

ZILLOW GROUP, INC.
Form 10-Q
May 12, 2015
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 March 31, 2015

.. **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)

<https://twitter.com/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 May 4, 2015, 52,486,754 shares of Class A common stock and 6,217,447 shares of Class B common stock were outstanding.

Table of Contents

ZILLOW GROUP, INC.
Quarterly Report on Form 10-Q
For the Three Months Ended March 31, 2015
TABLE OF CONTENTS

	Page
PART I FINANCIAL INFORMATION	
Item 1. <u>Financial Statements (unaudited)</u>	2
<u>Condensed Consolidated Balance Sheets</u>	2
<u>Condensed Consolidated Statements of Operations</u>	3
<u>Condensed Consolidated Statements of Comprehensive Loss</u>	4
<u>Condensed Consolidated Statements of Cash Flows</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	31
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	49
Item 4. <u>Controls and Procedures</u>	50
PART II OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	51
Item 1A. <u>Risk Factors</u>	53
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	66
Item 4. <u>Mine Safety Disclosures</u>	66
Item 6. <u>Exhibits</u>	67
<u>Signatures</u>	71

Table of Contents

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, including our February 2015 acquisition of Trulia, Inc., as well as 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, 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.

Investors and others should note that Zillow Group announces material financial information to its investors using its investor relations website, 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.

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)**

	March 31, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 307,852	\$ 125,765
Short-term investments	320,581	246,829
Accounts receivable, net of allowance for doubtful accounts of \$2,988 and \$2,811 at March 31, 2015 and December 31, 2014, respectively	31,267	18,684
Prepaid expenses and other current assets	25,035	10,059
Total current assets	684,735	401,337
Restricted cash	6,800	
Long-term investments		83,326
Property and equipment, net	72,936	41,600
Goodwill	1,833,427	96,352
Intangible assets, net	569,125	26,757
Other assets	1,171	358
Total assets	\$ 3,168,194	\$ 649,730
Liabilities and shareholders equity		
Current liabilities:		
Accounts payable	\$ 13,661	\$ 9,358
Accrued expenses and other current liabilities	52,468	16,883
Accrued compensation and benefits	16,786	6,735
Accrued restructuring costs	7,369	
Deferred revenue	23,768	15,356
Deferred rent, current portion	968	864
Total current liabilities	115,020	49,196
Deferred rent, net of current portion	11,774	11,755
Long-term debt	230,000	
Deferred tax liabilities and other long-term liabilities	143,430	
Commitments and contingencies (Note 14)		
Shareholders equity:		

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Preferred stock, \$0.0001 par value; 30,000,000 shares authorized as of March 31, 2015 and December 31, 2014; no shares issued and outstanding as of March 31, 2015 and December 31, 2014		
Class A common stock, \$0.0001 par value; 1,245,000,000 and 600,000,000 shares authorized as of March 31, 2015 and December 31, 2014, respectively; 52,248,931 and 34,578,393 shares issued and outstanding as of March 31, 2015	5	3
Class B common stock, \$0.0001 par value; 15,000,000 shares authorized as of March 31, 2015 and December 31, 2014; 6,217,447 shares issued and outstanding as of March 31, 2015 and December 31, 2014, respectively	1	1
Class C capital stock, \$0.0001 par value; 600,000,000 shares authorized as of March 31, 2015 and no shares authorized as of December 31, 2014; no shares issued and outstanding as of March 31, 2015 and December 31, 2014		
Additional paid-in capital	2,853,941	716,506
Accumulated other comprehensive income	138	
Accumulated deficit	(186,115)	(127,731)
Total shareholders' equity	2,667,970	588,779
Total liabilities and shareholders' equity	\$ 3,168,194	\$ 649,730

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)**

	Three Months Ended March 31,	
	2015	2014
Revenue	\$ 127,273	\$ 66,243
Costs and expenses:		
Cost of revenue (exclusive of amortization) (1)	13,019	6,164
Sales and marketing	59,286	35,133
Technology and development	37,325	16,735
General and administrative	38,024	14,689
Acquisition-related costs	12,477	
Restructuring costs	25,065	
Total costs and expenses	185,196	72,721
Loss from operations	(57,923)	(6,478)
Other income	269	219
Interest expense	(730)	
Net loss	\$ (58,384)	\$ (6,259)
Net loss per share basic and diluted	\$ (1.19)	\$ (0.16)
Weighted-average shares outstanding basic and diluted	49,130	39,322

