

ZILLOW GROUP, INC.

Form 10-Q

November 06, 2018

false--12-31Q320180001617640falseLarge Accelerated

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Months EndedSeptember 30,?Nine Months EndedSeptember 30,?2018?2017?2018?2017?\_\_\_\_\_ (1)

Amortization of website development costs and intangible assets included in technology and

development\$18,165?\$23,537?\$61,735?\$69,957 0001617640 2018-01-01 2018-09-30 0001617640

us-gaap:CommonClassAMember 2018-10-31 0001617640 us-gaap:CommonClassCMember 2018-10-31 0001617640

us-gaap:CommonClassBMember 2018-10-31 0001617640 2018-09-30 0001617640 2017-12-31 0001617640

us-gaap:CommonClassCMember 2017-12-31 0001617640 us-gaap:CommonClassAMember 2018-09-30 0001617640

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us-gaap:CommonClassAMember 2017-12-31 0001617640 us-gaap:CommonClassBMember 2017-12-31 0001617640

2018-07-01 2018-09-30 0001617640 2017-01-01 2017-09-30 0001617640 z:InternetMediaTechnologyMember

2018-07-01 2018-09-30 0001617640 z:InternetMediaTechnologyMember 2018-01-01 2018-09-30 0001617640

2017-07-01 2017-09-30 0001617640 z:HomesMember 2017-01-01 2017-09-30 0001617640 z:HomesMember

2017-07-01 2017-09-30 0001617640 z:InternetMediaTechnologyMember 2017-07-01 2017-09-30 0001617640

z:HomesMember 2018-07-01 2018-09-30 0001617640 z:InternetMediaTechnologyMember 2017-01-01 2017-09-30

0001617640 z:HomesMember 2018-01-01 2018-09-30 0001617640 2016-12-31 0001617640 2017-09-30

0001617640 us-gaap:AccountingStandardsUpdate201409Member

us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2018-07-01 2018-09-30

0001617640 us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member 2018-07-01 2018-09-30

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us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member

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0001617640 us-gaap:FairValueInputsLevel3Member 2018-09-30 0001617640

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2017-12-31 0001617640 us-gaap:FairValueInputsLevel1Member

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us-gaap:FairValueInputsLevel2Member us-gaap:CommercialPaperMember 2017-12-31 0001617640

us-gaap:CorporateDebtSecuritiesMember 2017-12-31 0001617640

us-gaap:USGovernmentAgenciesDebtSecuritiesMember 2017-12-31 0001617640

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us-gaap:ForeignGovernmentDebtSecuritiesMember 2017-12-31 0001617640 us-gaap:FairValueInputsLevel2Member

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z:MunicipalSecuritiesMember 2017-12-31 0001617640 us-gaap:FairValueInputsLevel1Member

us-gaap:CertificatesOfDepositMember 2017-12-31 0001617640 us-gaap:FairValueInputsLevel1Member

us-gaap:CorporateDebtSecuritiesMember 2017-12-31 0001617640 us-gaap:CertificatesOfDepositMember

2017-12-31 0001617640 us-gaap:FairValueInputsLevel1Member 2017-12-31 0001617640

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us-gaap:FairValueInputsLevel2Member us-gaap:CorporateDebtSecuritiesMember 2017-12-31 0001617640

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us-gaap:DevelopedTechnologyRightsMember 2017-12-31 0001617640 us-gaap:TrademarksAndTradeNamesMember

