

ZILLOW INC
Form 10-Q
August 06, 2013
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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, 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.

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ZILLOW, INC.

Quarterly Report on Form 10-Q

For the Three Months Ended June 30, 2013

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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), 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
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.

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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, 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 sta