

ZILLOW INC  
Form 10-Q  
August 09, 2012  
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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, 2012

.. **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, 2012, 21,007,929 shares of Class A common stock and 8,295,026 shares of Class B common stock were outstanding.

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**ZILLOW, INC.**

**Quarterly Report on Form 10-Q**

**For the Three Months Ended June 30, 2012**

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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) and Part II, Item 1A (Risk Factors), 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, or any other plural of these words or similar 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 websites and mobile applications; 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 II, Item 1A (Risk Factors) in this Quarterly Report on Form 10-Q and in Part 1, Item 1A (Risk Factors) in our Annual Report on Form 10-K for the year ended December 31, 2011. 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.

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

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 25,792	\$ 47,926
Short-term investments	43,810	28,925
Accounts receivable, net of allowance for doubtful accounts of \$763 and \$683 at June 30, 2012 and December 31, 2011, respectively	7,775	5,638
Prepaid expenses and other current assets	1,617	3,214
<b>Total current assets</b>	<b>78,994</b>	<b>85,703</b>
Long-term investments		15,285
Property and equipment, net	10,665	7,227
Goodwill	35,432	3,676
Intangible assets, net	9,655	4,532
Other assets	407	245
<b>Total assets</b>	<b>\$ 135,153</b>	<b>\$ 116,668</b>
<b>Liabilities and shareholders equity</b>		
Current liabilities:		
Accounts payable	\$ 3,472	\$ 1,681
Accrued expenses and other current liabilities	5,209	4,893
Accrued compensation and benefits	2,676	1,587
Deferred revenue	8,699	5,769
Deferred rent, current portion	64	60
<b>Total current liabilities</b>	<b>20,120</b>	<b>13,990</b>
Deferred rent, net of current portion	2,247	1,347
Other non-current liabilities		118
Commitments and contingencies (Note 13)		
Shareholders equity:		
Preferred stock, \$0.0001 par value; 30,000,000 shares authorized as of June 30, 2012 and December 31, 2011; no shares issued and outstanding as of June 30, 2012 and December 31, 2011		
Class A common stock, \$0.0001 par value; 600,000,000 shares authorized as of June 30, 2012 and December 31, 2011; 20,859,428 and 18,580,292 shares issued and outstanding as of June 30, 2012 and December 31, 2011, respectively	2	2
Class B common stock, \$0.0001 par value; 15,000,000 shares authorized as of June 30, 2012 and December 31, 2011; 8,341,026 and 9,528,313 shares issued and outstanding as of June 30, 2012 and December 31, 2011	1	1
Additional paid-in capital	187,334	178,817
Accumulated deficit	(74,551)	(77,607)

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Total shareholders' equity	112,786	101,213
Total liabilities and shareholders' equity	\$ 135,153	\$ 116,668

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,	
	2012	2011	2012	2011
Revenue	\$ 27,765	\$ 15,845	\$ 50,598	\$ 27,105
Costs and expenses:				
Cost of revenue (exclusive of amortization) (1)	3,264	2,713	6,614	4,529
Sales and marketing	12,153	5,630	20,468	11,115
Technology and development	5,818	3,304	10,848	6,299
General and administrative	5,232	2,627	9,677	4,455
Total costs and expenses	26,467	14,274	47,607	26,398
Income from operations	1,298	1,571	2,991	707
Other income	34	5	65	43
Net income	\$ 1,332	\$ 1,576	\$ 3,056	\$ 750
Net income attributable to common shareholders	\$ 1,332	\$	\$ 3,056	\$
Net income per share attributable to common shareholders basic	\$ 0.05	\$	\$ 0.11	\$
Net income per share attributable to common shareholders diluted	\$ 0.04	\$	\$ 0.10	\$
Weighted-average shares outstanding basic	28,946	13,940	28,647	13,645
Weighted-average shares outstanding diluted	31,320	24,106	31,163	23,604

(1) Amortization of website development costs and intangible assets included in technology and development is as follows: \$ 2,374 \$ 1,234 \$ 4,378 \$ 2,457  
See accompanying notes to condensed financial statements.

**Table of Contents****ZILLOW, INC.****CONDENSED STATEMENTS OF CASH FLOWS**

(in thousands, unaudited)

	<b>Six Months Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Operating activities</b>		
Net income	\$ 3,056	\$ 750
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,085	3,394
Share-based compensation expense	2,643	803
Loss on disposal of property and equipment	69	46
Bad debt expense	280	177
Deferred rent	900	84
Amortization (accretion) of bond premium (discount)	398	(3)
Changes in operating assets and liabilities:		
Accounts receivable	(2,397)	(1,501)
Prepaid expenses and other assets	1,464	(1,526)
Accounts payable	1,570	1,774
Accrued expenses	1,076	1,975
Deferred revenue	2,920	2,363
 Net cash provided by operating activities	 17,064	 8,336
<b>Investing activities</b>		
Proceeds from maturities of investments		5,250
Purchases of investments		(3,748)
Purchases of property and equipment	(5,898)	(3,235)
Purchases of intangible assets	(1,688)	(875)
Acquisitions, net of cash acquired of \$2,029 in 2012 and \$0 in 2011	(36,405)	(1,000)
 Net cash used in investing activities	 (43,991)	 (3,608)
<b>Financing activities</b>		
Proceeds from exercise of Class A common stock options	4,793	1,009
Payments for deferred offering costs		(1,854)
 Net cash provided by (used) in financing activities	 4,793	 (845)
Net increase (decrease) in cash and cash equivalents during period	(22,134)	3,883
Cash and cash equivalents at beginning of period	47,926	12,278
 Cash and cash equivalents at end of period	 \$ 25,792	 \$ 16,161
<b>Supplemental disclosures of cash flow information</b>		
Noncash transactions:		
Capitalized share-based compensation	\$ 1,081	\$ 222
Deferred offering costs not yet paid	\$	\$ 1,194
Class A common stock issued in connection with an acquisition	\$	\$ 910

See accompanying notes to condensed financial statements.





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**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. We operate a real estate information marketplace dedicated to providing vital information about homes, real estate listings and mortgages and enabling homeowners, buyers, sellers and renters to connect with real estate and mortgage professionals.

***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 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 in