ERICSSON LM TELEPHONE CO
Form 6-K
October 26, 2015

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN ISSUER

Pursuant to Rule 13a-16 or 15d-16

of the Securities Exchange Act of 1934

October 26, 2015

Commission File Number

000-12033

LM ERICSSON TELEPHONE COMPANY

(Translation of registrant s name into English)

Torshamnsgatan 21, Kista

SE-164 83, Stockholm, Sweden

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.
Form 20-F x Form 40-F ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ¨

THIS REPORT ON FORM 6-K SHALL BE DEEMED TO BE INCORPORATED BY REFERENCE IN THE REGISTRATION STATEMENTS ON FORM F-3 (NO. 333-203977) AND ON FORM S-8 (Nos. 333-196453, 333-161683 AND 333-161684) OF TELEFONAKTIEBOLAGET LM ERICSSON (PUBL.) AND TO BE A PART THEREOF FROM THE DATE ON WHICH THIS REPORT IS FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION, TO THE EXTENT NOT SUPERSEDED BY DOCUMENTS OR REPORTS SUBSEQUENTLY FILED WITH OR FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TELEFONAKTIEBOLAGET LM ERICSSON (publ)

By: /s/ NINA MACPHERSON
Nina Macpherson
Senior Vice President and
General Counsel

By: /s/ HELENA NORRMAN
Helena Norrman
Senior Vice President
Corporate Communications

Date: **October 26, 2015**

Government Regulation

We are affected by laws and regulations that apply to businesses in general, as well as to businesses operating on the Internet. This includes a continually expanding and evolving range of laws, regulations and standards that address information security, data protection, privacy, consent and advertising, among other things. By providing a medium through which users can post content and communicate with one another, we may also be subject to laws governing intellectual property ownership, obscenity, libel, and privacy, among other

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issues. In addition, the real estate agents, mortgage brokers, banks, property managers, rental agents and some of our other customers and advertisers on our mobile applications and websites are subject to various state and federal laws and regulations relating to real estate, rentals and mortgages. While we do not believe that we are currently subject to these regulations, we intend to ensure that any content created by Zillow is consistent with them by obtaining assurances of compliance from our advertisers and customers for their activities through, and the content they provide on, our mobile applications and websites. Since the laws and regulations governing real estate, rentals and mortgages are constantly evolving, it is possible that some part of our business activities could fall within the scope of regulation or be prohibited altogether at some point in the future.

Employees

As of December 31, 2013, we had 817 full-time employees.

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.zillow.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 Annual Report on Form 10-K.

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 Annual Report on Form 10-K.

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Item 1A. Risk Factors

Our business is subject to numerous risks. You should carefully consider the following risk factors, as any of these risks could harm our business, results of operations, financial condition and our prospects. In addition, risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and operating results.

Risks Related to Our Business

If Real Estate, Mortgage and Rental Professionals or Other Advertisers Reduce or End Their Advertising Spending With Us and We are Unable to Attract New Advertisers, Our Business Would Be Harmed.

Our current financial model depends on advertising revenue generated primarily through sales to real estate agents and brokerages, mortgage lenders, rental professionals and advertisers in categories relevant to real estate. Our ability to attract and retain advertisers, and ultimately to generate advertising revenue, depends on a number of factors, including:

- increasing the number of consumers of our products and services;
- competing effectively for advertising dollars with other online media companies;
- continuing to develop our advertising products and services, including the expansion of those products and services to new advertising customers;
- keeping pace with changes in technology and with our competitors; and
- offering an attractive return on investment to our advertisers for their advertising spending with us.

We do not have long-term contracts with most of our advertisers. Our advertisers could choose to modify or discontinue their relationships with us with little or no advance notice. In addition, as existing subscriptions for our Premier Agent program expire, we may not be successful in renewing these subscriptions, securing new subscriptions or increasing the amount of revenue we earn for a given subscription over time. We may not succeed in retaining existing advertisers spending or capturing a greater share of such spending if we are unable to convince advertisers of the effectiveness or superiority of our products as compared to alternatives, including traditional offline advertising media such as television and newspapers. In addition, future changes to our pricing methodology for advertising services may cause advertisers to reduce their advertising with us or choose not to advertise with us. If current advertisers reduce or end their advertising spending with us and we are unable to attract new advertisers, our advertising revenue and business, results of operations and financial condition would be harmed. In addition, if we do not realize the benefits we expect from strategic relationships we enter into, including for example, the generation of additional advertising revenue opportunities, our business could be harmed.

If We Do Not Innovate and Provide Products and Services That Are Attractive to Our Users and to Our Advertisers, Our Business Could Be Harmed.

Our success depends on our continued innovation to provide products and services that make our mobile applications and websites useful for consumers and real estate, rental, mortgage and home improvement professionals, and attractive to our advertisers. As a result, we must continually invest significant resources in research and development to improve the attractiveness and comprehensiveness of our products and services and effectively incorporate new mobile and Internet technologies into them. If we are unable to provide products and services that users, including real estate professionals, want to use, then users may become dissatisfied and use competitors mobile applications and websites. If we are unable to continue offering innovative products and services, we may be unable to attract additional users and advertisers or retain our current users and advertisers, which could harm our business, results of operations and financial condition.

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We May Make Acquisitions and Investments, Which Could Result in Operating Difficulties, Dilution and Other Harmful Consequences.

We continue to evaluate a wide array of potential strategic opportunities. For example, we acquired StreetEasy, Inc. during the year ended December 31, 2013. Any transactions that we enter into could be material to our financial condition and results of operations. The acquisitions may not result in the intended benefits to our business, and we may not successfully evaluate or utilize the acquired products, technology, or personnel, or accurately forecast the financial impact of an acquisition transaction. The process of integrating an acquired company, business or technology could create unforeseen operating difficulties and expenditures. The areas where we face risks include:

- diversion of management time and focus from operating our business to acquisition integration challenges;
- implementation or remediation of controls, procedures and policies at the acquired company;
- coordination of product, engineering and sales and marketing functions;
- retention of employees from the acquired company;
- liability for activities of the acquired company before the acquisition;
- litigation or other claims arising in connection with the acquired company;
- impairment charges associated with goodwill and other acquired intangible assets; and
- in the case of foreign acquisitions, the need to integrate operations across different cultures and languages and to address the particular economic, currency, political and regulatory risks associated with specific countries.

Our failure to address these risks or other problems encountered in connection with our past or future acquisitions and investments could cause us to fail to realize the anticipated benefits of such acquisitions or investments, incur unanticipated liabilities, and harm our business, results of operations and financial condition.

We May Be Unable to Increase Awareness of the Zillow Brand Cost-effectively, Which Could Harm Our Business.

We rely heavily on the Zillow brand, which we believe is a key asset of our company. Awareness and perceived quality and differentiation of the Zillow brand are important aspects of our efforts to attract and expand the number of consumers who use our mobile applications and websites. Should the competition for awareness and brand preference increase among providers of mobile or online real estate information, we may not be able to successfully maintain or enhance the strength of our brand. In 2013, we significantly increased our advertising investment to increase brand awareness and grow traffic. In the year ended December 31, 2013, our marketing and advertising expenses increased by $27.7 million compared to the year ended December 31, 2012, primarily related to increased advertising spend to acquire shoppers across online and offline channels. We expect to continue to increase our paid advertising. The results of increased paid advertising may not be successful or cost-effective. If we are unable to maintain or enhance user and advertiser awareness of our brand cost-effectively, or if we are unable to recover our additional marketing and advertising costs through increased usage of our products and services, our business, results of operations and financial condition could be harmed.

We Have Incurred Significant Operating Losses in the Past and We May Not Be Able to Generate Sufficient Revenue to Be Profitable Over the Long Term.

We have incurred significant net operating losses in the past and, as of December 31, 2013, we had an accumulated deficit of $84.1 million. Although we have experienced significant growth in our revenue, our revenue growth rate may decline in the future as the result of a variety of factors, including the maturation of our business. At the same time, we also expect our costs to increase in future periods as we continue to expend substantial financial resources to develop and expand our business, including on:

product development;

- sales and marketing;
- technology infrastructure;
- strategic opportunities, including commercial relationships and acquisitions; and
- general administration, including legal and accounting expenses related to being a public company.

These investments may not result in increased revenue or growth in our business. If we fail to continue to grow our revenue and overall business and to manage our expenses, we may incur significant losses in the future and not be able to maintain profitability.

We Depend on the Real Estate Industry, and Changes to That Industry, or Declines in the Real Estate Market or Increases in Mortgage Interest Rates, Could Reduce the Demand for Our Products and Services.

Our financial prospects significantly depend on real estate shoppers using our services. Real estate shopping patterns depend on the overall health of the real estate market. Changes to the regulation of the real estate industry, including mortgage lending, may negatively impact the prevalence of home ownership. Changes to the real estate industry, declines in the real estate market or increases in mortgage interest rates could reduce demand for our services. Real estate markets also may be negatively impacted by a significant natural disaster, such as earthquake, fire, flood or other disruption.

We May Not Be Able to Maintain or Establish Relationships With Real Estate Brokerages, Real Estate Listing Aggregators, Multiple Listing Services, Property Management Companies, Home Builders and Other Third-Party Listing Providers, Which Could Limit the Information We Are Able to Provide to Our Users.

Our ability to attract users to our mobile applications and websites depends to some degree on providing a robust number of for-sale and rental listings. To provide these listings, we maintain relationships with real estate brokerages, real estate listing aggregators, multiple listing services, property management companies, home builders, other third-party listing providers, and homeowners and their real estate agents to include listing data in our services. Many of our agreements with real estate listing providers are short-term agreements that may be terminated with limited notice. The loss of some of our existing relationships with listing providers, whether due to termination of agreements or otherwise, or an inability to continue to add new listing providers, may cause our listing data to omit information important to users of our products and services. This could reduce user confidence in the sale and rental data we provide and make us less popular with consumers, which could harm our business, results of operations and financial condition.

We currently depend on a single real estate listing aggregator to provide us with a substantial portion of the listings in our database. These listings provide for revenue-generating opportunities as impressions are delivered through our mobile applications and websites. While these listings are available from their original sources, it would take substantial time and effort for us to aggregate these listings from all of the original sources. Therefore, if the agreement with our largest real estate listing aggregator is terminated, we may not be able to fully replace the listings in a timely manner or on terms favorable to us, if at all, which could harm our business, results of operations and financial condition.

We May Not Be Able to Maintain or Establish Relationships With Data Providers, Which Could Limit the Information We Are Able to Provide to Our Users and Impair Our Ability to Attract or Retain Users.

We obtain real estate data, such as sale transactions, property descriptions, tax-assessed value and property taxes paid, under licenses from third-party data providers. We use this data to enable the development, maintenance and improvement of our information services, including Zestimates and Rent Zestimates and our living database of homes. We have invested significant time and resources to develop proprietary algorithms, valuation models, software and practices to use and improve on this specific data. We may be unable to renew our licenses with these data providers, or we may be able to do so only on terms that are less favorable to us, which could harm our ability to continue to develop, maintain and improve these information services and could harm our business, results of operations and financial condition.

We Face Competition to Attract Consumers to Our Mobile Applications and Websites, Which Could Impair Our Ability to Continue to Grow the Number of Users Who Use Our Mobile Applications and Websites, Which Would Harm Our Business, Results of Operations and Financial Condition.

Our success depends on our ability to continue to attract additional consumers to our mobile applications and websites. Our existing and potential competitors include companies that operate, or could develop, national and local real estate, rental, mortgage and home improvement websites. These companies could devote greater technical and other resources than we have available, have a more accelerated time frame for deployment and leverage their existing user bases and proprietary technologies to provide products and services that consumers might view as superior to our offerings. Any of our future or existing competitors may introduce different solutions that attract consumers or provide solutions similar to our own but with better branding or marketing resources. If we are not able to continue to grow the number of consumers who use our mobile applications and websites, our business, results of operations and financial condition would be harmed.

We May Not Be Able to Compete Successfully Against Our Existing or Future Competitors in Attracting Advertisers, Which Could Harm Our Business, Results of Operations and Financial Condition.

We compete to attract advertisers with media sites, including websites dedicated to providing real estate, rental, mortgage and home improvement information and services to real estate professionals and consumers, and major Internet portals, general search engines and social media sites, as well as other online companies. We also compete for a share of advertisers overall marketing budgets with traditional media such as television, magazines, newspapers and home/apartment guide publications, particularly with respect to advertising dollars spent at the local level by real estate professionals to advertise their qualifications and listings. Large companies with significant brand recognition have large numbers of direct sales personnel and substantial proprietary advertising inventory and web traffic, which may provide a competitive advantage. To compete successfully for advertisers against future and existing competitors, we must continue to invest resources in developing our advertising platform and proving the effectiveness and relevance of our advertising products and services. Pressure from competitors seeking to acquire a greater share of our advertisers overall marketing budget could adversely affect our pricing and margins, lower our revenue, and increase our research and development and marketing expenses. If we are unable to compete successfully against our existing or future competitors, our business, results of operations or financial condition would be harmed.

If We Fail to Manage Our Growth Effectively, Our Brand, Results of Operations and Business Could Be Harmed.

We have experienced rapid growth in our headcount and operations, which places substantial demand on management and our operational infrastructure. The majority of our employees have been with us for fewer than two years. As we continue to grow, we must effectively integrate, develop and motivate a large number of new employees, while maintaining the beneficial aspects of our company culture. In particular, we intend to pursue strategic opportunities and make substantial investments in our technology and development and sales and marketing organizations. If we do not manage the growth of our business and operations effectively, the quality of our services and efficiency of our operations could suffer, which could harm our brand, results of operations and overall business.

Our Dedication to Making Decisions Based Primarily on the Best Interests of Consumers May Cause Us to Forgo Short-Term Gains.

