities was \$17.1 million. This was primarily driven by net income of \$3.1 million, adjusted by depreciation and amortization expense and share-based compensation expense of \$5.1 million and \$2.6 million, respectively, and an increase in the balance of deferred rent of \$0.9 million. Changes in operating assets and liabilities increased cash provided by operating activities by \$4.6 million.

Cash Flows Used In Investing Activities

Our primary investing activities include the purchase and maturity of short-term and long-term investments, the purchase of property and equipment and intangible assets, and cash paid for acquisitions.

For the six months ended June 30, 2013, net cash used in investing activities was \$36.0 million. This was the result of \$23.3 million of net purchases of investments and \$12.7 million of purchases for property and equipment and intangible assets.

For the six months ended June 30, 2012, net cash used in investing activities was \$44.0 million. This was the result of \$7.6 million of purchases of property and equipment and intangible assets, and \$36.4 million paid in connection with the acquisition of RentJuice Corporation, net of cash acquired of \$2.0 million.

Cash Flows Provided By Financing Activities

For the six months ended June 30, 2013 and 2012, our financing activities resulted entirely from the exercise of employee stock options. The proceeds from the issuance of Class A common stock from the exercise of stock options for the six months ended June 30, 2013 and 2012 was \$8.9 million and \$4.8 million, respectively.

Table of Contents**Off-Balance Sheet Arrangements**

We did not have any off-balance sheet arrangements as of June 30, 2013.

Contractual Obligations

The following table provides a summary of our contractual obligations as of June 30, 2013:

	Total	Payment Due By Period			More Than 5 Years
		Less Than 1 Year	1-3 Years	3-5 Years	
			(in thousands)		
Operating lease obligations	\$ 55,286	\$ 4,475	\$ 11,814	\$ 13,546	\$ 25,451
Purchase obligations	14,742	4,099	8,153	2,490	
Total	\$ 70,028	\$ 8,574	\$ 19,967	\$ 16,036	\$ 25,451

We have various operating leases for office space and equipment. In March 2011, we entered into a lease for approximately 66,000 square feet of office space that houses our corporate headquarters in Seattle, Washington, for which we are obligated to make escalating monthly lease payments that began in December 2012 and continue through November 2022. In June 2012, we entered into a lease amendment for our corporate headquarters in Seattle, Washington, which increased the rentable area of the premises by 21,575 square feet, for which we are obligated to make escalating monthly lease payments that began in January 2013 and continue through November 2022. In April 2013, we entered into a lease amendment for our corporate headquarters in Seattle, Washington, which will increase the rentable area of the premises by 22,583 square feet as of October 1, 2013, and will increase the rentable area of the premises by an additional 22,583 square feet as of September 1, 2014, for which we are obligated to make escalating monthly lease payments beginning in January 2014 and continuing through November 2022. In April 2012, we entered into an operating lease in Irvine, California for 20,025 square feet under which we are obligated to make escalating monthly lease payments which began in August 2012 and continue through July 2022. In November 2012, we entered into an operating lease in San Francisco, California for 18,353 square feet under which we are obligated to make escalating monthly lease payments which began in December 2012 and continue through November 2018. We lease additional office space in Chicago, Illinois, Lincoln, Nebraska, and New York, New York. We also have purchase obligations for content related to our mobile applications and websites. We do not have any debt or capital lease obligations. The contractual commitment amounts in the table above are associated with agreements that are enforceable and legally binding. Obligations under contracts that we can cancel without a significant penalty are not included in the table above.

Critical Accounting Policies and Estimates

Our financial statements are prepared in accordance with U.S. generally accepted accounting principles, or 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. For information on our critical accounting policies and estimates, see Part II, Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations) of our Annual Report on Form 10-K for the year ended December 31, 2012. There have been no material changes to our critical accounting policies and estimates as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures about market risk, see Part 2, Item 7A (Quantitative and Qualitative Disclosures About Market Risk) in our Annual Report on Form 10-K for the year ended December 31, 2012. Our exposures to market risk have not changed materially since December 31, 2012.

Table of Contents

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended). Management, under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) as of June 30, 2013. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that these disclosure controls and procedures were effective as of June 30, 2013.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the three months ended June 30, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II OTHER INFORMATION****Item 1. Legal Proceedings**

In March 2010, Smarter Agent, LLC (Smarter Agent), a provider of mobile real estate applications, filed a complaint against us and multiple other defendants for patent infringement in the U.S. District Court for the District of Delaware. The complaint alleges, among other things, that our mobile technology infringes three patents held by Smarter Agent purporting to cover: a Global positioning-based real estate database access device and method, a Position-based information access device and method and a Position-based information access device and method of searching, and seeks an injunctive order against the alleged infringing activities and an award for damages. We have denied the allegations and asserted counterclaims seeking declarations that we are not infringing the patents and that the patents are invalid. In November 2010, the U.S. Patent and Trademark Office granted our petition for re-examination of the three patents-in-suit and its first office action found all claims invalid. In March 2011, the court stayed the litigation pending the completion of the re-examination proceedings. In addition, in October 2011, Smarter Agent filed a substantially similar complaint against Diverse Solutions, Inc. (Diverse Solutions), and other defendants, for patent infringement in the U.S. District Court for the District of Delaware. On October 31, 2011, we acquired substantially all of the operating assets and certain liabilities of Diverse Solutions, including the Smarter Agent complaint. In addition, in March 2010, Smarter Agent filed a substantially similar complaint against HotPads, Inc. (HotPads), and other defendants, for patent infringement in the U.S. District Court for the District of Delaware. On December 14, 2012, we acquired HotPads, including the Smarter Agent complaint.