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

\$ 11,782 \$ 6,784

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

	Three Months Ended March 31,	
	2015	2014
Net loss	\$ (58,384)	\$ (6,259)
Other comprehensive income:		
Unrealized gains on investments	149	
Reclassification adjustment for net investment gains included in net loss	(10)	
Net unrealized gains on investments	139	
Total other comprehensive income	139	
Comprehensive loss	\$ (58,245)	\$ (6,259)

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2015	2014
Operating activities		
Net loss	\$ (58,384)	\$ (6,259)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	14,028	8,074
Share-based compensation expense	23,007	7,132
Restructuring costs	21,702	
Loss on disposal of property and equipment	87	235
Bad debt expense	805	635
Deferred rent	381	697
Amortization of bond premium	849	812
Changes in operating assets and liabilities:		
Accounts receivable	(296)	(260)
Prepaid expenses and other assets	5,477	(1,920)
Accounts payable	(763)	1,679
Accrued expenses and other current liabilities	(7,652)	2,468
Accrued compensation and benefits	1,727	1,070
Deferred revenue	112	(158)
Other long-term liabilities	375	
Net cash provided by operating activities	1,455	14,205
Investing activities		
Proceeds from maturities of investments	63,780	44,539
Purchases of investments	(59,896)	(103,094)
Proceeds from sales of investments	4,979	
Increase in restricted cash	147	
Purchases of property and equipment	(10,321)	(7,872)
Purchases of intangible assets	(284)	(1,147)
Cash acquired in acquisition, net	173,406	
Net cash provided by (used in) investing activities	171,811	(67,574)
Financing activities		
Proceeds from exercise of Class A Common stock options	9,124	5,263
Value of equity awards withheld for tax liability	(303)	
Net cash provided by financing activities	8,821	5,263
Net increase (decrease) in cash and cash equivalents during period	182,087	(48,106)
Cash and cash equivalents at beginning of period	125,765	201,760

Cash and cash equivalents at end of period	\$ 307,852	\$ 153,654
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Supplemental disclosures of cash flow information

Noncash transactions:

Value of Class A common stock issued in connection with an acquisition	\$ 1,883,728	\$
Capitalized share-based compensation	\$ 2,424	\$ 1,586
Write-off of fully depreciated property and equipment	\$ 11,759	\$ 1,498

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 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 and HotPads. 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 Postlets, Mortech, Diverse Solutions, Market Leader and Retsly.

Acquisition of Trulia, Inc.

Effective February 17, 2015, pursuant to the Agreement and Plan of Merger dated as of July 28, 2014 (the Merger Agreement) by and among Zillow, Inc. (Zillow), Zillow Group, and Trulia, Inc. (Trulia), following the consummation of the mergers contemplated by the Merger Agreement (the Mergers), each of Zillow and Trulia became wholly owned subsidiaries of Zillow Group. Upon completion of the Mergers, each share of Class A common stock of Zillow (other than shares held by Zillow as treasury stock or by Zillow Group, Trulia, or any direct or indirect wholly owned subsidiary of Zillow or Trulia) was converted into the right to receive one share of fully paid and nonassessable Class A common stock of Zillow Group, each share of Class B common stock of Zillow (other than shares held by Zillow as treasury stock or by Zillow Group, Trulia, or any direct or indirect wholly owned subsidiary of Zillow or Trulia) was converted into the right to receive one share of fully paid and nonassessable Class B common stock of Zillow Group, and each share of Trulia common stock (other than shares held by Trulia as treasury stock or by Zillow Group, Zillow, or any direct or indirect wholly owned subsidiary of Zillow or Trulia) was converted into the right to receive 0.444 of a share of fully paid and nonassessable Class A Common Stock of Zillow Group.

In addition, subject to certain exceptions, each Trulia stock option, restricted stock unit and stock appreciation right outstanding upon the consummation of the Mergers, whether or not vested and exercisable, was assumed by Zillow Group and converted into a corresponding equity award to purchase, acquire shares of, or participate in the appreciation in price of Zillow Group Class A Common Stock. The terms of each assumed equity award are the same except that the number of shares subject to each equity award and the per share exercise price, if any, were adjusted based on the exchange ratio of 0.444 per a formula set forth in the Merger Agreement. Generally, each Zillow stock option and restricted stock unit outstanding upon the consummation of the Mergers, whether or not vested or exercisable, was assumed by Zillow Group and converted into a corresponding equity award to purchase or acquire shares of Zillow Group Class A common stock. The terms of each assumed equity award are the same. Any unvested shares of Zillow Class A common stock subject to a repurchase option, risk of forfeiture or other condition as of the consummation of the Mergers were exchanged for shares of Zillow Group Class A common stock that are also unvested and subject to the same repurchase option, risk of forfeiture or other condition. Each Zillow restricted unit outstanding as of the consummation of the Mergers was assumed by Zillow Group and converted into the right to receive Zillow Group Class A common stock, subject to the same terms as the original restricted unit.