Our guiding principle is to build our business by making decisions based primarily on the best interests of consumers, which we believe has been essential to our success in increasing our user growth rate and engagement and has served the long-term interests of our company and our shareholders. In the past, we have forgone, and we will in the future forgo, certain expansion or short-term revenue opportunities that we do not believe are in the best interests of consumers, even if such decisions negatively impact our short-term results of operations. In addition, our philosophy of putting consumers first may negatively impact our relationships with our existing or prospective advertisers. This could result in a loss of advertisers, which could harm our revenue and results of operations. For example, we believe that some real estate agents have chosen not to purchase our Premier Agent product because we display a Zestimate on their for-sale listings. We believe, however, that it is valuable to consumers to have access to a valuation starting point on all homes and so we display a Zestimate on every home in our database for which we have sufficient data to produce the Zestimate. Similarly, we gather and make available to our consumers reviews on real estate, rental, mortgage and home improvement professionals, even if those reviews are unfavorable. Although real estate, rental, mortgage and home improvement professionals who receive unfavorable reviews may be less likely to purchase our advertising products and services, we continue to post favorable and unfavorable reviews because we believe the reviews are useful to consumers in finding the right professional. Our principle of making decisions based primarily on the best interests of consumers may not result in the long-term benefits that we expect, in which case our user traffic and engagement, business and results of operations could be harmed.

We May in the Future Be Subject to Disputes Regarding the Accuracy of Our Zestimates and Rent Zestimates.

We provide our users with Zestimate and Rent Zestimate home and rental valuations. A Zestimate is our estimated current market value of a home based on our proprietary automated valuation models that apply advanced algorithms to analyze our data; it is not an appraisal. A Rent Zestimate is our estimated current monthly rental price of a home, using similar automated valuation models that we have designed to address the unique attributes of rental homes. Revisions to our automated valuation models, or the algorithms that underlie them, may cause certain Zestimates or Rent Zestimates to vary from our expectations for those Zestimates or Rent Zestimates. In addition, from time to time, users disagree with our Zestimates and Rent Zestimates. Any such variation in Zestimates or Rent Zestimates or disagreements could result in distraction from our business or potentially harm our reputation and could result in legal disputes.

If Use of Mobile Technology and the Internet, Particularly With Respect to Real Estate Products and Services, Does Not Continue to Increase as Rapidly as We Anticipate, Our Business Could Be Harmed.

Our future success substantially depends on the continued use of mobile technology and the Internet as effective media of business and communication by our consumers. Mobile technology and Internet use may not continue to develop at historical rates, and consumers may not continue to use mobile technology or the Internet as media for information exchange. Further, these media may not be accepted as viable long-term outlets for information for a number of reasons, including actual or perceived lack of security of information and possible disruptions of service or connectivity. If consumers begin to access real estate information through other media and we fail to innovate, our business may be negatively impacted.

We Rely on the Performance of Highly Skilled Personnel, and if We Are Unable to Attract, Retain and Motivate Well-Qualified Employees, Our Business Could Be Harmed.

We believe our success has depended, and continues to depend, on the efforts and talents of our management and our highly skilled team of employees, including our software engineers, statisticians, marketing professionals and advertising sales staff. Our future success depends on our continuing ability to attract, develop, motivate and retain highly qualified and skilled employees. The loss of any of our senior management or key employees could materially adversely affect our ability to build on the efforts they have undertaken and to execute our business plan, and we may not be able to find adequate replacements. We cannot ensure that we will be able to retain the services of any members of our senior management or other key employees. If we do not succeed in attracting well-qualified employees or retaining and motivating existing employees, our business could be harmed.

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Any Significant Disruption in Service on Our Mobile Applications or Websites or in Our Network Could Damage Our Reputation and Brand, and Result in a Loss of Users of Our Products and Services and of Advertisers, Which Could Harm Our Business, Results of Operations and Financial Condition.

Our brand, reputation and ability to attract users and advertisers depend on the reliable performance of our network infrastructure and content delivery processes. We have experienced minor interruptions in these systems in the past, including server failures that temporarily slowed the performance of our mobile applications and websites, and we may experience interruptions in the future. Interruptions in these systems, whether due to system failures, computer viruses, software errors or physical or electronic break-ins, could affect the security or availability of our products and services on our mobile applications and websites and prevent or inhibit the ability of users to access our services. Since our users may rely on our products and services, including our customer relationship management tools, for important aspects of their businesses, problems with the reliability, availability or security of our systems could damage our users businesses, harm our reputation, result in a loss of users of our products and services and of advertisers and result in additional costs, any of which could harm our business, results of operations and financial condition.

The majority of the communications, network and computer hardware used to operate our mobile applications and websites are located at facilities in Seattle, Washington. We do not own or control the operation of certain of these facilities. Our systems and operations are vulnerable to damage or interruption from fire, flood, power loss, telecommunications failure, terrorist attacks, acts of war, electronic and physical break-ins, computer viruses, earthquakes and similar events. The occurrence of any of the foregoing events could result in damage to our systems and hardware or could cause them to fail completely, and our insurance may not cover such events or may be insufficient to compensate us for losses that may occur.

A failure of our systems at one site could result in reduced functionality for our users, and a total failure of our systems could cause our mobile applications or websites to be inaccessible. Problems faced by our third-party web-hosting providers with the telecommunications network providers with which they contract or with the systems by which they allocate capacity among their customers, including us, could adversely affect the experience of our users. Our third-party web-hosting providers could decide to close their facilities without adequate notice. Any financial difficulties, such as bankruptcy reorganization, faced by our third-party web-hosting providers or any of the service providers with whom they contract may have negative effects on our business, the nature and extent of which are difficult to predict. If our third-party web-hosting providers are unable to keep up with our growing needs for capacity, our business could be harmed. In addition, if distribution channels for our mobile applications experience disruptions, such disruptions could adversely affect the ability of users and potential users to access or update our mobile applications, which could harm our business.

We do not carry business interruption insurance sufficient to compensate us for the potentially significant losses, including the potential harm to the future growth of our business, which may result from interruptions in our service as a result of system failures. Any errors, defects, disruptions or other performance problems with our services could harm our reputation, business, results of operations and financial condition.

We Are Subject to a Variety of Federal and State Laws, Many of Which Are Unsettled and Still Developing and Which Could Subject Us to Claims or Otherwise Harm Our Business.

We are subject to a variety of federal and state laws that are continuously evolving and developing, including laws regarding the real estate, rental, mortgage and home improvement industries, mobile- and Internet-based businesses and other businesses that rely on advertising, as well as privacy and consumer protection laws. These laws can be costly to comply with, can require significant management time and effort, and can subject us to claims or other remedies. These laws may conflict with each other, and if we comply with the laws of one jurisdiction, we may find that we are violating laws of another jurisdiction. Additionally, our ability to provide a specific target audience to advertisers is a significant competitive advantage. Any legislation reducing this ability would have a negative impact on our business and results of operations.

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If we are unable to comply with these laws or regulations, if we become liable under these laws or regulations, or if unfavorable regulations or unfavorable interpretations of existing regulations by courts or regulatory bodies are implemented, we could be directly harmed and forced to implement new measures to reduce our exposure to this liability and it could cause the development of product or service offerings in affected markets to become impractical. This may require us to expend substantial resources or to discontinue certain products or services, limit our ability to expand our product and services offerings, or expand into new markets or otherwise harm our business, results of operations and financial condition. In addition, the increased attention focused on liability issues as a result of lawsuits and legislative proposals could harm our reputation or otherwise impact the growth of our business. Any costs incurred as a result of this potential liability could harm our business and results of operations.

We assist with the processing of customer credit card transactions, which results in us receiving personally identifiable information. This information is increasingly subject to legislation and regulation in the United States. This legislation and regulation is generally intended to protect the privacy and security of personal information, including credit card information that is collected, processed and transmitted. We could be adversely affected if government regulations require us to significantly change our business practices with respect to this type of information.

We May Be Unable to Continue to Use the Domain Names That We Use in Our Business, or Prevent Third Parties From Acquiring and Using Domain Names That Infringe on, Are Similar to, or Otherwise Decrease the Value of Our Brand or Our Trademarks or Service Marks.

We have registered domain names for our websites that we use in our business. If we lose the ability to use a domain name, we may incur significant expenses to market our products and services under a new domain name, which could harm our business. In addition, our competitors could attempt to capitalize on our brand recognition by using domain names similar to ours. Domain names similar to ours have been registered in the United States and elsewhere. We may be unable to prevent third parties from acquiring and using domain names that infringe on, are similar to, or otherwise decrease the value of our brand or our trademarks or service marks. Protecting and enforcing our rights in our domain names and determining the rights of others may require litigation, which could result in substantial costs and diversion of management s attention.

We May Be Unable to Adequately Protect Our Intellectual Property, Which Could Harm the Value of Our Brand and Our Business.

We regard our intellectual property as critical to our success, and we rely on trademark, copyright and patent law, trade secret protection and contracts to protect our proprietary rights. If we are not successful in protecting our intellectual property, the value of our brand and our business, results of operations and financial condition could be harmed.

While we believe that our issued patents and pending patent applications help to protect our business, we cannot ensure that our operations do not, or will not, infringe valid, enforceable patents of third parties or that competitors will not devise new methods of competing with us that are not covered by our patents or patent applications. We cannot ensure that our patent applications will be approved, that any patents issued will adequately protect our intellectual property, that such patents will not be challenged by third parties or found to be invalid or unenforceable, or that our patents will be effective in preventing third parties from utilizing a copycat business model to offer the same products or services. Moreover, we rely on intellectual property and technology developed or licensed by third parties, and we may not be able to obtain licenses and technologies from these third parties on reasonable terms or at all.

Effective trademark, service mark, copyright and trade secret protection may not be available in every country in which our products and services may be provided. The laws of certain countries do not protect proprietary rights to the same extent as the laws of the United States and, therefore, in certain jurisdictions, we may be unable to protect intellectual property and our proprietary technology adequately against unauthorized

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third-party copying or use, which could harm our competitive position. We have licensed in the past, and expect to license in the future, certain of our proprietary rights, such as trademarks or copyrighted material, to third parties. These licensees may take actions that might diminish the value of our proprietary rights or harm our reputation, even if we have agreements prohibiting such activity. To the extent third parties are obligated to indemnify us for breaches of our intellectual property rights, these third parties may be unable to meet these obligations. Any of these events could harm our business, results of operations or financial condition.

In addition, we may actively pursue entities that infringe our intellectual property, including through legal action. Taking such action may be costly, and we cannot ensure that such actions will be successful. Any increase in the unauthorized use of our intellectual property could make it more expensive for us to do business and harm our results of operations or financial condition.

Intellectual Property Disputes Are Costly to Defend and Could Harm Our Business, Results of Operations, Financial Condition and Reputation.

From time to time, we face allegations that we have infringed the trademarks, copyrights, patents and other intellectual property rights of third parties. We are currently subject to patent infringement claims. These claims allege, among other things, that aspects of our technology infringe upon the plaintiffs patents. If we are not successful in defending ourselves against these claims, we may be required to pay damages and may be subject to injunctions, each of which could harm our business, results of operations, financial condition and reputation. We may be subject to future claims or allegations relating to our intellectual property rights. As we grow our business and expand our operations, we expect that we will continue to be subject to intellectual property claims and allegations. Patent and other intellectual property disputes or litigation may be protracted and expensive, and the results are difficult to predict and may require us to stop offering certain products, services or features, purchase licenses that may be expensive to procure, or modify our products or services. In addition, patent or other intellectual property disputes or litigation may result in significant settlement costs. Any of these events could harm our business, results of operations, financial condition and reputation.

In addition, we use open source software in our services and will continue to use open source software in the future. From time to time, we may be subject to claims brought against companies that incorporate open source software into their products or services, claiming ownership of, or demanding release of, the source code, the open source software and/or derivative works that were developed using such software, or otherwise seeking to enforce the terms of the applicable open source license. These claims could also result in litigation, require us to purchase a costly license, or require us to devote additional research and development resources to changing our products or services, any of which would have a negative effect on our business and results of operations.

Even if these matters do not result in litigation or are resolved in our favor or without significant cash settlements, the time and resources necessary to resolve them could harm our business, results of operations, financial condition and reputation.

We are From Time to Time Involved In, or May In the Future be Subject to, Claims, Suits, Government Investigations, and Other Proceedings That May Result In Adverse Outcomes.

We are from time to time involved in, or may in the future be subject to, claims, suits, government investigations, and proceedings arising from our business, including actions with respect to intellectual property claims, privacy, consumer protection, information security, data protection or law enforcement matters, tax matters, labor and employment claims, commercial claims, as well as actions involving content generated by our users, shareholder derivative actions, purported class action lawsuits, and other matters. Such claims, suits, government investigations, and proceedings are inherently uncertain and their results cannot be predicted with certainty. Regardless of the outcome, any such legal proceedings can have an adverse impact on us because of legal costs, diversion of management and other personnel, and other factors. In addition, it is possible that a resolution of one or more such proceedings could result in reputational harm, liability, penalties, or sanctions, as well as judgments, consent decrees, or orders preventing us from offering certain features, functionalities, products, or services, or requiring a change in our business practices, products or technologies, which could in the future materially and adversely affect our business, operating results and financial condition. See Legal Proceedings below in Part 1, Item 3.

Confidentiality Agreements With Employees and Others May Not Adequately Prevent Disclosure of Trade Secrets and Other Proprietary Information.

In order to protect our technologies and processes, we rely in part on confidentiality agreements with our employees, licensees, independent contractors and other advisors. These agreements may not effectively prevent disclosure of confidential information, including trade secrets, and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, others may independently discover our trade secrets and proprietary information, and in such cases we could not assert any trade secret rights against such parties. To the extent that our employees, contractors or other third parties with whom we do business use intellectual property owned by others in their work for us, disputes may arise as to the rights in related or resulting know-how and inventions. The loss of trade secret protection could make it easier for third parties to compete with our products by copying functionality. In addition, any changes in, or unexpected interpretations of, intellectual property laws may compromise our ability to enforce our trade secret and intellectual property rights. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain protection of our trade secrets or other proprietary information could harm our business, results of operations, reputation and competitive position.

We May Not Be Able to Halt the Operations of Websites That Aggregate or Misappropriate Our Data.

From time to time, third parties have misappropriated our data through website scraping, robots or other means, and aggregated this data on their websites with data from other companies. In addition, copycat websites have misappropriated data on our network and attempted to imitate our brand or the functionality of our websites. When we have become aware of such websites, we have employed technological or legal measures in an attempt to halt their operations. We may not be able, however, to detect all such websites in a timely manner and, even if we could, technological and legal measures may be insufficient to halt their operations. In some cases, particularly in the case of websites operating outside of the United States, our available remedies may not be adequate to protect us against the impact of the operation of such websites. Regardless of whether we can successfully enforce our rights against the operators of these websites, any measures that we may take could require us to expend significant financial or other resources, which could harm our business, results of operations or financial condition. In addition, to the extent that such activity creates confusion among consumers or advertisers, our brand and business could be harmed.