In September 2010, LendingTree, LLC, a provider of an online lending marketplace, filed a complaint against us, and other defendants, for patent infringement in the U.S. District Court for the Western District of North Carolina. The complaint alleges, among other things, that our website technology infringes two patents purporting to cover a Method and computer network for coordinating a loan over the internet, and seeks an injunctive order against the alleged infringing activities and an award for damages. We have denied the allegations and asserted counterclaims seeking declarations that we are not infringing the patents and that the patents are unenforceable and invalid.

In November 2012, a securities class action lawsuit was filed against us and certain of our executive officers seeking unspecified damages in the U.S. District Court for the Western District of Washington at Seattle. The complaint purports to state claims for violations of federal securities laws on behalf of a class of those who purchased our common stock between February 15, 2012 and November 6, 2012. A consolidated amended complaint was filed in June 2013. In general, the complaints allege, among other things, that during the period between February 15, 2012 and November 6, 2012, we issued materially false and misleading statements regarding our business practices and financial results. We intend to deny the allegations of any wrongdoing and vigorously defend the claims in the lawsuit.

In January 2013, a shareholder derivative lawsuit was filed against certain of our executive officers and directors seeking unspecified damages on behalf of Zillow in the U.S. District Court for the Western District of Washington at Seattle. In general, the complaint alleges, among other things, that the defendants breached their fiduciary obligations owed to Zillow, and that as a result of the breach of such fiduciary duties, Zillow wasted corporate assets defending itself in the securities class action lawsuit described above, and that defendants were unjustly enriched by selling shares of our common stock on the basis of knowledge of adverse trends before such information was publicly disclosed. The derivative action is the subject of a stipulated order staying proceedings until the District Court rules on a motion to dismiss the consolidated amended complaint in the securities action. The defendants intend to deny the allegations of wrongdoing and vigorously defend the claims in the lawsuit.

Although the results of litigation cannot be predicted with certainty, we currently believe we have substantial and meritorious defenses to the outstanding claims and that the final outcome of the outstanding litigation matters will not have a material effect on our business, financial position, results of operations or cash flow.

In addition to the aforementioned, from time to time, we are involved in litigation and claims that arise in the ordinary course of business and although we cannot be certain of the outcome of any such litigation or claims, nor the amount of damages and exposure that we could incur, we currently believe that the final disposition of such matters will not have a material effect on our business, financial position, results of operations or cash flow. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

Table of Contents

Item 1A. Risk Factors

There have not been any material changes to the risk factors affecting our business, financial condition or future results from those set forth in Part I, Item 1A (Risk Factors) in our Annual Report on Form 10-K for the year ended December 31, 2012. However, you should carefully consider the factors discussed in our Annual Report on Form 10-K, which could materially affect our business, financial condition or future results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Table of Contents

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Unregistered Sales of Equity Securities

There were no unregistered sales of equity securities during the three months ended June 30, 2013.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

On August 2, 2013, Zillow announced that Kathleen Philips has been appointed Chief Operating Officer, effective as of August 1, 2013. In addition to her role as Chief Operating Officer, Ms. Philips will continue to serve as our General Counsel and Secretary.

Ms. Philips, age 46, has served as our General Counsel since July 2010. Ms. Philips served as General Counsel at FanSnap, Inc., a search engine for live event tickets, from June 2008 to June 2010, as General Counsel at Pure Digital Technologies, Inc., the producer of Flip Video camcorders, from September 2007 to June 2008 and as General Counsel at StubHub, Inc., an online live event ticket marketplace, from May 2005 to April 2006. Ms. Philips served as General Counsel at Hotwire, Inc. from 2001 to 2004 and as its Corporate Counsel from 2000 to 2001. Ms. Philips was an attorney in private practice at Cooley Godward LLP from 1998 to 2000 and at Stoel Rives LLP from 1997 to 1998. Ms. Philips holds a B.A. in Political Science from the University of California, Berkeley, and a J.D. from the University of Chicago.

Table of Contents**Item 6. Exhibits**

The exhibits listed below are filed as part of this Quarterly Report on Form 10-Q.

Exhibit Number	Description
10.1*	Listings and Sales Agreement by and among Yahoo! Inc., Yahoo! Realty Inc. and Zillow, Inc. dated July 2, 2010.
10.2	Second Amendment to Lease by and between FSP-RIC, LLC and Zillow, Inc. dated as of April 16, 2013. (1)
10.3**	Amendment No. 1 to the Zillow, Inc. Amended and Restated 2011 Incentive Plan. (2)
31.1	Certification of Chief Executive Officer Pursuant to Rule 13-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Rule 13-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS***	XBRL 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.

(1) Filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 22, 2013, and incorporated herein by reference.

(2) Filed as Appendix A to Registrant's Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on April 16, 2013, and incorporated herein by reference.

* Portions of this exhibit are omitted and were filed separately with the Securities and Exchange Commission pursuant to Registrant's application requesting confidential treatment under Rule 406 of the Securities Act of 1933, as amended, and Rule 24b-2 of the Securities Exchange Act of 1934, as amended. Registrant initially filed this exhibit with Amendment No. 3 to the Registration Statement on Form S-1 filed on June 20, 2011 and was granted an Order Granting Confidential Treatment through August 3, 2013. Subsequent to the initial filing of this exhibit, the parties to the Listings and Sales Agreement extended the term of the Agreement to August 3, 2014. Registrant's application requested an extension of the confidentiality period through August 3, 2014.

** Indicates a management contract or compensatory plan or arrangement.

*** Users of this data are advised that, pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Exchange Act of 1934 and otherwise are not subject to liability under those Sections.

Table of Contents

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.

Dated: August 6, 2013

ZILLOW, INC.

By: /s/ CHAD M. COHEN

Name: Chad M. Cohen

Title: Chief Financial Officer and Treasurer