The total purchase price of Trulia was approximately \$2.0 billion. During the three months ended March 31, 2015, Zillow Group incurred a total of \$12.5 million in acquisition-related costs related to the transaction, which includes \$9.1 million of investment banking fees. We have included Trulia's results of operations prospectively after February 17, 2015, the date of acquisition. Further details on the acquisition of Trulia are presented in Note 6 of these condensed consolidated financial statements.

On February 17, 2015, in connection with the Mergers, Zillow Group undertook a restructuring plan that will result in a total workforce reduction of nearly 350 employees, primarily to eliminate overlapping positions in the sales and marketing functions related to Trulia's workforce at its Bellevue, Denver, New York and San Francisco locations. The restructuring plan is a result of the integration of Trulia's business and operations with and into Zillow Group's business. Employees directly affected by the restructuring plan have been or will be provided with severance payments, stock vesting acceleration and outplacement assistance. Zillow Group expects to complete the restructuring by the end of 2015. As a result of the restructuring plan, Zillow Group recorded a restructuring charge of approximately \$25.1 million during the three months ended March 31, 2015 for severance and other personnel related expenses, contract termination costs associated with certain operating leases, and non-cash expenses relating to stock vesting acceleration. Further details on the restructuring are presented in Note 15 of these condensed consolidated financial statements.

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

Table of Contents

investments, including our February 2015 acquisition of Trulia; 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 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 consolidated financial statements include Zillow Group, Inc. and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. These condensed consolidated 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 consolidated financial statements should be read in conjunction with the audited financial statements and accompanying notes as of and for the year ended December 31, 2014 included in Zillow, Inc.'s Annual Report on Form 10-K, which was filed with the SEC on February 17, 2015. The condensed consolidated balance sheet as of December 31, 2014, included herein, was derived from the audited financial statements of Zillow, Inc. as of that date.

For financial reporting and accounting purposes, Zillow was the acquirer of Trulia. The results presented in the Condensed Consolidated Financial Statements and the Notes to Condensed Consolidated Financial Statements reflect those of Zillow prior to the completion of the acquisition of Trulia on February 17, 2015, and Trulia's results of operations have been included prospectively after February 17, 2015.

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 March 31, 2015, our results of operations and our cash flows for the three month periods ended March 31, 2015 and 2014. The results of the three month period ended March 31, 2015 are not necessarily indicative of the results to be expected for the year ended December 31, 2015 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. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, website development costs, recoverability of long-lived assets and intangible assets with definite lives, share-based compensation, income tax uncertainties, including a valuation allowance for deferred tax assets, business combinations, goodwill, and restructuring, among others. To the extent there are material differences between these estimates, judgments, or assumptions and actual results, our financial statements will be affected.

Reclassifications

Certain immaterial reclassifications have been made in the condensed consolidated statements of operations and statements of cash flows to conform data for prior periods to the current format.

Concentrations of Credit Risk

Financial instruments, which potentially subject us to concentrations of credit risk, consist primarily of cash and cash equivalents, investments and accounts receivable. We place cash and cash equivalents and investments with major financial institutions, which management assesses to be of high credit quality, in order to limit exposure of our investments.

Credit risk with respect to accounts receivable is dispersed due to the large number of customers. Further, our credit risk on accounts receivable is mitigated by the relatively short payment terms that we offer. Collateral is not required for accounts receivable. We maintain an allowance for doubtful accounts such that receivables are stated at net realizable value.

Cash and Cash Equivalents

Cash includes currency on hand as well as demand deposits with banks or financial institutions. Cash equivalents include short-term, highly liquid investments that are both readily convertible to known amounts of cash, and so near their maturity that they present minimal risk of changes in value because of changes in interest rates. Our cash equivalents include only investments with original maturities of three months or less. We regularly maintain cash in excess of federally insured limits at financial institutions.