If Our Security Measures Are Compromised, Consumers May Curtail Use of Our Products and Services and Advertisers May Reduce Their Advertising on Our Mobile Applications and Websites.

Our products and services involve the storage and transmission of users information, some of which may be private or include personally identifiable information, and security breaches could expose us to a risk of loss or exposure of this information, which could result in potential liability and litigation. For example, a hacker could steal a user s profile password and manipulate information about that user s home or post to a forum while posing as that user. Like all mobile application and website providers, our mobile applications and websites are vulnerable to computer viruses, break-ins, phishing attacks, attempts to overload our servers with denial-of-service or other attacks, and similar disruptions from unauthorized use of our computer systems, any of which could lead to interruptions, delays, or website shutdowns, causing loss of critical data or the unauthorized disclosure or use of personal or other confidential information. Further, outside parties may attempt to fraudulently induce employees, users or advertisers to disclose sensitive information in order to gain access to our information or our users or advertisers information, and our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. If we

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experience compromises to our security that result in mobile application or website performance or availability problems, the complete shutdown of our mobile applications or websites, or the loss or unauthorized disclosure of confidential information, our users and advertisers may lose trust and confidence in us, we may be subject to legal claims, and users may decrease the use of our mobile applications or websites or stop using our mobile applications or websites in their entirety, and advertisers may decrease or stop advertising on our mobile applications or websites. In January 2013, for example, we detected an anonymous user within our externally facing web services, which do not host any customer or financial data. Upon detection, the anonymous user was quarantined and security incident response procedures were executed. As a result of the unauthorized access, we have implemented additional security measures to further enhance security over our Internet-facing services. This incident did not have a material adverse effect on our business and our internal controls were not compromised. Despite the additional security measures we implemented, we cannot ensure that we will not experience future incidents.

We depend on data storage vendors to store certain user information, some of which may be private or include personally identifiable information. If our data storage vendors fail to maintain adequate information security systems and our users information is compromised, our business, results of operations and financial condition could be harmed.

Further, because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently, often are not recognized until launched against a target, and may originate from less regulated and remote areas around the world, we may be unable to proactively address all these techniques or to implement adequate preventative measures. Any or all of these issues could negatively impact our ability to attract new users and increase engagement by existing users, cause existing users to curtail or stop use of our products or services or close their accounts, cause existing advertisers to cancel their contracts, or subject us to third-party lawsuits, regulatory fines or other action or liability, thereby harming our business, results of operations and financial condition.

We Are Subject to a Number of Risks Related to the Credit Card and Debit Card Payments We Accept.

We accept payments through credit and debit card transactions. For credit and debit card payments, we pay interchange and other fees, which may increase over time. An increase in those fees may require us to increase the prices we charge and would increase our operating expenses, either of which could harm our business, financial condition and results of operations.

We depend on processing vendors to complete credit and debit card transactions. If we or our processing vendors fail to maintain adequate systems for the authorization and processing of credit card transactions, it could cause one or more of the major credit card companies to disallow our continued use of their payment products. In addition, if these systems fail to work properly and, as a result, we do not charge our customers credit cards on a timely basis or at all, our business, revenue, results of operations and financial condition could be harmed.

We are also subject to payment card association operating rules, certification requirements and rules governing electronic funds transfers, which could change or be reinterpreted to make it more difficult for us to comply. We are required to comply with payment card industry security standards. Failing to comply with those standards may violate payment card association operating rules, federal and state laws and regulations, and the terms of our contracts with payment processors. Any failure to comply fully also may subject us to fines, penalties, damages and civil liability, and may result in the loss of our ability to accept credit and debit card payments. Further, there is no guarantee that such compliance will prevent illegal or improper use of our payment systems or the theft, loss, or misuse of data pertaining to credit and debit cards, card holders and transactions.

If we fail to adequately control fraudulent credit card transactions, we may face civil liability, diminished public perception of our security measures, and significantly higher credit card-related costs, each of which could harm our business, results of operations and financial condition.

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If we are unable to maintain our chargeback rate or refund rates at acceptable levels, our processing vendors may increase our transaction fees or terminate their relationships with us. Any increases in our credit and debit card fees could harm our results of operations, particularly if we elect not to raise our rates for our service to offset the increase. The termination of our ability to process payments on any major credit or debit card would significantly impair our ability to operate our business.

We Expect Our Results of Operations to Fluctuate on a Quarterly and Annual Basis.

Our revenue and results of operations could vary significantly from period to period and may fail to match expectations as a result of a variety of factors, some of which are outside our control. The other risk factors discussed in this Risk Factors section may contribute to the variability of our quarterly and annual results. In addition, our results may fluctuate as a result of fluctuations in the quantity of, and the price at which we are able to sell, our remnant advertising and the size and seasonal variability of our advertisers marketing budgets. As a result of the potential variations in our revenue and results of operations, period-to-period comparisons may not be meaningful and the results of any one period should not be relied on as an indication of future performance. In addition, our results of operations may not meet the expectations of investors or public market analysts who follow us, which may adversely affect our stock price.

Our Ability to Use Our Net Operating Loss Carryforwards and Certain Other Tax Attributes May Be Limited.

As of December 31, 2013, we had federal net operating loss carryforwards of approximately $236.5 million, state net operating loss carryforwards of approximately $6.1 million (tax effected), and tax credit carryforwards of approximately $5.1 million. Under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, if a corporation undergoes an ownership change, the corporation s ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes, such as research tax credits, to offset its post-change income or income tax liability may be limited. In general, an ownership change will occur if there is a cumulative change in our ownership by certain 5-percent shareholders that exceeds 50 percentage points over a rolling three-year period. In connection with our August 2013 public offering of our Class A Common stock, we experienced an ownership change that triggered Section 382 and 383, which may limit our ability to utilize net operating loss and tax credit carryforwards. If we experience one or more ownership changes in the future as a result of future transactions in our stock, our ability to utilize net operating loss carryforwards could be limited. Furthermore, our ability to utilize net operating loss carryforwards of any companies that we have acquired or may acquire in the future may be limited. As a result, if we earn net taxable income, our ability to use our pre-change net operating loss carryforwards, other pre-change tax attributes, or net operating loss carryforwards of any acquired companies to offset our federal taxable income or reduce our federal income tax liability may be subject to limitation.

The Requirements of Being a Public Company May Strain Our Resources and Distract Our Management, Which Could Make It Difficult to Manage Our Business.

We are required to comply with various regulatory and reporting requirements, including those required by the SEC. Complying with these reporting and other regulatory requirements can be time-consuming and results in increased costs to us and could harm our business, results of operations and financial condition.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These requirements could strain our systems and resources. The Exchange Act also requires that we file annual, quarterly and current reports with respect to our business and financial condition. The Exchange Act requires that we maintain effective disclosure controls and procedures and internal control over financial reporting. To maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, we have committed significant resources, hired additional staff and provided additional management oversight. We have implemented additional procedures and processes for the purpose of addressing the standards and requirements applicable to public companies.

Sustaining our growth will require us to commit additional management, operational and financial resources to identify new professionals to join us and to maintain appropriate operational and financial systems to adequately support expansion. These activities may divert management s attention from other business concerns and could make it difficult to manage our business, which could harm our business, results of operations, financial condition and cash flows. In addition, if we identify any material weaknesses in our internal controls, we could lose investor confidence in the accuracy and completeness of our financial reports, which would cause the market price of our Class A common stock to decline.

Risks Related to Ownership of Our Class A Common Stock

Our Class A Stock Price May Be Volatile, and the Value of an Investment in Our Class A Common Stock May Decline.

An active, liquid and orderly market for our Class A common stock may not be sustained, which could depress the trading price of our Class A common stock. The trading price of our Class A common stock has at times experienced substantial price volatility and may continue to be volatile. For example, since shares of our Class A common stock were sold in our initial public offering in July 2011 at a price of $20.00 per share, the closing price of our Class A common stock has ranged from $21.63 per share to $100.50 per share through December 31, 2013. The market price of our Class A common stock could be subject to wide fluctuations in response to many of the risk factors discussed in this Annual Report on Form 10-K and others beyond our control, including:

- actual or anticipated fluctuations in our financial condition and results of operations;
- changes in projected operational and financial results;
- addition or loss of significant customers;
- actual or anticipated changes in our growth rate relative to that of our competitors;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital-raising activities or commitments;
- announcements of technological innovations or new offerings by us or our competitors;
- additions or departures of key personnel;
- changes in laws or regulations applicable to our services;
- fluctuations in the valuation of companies perceived by investors to be comparable to us;
- issuance of new or updated research or reports by securities analysts;
- sales of our Class A common stock by us or our shareholders;

- stock price and volume fluctuations attributable to inconsistent trading volume levels of our shares; and

- general economic and market conditions.

Furthermore, the stock markets in recent years have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of the equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, may negatively impact the market price of our Class A common stock. In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We are currently the target of this type of litigation as described in Legal Proceedings below in Part I, Item 3, and we may continue to be the target of this type of litigation in the future. Current or future securities litigation against us, including the pending matters described below, could result in substantial costs and divert management s attention from other business concerns, which could harm our business, results of operations or financial condition.

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The Dual Class Structure of Our Common Stock as Contained in Our Charter Documents Has the Effect of Concentrating Voting Control With Our Founders, and Limits Your Ability to Influence Corporate Matters.

Since Zillow s inception, our capital structure has had authorized Class A common stock and authorized Class B common stock. Our Class A common stock has one vote per share, and our Class B common stock has 10 votes per share. All shares of Class B common stock have been and are held or controlled by our founders, Richard Barton and Lloyd Frink. As of December 31, 2013, Mr. Barton s holdings and Mr. Frink s holdings represented approximately 39.3% and 27.0%, respectively, of the voting power of our outstanding capital stock.

For the foreseeable future, Mr. Barton and Mr. Frink will therefore have significant control over our management and affairs and will be able to control all matters requiring shareholder approval, including the election or removal (with or without cause) of directors and the approval of any significant corporate transaction, such as a merger or other sale of us or our assets. This concentrated control could delay, defer or prevent a change of control, merger, consolidation, takeover, or other business combination involving us that you, as a shareholder, may otherwise support. This concentrated control could also discourage a potential investor from acquiring our Class A common stock due to the limited voting power of such stock relative to the Class B common stock and might harm the market price of our Class A common stock.

Future Sales of Our Class A Common Stock in the Public Market Could Cause Our Stock Price to Decline.

Our Class A common stock began trading on The Nasdaq Global Market on July 20, 2011. We cannot predict the effect, if any, that market sales of shares or the availability of shares for sale will have on the prevailing trading price of our Class A common stock from time to time. There is currently no contractual restriction on our ability to issue additional shares, and all of our outstanding shares are generally freely tradable, except for shares held by our affiliates as defined in Rule 144 under the Securities Act, which may be sold in compliance with the volume restrictions of Rule 144. Sales of a substantial number of shares of our Class A common stock could cause our stock price to decline.

If Securities or Industry Analysts Do Not Publish Research or Publish Inaccurate or Unfavorable Research About Our Business, Our Class A Common Stock Price and Trading Volume Could Decline.

The trading market for our Class A common stock depends in part on the research and reports that securities or industry analysts publish about our company. If few or no securities or industry analysts cover our company, the market price of our Class A common stock could be negatively impacted. If securities or industry analysts cover us and if one or more of such analysts downgrade our Class A common stock or publish inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of the analysts covering us fail to publish reports on us regularly, demand for our Class A common stock could decline, which could cause our stock price and trading volume to decline.

If We Issue Additional Equity Securities or Issue Convertible Debt to Raise Capital, It May Have a Dilutive Effect on Shareholders Investment.

If we raise additional capital through further issuances of equity or convertible debt securities, our existing shareholders could suffer significant dilution in their percentage ownership of us. Moreover, any new equity securities we issue could have rights, preferences and privileges senior to those of holders of our common stock.

Anti-Takeover Provisions in Our Charter Documents and Under Washington Law Could Make an Acquisition of Us More Difficult, Limit Attempts by Shareholders to Replace or Remove Our Management and Affect the Market Price of Our Class A Common Stock.

Provisions in our articles of incorporation and bylaws, as amended and restated, may have the effect of delaying or preventing a change of control or changes in our management. Our amended and restated articles of

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incorporation or amended and restated bylaws include provisions, some of which will become effective only after the date, which we refer to as the threshold date, on which the Class B common stock controlled by our founders represents less than 7% of the aggregate number of shares of our outstanding Class A common stock and Class B common stock, that:

- set forth the dual class structure of our common stock, which concentrates voting control of matters submitted to a vote of our shareholders with the holders of our Class B common stock, which is held or controlled by our founders;
- authorize our board of directors to issue, without further action by our shareholders, up to 30,000,000 shares of undesignated preferred stock, subject, prior to the threshold date, to the approval rights of the holders of our Class B common stock;
- establish that our board of directors will be divided into three classes, Class I, Class II and Class III, with each class serving three-year staggered terms;
- prohibit cumulative voting in the election of directors;
- provide that, after the threshold date, our directors may be removed only for cause;
- provide that, after the threshold date, vacancies on our board of directors may be filled only by the affirmative vote of a majority of directors then in office or by the sole remaining director;
- provide that only our board of directors may change the board s size;
- specify that special meetings of our shareholders can be called only by the chair of our board of directors, our board of directors, our chief executive officer, our president or, prior to the threshold date, holders of at least 25% of the combined voting power of our outstanding Class A common stock and Class B common stock;
- establish an advance notice procedure for shareholder proposals to be brought before a meeting of shareholders, including proposed nominations of persons for election to our board of directors;
- require the approval of our board of directors or the holders of two-thirds of the voting power of our outstanding Class A common stock and Class B common stock, voting together as a single group, to amend or repeal our bylaws; and
- require the approval of two-thirds of the outstanding voting power of our Class A common stock and Class B common stock, voting together as a single group, to amend certain provisions of our articles of incorporation.

Prior to the threshold date, our directors can be removed with or without cause by holders of our Class A common stock and Class B common stock, voting together as a single group, and vacancies on the board of directors may be filled by such shareholders, voting together as a single group. Given the dual class structure of our common stock, our founders, Richard Barton and Lloyd Frink, who hold or control our Class B common stock, will have the ability for the foreseeable future to control these shareholder actions. See the risk factor above titled The Dual Class Structure of Our Common Stock as Contained in Our Charter Documents Has the Effect of Concentrating Voting Control With our Founders, and Limits Your Ability to Influence Corporate Matters.