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2018-07-03 0001617640 z:ConvertibleSeniorNotesTwoPointZeroZeroPercentDueTwentyTwentyOneMember  
2018-01-01 2018-09-30 0001617640  
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2018-07-31 2018-07-31 0001617640  
z:ConvertibleSeniorNotesTwoPointZeroZeroPercentDueTwentyTwentyOneMember 2018-07-01 2018-09-30  
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us-gaap:DebtInstrumentRedemptionPeriodOneMember us-gaap:ConvertibleDebtMember 2018-07-03 2018-07-03  
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z:ConvertibleSeniorNotesdue20231.50Member us-gaap:FairValueInputsLevel3Member 2018-09-30 0001617640  
z:ConvertibleSeniorNotesdue20231.50OverAllotmentOptionMember us-gaap:ConvertibleDebtMember 2018-07-03  
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z:ConvertibleSeniorNotesdue20231.50Member us-gaap:DebtInstrumentRedemptionPeriodTwoMember  
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z:ConvertibleSeniorNotesTwoPointSevenFivePercentDueTwentyTwentyMember 2018-09-30 0001617640  
z:ConvertibleSeniorNotesTwoPointSevenFivePercentDueTwentyTwentyMember 2016-12-01 2016-12-31  
0001617640 z:ConvertibleSeniorNotesTwoPointZeroZeroPercentDueTwentyTwentyOneMember  
us-gaap:CommonClassCMember 2018-09-30 0001617640 us-gaap:RevolvingCreditFacilityMember

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z:CreditSuisseAGCaymanIslandsBranchMember 2018-07-31 0001617640  
z:ConvertibleSeniorNotesTwoPointSevenFivePercentDueTwentyTwentyMember 2017-12-31 0001617640  
z:ConvertibleSeniorNotesTwoPointSevenFivePercentDueTwentyTwentyMember  
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z:ConvertibleSeniorNotesTwoPointSevenFivePercentDueTwentyTwentyMember us-gaap:CommonClassAMember  
2018-01-01 2018-09-30 0001617640  
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srt:MaximumMember us-gaap:EmployeeStockOptionMember z:TwoThousandAndElevenPlanMember 2018-01-01  
2018-09-30 0001617640 us-gaap:EmployeeStockOptionMember z:TwoThousandAndElevenPlanMember  
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z:AmendedAndRestatedTwoThousandElevenEquityIncentivePlanMember 2018-01-01 2018-09-30 0001617640  
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us-gaap:ShareBasedCompensationAwardTrancheTwoMember 2018-01-01 2018-09-30 0001617640  
z:TwoThousandAndElevenPlanMember 2018-01-01 2018-09-30 0001617640 us-gaap:EmployeeStockOptionMember  
z:TwoThousandAndElevenPlanMember 2018-01-01 2018-09-30 0001617640 us-gaap:EmployeeStockOptionMember  
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us-gaap:ShareBasedCompensationAwardTrancheThreeMember 2018-01-01 2018-09-30 0001617640  
us-gaap:EmployeeStockOptionMember z:TwoThousandAndElevenPlanMember  
us-gaap:ShareBasedCompensationAwardTrancheOneMember 2018-01-01 2018-09-30 0001617640  
srt:MinimumMember us-gaap:RestrictedStockUnitsRSUMember z:TwoThousandAndElevenPlanMember  
us-gaap:ShareBasedCompensationAwardTrancheTwoMember 2018-01-01 2018-09-30 0001617640  
srt:MaximumMember us-gaap:RestrictedStockUnitsRSUMember z:TwoThousandAndElevenPlanMember  
us-gaap:ShareBasedCompensationAwardTrancheOneMember 2018-01-01 2018-09-30 0001617640

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z:AmendedAndRestatedTwoThousandElevenEquityIncentivePlanMember 2018-09-30 0001617640  
srt:MinimumMember us-gaap:RestrictedStockUnitsRSUMember z:TwoThousandAndElevenPlanMember  
us-gaap:ShareBasedCompensationAwardTrancheOneMember 2018-01-01 2018-09-30 0001617640  
srt:MaximumMember us-gaap:EmployeeStockOptionMember 2017-01-01 2017-09-30 0001617640  
srt:MinimumMember us-gaap:EmployeeStockOptionMember 2018-01-01 2018-09-30 0001617640  
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2018-09-30 0001617640 us-gaap:RestrictedStockUnitsRSUMember 2017-07-01 2017-09-30 0001617640  
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z:MortgagesRevenueMember 2018-01-01 2018-09-30 0001617640 z:OtherRealEstateMember  
z:InternetMediaTechnologyMember 2018-07-01 2018-09-30 0001617640 z:RentalsRevenueMember  
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2018-09-30 0001617640 z:MortgageLendersofAmericaL.L.C.Member us-gaap:SubsequentEventMember 2018-10-31  
2018-10-31 xbrli:shares xbrli:pure iso4217:USD xbrli:shares z:Days iso4217:USD z:Vote z:claim z:segment