Table of Contents***Restricted Cash***

Restricted cash consists of certificates of deposit held as collateral in our name at a financial institution related to certain of our operating leases.

Investments

Our investments consist of fixed income securities, which include U.S. and foreign government agency securities, corporate notes and bonds, municipal securities, commercial paper and certificates of deposit, and are classified as available-for-sale securities beginning on January 1, 2015. As the investments are available to support current operations, our available-for-sale securities are classified as short-term investments. Available-for-sale securities are carried at fair value with unrealized gains and losses reported as a component of accumulated other comprehensive loss in shareholders' equity, while realized gains and losses and other-than-temporary impairments are reported as a component of net loss based on specific identification. An impairment charge is recorded in the condensed consolidated statements of operations for declines in fair value below the cost of an individual investment that are deemed to be other than temporary. We assess whether a decline in value is temporary based on the length of time that the fair market value has been below cost, the severity of the decline and the intent and ability to hold or sell the investment. We did not identify any investments as other-than-temporarily impaired as of March 31, 2015 or December 31, 2014.

Prior to January 1, 2015 our investments were classified as held-to-maturity and were recorded at amortized cost (see Note 4).

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are generally due within 30 days and are recorded net of the allowance for doubtful accounts. We consider accounts outstanding longer than the contractual terms past due. We review accounts receivable on a regular basis and estimate an amount of losses for uncollectible accounts based on our historical collections experience, age of the receivable, knowledge of the customer and the condition of the general economy and industry as a whole. We record changes in our estimate to the allowance for doubtful accounts through bad debt expense and relieve the allowance when accounts are ultimately determined to be uncollectible. Bad debt expense is included in general and administrative expenses.

Property and Equipment

Property and equipment is recorded at cost and depreciated using the straight-line method over the estimated useful lives of the related assets. The useful lives are as follows:

Computer equipment	3 years
Purchased software	3 years
Office equipment, furniture and fixtures	5 to 7 years
Leasehold improvements	Shorter of expected useful life or lease term

Maintenance and repair costs are charged to expense as incurred. Major improvements, which extend the useful life of the related asset, are capitalized. Upon disposal of a fixed asset, we record a gain or loss based on the differences between the proceeds received and the net book value of the disposed asset.

Website and Software Development Costs

The costs incurred in the preliminary stages of development are expensed as incurred. Once an application has reached the development stage, internal and external costs, if direct and incremental and deemed by management to be significant, are capitalized in property and equipment and amortized on a straight-line basis over their estimated useful lives. Maintenance and enhancement costs, including those costs in the post-implementation stages, are typically expensed as incurred, unless such costs relate to substantial upgrades and enhancements to the website or software that result in added functionality, in which case the costs are capitalized and amortized on a straight-line basis over the estimated useful lives. Amortization expense related to capitalized website and software development costs is included in technology and development expense.

Capitalized development activities placed in service are amortized over the expected useful lives of those releases, currently estimated at one year. The estimated useful lives of website and software development activities are reviewed frequently and adjusted as appropriate to reflect upcoming development activities that may include significant upgrades and/or enhancements to the existing functionality.

Goodwill

Goodwill represents the excess of the cost of an acquired business over the fair value of the assets acquired at the date of acquisition. We assess the impairment of goodwill on an annual basis, in our fourth quarter, or whenever events or changes in circumstances indicate that goodwill may be impaired.

Table of Contents

We assess goodwill for possible impairment by first performing a qualitative assessment to determine whether it is more likely than not that the fair value of our reporting unit is less than its carrying amount. If we determine that it is not more likely than not that the fair value of our reporting unit is less than its carrying amount, then the first and second steps of the goodwill impairment test are unnecessary. If we determine that it is more likely than not that the fair value of our reporting unit is less than its carrying amount, we perform the two-step goodwill impairment test. The first step of the goodwill impairment test identifies if there is potential goodwill impairment. If step one indicates that an impairment may exist, a second step is performed to measure the amount of the goodwill impairment, if any. Goodwill impairment exists when the estimated fair value of goodwill is less than its carrying value. If impairment exists, the carrying value of the goodwill is reduced to fair value through an impairment charge recorded in our statements of operations.