The provisions described above, after the threshold date, may frustrate or prevent any attempts by our shareholders to replace or remove our current management by making it more difficult for shareholders to replace members of our board of directors, which board is responsible for appointing our management. In addition, because we are incorporated in the State of Washington, we are governed by the provisions of Chapter 23B.19 of the Washington Business Corporation Act, which prohibits certain business combinations between us and certain significant shareholders unless specified conditions are met. These provisions may also have the effect of delaying or preventing a change of control of our company, even if this change of control would benefit our shareholders.

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Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

In March 2011, we entered into a lease for approximately 66,000 square feet of office space that houses our corporate headquarters in Seattle, Washington, for which we are obligated to make escalating monthly lease payments that began in December 2012 and continue through November 2022. In June 2012, we entered into a lease amendment for our corporate headquarters in Seattle, Washington, which increased the rentable area of the premises by 21,575 square feet, for which we are obligated to make escalating monthly lease payments that began in January 2013 and continue through November 2022. In April 2013, we entered into a second lease amendment for our corporate headquarters in Seattle, Washington, which increased the rentable area of the premises by 22,583 square feet as of October 1, 2013, and will increase the rentable area of the premises by an additional 22,583 square feet as of September 1, 2014, for which we are obligated to make escalating monthly lease payments beginning in January 2014 and December 2014, respectively, and continuing through November 2022. In January 2014, we entered into a third lease amendment for our corporate headquarters in Seattle, Washington, which will increase the rentable area of the premises by 22,694 square feet as of October 1, 2016, for which we are obligated to make escalating monthly lease payments beginning in January 2016 and continuing through November 2022. In April 2012, we entered into an operating lease in Irvine, California for 20,025 square feet under which we are obligated to make escalating monthly lease payments which began in August 2012 and continue through July 2022. In September 2013, we entered into a lease amendment for our operating lease in Irvine, California, which increased the rentable area of the premises by 20,024 square feet, for which we are obligated to make escalating monthly lease payments beginning in February 2014 and continuing through July 2022. In November 2012, we entered into an operating lease in San Francisco, California for 18,353 square feet under which we are obligated to make escalating monthly lease payments which began in December 2012 and continue through November 2018. We lease additional office space in Chicago, Illinois, Lincoln, Nebraska, and New York, New York.

Item 3. Legal Proceedings

In March 2010, Smarter Agent, LLC (Smarter Agent) filed a complaint against us and multiple other defendants, including HotPads, Inc. (HotPads), for patent infringement in the U.S. District Court for the District of Delaware. The complaint seeks, among other things, a judgment that we have infringed certain patents held by Smarter Agent, an injunctive order against the alleged infringing activities and an award for damages. In November 2010, the U.S. Patent and Trademark Office granted our petition for re-examination of the three patents-in-suit, and to date, all claims of all three patents remain rejected in the re-examination proceedings. In March 2011, the court granted a stay of the litigation pending the completion of the re-examination proceedings. In addition, in October 2011, Smarter Agent filed a substantially similar complaint against Diverse Solutions, Inc. (Diverse Solutions), StreetEasy, Inc. (StreetEasy) and other defendants, for patent infringement in the U.S. District Court for the District of Delaware. On October 31, 2011, we acquired substantially all of the operating assets and certain liabilities of Diverse Solutions, including the Smarter Agent complaint against Diverse Solutions. On August 26, 2013, we acquired StreetEasy, including the Smarter Agent complaint against StreetEasy. On December 14, 2012, we acquired HotPads, including the Smarter Agent complaint against HotPads.

In September 2010, LendingTree, LLC (LendingTree) filed a complaint against us for patent infringement in the U.S. District Court for the Western District of North Carolina. The complaint seeks, among other things, a judgment that we have infringed certain patents held by LendingTree, an injunctive order against the alleged infringing activities and an award for damages. We have denied the allegations and asserted counterclaims seeking declarations that we are not infringing the patents and that the patents are unenforceable and invalid. The LendingTree matter currently is subject to a trial by jury that began on February 10, 2014.

In November 2012, a securities class action lawsuit was filed against us and certain of our executive officers seeking unspecified damages in the U.S. District Court for the Western District of Washington at Seattle. The complaint purports to state claims for violations of federal securities laws on behalf of a class of those who purchased our common stock between February 15, 2012 and November 6, 2012. A consolidated amended complaint was filed in June 2013. In general, the complaint alleges, among other things, that during the period between February 15, 2012 and November 6, 2012, we issued materially false and misleading statements regarding our business practices and financial results. In August 2013, we moved to dismiss the lawsuit. That motion to dismiss is pending. We intend to deny the allegations of any wrongdoing and vigorously defend the claims in the lawsuit.

In January 2013, a shareholder derivative lawsuit was filed against certain of our executive officers and directors seeking unspecified damages on behalf of Zillow in the U.S. District Court for the Western District of Washington at Seattle. In general, the complaint alleged, among other things, that the defendants breached their fiduciary obligations owed to Zillow, and that as a result of the breach of such fiduciary duties, Zillow wasted corporate assets defending itself in the securities class action lawsuit described above, and that defendants were unjustly enriched by selling shares of our common stock on the basis of knowledge of adverse trends before such information was publicly disclosed. The shareholder derivative lawsuit was dismissed without prejudice on September 26, 2013.

Although the results of litigation cannot be predicted with certainty, we currently believe we have substantial and meritorious defenses to the outstanding claims and that the final outcome of the outstanding litigation matters will not have a material effect on our business, financial position, results of operations or cash flow.

From time to time, we are involved in litigation and claims that arise in the ordinary course of business and although we cannot be certain of the outcome of any such litigation or claims, nor the amount of damages and exposure that we could incur, we currently believe that the final disposition of such matters will not have a material effect on our business, financial position, results of operations or cash flow. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information and Holders

Our Class A common stock is traded on The Nasdaq Global Market under the symbol Z . Our Class B common stock is not listed and there is no established public trading market. The following table sets forth, for each quarterly period indicated, the high and low sales prices for our Class A common stock as quoted on The Nasdaq Global Market:

Year Ended December 31, 2013:	High	Low
First Quarter	$ 57.82	$ 28.00
Second Quarter	63.76	48.52
Third Quarter	103.00	54.38
Fourth Quarter	91.93	70.28

Year Ended December 31, 2012:	High	Low
First Quarter	$ 36.60	$ 22.17
Second Quarter	44.23	30.60
Third Quarter	46.86	35.57
Fourth Quarter	42.82	23.00

As of February 14, 2014, there were 72 holders and three holders of record of our Class A common stock and our Class B common stock, respectively.

Dividends

We have never declared or paid a cash dividend on our capital stock and we intend to retain all available funds and any future earnings to fund the development and growth of our business. We therefore do not anticipate paying any cash dividends on our Class A common stock or Class B common stock in the foreseeable future. Any future determinations to pay dividends on our Class A common stock or Class B common stock would depend on our results of operations, our financial condition and liquidity requirements, restrictions that may be imposed by applicable law or our contracts, and any other factors that our board of directors may consider relevant.

Recent Sales of Unregistered Securities and Use of Proceeds from Registered Securities

Recent Sales of Unregistered Securities

On March 26, 2013, in connection with a sponsorship agreement involving an equity-based payment to a non-employee recipient, we issued 3,673 restricted shares of our Class A common stock to the recipient. This transaction was exempt from registration under the Securities Act in reliance upon Section 4(2) of the Securities Act and Regulation D promulgated thereunder. The recipient of restricted shares of our Class A common stock in this transaction represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were placed upon the stock certificates issued in these transactions. The recipient had adequate access, through their relationships with us, to information about Zillow.

There were no other sales of unregistered securities during the year ended December 31, 2013.

Purchases of Equity Securities by the Issuer

None.

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Performance Graph

The following graph compares our cumulative total shareholder return on our Class A common stock with the NASDAQ Composite Index and the RDG Internet Composite Index. This graph covers the period from July 20, 2011, using the closing price for the first day of trading immediately following the effectiveness of our initial public offering per SEC regulations (rather than the IPO offering price of $20.00 per share), through December 31, 2013. This graph assumes that the value of the investment in our Class A common stock and each index (including reinvestment of dividends) was $100 on July 20, 2011. The information contained in the graph is based on historical data and is not intended to forecast possible future performance.

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Item 6. Selected Financial Data

The selected financial data set forth below should be read in conjunction with the information under Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and related notes included elsewhere in this Annual Report on Form 10-K and our previously audited financial statements that are not included herein. Our historical results are not necessarily indicative of our results to be expected in any future period.

	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands, except per share data)				
Statement of Operations Data:					
Revenue	$ 197,545	$ 116,850	$ 66,053	$ 30,467	$ 17,491
Costs and expenses:					
Cost of revenue (exclusive of amortization) (1)(2)	18,810	14,043	10,575	4,973	4,042
Sales and marketing (1)	108,891	49,105	25,725	14,996	9,654
Technology and development (1)	48,498	26,614	14,143	10,651	11,260
General and administrative (1)(3)	38,295	21,291	14,613	6,684	5,501
Total costs and expenses	214,494	111,053	65,056	37,304	30,457
Income (loss) from operations	(16,949)	5,797	997	(6,837)	(12,966)
Other income	385	142	105	63	111
Income (loss) before income taxes	(16,564)	5,939	1,102	(6,774)	(12,855)
Income tax benefit	4,111				
Net income (loss)	$ (12,453)	$ 5,939	$ 1,102	$ (6,774)	$ (12,855)
Net income (loss) attributable to common shareholders	$ (12,453)	$ 5,939	$	$ (6,774)	$ (12,855)
Net income (loss) per share attributable to common shareholders basic	$ (0.35)	$ 0.20	$	$ (0.53)	$ (1.02)
Net income (loss) per share attributable to common shareholders diluted	$ (0.35)	$ 0.18	$	$ (0.53)	$ (1.02)
Weighted average shares outstanding basic	36,029	30,194	19,815	12,770	12,613
Weighted average shares outstanding diluted	36,029	32,709	22,305	12,770	12,613
(1) Includes share-based compensation as follows:					
Cost of revenue	$ 737	$ 380	$ 189	$ 210	$ 183
Sales and marketing	10,969	2,433	388	445	408
Technology and development	4,660	1,886	546	389	394
General and administrative	7,070	1,912	822	671	666
Total	$ 23,436	$ 6,611	$ 1,945	$ 1,715	$ 1,651
(2) Amortization of website development costs and intangible assets included in technology and development	$ 19,791	$ 11,179	$ 5,384	$ 4,184	$ 4,797
(3) General and administrative includes a facility exit charge as follows:	$	$	$ 1,737	$	$

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	At December 31,				
	2013	2012	2011	2010	2009
	(in thousands)				
Balance Sheet Data:					
Cash, cash equivalents and investments	$ 437,726	$ 203,483	$ 92,136	$ 13,777	$ 16,091
Property and equipment, net	27,408	16,948	7,227	4,929	4,409
Working capital	282,127	184,661	71,713	11,941	16,432
Total assets	608,063	307,549	116,668	24,013	24,608
Convertible preferred stock				4	4
Total shareholders equity	567,796	280,317	101,213	17,448	21,126

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our financial condition and results of operations should be read in conjunction with our audited financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. In addition to historical financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results may differ materially from those contained in or implied by any forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Annual Report on Form 10-K, particularly in Risk Factors .

Overview

Zillow operates the leading real estate and home-related information marketplaces on mobile and the Web, with a complementary portfolio of brands and products that help people find vital information about homes and connect with local professionals. In addition to our living database of homes, accessible on 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, HotPads and StreetEasy.

Zillow provides products and services to help consumers through every stage of homeownership buying, selling, renting, borrowing and remodeling. We are transforming the way people make home-related decisions, and enabling homeowners, buyers, sellers and renters to find and connect with local professionals best suited to meet their needs.

Our living database of more than 110 million U.S. homes homes for sale, homes for rent and homes not currently on the market attracts an active and vibrant community of users. Individuals and businesses that use Zillow have updated information on more than 45 million homes and added more than 205 million home photos, creating exclusive home profiles not available anywhere else. These profiles include detailed information about homes, including property facts, listing information and purchase and sale data. We provide this information to our users where, when and how they want it, through our industry-leading mobile applications that enable consumers to access our information when they are curbside, viewing homes, and through our websites. Using complex, proprietary automated valuation models, we provide current home value estimates, or Zestimates, and current rental price estimates, or Rent Zestimates, on more than 100 million U.S. homes.

The following is a listing of our significant milestones for the year ended December 31, 2013:

In February, we announced the launch of Zillow Digs , a free app available exclusively for iPad® and as a Web service where home shoppers and homeowners can find visual inspiration and scope the estimated costs of remodeling projects.

In February, we announced the launch of Zillow Rentals on iPad®, our first dedicated rental app optimized for iPad.

In February, we announced the opening of a new office in San Francisco, California.

In June, we announced the launch of a new TV spot, Long Distance, as part of our first national TV advertising campaign, entitled Find Your Way Home.

In June, we announced the launch of Agentfolio®, which provides a unique collaboration and co-shopping platform via mobile and Web that streamlines communication and organization for agents and home buyers working together during a home search.

In August, Zillow hosted President Barack Obama during a virtual housing roundtable discussion.

In August, we completed the acquisition of StreetEasy, Inc., formerly known as NMD Interactive, Inc., d/b/a StreetEasy, (StreetEasy), which provides for-sale and for-rent listings and information about condos, co-ops, new developments and luxury real estate, primarily in the New York region. The acquisition aligns with our growth strategies, including focusing on consumers and deepening, strengthening, and expanding our marketplaces. With the addition of StreetEasy, Zillow expanded its audience and brand awareness by leveraging StreetEasy s leadership among both consumers and real estate professionals in the New York region and, in particular, the New York for-sale and rentals market.

In August, we sold 3,253,522 shares of our Class A common stock, including 753,522 shares of our Class A common stock pursuant to the underwriters option to purchase additional shares, and certain shareholders sold 2,523,486 shares of our Class A common stock, at a price of $82.00 per share. We received net proceeds of $253.9 million after deducting underwriting discounts and commissions and offering expenses payable by us. We received no proceeds from the sale of our Class A common stock by the selling shareholders.

In August, we announced the opening of a new office in Lincoln, Nebraska.

