

ZILLOW GROUP, INC.  
Form 10-Q  
August 05, 2016  
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**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, 2016**

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

**Commission File Number: 001-36853**

**ZILLOW GROUP, INC.**

**(Exact name of registrant as specified in its charter)**

**Washington**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**47-1645716**  
**(I.R.S. Employer**  
**Identification Number)**

**1301 Second Avenue, Floor 31, Seattle, Washington**  
**(Address of principal executive offices)**  
**(206) 470-7000**

**98101**  
**(Zip Code)**

**@ZillowGroup**

**(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 28, 2016, 53,832,528 shares of Class A common stock, 6,217,447 shares of Class B common stock, and 120,092,444 shares of Class C capital stock were outstanding.

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**ZILLOW GROUP, INC.**

**Quarterly Report on Form 10-Q**

**For the Three Months Ended June 30, 2016**

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As used in this Quarterly Report on Form 10-Q, the terms Zillow Group, the Company, we, us and our refer to Zillow Group, 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 these words or other similar expressions.

These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including but not limited to our ability to successfully integrate and realize the benefits of our past or future strategic acquisitions or investments, as well as those risks, uncertainties and assumptions described in Part 1, Item 1A (Risk Factors) in our Annual Report on Form 10-K for the year ended December 31, 2015. 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, or SEC, 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.zillowgroup.com](http://www.zillowgroup.com), free of charge, as soon as reasonably practicable after the electronic filing of these reports with the SEC. The information contained on our website is not a part of this quarterly report on Form 10-Q or any other document we file with the SEC.

Investors and others should note that Zillow Group announces material financial information to its investors using its press releases, SEC filings and public conference calls and webcasts. Zillow Group intends to also use the following channels as a means of disclosing information about Zillow Group, its services and other matters and for complying with its disclosure obligations under Regulation FD:

Zillow Group Investor Relations Webpage (<http://investors.zillowgroup.com>)

Zillow Group Investor Relations Blog (<http://www.zillowgroup.com/ir-blog>)

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

The information Zillow Group posts through these channels may be deemed material. Accordingly, investors should monitor these channels, in addition to following Zillow Group's 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 or any other document we file with the SEC, and the inclusion of our website addresses and Twitter account are as inactive textual references only.

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

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 155,210	\$ 229,138
Short-term investments	264,933	291,151
Accounts receivable, net of allowance for doubtful accounts of \$993 and \$3,378 at June 30, 2016 and December 31, 2015, respectively	35,494	29,789
Prepaid expenses and other current assets	15,728	24,016
<b>Total current assets</b>	<b>471,365</b>	<b>574,094</b>
Restricted cash	1,053	3,015
Property and equipment, net	98,799	89,639
Goodwill	1,919,777	1,909,167
Intangible assets, net	539,965	554,765
Other assets	6,142	5,020
<b>Total assets</b>	<b>\$ 3,037,101</b>	<b>\$ 3,135,700</b>
<b>Liabilities and shareholders equity</b>		
Current liabilities:		
Accounts payable	\$ 17,144	\$ 3,361
Accrued expenses and other current liabilities	48,475	43,047
Accrued compensation and benefits	24,303	11,392
Deferred revenue	25,651	21,450
Deferred rent, current portion	1,215	1,172
<b>Total current liabilities</b>	<b>116,788</b>	<b>80,422</b>
Deferred rent, net of current portion	15,020	13,743
Long-term debt	230,000	230,000
Deferred tax liabilities and other long-term liabilities	132,521	132,482
<b>Total liabilities</b>	<b>494,329</b>	<b>456,647</b>
Commitments and contingencies (Note 14)		
Shareholders equity:		

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Preferred stock, \$0.0001 par value; 30,000,000 shares authorized as of June 30, 2016 and December 31, 2015; no shares issued and outstanding as of June 30, 2016 and December 31, 2015

Class A common stock, \$0.0001 par value; 1,245,000,000 shares authorized as of June 30, 2016 and December 31, 2015; 53,770,787 and 53,299,111 shares issued and outstanding as of June 30, 2016 and December 31, 2015, respectively	5	5
Class B common stock, \$0.0001 par value; 15,000,000 shares authorized as of June 30, 2016 and December 31, 2015; 6,217,447 shares issued and outstanding as of June 30, 2016 and December 31, 2015	1	1
Class C capital stock, \$0.0001 par value; 600,000,000 shares authorized as of June 30, 2016 and December 31, 2015; 119,983,904 and 118,958,359 shares issued and outstanding as of June 30, 2016 and December 31, 2015, respectively	12	12
Additional paid-in capital	3,022,736	2,956,111
Accumulated other comprehensive income (loss)	377	(471)
Accumulated deficit	(480,359)	(276,605)
<b>Total shareholders equity</b>	<b>2,542,772</b>	<b>2,679,053</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 3,037,101</b>	<b>\$ 3,135,700</b>

See accompanying notes to condensed consolidated financial statements.