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

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**FORM 10-Q**

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

For the quarterly period ended September 30, 2018

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

Commission File Number: 001-36853

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**ZILLOW GROUP, INC.**

(Exact name of registrant as specified in its charter)

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Washington 47-1645716  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

1301 Second Avenue, Floor 31, Seattle, Washington 98101  
(Address of principal executive offices) (Zip Code)

(206) 470-7000

@ZillowGroup

(Registrant's telephone number, including area code)

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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

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Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 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  Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 October 31, 2018, 57,986,928 shares of Class A common stock, 6,217,447 shares of Class B common stock, and 139,042,266 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 September 30, 2018**  
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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 similar expressions.

These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those risks, uncertainties and assumptions described in Part II, Item 1A (Risk Factors) of this report. 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>September 30, 2018</b>	<b>December 31, 2017</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 643,792	\$ 352,095
Short-term investments	999,241	410,444
Accounts receivable, net of allowance for doubtful accounts of \$5,276 and \$5,341 at September 30, 2018 and December 31, 2017, respectively	66,337	54,396
Inventory	43,257	—
Prepaid expenses and other current assets	38,904	24,590
Restricted cash	3,203	—
Total current assets	1,794,734	841,525
Contract cost assets	45,238	—
Property and equipment, net	124,281	112,271
Goodwill	1,931,076	1,931,076
Intangible assets, net	290,887	319,711
Other assets	16,241	25,934
Total assets	\$ 4,202,457	\$ 3,230,517
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 5,846	\$ 3,587
Accrued expenses and other current liabilities	58,533	61,373
Accrued compensation and benefits	25,612	19,109
Revolving credit facility	24,674	—
Deferred revenue	35,959	31,918
Deferred rent, current portion	2,566	2,400
Total current liabilities	153,190	118,387
Deferred rent, net of current portion	18,049	21,330
Long-term debt	690,338	385,416
Deferred tax liabilities and other long-term liabilities	21,861	44,561
Total liabilities	883,438	569,694
Commitments and contingencies (Note 17)		
Shareholders' equity:		
Preferred stock, \$0.0001 par value; 30,000,000 shares authorized; no shares issued and outstanding	—	—
Class A common stock, \$0.0001 par value; 1,245,000,000 shares authorized; 57,965,662 and 56,629,103 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively		6
Class B common stock, \$0.0001 par value; 15,000,000 shares authorized; 6,217,447 shares issued and outstanding as of September 30, 2018 and December 31, 2017	1	1
Class C capital stock, \$0.0001 par value; 600,000,000 shares authorized; 138,974,244 and 127,268,598 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	13	13
Additional paid-in capital	3,894,757	3,254,146

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Accumulated other comprehensive loss	(1,661	) (1,100	)
Accumulated deficit	(574,097	) (592,243	)
Total shareholders' equity	3,319,019	2,660,823	
Total liabilities and shareholders' equity	\$ 4,202,457	\$ 3,230,517	

See accompanying notes to condensed consolidated financial statements.

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Revenue:				
IMT	\$332,076	\$281,839	\$957,201	\$794,464
Homes	11,018	—	11,018	—
Total revenue	343,094	281,839	968,219	794,464
Cost of revenue (exclusive of amortization) (1):				
IMT	26,386	22,152	75,832	62,644
Homes	10,286	—	10,286	—
Total cost of revenue	36,672	22,152	86,118	62,644
Sales and marketing	128,734	107,108	413,752	344,266
Technology and development	105,314	83,389	299,623	234,798
General and administrative	70,743	54,226	187,395	153,038
Impairment costs	10,000	—	10,000	—
Acquisition-related costs	1,405	218	2,064	366
Integration costs	523	—	523	—
Total costs and expenses	353,391	267,093	999,475	795,112
Income (loss) from operations	(10,297 )	14,746	(31,256 )	(648 )
Other income	7,773	1,407	13,308	3,970
Interest expense	(12,668 )	(6,906 )	(26,928 )	(20,526 )
Income (loss) before income taxes	(15,192 )	9,247	(44,876 )	(17,204 )
Income tax benefit (expense)	14,700	(41 )	22,700	(41 )
Net income (loss)	\$(492 )	\$9,206	\$(22,176 )	\$(17,245 )
Net income (loss) per share — basic and diluted	\$—	\$0.05	\$(0.11 )	\$(0.09 )
Weighted-average shares outstanding — basic	202,416	187,692	195,208	185,447
Weighted-average shares outstanding — diluted	202,416	196,425	195,208	185,447

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

See accompanying notes to condensed consolidated financial statements.