In September, we announced the launch of a new schools search tool that allows home shoppers to search by boundaries and quality of schools elementary through high school, public and private in their desired area.

In September, we announced the launch of a new interface enhanced for iOS 7 and redesigned home shopping features for the Zillow Real Estate Apps for iPhone®, iPad® and iPod touch®.

In October, we announced that our Zillow Digs home remodeling app is available on iPhone® and iPod touch®.

In October, our Zillow Pro for Brokers program reached a milestone with more than 200 participating real estate brokerages.

In November, we launched Zillow Tech Connect, which allows brokers and agents to easily use Zillow with their current customer relationship management program.

We generate revenue from local real estate professionals, primarily on an individual subscription basis, and from mortgage professionals, rental professionals and brand advertisers. Our revenue includes marketplace revenue, consisting primarily of subscriptions sold to real estate agents based on the number of impressions delivered in zip codes purchased, and advertising sold on a cost per click, or CPC, basis to mortgage lenders, as well as display revenue, which consists of advertising placements sold primarily on a cost per thousand impressions, or CPM, basis.

We have experienced significant revenue growth over the past three years. In 2011, 2012 and 2013 we focused on growing our marketplace revenue, which accounted for the majority of our revenue growth over that period. The increase in marketplace revenue resulted primarily from growth in our Premier Agent program. Our Premier Agent program represents a significant source of more predictable subscription-based revenue that complements our display revenue, resulting in a more diversified revenue mix. As a greater proportion of our revenue has shifted to marketplace revenue with a corresponding lesser proportion of revenue being display revenue, we believe we are experiencing less quarterly seasonality in our business as compared to prior periods.

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For the years ended December 31, 2013, 2012 and 2011, we generated revenue of $197.5 million, $116.9 million and $66.1 million, respectively, representing year-over-year growth of 69%, 77% and 117%, respectively. We believe achieving these levels of revenue growth was primarily the result of significant growth in the following areas:

- Traffic to our owned and operated mobile applications and websites indicated by the average number of monthly unique users for the three months ended December 31, 2013, 2012 and 2011 of 54.4 million, 34.5 million and 23.5 million, respectively, representing year-over-year growth of 57%, 47% and 86%, respectively;

- Marketplace revenue due primarily to growth in our Premier Agent program, for which we have generally experienced increases in the number of subscribers and in the average monthly revenue per subscriber. Increases in the average monthly revenue per subscriber were primarily driven by price increases supported by growth in our audience across our mobile and desktop platforms, as well as increased sales to existing Premier Agent subscribers looking to expand their presence on our platform; and

- Display revenue resulting from our traffic growth and the improved productivity of our sales force.

As noted above, we announced the launch of a new TV spot, Long Distance, as part of our national TV advertising campaign, entitled Find Your Way Home, in June 2013. We believe we have considerable opportunity to increase brand awareness and grow traffic through targeted advertising programs like our Find Your Way Home TV advertising campaign. As such, we have invested in selective advertisements to consumers and professionals in various online and offline channels that have tested well for us. As compared with the prior year period, sales and marketing expenses increased by $59.8 million in 2013, primarily due to a $27.7 million increase in marketing and advertising expenses related to advertising spend to acquire shoppers across online and offline channels. We also incurred a $3.3 million increase in consulting costs to support our marketing and advertising spend.

As of December 31, 2013, we had 817 full-time employees, compared to 560 full-time employees as of December 31, 2012.

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Key Growth Drivers

To analyze our business performance, determine financial forecasts and help develop long-term strategic plans, we frequently review the following key growth drivers:

Unique Users

Measuring unique users is important to us because our marketplace revenue depends in part on our ability to enable real estate, rental and mortgage professionals to connect with our users, and our display revenue depends in part on the number of impressions delivered. Furthermore, our community of users improves the quality of our living database of homes with their contributions. We count a unique user the first time an individual accesses our mobile applications using a mobile device during a calendar month and the first time an individual accesses one of our websites using a web browser during a calendar month. If an individual accesses our mobile applications using different mobile devices within a given month, the first instance of access by each such mobile device is counted as a separate unique user. If an individual accesses our websites using different web browsers within a given month, the first access by each such web browser is counted as a separate unique user. If an individual accesses more than one of our websites in a single month, the first access to each website is counted as a separate unique user since unique users are tracked separately for each domain. Beginning in October 2011, we have measured unique users with Google Analytics. Prior to October 2011, we measured monthly unique user metrics with Omniture analytical tools. We believe Google Analytics and Omniture result in materially consistent measurements of our monthly unique users. Beginning in June 2012, the reported monthly unique users reflect the effect of Zillow s May 31, 2012 acquisition of RentJuice Corporation. Beginning in December 2012, the reported monthly unique users reflect the effect of Zillow s December 14, 2012 acquisition of HotPads, Inc. Beginning in September 2013, the reported monthly unique users reflect the effect of Zillow s August 26, 2013 acquisition of StreetEasy, Inc.

	Average Monthly Unique Users for the Three Months Ended December 31,			2012 to 2013	2011 to 2012
	2013	2012	2011	% Change	% Change
		(in thousands)			
Unique Users	54,358	34,535	23,507	57%	47%

Premier Agent Subscribers

The number of Premier Agent subscribers is an important driver of revenue growth because each subscribing agent pays us a subscription fee to participate in the program. We define a Premier Agent subscriber as an agent with a paid subscription at the end of a period.

	At December 31,			2012 to 2013	2011 to 2012
	2013	2012	2011	% Change	% Change
Premier Agent Subscribers	48,314	29,473	15,799	64%	87%

Basis of Presentation

Revenue

We generate revenue from local real estate professionals, primarily on an individual subscription basis, and from mortgage professionals, rental professionals and brand advertisers. Our revenue includes marketplace revenue and display revenue.

Marketplace Revenue. Marketplace revenue consists of real estate revenue and mortgages revenue. Real estate revenue primarily includes subscriptions sold to real estate agents under our Premier Agent program, as well as revenue generated by Zillow Rentals. Mortgages revenue primarily includes CPC advertising related to

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our Zillow Mortgage Marketplace sold to mortgage lenders, as well as revenue generated by Mortech, a company we acquired in November 2012 that provides subscription-based mortgage software solutions, including a product and pricing engine and lead management platform.

Zillow s Premier Agent program offers a suite of marketing and business technology solutions to help real estate agents grow their businesses and personal brands. The Premier Agent program allows agents to select products and services that they can tailor to meet their business and advertising needs. The program has three tiers of participation including Premier Platinum, our original flagship subscription product, as well as Premier Gold and Premier Silver, to meet different marketing and business needs of a broad range of agents. All tiers of Premier Agents receive access to a dashboard portal on our website that provides individualized program performance analytics, as well as our personalized website service, and our customer relationship management, or CRM, tool that captures detailed information about each contact made with a Premier Agent through our mobile and web platforms. Our Premier Gold product also includes featured listings whereby the agent s listings will appear at the top of search results on our mobile and web platforms. Our Premier Platinum product includes the dashboard portal on our website, our personalized website service, our CRM tool, featured listings, and inclusion on our buyer s agent list, whereby the agent appears as the agent to contact for listings in the purchased zip code.

From the launch of our Platinum Premier Agent subscription product until the end of the third quarter of 2012, we charged for this product based upon a percentage of the total Platinum Premier Agent views in the zip code rather than the number of impressions actually delivered on our buyer s agent list. Thus, up until the end of the third quarter of 2012, Premier Agent subscription advertising revenue was primarily recognized on a straight-line basis during the contractual period over which the advertising was delivered. In the year ended December 31, 2012, we transitioned sales of our Platinum Premier Agent subscription product to charging based on the number of impressions delivered on our buyer s agent list in zip codes purchased and a contracted maximum cost per impression. Our Platinum Premier Agent subscription product includes multiple deliverables which are accounted for as a single unit of accounting, as the delivery or performance of the undelivered elements is based on traffic to our mobile applications and websites. We recognize revenue related to our impression-based Platinum Premier Agent subscription product based on the lesser of (i) the actual number of impressions delivered on our buyer s agent list during the period multiplied by the contracted maximum cost per impression, or (ii) the contractual maximum spend on a straight-line basis during the contractual period over which the services are delivered, typically over a period of six months or twelve months and then month-to-month thereafter.

We charge a fixed subscription fee for our Premier Gold and Premier Silver subscription products. Subscription advertising revenue for our Premier Gold and Premier Silver subscription products is recognized on a straight-line basis during the contractual period over which the services are delivered, typically over a period of six months and then month-to-month thereafter.

In Zillow Mortgage Marketplace, participating qualified mortgage lenders make a prepayment to gain access to consumers interested in connecting with mortgage professionals. Consumers who request rates for mortgage loans in Zillow Mortgage Marketplace are presented with personalized lender quotes from participating lenders. We only charge mortgage lenders a fee when users click for more information regarding a mortgage loan quote. Mortgage lenders who exhaust their initial prepayment can then prepay additional funds to continue to participate in the marketplace. We recognize revenue when a user clicks on a mortgage advertisement or to obtain additional information about a mortgage loan quote.

Display Revenue. Display revenue primarily consists of graphical mobile and web advertising sold on a CPM basis to advertisers primarily in the real estate industry, including real estate brokerages, home builders, mortgage lenders and home services providers. Our advertising customers also include telecommunications, automotive, insurance and consumer products companies. We recognize display revenue as impressions are

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delivered to users interacting with our mobile applications or websites. Growth in display revenue depends on continuing growth in traffic to our mobile applications and websites and migration of advertising spend online from traditional broadcast and print media.

Costs and Expenses

Cost of Revenue. Our cost of revenue consists of expenses related to operating our mobile applications and websites, including associated headcount expenses, such as salaries and benefits and share-based compensation expense and bonuses. Cost of revenue also includes credit card fees, ad serving costs paid to third parties, revenue-sharing costs related to our commercial business relationships, and data center operations costs.

Sales and Marketing. Sales and marketing expenses consist of advertising costs and other sales expenses related to promotional and marketing activities, as well as headcount expenses, including salaries, commissions, benefits, share-based compensation expense and bonuses for sales, sales support, customer support, marketing and public relations employees.

Technology and Development. Technology and development expenses consist of headcount expenses, including salaries and benefits, share-based compensation expense and bonuses for salaried employees and contractors engaged in the design, development and testing of our mobile applications and websites, equipment and maintenance costs, and facilities costs allocated on a headcount basis. Technology and development expenses also include amortization costs related to capitalized website and development activities, amortization of certain intangibles and other data agreement costs related to the purchase of data used to populate our mobile applications and websites, and amortization of intangible assets recorded in connection with acquisitions.

General and Administrative. General and administrative expenses consist of headcount expenses, including salaries, benefits, share-based compensation expense and bonuses for executive, finance, accounting, legal, human resources, recruiting and administrative support. General and administrative expenses also include legal, accounting and other third-party professional service fees and bad debt expense.

Other Income

Other income consists primarily of interest income earned on our cash, cash equivalents and investments.

Income Taxes

We are subject to federal and state income taxes in the United States. During the years ended December 31, 2013, 2012 and 2011, we did not have taxable income. We have provided a full valuation allowance against our net deferred tax assets as of December 31, 2013 and 2012 because, based on the weight of available evidence, it is more likely than not (a likelihood of more than 50%) that some or all of the deferred tax asset will not be realized. Therefore, no related tax liability or expense has been recorded in the financial statements. We have accumulated federal tax losses of approximately $236.5 million and state tax losses of approximately $6.1 million (tax effected) as of December 31, 2013, which are available to reduce future taxable income.

We recorded an income tax benefit of $4.1 million for the year ended December 31, 2013 due to a deferred tax liability generated in connection with Zillow s August 26, 2013 acquisition of StreetEasy that can be used to realize certain deferred tax assets for which we had previously provided a full allowance.

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Results of Operations

The following tables present our results of operations for the periods indicated and as a percentage of total revenue:

	Year Ended December 31, 2013	2012	2011
	(in thousands, except per share data)		
Statements of Operations Data:			
Revenue	$ 197,545	$ 116,850	$ 66,053
Costs and expenses:			
Cost of revenue (exclusive of amortization) (1)(2)	18,810	14,043	10,575
Sales and marketing (1)	108,891	49,105	25,725
Technology and development (1)	48,498	26,614	14,143
General and administrative (1)(3)	38,295	21,291	14,613
Total costs and expenses	214,494	111,053	65,056
Income (loss) from operations	(16,949)	5,797	997
Other income	385	142	105
Income (loss) before income taxes	(16,564)	5,939	1,102
Income tax benefit	4,111		
Net income (loss)	$ (12,453)	$ 5,939	$ 1,102
Net income (loss) attributable to common shareholders	$ (12,453)	$ 5,939	$
Net income (loss) per share attributable to common shareholders basic	$ (0.35)	$ 0.20	$
Net income (loss) per share attributable to common shareholders diluted	$ (0.35)	$ 0.18	$
Weighted-average shares outstanding basic	36,029	30,194	19,815
Weighted-average shares outstanding diluted	36,029	32,709	22,305
Other Financial Data:			
Adjusted EBITDA (unaudited) (4)	$ 29,741	$ 25,181	$ 11,869
(1) Includes share-based compensation as follows:			
Cost of revenue	$ 737	$ 380	$ 189
Sales and marketing	10,969	2,433	388
Technology and development	4,660	1,886	546
General and administrative	7,070	1,912	822
Total	$ 23,436	$ 6,611	$ 1,945
(2) Amortization of website development costs and intangible assets included in technology and development	$ 19,791	$ 11,179	$ 5,384
(3) General and administrative includes a facility exit charge as follows:	$	$	$ 1,737

(4) See Adjusted EBITDA below for more information and for a reconciliation of Adjusted EBITDA to net income (loss), the most directly comparable financial measure calculated and presented in accordance with U.S. generally accepted accounting principles, or GAAP.

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	Year Ended December 31,		
	2013	2012	2011
Percentage of Revenue:			
Revenue	100%	100%	100%
Costs and expenses:			
Cost of revenue	10	12	16
Sales and marketing	55	42	39
Technology and development	25	23	21
General and administrative	19	18	22
Total costs and expenses	109	95	98
Income (loss) from operations	(9)	5	2
Other income	0	0	0
Income (loss) before income taxes	(8)	5	2
Income tax benefit	2	0	0
Net income (loss)	(6)%	5%	2%

Adjusted EBITDA

To provide investors with additional information regarding our financial results, we have disclosed Adjusted EBITDA within this annual report, a non-GAAP financial measure. Below, we have provided a reconciliation of Adjusted EBITDA to net income (loss), the most directly comparable GAAP financial measure.