Intangible Assets

We purchase and license data content from multiple data providers. This data content consists of U.S. county data about home details (e.g., the number of bedrooms, bathrooms, square footage) and other information relating to the purchase price of homes, both current and historical, as well as imagery, mapping and parcel data that is displayed on our mobile applications and websites. Our home details data not only provides information about a home and its related transactions which is displayed on our mobile applications and websites, but is also used in our proprietary valuation algorithms to produce Zestimates, Trulia Estimates, Rent Zestimates and Zillow Home Value Indexes. License agreement terms vary by vendor. In some instances, we retain perpetual rights to this information after the contract ends; in other instances, the information and data are licensed only during the fixed term of the agreement. Additionally, certain data license agreements provide for uneven payment amounts throughout the life of the contract term.

We capitalize payments made to third parties for data licenses that we expect to provide future economic benefit through the recovery of the costs of these arrangements via the generation of our revenue and margins. For data license contracts that include uneven payment amounts, we capitalize the payments as they are made as an intangible asset and amortize the total contract value over the estimated useful life. For contracts in which we have perpetual rights to the data, the total contract value is amortized on a straight-line basis over the life of the contract plus two years, which is equivalent to the estimated useful life of the asset. For contracts in which we do not have access to the data beyond the contractual term, the total contract value is amortized on a straight line basis over the term of the contract. We evaluate data content contracts for potential capitalization at the inception of the arrangement as well as each time periodic payments to third parties are made.

The amortization period for the capitalized purchased content is based on our best estimate of the useful life of the asset, which ranges from two to nine years. The determination of the useful life includes consideration of a variety of factors including, but not limited to, our assessment of the expected use of the asset and contractual provisions that may limit the useful life, as well as an assessment of when the data is expected to become obsolete based on our estimates of the diminishing value of the data over time. We evaluate the useful life of the capitalized purchased data content each reporting period to determine whether events and circumstances warrant a revision to the remaining useful life. If we determine the estimate of the asset's useful life requires modification, the carrying amount of the asset is amortized prospectively over the revised useful life. The capitalized purchased data content is amortized on a straight-line basis as the pattern of delivery of the economic benefits of the data cannot reliably be determined because we do not have the ability to reliably predict future traffic to our websites and mobile applications.

Under certain other data agreements, the underlying data is obtained on a subscription basis with consistent monthly recurring payment terms over the contractual period. Upon the expiration of such arrangements, we no longer have the right to access the related data, and therefore, the costs incurred under such contracts are not capitalized and are

expensed as payments are made. We would immediately lose rights to data under these arrangements if we were to cancel the subscription and/or cease making payments under the subscription arrangements.

We also have intangible assets for developed technology, customer relationships, trade names and trademarks, advertising relationships and MLS home data feeds which we recorded in connection with acquisitions. Purchased intangible assets with a determinable economic life are carried at cost, less accumulated amortization. These intangible assets are amortized over the estimated useful life of the asset on a straight-line basis.

Recoverability of Intangible Assets with Definite Lives and Other Long-Lived Assets

We evaluate intangible assets and other long-lived assets for impairment whenever events or circumstances indicate that they may not be recoverable. Recoverability is measured by comparing the carrying amount of an asset group to future undiscounted net cash flows expected to be generated. We group assets for purposes of such review at the lowest level for which identifiable cash flows of the asset group are largely independent of the cash flows of the other groups of assets and liabilities. If this comparison indicates impairment, the amount of impairment to be recognized is calculated as the difference between the carrying value and the fair value of the asset group.

Table of Contents

Deferred Revenue

Deferred revenue consists of prepaid advertising fees received or billed in advance of the delivery or completion of the services, prepaid but unrecognized subscription revenue, and for amounts received in instances when revenue recognition criteria have not been met. Deferred revenue is recognized when the services are provided and all revenue recognition criteria have been met.

Deferred Rent

For our operating leases, we recognize rent expense on a straight-line basis over the terms of the leases and, accordingly, we record the difference between cash rent payments and the recognition of rent expense as a deferred rent liability. Landlord-funded leasehold improvements are also recorded as deferred rent liabilities and are amortized as a reduction of rent expense over the non-cancelable term of the related operating lease.

Restructuring

The main components of our restructuring plan related to the February 2015 acquisition of Trulia relate to workforce reduction and contract termination costs. Workforce reduction charges are accrued when it is probable that the employees are entitled to the severance payments and the amounts can be reasonably estimated. One-time involuntary termination benefits are accrued when the plan of termination has been communicated to the employees and certain other criteria are met. Share-based compensation expense related to acceleration of share-based awards assumed in connection with the acquisition of Trulia is recognized over the remaining requisite service period. Contract termination costs are recognized as a liability when a contract is terminated in accordance with its terms or a