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**ZILLOW GROUP, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**(in thousands, unaudited)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Net income (loss)	\$(492)	\$9,206	\$(22,176)	\$(17,245)
Other comprehensive income (loss):				
Unrealized gains (losses) on investments	(428 )	99	(537 )	(103 )
Currency translation adjustments	42	—	(24 )	—
Total other comprehensive income (loss)	(386 )	99	(561 )	(103 )
Comprehensive income (loss)	\$(878)	\$9,305	\$(22,737)	\$(17,348)

See accompanying notes to condensed consolidated financial statements.

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

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>Operating activities</b>		
Net loss	\$(22,176 )	\$(17,245 )
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	76,301	81,576
Share-based compensation expense	111,366	84,162
Amortization of contract cost assets	27,227	—
Amortization of discount and issuance costs on 2021 and 2023 Notes	17,990	13,391
Impairment costs	10,000	—
Deferred income taxes	(22,700 )	—
Loss on disposal of property and equipment	3,129	4,085
Bad debt expense	1,053	5,861
Deferred rent	(3,116 )	3,072
Amortization (accretion) of bond premium (discount)	(2,172 )	451
Changes in operating assets and liabilities:		
Accounts receivable	(12,994 )	(19,272 )
Inventory	(43,257 )	—
Prepaid expenses and other assets	(15,012 )	4,434
Contract cost assets	(32,143 )	—
Accounts payable	2,254	224
Accrued expenses and other current liabilities	(3,751 )	13,174
Accrued compensation and benefits	6,503	1,194
Deferred revenue	4,041	1,775
Other long-term liabilities	—	41
Net cash provided by operating activities	102,543	176,923
<b>Investing activities</b>		
Proceeds from maturities of investments	261,675	204,520
Purchases of investments	(848,838 )	(303,241 )
Purchases of property and equipment	(44,482 )	(51,580 )
Purchases of intangible assets	(8,179 )	(9,377 )
Purchase of equity investment	—	(10,000 )
Proceeds from divestiture of a business	—	579
Cash paid for acquisition, net	(2,000 )	(11,147 )
Net cash used in investing activities	(641,824 )	(180,246 )
<b>Financing activities</b>		
Proceeds from issuance of 2023 Notes, net of issuance costs	364,020	—
Premiums paid for Capped Call Confirmations	(29,414 )	—
Proceeds from issuance of Class C Capital Stock, net of issuance costs	360,345	—
Proceeds from borrowing on revolving credit facility	24,674	—
Proceeds from exercise of stock options	114,623	80,010
Value of equity awards withheld for tax liability	(67 )	(337 )
Net cash provided by financing activities	834,181	79,673
Net increase in cash, cash equivalents and restricted cash during period	294,900	76,350
Cash, cash equivalents and restricted cash at beginning of period	352,095	243,592

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Cash, cash equivalents and restricted cash at end of period	\$646,995	\$319,942
<b>Supplemental disclosures of cash flow information</b>		
Cash paid for interest	\$4,800	\$4,458
Noncash transactions:		
Capitalized share-based compensation	\$6,674	\$8,915
Write-off of fully depreciated property and equipment	\$18,687	\$12,685
Write-off of fully amortized intangible assets	\$10,797	\$5,454
See accompanying notes to condensed consolidated financial statements.		