We have included Adjusted EBITDA in this annual report as it is a key metric used by our management and board of directors to measure operating performance and trends and to prepare and approve our annual budget. In particular, the exclusion of certain expenses in calculating Adjusted EBITDA facilitates operating performance comparisons on a period-to-period basis.

Our use of Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;

- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

- Adjusted EBITDA does not consider the potentially dilutive impact of share-based compensation;

- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;

- Adjusted EBITDA does not reflect the impact of income taxes;

- Adjusted EBITDA does not reflect certain facility exit charges; and

- Other companies, including companies in our own industry, may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, you should consider Adjusted EBITDA alongside other financial performance measures, including various cash flow metrics, net income (loss) and our other GAAP results.

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The following table presents a reconciliation of Adjusted EBITDA to net income (loss) for each of the periods presented:

	Year Ended December 31, 2013	2012 (in thousands)	2011
Reconciliation of Adjusted EBITDA to Net Income (Loss):			
Net income (loss)	$ (12,453)	$ 5,939	$ 1,102
Other income	(385)	(142)	(105)
Depreciation and amortization expense	23,254	12,773	7,190
Share-based compensation expense	23,436	6,611	1,945
Income tax benefit	(4,111)		
Facility exit charge			1,737
Adjusted EBITDA (unaudited)	$ 29,741	$ 25,181	$ 11,869

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Revenue

	Year Ended December 31, 2013	2012 (in thousands, unaudited)	2012 to 2013 % Change
Revenue:			
Marketplace revenue:			
Real estate	$ 132,396	$ 75,900	74%
Mortgages	21,812	10,770	103%
Total Marketplace revenue	154,208	86,670	78%
Display revenue	43,337	30,180	44%
Total revenue	$ 197,545	$ 116,850	69%

	Year Ended December 31, 2013	2012
Percentage of Total Revenue:		
Marketplace revenue:		
Real estate	67%	65%
Mortgages	11%	9%
Total Marketplace revenue	78%	74%
Display revenue	22%	26%
Total revenue	100%	100%

Overall revenue increased by $80.7 million, or 69%, for the year ended December 31, 2013 compared to the year ended December 31, 2012. Marketplace revenue increased by 78%, and display revenue increased by 44%.

Marketplace revenue grew to $154.2 million for the year ended December 31, 2013 from $86.7 million for the year ended December 31, 2012, an increase of $67.5 million. Marketplace revenue represented 78% of total revenue for the year ended December 31, 2013 compared to 74% of total revenue for the year ended December 31, 2012. The increase in marketplace revenue was primarily attributable to the $56.5 million increase in real estate revenue, which was primarily a result of growth in the number of subscribers in our Premier Agent program to 48,314 as of December 31, 2013 from 29,473 as of December 31, 2012, representing growth of 64%.

Average monthly revenue per subscriber increased by less than 1% to $267 for the year ended December 31, 2013 from $266 for the year ended December 31, 2012. We calculate our average monthly revenue per subscriber by dividing the revenue generated by our Premier Agent subscription products in the period by the average number of Premier Agent subscribers in the period, divided again by the number of months in the period. The average number of Premier Agent subscribers is derived by calculating the average of the beginning and ending number of Premier Agent subscribers for the period. We believe the increase in average monthly revenue per subscriber was primarily driven by price increases supported by growth in our audience across our mobile and desktop platforms, as well as increased sales to existing Premier Agent subscribers looking to expand their presence on our platform.

The increase in marketplace revenue was also attributable to growth in mortgage revenue, which increased by $11.0 million, or 103%, for the year ended December 31, 2013 compared to the year ended December 31, 2012. Approximately $5.7 million of the increase was the result of our November 2012 acquisition of Mortech. The remaining increase of $5.3 million was primarily a result of an increase in the number of loan requests submitted by consumers in Zillow Mortgage Marketplace. There were approximately 20.2 million mortgage loan requests submitted by consumers for the year ended December 31, 2013 compared to 11.8 million mortgage loan requests submitted by consumers for the year ended December 31, 2012, an increase of 71%. The growth in loan requests submitted by consumers increases the likelihood that users will click on a mortgage advertisement to obtain additional information about a mortgage loan quote, but there is not a direct correlation between the number of loan requests and mortgage revenue because loan requests do not always result in revenue recognition.

Display revenue was $43.3 million for the year ended December 31, 2013 compared to $30.2 million for the year ended December 31, 2012, an increase of $13.2 million. Display revenue represented 22% of total revenue for the year ended December 31, 2013 compared to 26% of total revenue for the year ended December 31, 2012. The increase in display revenue was primarily the result of an increase in the number of unique users to our mobile applications and websites, which increased to 54.4 million average monthly unique users for the three months ended December 31, 2013 from 34.5 million average monthly unique users for the three months ended December 31, 2012, representing growth of 57%. The growth in unique users increased the number of graphical display impressions available for sale and advertiser demand for graphical display inventory. Although there is a relationship between the number of average monthly unique users and display revenue, there is not a direct correlation, as the Company does not sell its entire display inventory each period and some of the inventory is sold through networks and not directly through our sales team, which impacts the cost per impression we charge to customers. As a result, similar to prior periods, the growth rate in the Company s average monthly unique users outpaced the growth rate of display revenue.

Cost of Revenue

Cost of revenue was $18.8 million for the year ended December 31, 2013 compared to $14.0 million for the year ended December 31, 2012, an increase of $4.8 million, or 34%. The increase in cost of revenue was attributable to increased credit card and ad serving fees of $1.8 million, increased headcount-related expenses of $1.6 million, including share-based compensation expense, driven by growth in headcount, a $2.0 million increase in data center operations and connectivity costs, a $1.2 million increase in various miscellaneous expenses, including royalties and other costs paid to third parties, partially offset by a $1.8 million decrease in revenue sharing costs. We expect our cost of revenue to increase in absolute dollars in future years as we continue to incur more expenses that are associated with growth in revenue.

Sales and Marketing

Sales and marketing expenses were $108.9 million for the year ended December 31, 2013 compared to $49.1 million for the year ended December 31, 2012, an increase of $59.8 million, or 122%. The increase in sales and marketing expenses was primarily due to a $27.7 million increase in marketing and advertising expenses, primarily related to advertising spend to acquire shoppers across online and offline channels, which supports our growth initiatives, and an $8.5 million increase in share-based compensation expense. We also incurred a $3.3 million increase in consulting costs to support our marketing and advertising spend. We believe we have considerable opportunity to increase brand awareness and grow traffic through targeted advertising programs. As such, we plan to continue to selectively advertise to consumers and professionals in various online and offline channels that have tested well for us to drive traffic and brand awareness for Zillow.

For the year ended December 31, 2013, share-based compensation expense includes the impact of $7.1 million of expense related to the accelerated vesting of 218,071 unvested restricted stock units. In April 2013, pursuant to the terms of a Restricted Stock Unit Award Notice and Restricted Stock Unit Award Agreement between Zillow and a former employee, all unvested restricted stock units held by such employee became vested, such that the former employee received one share of Zillow s Class A common stock for each outstanding restricted stock unit. The remaining increase in share-based compensation expense of $1.4 million was driven primarily by growth in the size of our sales team to promote our marketplace businesses.

In addition to the increases in marketing and advertising and share-based compensation expense, headcount-related expenses increased by $16.7 million, driven primarily by growth in the size of our sales team. We also incurred a $2.4 million increase in tradeshow and conference expenses, including related travel costs, and a $1.2 million increase in various miscellaneous sales and marketing expenses.

We expect our sales and marketing expenses to increase in absolute dollars in future years as we continue to expand our sales team and invest more resources in extending our audience through marketing and advertising initiatives.

Technology and Development

Technology and development expenses, which include research and development costs, were $48.5 million for the year ended December 31, 2013 compared to $26.6 million for the year ended December 31, 2012, an increase of $21.9 million, or 82%. Approximately $9.8 million of the increase related to growth in headcount-related expenses, including share-based compensation expense, as we continue to grow our engineering headcount to support current and future product initiatives. Approximately $8.6 million of the increase was the result of increased amortization of intangible assets, including website development costs, purchased content and acquired intangible assets. The increase in technology and development expenses was also the result of a $1.7 million increase in depreciation expense and software costs, a $0.7 million increase in consulting costs, a $0.3 million increase in connectivity costs, and a $0.8 million increase in various miscellaneous expenses.

Amortization expense included in technology and development for capitalized website development costs was $12.2 million and $6.9 million, respectively, for the years ended December 31, 2013 and 2012. Amortization expense included in technology and development for purchased data content intangible assets was $2.8 million and $2.2 million, respectively, for the years ended December 31, 2013 and 2012. Amortization expense included in technology and development related to intangible assets recorded in connection with acquisitions was $4.8 million and $2.2 million, respectively, for the years ended December 31, 2013 and 2012. Other data content expense was $0.4 million for the years ended December 31, 2013 and 2012. We expect our technology and development expenses to increase in absolute dollars over time as we continue to build new mobile and website functionality.

General and Administrative

General and administrative expenses were $38.3 million for the year ended December 31, 2013 compared to $21.3 million for the year ended December 31, 2012, an increase of $17.0 million, or 80%. The increase in general and administrative expenses was a result of a $9.3 million increase in headcount-related expenses, including share-based compensation expense, driven primarily by growth in headcount and increases in compensation, a $2.2 million increase in building lease-related expenses including rent, utilities and insurance, a

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$1.8 million increase in professional services fees, including legal and accounting, a $0.7 million increase in depreciation expense and software costs, a $0.7 million increase in bad debt expense, a $1.1 million increase in travel and meals expense, a $0.5 million increase in consulting costs, and a $0.7 million increase in various other miscellaneous expenses. We expect general and administrative expenses to increase over time in absolute dollars as we continue to expand our business.

Income Taxes

We recorded an income tax benefit of $4.1 million for the year ended December 31, 2013 compared to $0 for the year ended December 31, 2012. The increase in the income tax benefit was due to the deferred tax liability generated in connection with Zillow s August 26, 2013 acquisition of StreetEasy that can be used to realize certain deferred tax assets for which we had previously provided a full valuation allowance.

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Revenue

	Year Ended December 31, 2012	Year Ended December 31, 2011	2011 to 2012 % Change
	(in thousands, unaudited)		
Revenue:			
Marketplace revenue:			
Real estate	$ 75,900	$ 36,749	107%
Mortgages	10,770	5,441	98%
Total Marketplace revenue	86,670	42,190	105%
Display revenue	30,180	23,863	26%
Total revenue	$ 116,850	$ 66,053	77%

	Year Ended December 31, 2012	Year Ended December 31, 2011
Percentage of Total Revenue:		
Marketplace revenue:		
Real estate	65%	56%
Mortgages	9%	8%
Total Marketplace revenue	74%	64%
Display revenue	26%	36%
Total revenue	100%	100%

Overall revenue increased by $50.8 million, or 77%, for the year ended December 31, 2012 compared to the year ended December 31, 2011. Marketplace revenue increased by 105%, and display revenue increased by 26%.

Marketplace revenue grew to $86.7 million for the year ended December 31, 2012 from $42.2 million for the year ended December 31, 2011, an increase of $44.5 million. Marketplace revenue represented 74% of total revenue for the year ended December 31, 2012 compared to 64% of total revenue for the year ended December 31, 2011. The increase in marketplace revenue was primarily attributable to the $39.2 million increase in real estate revenue, which was primarily a result of growth in the number of subscribers in our Premier Agent program to 29,473 as of December 31, 2012 from 15,799 as of December 31, 2011, representing growth of 87%. Average monthly revenue per subscriber increased by 5% to $266 for the year ended December 31, 2012 from $254 for the year ended December 31, 2011. We believe the increase in average monthly revenue per subscriber was primarily driven by price increases supported by growth in our audience across our mobile and desktop platforms, as well as increased sales to existing Premier Agent subscribers looking to expand their presence on our platform.

The increase in marketplace revenue was also attributable to growth in mortgage revenue, which increased by $5.3 million, or 98%, for the year ended December 31, 2012 compared to the year ended December 31, 2011. The increase in mortgage revenue was primarily a result of an increase in the number of loan requests submitted by consumers in Zillow Mortgage Marketplace. There were approximately 11.8 million mortgage loan requests submitted by consumers for the year ended December 31, 2012 compared to 5.5 million mortgage loan requests submitted by consumers for the year ended December 31, 2011, an increase of 114%. The growth in loan requests submitted by consumers increases the likelihood that users will click on a mortgage advertisement to obtain additional information about a mortgage loan quote, but there is not a direct correlation between the number of loan requests and mortgage revenue because loan requests do not always result in revenue recognition.

Display revenue was $30.2 million for the year ended December 31, 2012 compared to $23.9 million for the year ended December 31, 2011, an increase of $6.3 million. Display revenue represented 26% of total revenue for the year ended December 31, 2012 compared to 36% of total revenue for the year ended December 31, 2011. The increase in display revenue was primarily the result of an increase in the number of unique users to our mobile applications and websites, which increased to 34.5 million average monthly unique users for the three months ended December 31, 2012 from 23.5 million average monthly unique users for the three months ended December 31, 2011, representing growth of 47%. The growth in unique users increased the number of graphical display impressions available for sale and advertiser demand for graphical display inventory. Although there is a relationship between the number of average monthly unique users and display revenue, there is not a direct correlation, as the Company does not sell its entire display inventory each period and some of the inventory is sold through networks and not directly through our sales team which impacts the cost per impression we charge to customers. As a result, similar to prior periods, the growth rate in the Company s average monthly unique users outpaced the growth rate of display revenue.

Cost of Revenue

Cost of revenue was $14.0 million for the year ended December 31, 2012 compared to $10.6 million for the year ended December 31, 2011, an increase of $3.5 million, or 33%. The increase in cost of revenue was primarily attributable to increased credit card and ad serving fees of $1.1 million, increased headcount related expenses of $1.0 million, including share-based compensation, driven by growth in headcount, a $0.3 million increase in data center operations costs, a $0.3 million increase in costs related to our revenue share agreements, and a $0.2 million increase in royalties paid to third parties. The remaining increase of $0.6 million was primarily related to an increase in various miscellaneous expenses, including connectivity costs and other costs paid to third parties.