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Revenue	\$ 208,403	\$ 171,269	\$ 394,385	\$ 298,542
Costs and expenses:				
Cost of revenue (exclusive of amortization) (1)	17,220	17,037	33,672	30,056
Sales and marketing	99,256	87,942	198,016	147,228
Technology and development	67,421	51,740	131,838	89,065
General and administrative	179,632	43,810	233,469	81,834
Acquisition-related costs	204	1,679	797	14,156
Restructuring costs		6,652		31,717
Total costs and expenses	363,733	208,860	597,792	394,056
Loss from operations	(155,330)	(37,591)	(203,407)	(95,514)
Other income	753	450	1,434	719
Interest expense	(1,572)	(1,580)	(3,145)	(2,310)
Loss before income taxes	(156,149)	(38,721)	(205,118)	(97,105)
Income tax benefit			1,364	
Net loss	\$ (156,149)	\$ (38,721)	\$ (203,754)	\$ (97,105)
Net loss per share basic and diluted	\$ (0.87)	\$ (0.22)	\$ (1.14)	\$ (0.60)
Weighted-average shares outstanding basic and diluted	179,451	176,142	179,067	161,847

(1) Amortization of website development costs and intangible assets included in technology and development \$ 20,845 \$ 17,117 \$ 40,904 \$ 28,899  
See accompanying notes to condensed consolidated financial statements.



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	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Net loss	\$ (156,149)	\$ (38,721)	\$ (203,754)	\$ (97,105)
Other comprehensive income (loss):				
Unrealized gains (losses) on investments	202	(19)	843	130
Reclassification adjustment for net gains (losses) from investments included in net loss	6	(3)	5	(13)
Net unrealized gains (losses) on investments	208	(22)	848	117
Total other comprehensive income (loss)	208	(22)	848	117
Comprehensive loss	\$ (155,941)	\$ (38,743)	\$ (202,906)	\$ (96,988)

See accompanying notes to condensed consolidated financial statements.

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

	<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Operating activities</b>		
Net loss	\$ (203,754)	\$ (97,105)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities, net of amounts assumed in connection with acquisitions:		
Depreciation and amortization	49,357	34,447
Share-based compensation expense	53,867	52,887
Restructuring costs		18,147
Release of valuation allowance on certain deferred tax assets	1,364	
Loss on disposal of property and equipment	2,170	499
Bad debt expense	927	1,605
Deferred rent	1,321	2,310
Amortization of bond premium	808	1,593
Changes in operating assets and liabilities:		
Accounts receivable	(6,608)	(5,026)
Prepaid expenses and other assets	7,122	8,494
Accounts payable	13,743	(2,516)
Accrued expenses and other current liabilities	5,005	13
Accrued compensation and benefits	12,877	(3,259)
Accrued restructuring costs	(169)	1,425
Deferred revenue	4,190	(366)
Other long-term liabilities	(2,749)	2,998
<b>Net cash provided by (used in) operating activities</b>	<b>(60,529)</b>	<b>16,146</b>
<b>Investing activities</b>		
Proceeds from maturities of investments	105,440	165,723
Purchases of investments	(83,976)	(164,718)
Proceeds from sales of investments	4,795	4,979
Decrease in restricted cash, net of amounts assumed in connection with an acquisition	1,962	312
Purchases of property and equipment	(33,393)	(25,546)
Purchases of intangible assets	(3,321)	(8,006)
Cash acquired in acquisition, net		173,406
Cash paid for acquisition, net	(12,357)	
<b>Net cash provided by (used in) investing activities</b>	<b>(20,850)</b>	<b>146,150</b>
<b>Financing activities</b>		
Proceeds from exercise of stock options	7,737	14,722

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Value of equity awards withheld for tax liability	(286)	(511)
Net cash provided by financing activities	7,451	14,211
Net increase (decrease) in cash and cash equivalents during period	(73,928)	176,507
Cash and cash equivalents at beginning of period	229,138	125,765
Cash and cash equivalents at end of period	\$ 155,210	\$ 302,272

**Supplemental disclosures of cash flow information**

Cash paid for interest	\$ 3,163	\$ 3,163
Noncash transactions:		
Value of Class A common stock issued in connection with an acquisition	\$	\$ 1,883,728
Capitalized share-based compensation	\$ 5,304	\$ 4,783
Write-off of fully depreciated property and equipment	\$ 9,986	\$ 13,001

See accompanying notes to condensed consolidated financial statements.

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**ZILLOW GROUP, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**Note 1. Organization and Description of Business**

Zillow Group, Inc. 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. Zillow Group's brands focus on all stages of the home lifecycle: renting, buying, selling, financing and home improvement. The Zillow Group portfolio of consumer brands includes real estate and rental marketplaces Zillow, Trulia, StreetEasy, HotPads and Naked Apartments. In addition, Zillow Group works with tens of thousands of real estate agents, lenders and rental professionals, helping maximize business opportunities and connect to millions of consumers. We also own and operate a number of brands for real estate, rental and mortgage professionals, including DotLoop, Mortech and Retsly.

***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: our ability to successfully integrate and realize the benefits of our past or future strategic acquisitions or investments; 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; qualified employees and key pers