Table of Contents**ZILLOW GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(unaudited)****Note 1. Organization and Description of Business**

Zillow Group, Inc. operates the largest portfolio of real estate and home-related brands on mobile and the web which focus on all stages of the home lifecycle: renting, buying, selling and financing. Zillow Group is committed to empowering consumers with unparalleled data, inspiration and knowledge around homes, and connecting them with great real estate professionals. The Zillow Group portfolio of consumer brands includes real estate and rental marketplaces Zillow, Trulia, StreetEasy, HotPads, Naked Apartments, RealEstate.com and Out East. In addition, Zillow Group provides a comprehensive suite of marketing software and technology solutions to help real estate professionals maximize business opportunities and connect with millions of consumers. Beginning in April of 2018, Zillow Offers provides homeowners in certain metropolitan areas with the opportunity to receive offers to purchase their home from Zillow. When Zillow buys a home, it makes certain repairs and updates and lists the home for resale on the open market. We also own and operate a number of business brands for real estate, rental and mortgage professionals, including Mortech, dotloop, Bridge Interactive and New Home Feed. Zillow, Inc. was incorporated as a Washington corporation in December 2004, and we launched the initial version of our website, Zillow.com, in February 2006. Zillow Group, Inc. was incorporated as a Washington corporation in July 2014 in connection with our acquisition of Trulia, Inc. (“Trulia”). Upon the closing of the Trulia acquisition in February 2015, each of Zillow, Inc. and Trulia became wholly owned subsidiaries of Zillow Group.

***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; our ability to manage advertising inventory or pricing; engagement and usage of our products; our investment of resources to pursue strategies that may not prove effective; competition in our market; the stability of the residential real estate market and the impact of interest rate changes; changes in government regulation affecting our business; outcomes of legal proceedings; natural disasters and catastrophic events; scaling and adaptation of existing technology and network infrastructure; management of our growth; our ability to attract and retain qualified employees and key personnel; our ability to successfully integrate and realize the benefits of our past or future strategic acquisitions or investments; protection of customers’ information and other privacy concerns; protection of our brand and intellectual property; and intellectual property infringement and other claims, among other things.

**Note 2. Summary of Significant Accounting Policies*****Basis of Presentation***

The accompanying condensed consolidated financial statements include Zillow Group, Inc. and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. These condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (“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 consolidated financial statements should be read in conjunction with the audited financial statements and accompanying notes included in Zillow Group, Inc.’s Annual Report on Form 10-K for the year ended December 31, 2017, which was filed with the SEC on February 15, 2018. The condensed consolidated balance sheet as of December 31, 2017, included herein, was derived from the audited financial statements of Zillow Group, Inc. as of that date.

The unaudited condensed consolidated interim financial statements, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our financial position as of September 30, 2018, our results of operations and comprehensive income (loss) for the three and nine month periods ended September 30, 2018 and 2017, and our cash flows for the nine month periods ended September 30, 2018 and 2017. The results of the three and nine month periods ended September 30, 2018 are not necessarily indicative of the



results to be expected for the year ending December 31, 2018 or for any interim period or for any other future year.

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Table of Contents***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. On an ongoing basis, we evaluate our estimates, including those related to the net realizable value of inventory, amortization period and recoverability of contract cost assets, website and software development costs, recoverability of long-lived assets and intangible assets with definite lives, share-based compensation, income taxes, business combinations, and the recoverability of goodwill and indefinite-lived intangible assets, among others. To the extent there are material differences between these estimates, judgments, or assumptions and actual results, our financial statements will be affected.

***Recently Adopted Accounting Standards***

In May 2014, the Financial Accounting Standards Board (“FASB”) issued guidance on revenue from contracts with customers. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those products or services. It also states that an entity should recognize as an asset the incremental costs of obtaining a contract that the entity expects to recover and amortize the costs consistent with the transfer to the customer of the products or services to which the asset relates. The guidance requires more detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. We adopted this guidance effective January 1, 2018 using the modified retrospective transition approach applied to all contracts at the date of initial application. We recorded an adjustment of \$40.3 million to decrease accumulated deficit as of January 1, 2018 related to the accounting for the cost of sales commissions, primarily related to sales commissions for our Premier Agent and Premier Broker advertising products. Historically, we expensed these sales commission costs as incurred, but under the new guidance, the cost of certain sales commissions is recorded as a contract cost asset and recognized as an operating expense over the period that we expect to recover the costs.