Sales and Marketing

Sales and marketing expenses were $49.1 million for the year ended December 31, 2012 compared to $25.7 million for the year ended December 31, 2011, an increase of $23.4 million, or 91%. The increase was primarily due to a $10.8 million increase in headcount related expenses, including share-based compensation, driven by growth in the size of our sales team to promote our marketplace business, and an increase of $8.5 million in marketing and advertising expenses, primarily related to testing of advertising spend to acquire shoppers across online and offline channels, which supports our growth initiatives. We also incurred a $2.8 million increase in consulting costs to support our marketing and advertising spend, and we incurred a $1.2 million increase in tradeshow and conference expenses, including related travel costs.

Technology and Development

Technology and development expenses, which include research and development costs, were $26.6 million for the year ended December 31, 2012 compared to $14.1 million for the year ended December 31, 2011, an increase of $12.5 million, or 88%. Approximately $5.8 million of the increase was the result of increased amortization of intangible assets, including website development costs, purchased content and acquired intangible assets. Amortization expense for the year ended December 31, 2012 also included $0.5 million of

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additional amortization expense recorded for a trademark intangible asset related to an acquisition based on a change in the estimated useful life of the intangible asset. Approximately $5.1 million of the increase related to growth in headcount related expenses, including share-based compensation, as we continue to grow our engineering headcount to support current and future product initiatives. The remaining increase of $1.6 million was primarily the result of additional consulting costs.

Amortization expense included in technology and development for capitalized website development costs was $6.9 million and $4.1 million, respectively, for the years ended December 31, 2012 and 2011. Amortization expense included in technology and development for purchased data content intangible assets was $2.2 million and $0.9 million, respectively, for the years ended December 31, 2012 and 2011. Amortization expense included in technology and development related to intangible assets recorded in connection with acquisitions was $2.2 million and $0.4 million, respectively, for the years ended December 31, 2012 and 2011. Other data content expense was $0.4 million and $0.8 million, respectively, for the years ended December 31, 2012 and 2011.

General and Administrative

General and administrative expenses were $21.3 million for the year ended December 31, 2012 compared to $14.6 million for the year ended December 31, 2011, an increase of $6.7 million, or 46%. The increase in general and administrative expenses was a result of an increase of $2.9 million in headcount related expenses, including share-based compensation, driven primarily by growth in headcount, a $1.2 million increase in professional services fees, including $0.7 million of acquisition-related costs incurred in connection with our acquisition of RentJuice, a $1.2 million increase in building lease-related expenses including rent, utilities and insurance, a $0.9 million increase in state and local taxes, a $0.7 million increase in travel and meals expense, a $0.6 million increase in bad debt expense, a $0.3 million increase in business and license fees, and a $0.7 million increase in various other miscellaneous expenses, including consulting costs. The increase in general and administrative expenses was partially offset by a decrease in expense of $1.4 million primarily related to a facility exit charge that was recorded during the year ended December 31, 2011, and a $0.4 million decrease related to the settlement of legal matters.

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Quarterly Results of Operations

The following tables set forth our unaudited quarterly statements of operations data for each of the periods presented below. In the opinion of management, the data has been prepared on the same basis as the audited financial statements included in this Annual Report on Form 10-K, and reflects all necessary adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of this data. The results of historical periods are not necessarily indicative of the results of operations of any future period. You should read this data together with our financial statements and the related notes included elsewhere in this Annual Report on Form 10-K.

	Three Months Ended							
	December 31, 2013	**September 30, 2013**	**June 30, 2013**	**March 31, 2013**	**December 31, 2012**	**September 30, 2012**	**June 30, 2012**	**March 31, 2012**
	(in thousands, except per share data, unaudited)							
Statement of Operations Data:								
Revenue	$ 58,348	$ 53,311	$ 46,920	$ 38,966	$ 34,337	$ 31,915	$ 27,765	$ 22,833
Costs and expenses:								
Cost of revenue (exclusive of amortization) (1)(2)	5,270	5,116	4,294	4,130	3,806	3,623	3,264	3,350
Sales and marketing (1)	24,978	31,195	32,924	19,794	14,519	14,118	12,153	8,315
Technology and development (1)	14,649	12,167	11,071	10,611	9,079	6,687	5,818	5,030
General and administrative (1)	10,727	10,357	8,978	8,233	6,422	5,192	5,232	4,445
Total costs and expenses	55,624	58,835	57,267	42,768	33,826	29,620	26,467	21,140
Income (loss) from operations	2,724	(5,524)	(10,347)	(3,802)	511	2,295	1,298	1,693
Other income	145	70	115	55	38	39	34	31
Income (loss) before income taxes	2,869	(5,454)	(10,232)	(3,747)	549	2,334	1,332	1,724
Income tax benefit (expense)	(154)	4,265						
Net income (loss)	$ 2,715	$ (1,189)	$ (10,232)	$ (3,747)	$ 549	$ 2,334	$ 1,332	$ 1,724
Net income (loss) per share basic	$ 0.07	$ (0.03)	$ (0.30)	$ (0.11)	$ 0.02	$ 0.08	$ 0.05	$ 0.06
Net income (loss) per share diluted	$ 0.06	$ (0.03)	$ (0.30)	$ (0.11)	$ 0.02	$ 0.07	$ 0.04	$ 0.06
Weighted-average shares outstanding basic	39,050	36,667	34,553	33,770	33,408	30,040	28,946	28,348
Weighted-average shares outstanding diluted	42,116	36,667	34,553	33,770	36,292	32,230	31,320	30,994
Other Financial Data:								
Adjusted EBITDA (3)	$ 15,222	$ 4,121	$ 5,275	$ 5,123	$ 6,838	$ 7,624	$ 5,272	$ 5,447

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	Three Months Ended							
	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012
	(in thousands, unaudited)							
(1) Includes share-based compensation as follows:								
Cost of revenue	$ 213	$ 185	$ 176	$ 163	$ 109	$ 94	$ 92	$ 85
Sales and marketing	1,094	871	7,777	1,227	1,084	870	289	190
Technology and development	1,607	985	1,034	1,034	704	374	498	310
General and administrative	2,141	1,727	1,480	1,722	359	374	346	833
Total	$ 5,055	$ 3,768	$ 10,467	$ 4,146	$ 2,256	$ 1,712	$ 1,225	$ 1,418
(2) Amortization of website development costs and intangible assets included in technology and development	$ 5,999	$ 5,092	$ 4,492	$ 4,208	$ 3,603	$ 3,198	$ 2,374	$ 2,004

(3) See Adjusted EBITDA below for more information and for a reconciliation of Adjusted EBITDA to net income (loss), the most directly comparable financial measure calculated and presented in accordance with U.S. generally accepted accounting principles, or GAAP.

The following tables present our revenue by type and as a percentage of total revenue for the periods presented:

	Three Months Ended							
	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012
	(in thousands, unaudited)							
Revenue:								
Marketplace revenue:								
Real estate	$ 40,514	$ 35,136	$ 30,637	$ 26,109	$ 23,667	$ 21,002	$ 17,046	$ 14,185
Mortgages	5,347	5,742	5,814	4,909	3,171	2,614	2,577	2,408
Total Marketplace revenue	45,861	40,878	36,451	31,018	26,838	23,616	19,623	16,593
Display revenue	12,487	12,433	10,469	7,948	7,499	8,299	8,142	6,240
Total revenue	$ 58,348	$ 53,311	$ 46,920	$ 38,966	$ 34,337	$ 31,915	$ 27,765	$ 22,833

	Three Months Ended							
	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012
Percentage of Revenue:								
Marketplace revenue:								
Real estate	69%	66%	65%	67%	69%	66%	61%	62%
Mortgages	9	11	12	13	9	8	9	11
Total Marketplace revenue	79	77	78	80	78	74	71	73
Display revenue	21	23	22	20	22	26	29	27
Total revenue	100%	100%	100%	100%	100%	100%	100%	100%

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Total revenue increased sequentially in all quarters presented. The strong increase in consumer adoption of our mobile applications and websites in the year ended December 31, 2013 was reflected in the significant growth in unique users year over year. The composition of revenue continues to shift from display revenue to marketplace revenue, as we continue to dedicate more of our advertising placements on search, map and home detail pages to our marketplace products, which provide consumers with services that are directly relevant to home-related searches. As a greater proportion of our revenue has shifted to marketplace revenue, with a corresponding lesser proportion of revenue being display revenue, we believe we are experiencing less quarterly seasonality in our business as compared to prior periods.

The following table presents our average monthly revenue per subscriber for the periods presented:

	Three Months Ended							
	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012
				(unaudited)				
Average Monthly Revenue per Subscriber	$ 271	$ 264	$ 266	$ 259	$ 267	$ 270	$ 263	$ 263

Average monthly revenue per subscriber decreased by 2% to $259 for the three months ended March 31, 2013 from $263 for the three months ended March 31, 2012. We believe the decrease in average monthly revenue per subscriber was primarily a result of accelerated growth in the number of Premier Agent subscribers in the three months ended March 31, 2013 compared to the three months ended March 31, 2012, as new Premier Agent subscribers typically buy additional inventory over time, and our current impression-based pricing allows new Premier Agents to purchase smaller allocations of inventory than under the historical pricing model, which was in effect until the end of the third quarter of 2012.

Average monthly revenue per subscriber increased by 1% to $266 for the three months ended June 30, 2013 from $263 for the three months ended June 30, 2012. We believe the increase in average monthly revenue per subscriber was primarily attributable to price increases supported by growth in our audience across our mobile and web platforms, as well as increased sales to existing Premier Agent subscribers looking to expand their presence on our platform.

Average monthly revenue per subscriber decreased 2% to $264 for the three months ended September 30, 2013 from $270 for the three months ended September 30, 2012. We believe the decrease in average monthly revenue per subscriber was primarily a result of accelerated growth in the number of Premier Agent subscribers in the three months ended September 30, 2013 compared to the three months ended September 30, 2012, as new Premier Agent subscribers typically buy additional inventory over time, and our current impression-based pricing allows new Premier Agents to purchase smaller allocations of inventory than under the historical pricing model, which was in effect until the end of the third quarter of 2012.

Average monthly revenue per subscriber increased 1% to $271 for the three months ended December 31, 2013 from $267 for the three months ended December 31, 2012. We believe the increase in average monthly revenue per subscriber was primarily attributable to increased sales to existing Premier Agent subscribers looking to expand their presence on our platform.

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Adjusted EBITDA

The following table sets forth a reconciliation of Adjusted EBITDA to net income (loss) for each of the periods presented below. See Adjusted EBITDA under Results of Operations above in this Item 7 for additional information about why we have included Adjusted EBITDA in this Annual Report on Form 10-K and how we use Adjusted EBITDA.

	Three Months Ended							
	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012
	(in thousands, unaudited)							
Reconciliation of Adjusted EBITDA to Net Income (Loss):								
Net income (loss)	$ 2,715	$ (1,189)	$ (10,232)	$ (3,747)	$ 549	$ 2,334	$ 1,332	$ 1,724
Other income	(145)	(70)	(115)	(55)	(38)	(39)	(34)	(31)
Depreciation and amortization expense	7,443	5,877	5,155	4,779	4,071	3,617	2,749	2,336
Share-based compensation expense	5,055	3,768	10,467	4,146	2,256	1,712	1,225	1,418
Income tax (benefit) expense	154	(4,265)						
Adjusted EBITDA	$ 15,222	$ 4,121	$ 5,275	$ 5,123	$ 6,838	$ 7,624	$ 5,272	$ 5,447

Key Growth Drivers

The following tables set forth our key growth drivers for each of the periods presented below. Refer to Key Growth Drivers Unique Users above in this Item 7 for information about how we measure unique users.

	Average for the Three Months Ended							
	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012
	(in thousands)							
Unique Users	54,358	61,118	54,317	46,652	34,535	36,096	33,474	31,797

	Period Ended							
	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012
Premier Agent Subscribers	48,314	44,749	38,807	34,030	29,473	26,703	22,696	18,616

Liquidity and Capital Resources

Prior to our initial public offering in July 2011, we funded our operations primarily from the issuance of common and preferred stock. Through 2007, we raised approximately $81.0 million through various offerings of our convertible preferred stock and approximately $5.9 million from the sale of our common stock.

In July 2011, we sold and issued 3,981,300 shares of our Class A common stock, including 519,300 shares of Class A common stock pursuant to the underwriters option to purchase additional shares, at a public offering price of $20.00 per share, and we sold and issued 274,999 shares of our Class A common stock at a price of $20.00 per share in a private placement. As a result of the offerings, we received net proceeds of approximately $76.3 million, after deducting underwriting discounts and commissions of approximately $5.6 million and additional offering-related expenses of $3.3 million, for total expenses of $8.9 million. We used all of our net offering proceeds in a manner consistent with the description of our planned use of proceeds from our IPO as set forth in our final prospectus filed with the SEC pursuant to Rule 424(b).

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In September 2012, we sold and issued 3,844,818 shares of our Class A common stock, including 419,818 shares of our Class A common stock pursuant to the underwriters option to purchase additional shares, and certain shareholders sold 575,000 shares of our Class A common stock, at a price of $43.00 per share. The nets proceeds for all shares sold by us in the public offering were approximately $156.7 million after deducting underwriting discounts and commissions of approximately $7.9 million and additional offering-related expenses of $0.7 million, for total expenses of $8.6 million. We received no proceeds from the sale of our Class A common stock by the selling shareholders. The net offering proceeds were invested into money market funds.

In August 2013, we sold and issued 3,253,522 shares of our Class A common stock, including 753,522 shares of our Class A common stock pursuant to the underwriters option to purchase additional shares, and certain shareholders sold 2,523,486 shares of our Class A common stock, at a price of $82.00 per share. The net proceeds for all shares sold by us in the public offering were approximately $253.9 million after deducting underwriting discounts and commissions of approximately $12.0 million and additional offering-related expenses of $0.9 million, for total expenses of $12.9 million. We received no proceeds from the sale of our Class A common stock by the selling shareholders. The net offering proceeds were invested into money market funds and U.S. government agency securities.

As of December 31, 2013 and 2012, we had cash, cash equivalents and investments of $437.7 million and $203.5 million, respectively. Cash and cash equivalents balances consist of operating cash on deposit with financial institutions, money market funds and U.S. government agency securities. Investments as of December 31, 2013 and 2012 consisted of fixed income securities, which include U.S. government agency securities, commercial paper, and corporate notes and bonds. Amounts on deposit with third-party financial institutions exceed the applicable Federal Deposit Insurance Corporation and the Securities Investor Protection Corporation insurance limits, as applicable. We believe that cash from operations and cash, cash equivalents and investment balances will be sufficient to meet our ongoing operating activities, working capital, capital expenditures and other capital requirements for at least the next 12 months.