The amount by which each financial statement line item is affected by the application of this guidance for the three months ended September 30, 2018 is as follows (in thousands, except per share data):

	<b>New Guidance</b>	<b>Prior Guidance</b>	<b>Change</b>
<b>Condensed Consolidated Statement of Operations:</b>			
Sales and marketing	\$128,734	\$130,588	\$(1,854)
Total costs and expenses	353,391	355,245	(1,854)
Loss from operations	(10,297)	(12,151)	1,854
Loss before income taxes	(15,192)	(17,046)	1,854
Income tax benefit	14,700	14,992	(292)
Net loss	(492)	(2,054)	1,562
Net loss per share — basic and diluted	—	(0.01)	0.01

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The amount by which each financial statement line item is affected by the application of this guidance as of and for the nine months ended September 30, 2018 is as follows (in thousands, except per share data):

	New Guidance	Prior Guidance	Change
<b>Condensed Consolidated Statement of Operations:</b>			
Sales and marketing	\$413,752	\$418,668	\$(4,916)
Total costs and expenses	999,475	1,004,391	(4,916 )
Loss from operations	(31,256 )	(36,172 )	4,916
Loss before income taxes	(44,876 )	(49,792 )	4,916
Income tax benefit	22,700	23,892	(1,192 )
Net loss	(22,176 )	(25,900 )	3,724
Net loss per share — basic and diluted	(0.11 )	(0.13 )	0.02
<b>Condensed Consolidated Balance Sheet:</b>			
Contract cost assets	45,238	—	45,238
Total assets	4,202,457	4,157,219	45,238
Deferred tax liabilities and other long-term liabilities	21,861	20,669	1,192
Total liabilities	883,438	882,246	1,192
Accumulated deficit	(574,097 )	(619,335 )	45,238
Total shareholders' equity	3,319,019	3,282,422	36,597
Total liabilities and shareholders' equity	4,202,457	4,157,219	45,238

***Recently Issued Accounting Standards Not Yet Adopted***

In August 2018, the FASB issued guidance related to a customer's accounting for implementation costs incurred in hosting arrangements. The guidance aligns the requirements for capitalizing implementation costs incurred in cloud computing arrangements with the requirements for capitalizing costs to develop or obtain internal-use software. This guidance is effective for interim and annual reporting periods beginning after December 15, 2019, and early adoption is permitted. This guidance may be applied either retrospectively or prospectively. We expect to adopt this guidance on January 1, 2020. We have not yet determined the impact the adoption of this guidance will have on our financial position, results of operations or cash flows.

In August 2018, the FASB issued guidance related to disclosure requirements for fair value measurements. This guidance removes, modifies and adds disclosures related to fair value measurements. This guidance is effective for interim and annual periods beginning after December 15, 2019, and early adoption is permitted. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim and annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. We expect to adopt this guidance on January 1, 2020. We have not yet determined the impact the adoption of this guidance will have on our financial statement disclosures.

In June 2018, the FASB issued guidance related to contributions received and made. This guidance assists entities with evaluating whether a transfer of assets is considered a contribution or an exchange transaction. This guidance is effective for interim and annual reporting periods beginning after June 15, 2018 for contributions received and after December 15, 2018 for contributions made, and early adoption is permitted. The guidance should be applied on a modified prospective basis, though retrospective application is permitted. We expect to adopt this guidance on January 1, 2019. The adoption of this guidance is not expected to have a material impact on our financial position, results of operations or cash flows.

In February 2018, the FASB issued guidance on income tax accounting related to the Tax Act. This guidance permits a reclassification from accumulated other comprehensive income (loss) to accumulated deficit for the adjustment of deferred taxes due to the reduction of the historical corporate income tax rate to the newly enacted corporate income tax rate under the Tax Act. It also requires certain disclosures regarding these reclassifications. The guidance is effective for interim and annual reporting periods beginning after December 15, 2018, and early adoption is permitted.

This guidance must be applied either on a prospective basis in the period of adoption or retrospectively to each period in which the effect of the change in the corporate income tax rate is recognized. We expect to adopt this guidance on January 1, 2019. The adoption of this guidance is not expected to have a material impact on our financial position, results of operations or cash flows.