During March 2011, we entered into a loan and security agreement with a financial institution to establish a line of credit of $4.0 million. In April 2012, we amended our loan and security agreement to increase our line of credit from $4.0 million to $25.0 million. In September 2013, we terminated the loan and security agreement.

In March 2011, we executed a standby letter of credit of $1.5 million in connection with the lease of our Seattle, Washington offices, and in July 2012, we amended the standby letter of credit to increase the amount to approximately $1.7 million. In connection with the April 2013 amendment to the lease of our Seattle offices, we amended our standby letter of credit to increase the amount from approximately $1.7 million to approximately $2.0 million. The letter of credit is secured by our investments and is effective until 60 days after the expiration date of the lease.

In August 2013, we completed the acquisition of StreetEasy, a website that provides for-sale and for-rent listings and information about condos, co-ops, new developments and luxury real estate, primarily in the New York region. The total purchase price for the acquisition of StreetEasy was approximately $48.2 million. Based on the allocation of the purchase price in connection with our acquisition of StreetEasy, a substantial majority of the purchase price has been allocated to goodwill and intangible assets.

The following table presents selected cash flow data for the periods presented:

	Year Ended December 31,		
	2013	**2012** (in thousands)	**2011**
Cash Flow Data:			
Cash flows provided by operating activities	$ 31,298	$ 35,612	$ 14,826
Cash flows used in investing activities	(251,827)	(97,672)	(58,383)
Cash flows provided by financing activities	272,249	164,174	79,205

Cash Flows Provided By Operating Activities

Cash flows provided by operating activities of $31.3 million for the year ended December 31, 2013 was primarily driven by a net loss of $12.5 million, adjusted by share-based compensation expense of $23.4 million, depreciation and amortization expense of $23.3 million, a $4.1 million non-cash change in the valuation allowance related to a deferred tax liability generated in connection with our acquisition of StreetEasy, bad debt expense of $1.9 million and loss on disposal of property and equipment of $0.9 million. Changes in operating assets and liabilities decreased cash provided by operating activities by $2.7 million.

Cash flows provided by operating activities of $35.6 million for the year ended December 31, 2012 was primarily driven by net income of $5.9 million, adjusted by depreciation and amortization expense of $12.8 million, share-based compensation expense of $6.6 million, bad debt expense of $1.2 million, and the change in deferred rent of approximately $5.5 million. Changes in operating assets and liabilities increased cash provided by operating activities for the year ended December 31, 2012 by $2.5 million.

Cash flows provided by operating activities of $14.8 million for the year ended December 31, 2011 was primarily driven by net income of $1.1 million, adjusted by depreciation and amortization expense of $7.2 million, a facility exit charge of $1.7 million, share-based compensation expense of $1.9 million and the change in deferred rent of approximately $1.2 million. Changes in operating assets and liabilities increased cash provided by operating activities for the year ended December 31, 2011 by $0.7 million.

Cash Flows Used In Investing Activities

Our primary investing activities include the purchase and maturity of investments, the purchase of property and equipment and intangible assets, and cash paid in connection with acquisitions.

For the year ended December 31, 2013, net cash used in investing activities was $251.8 million. This was the result of $183.1 million of net purchases of investments, $42.7 million paid in connection with the acquisition of StreetEasy, and $26.0 million of purchases for property and equipment and intangible assets.

For the year ended December 31, 2012, net cash used in investing activities was $97.7 million. This was the result of $10.0 million of net purchases of investments, $20.1 million of purchases for property and equipment and intangible assets, and a total of $67.6 million, net of cash acquired, paid in connection with the acquisitions of RentJuice, Buyfolio, Mortech and HotPads.

For the year ended December 31, 2011, net cash used in investing activities was $58.4 million. This was the result of $43.0 million of net purchases of investments, $8.8 million of purchases for property and equipment and intangible assets, and a total of $6.5 million paid in connection with the acquisitions of the operating assets of Diverse Solutions, Inc. and Postlets LLC.

Cash Flows Provided By Financing Activities

Our financing activities have primarily resulted from the exercise of employee stock options and proceeds from our public offerings.

For the year ended December 31, 2013, net cash provided by financing activities was approximately $272.2 million, which was primarily the result of $253.9 million in proceeds, net of offering costs, from our August 2013 public offering, and $18.4 million in proceeds from the issuance of Class A common stock from the exercise of stock options.

For the year ended December 31, 2012, net cash provided by financing activities was approximately $164.2 million, which was primarily the result of $156.7 million in proceeds, net of offering costs, from our September 2012 public offering, and $7.5 million in proceeds from the issuance of Class A common stock from the exercise of stock options.

For the year ended December 31, 2011, net cash provided by financing activities was approximately $79.2 million, which was primarily the result of $70.8 million in proceeds from our initial public offering, net of offering costs, approximately $5.5 million in proceeds from our concurrent private placement, and $2.9 million in proceeds from the issuance of Class A common stock from the exercise of stock options.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of December 31, 2013.

Contractual Obligations

The following table provides a summary of our contractual obligations as of December 31, 2013:

		Payment Due By Period			
	Total	Less Than 1 Year	1-3 Years (in thousands)	3-5 Years	More Than 5 Years
Operating lease obligations	$ 58,171	$ 5,353	$ 14,373	$ 14,940	$ 23,505
Purchase obligations	13,613	4,546	8,250	817	
Total	$ 71,784	$ 9,899	$ 22,623	$ 15,757	$ 23,505

We have various operating leases for office space and equipment. In March 2011, we entered into a lease for approximately 66,000 square feet of office space that houses our corporate headquarters in Seattle, Washington, for which we are obligated to make escalating monthly lease payments that began in December 2012 and continue through November 2022. In June 2012, we entered into a lease amendment for our corporate headquarters in Seattle, Washington, which increased the rentable area of the premises by 21,575 square feet, for which we are obligated to make escalating monthly lease payments that began in January 2013 and continue through November 2022. In April 2013, we entered into a second lease amendment for our corporate headquarters in Seattle, Washington, which increased the rentable area of the premises by 22,583 square feet as of October 1, 2013, and will increase the rentable area of the premises by an additional 22,583 square feet as of September 1, 2014, for which we are obligated to make escalating monthly lease payments beginning in January 2014 and December 2014, respectively, and continuing through November 2022. In April 2012, we entered into an operating lease in Irvine, California for 20,025 square feet under which we are obligated to make escalating monthly lease payments which began in August 2012 and continue through July 2022. In September 2013, we entered into a lease amendment for our operating lease in Irvine, California, which increased the rentable area of the premises by 20,024 square feet, for which we are obligated to make escalating monthly lease payments beginning in February 2014 and continuing through July 2022. In November 2012, we entered into an operating lease in San Francisco, California for 18,353 square feet under which we are obligated to make escalating monthly lease payments which began in December 2012 and continue through November 2018. We lease additional office space in Chicago, Illinois, Lincoln, Nebraska, and New York, New York. We also have purchase obligations for content related to our mobile applications and websites. We do not have any debt or capital lease obligations. The contractual commitment amounts in the table above are associated with agreements that are enforceable and legally binding. Obligations under contracts that we can cancel without a significant penalty are not included in the table above.

Critical Accounting Policies and Estimates

Our financial statements are prepared in accordance with U.S. generally accepted accounting principles, or GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

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We believe that the assumptions and estimates associated with revenue recognition, the allowance for doubtful accounts, website and software development costs, goodwill, recoverability of intangible assets with definite lives and other long-lived assets, and share-based compensation have the greatest potential impact on our financial statements. Therefore, we consider these to be our critical accounting policies and estimates.

Revenue Recognition

Our revenue is primarily derived from advertising services. In general, we recognize revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered to the customer, (iii) the fee is fixed or determinable, and (iv) collectability is reasonably assured. We consider a signed agreement, a binding insertion order or other similar documentation reflecting the terms and conditions under which products will be provided to be persuasive evidence of an arrangement. Collectability is assessed based on a number of factors, including payment history and the creditworthiness of a customer. If it is determined that collection is not reasonably assured, revenue is not recognized until collection becomes reasonably assured, which is generally upon receipt of cash. Our two revenue categories are marketplace revenue and display revenue.

Marketplace revenue consists of real estate revenue and mortgages revenue. Real estate revenue primarily includes subscriptions sold to real estate agents under our Premier Agent program, as well as revenue generated by Zillow Rentals. Mortgages revenue primarily includes advertising in Zillow Mortgage Marketplace sold to mortgage lenders on a cost-per-click, or CPC, basis. Mortgages revenue also includes revenue generated by Mortech, a company we acquired in November 2012 that provides subscription-based mortgage software solutions, including a product and pricing engine and lead management platform, for which we recognize revenue on a straight-line basis during the contractual period over which the services are delivered.

Zillow s Premier Agent program offers a suite of marketing and business technology solutions to help real estate agents grow their businesses and personal brands. The Premier Agent program allows agents to select products and services that they can tailor to meet their business and advertising needs. The program has three tiers of participation including Premier Platinum, our original flagship subscription product, as well as Premier Gold and Premier Silver, to meet different marketing and business needs of a broad range of agents. All tiers of Premier Agents receive access to a dashboard portal on our website that provides individualized program performance analytics, as well as our personalized website service, and our customer relationship management, or CRM, tool that captures detailed information about each contact made with a Premier Agent through our mobile and web platforms. Our Premier Gold product also includes featured listings whereby the agent s listings will appear at the top of search results on our mobile and web platforms. Our Premier Platinum product includes the dashboard portal on our website, our personalized website service, our CRM tool, featured listings, and inclusion on our buyer s agent list, whereby the agent appears as the agent to contact for listings in the purchased zip code.

We charge customers for our Platinum Premier Agent subscription product based on the number of impressions delivered on our buyer s agent list in zip codes purchased. Our Platinum Premier Agent subscription product includes multiple deliverables which are accounted for as a single unit of accounting, as the delivery or performance of the undelivered elements is based on traffic to our mobile applications and websites. We recognize revenue related to our impression-based Platinum Premier Agent subscription product based on the lesser of (i) the actual number of impressions delivered on our buyer s agent list during the period multiplied by the contracted maximum cost per impression, or (ii) the contractual maximum spend on a straight-line basis during the contractual period over which the services are delivered, which is typically over a period of six or twelve months and then month-to-month thereafter.

We charge a fixed subscription fee for our Premier Gold and Premier Silver subscription products. Subscription advertising revenue for our Premier Gold and Premier Silver subscription products is recognized on a straight-line basis during the contractual period over which the services are delivered, typically over a period of six months and then month-to-month thereafter.

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For Zillow Mortgage Marketplace, we recognize revenue when a user clicks on a mortgage advertisement to obtain additional information about a mortgage loan quote.

Display revenue primarily consists of graphical mobile and web advertising sold on a CPM basis to advertisers primarily in the real estate industry, including real estate brokerages, home builders, mortgage lenders and home services providers. Our advertising customers also include telecommunications, automotive, insurance and consumer products companies. We recognize display revenue as impressions are delivered to users interacting with our mobile applications or websites.

Allowance for Doubtful Accounts

We review our 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. In cases where we become aware of circumstances that may impair a specific customer s ability to meet its financial obligations, we record a specific allowance against amounts due from the customer and thereby reduce the net recognized receivable to the amount we reasonably believe will be collected. There is significant judgment involved in estimating the allowance for doubtful accounts. As of December 31, 2013, the allowance for doubtful accounts represented approximately 11% of total accounts receivable, or approximately $1.9 million. A change of 1% in our estimate would amount to approximately $0.2 million.

Website and Software Development Costs

The costs incurred in the preliminary stages of website and software 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 websites (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.

Capitalized development activities placed in service are amortized over the expected useful lives of those releases, currently estimated at one year. 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.

We exercise judgment in determining the point at which various projects may be capitalized, in assessing the ongoing value of the capitalized costs, and in determining the estimated useful lives over which the costs are amortized. To the extent that we change the manner in which we develop and test new features and functionalities related to our mobile applications and websites, assess the ongoing value of capitalized assets, or determine the estimated useful lives over which the costs are amortized, the amount of website and software development costs we capitalize and amortize could change in future periods.

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.

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

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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.

For our impairment assessment performed during the year ended December 31, 2013, we performed a qualitative assessment and determined that it is not more likely than not that the fair value of our reporting unit is less than its carrying amount, and therefore, the first and second steps of the goodwill impairment test were unnecessary. In evaluating whether it is more likely than not that the fair value of our reporting unit is less than its carrying amount, we considered macroeconomic conditions, industry and market considerations, cost factors, our overall financial performance, other relevant entity-specific events, potential events affecting our reporting unit, and changes in the market price of our common stock. The primary qualitative factors we considered in our analysis for the year ended December 31, 2013 were our overall financial performance, including our revenue growth and positive cash flows, and a market capitalization that is well in excess of the book value of our Class A common stock. We have not recognized any goodwill impairments since our inception.

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 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.

Unforeseen events, changes in circumstances and market conditions and material differences in estimates of future cash flows could adversely affect the fair value of our assets and could result in an impairment charge. Fair value can be estimated utilizing a number of techniques including quoted market prices, prices for comparable assets, or other valuation processes involving estimates of cash flows, multiples of earnings or revenues, and we may make various assumptions and estimates when performing our impairment assessments, particularly as it relates to cash flow projections. Cash flow estimates are by their nature subjective, and include assumptions regarding factors such as recent and forecasted operating performance, revenue trends and operating margins. These estimates could also be adversely impacted by changes in federal, state, or local regulations, economic downturns or developments, or other market conditions affecting our industry. We have not recorded any impairment losses since inception.

Share-Based Compensation

We measure compensation expense for all share-based awards at fair value on the date of grant and recognize compensation expense over the service period for awards expected to vest. We use the Black-Scholes-Merton option-pricing model to determine the fair value for option awards and recognize compensation expense on a straight-line basis over the awards vesting period. For restricted stock awards and restricted stock units, we use the market value of Zillow s Class A common stock on the date of grant to determine the fair value of the award, and we recognize compensation expense on a straight-line basis over the awards vesting period.

Determining the fair value of option awards at the grant date requires judgment. If any of the assumptions used in the Black-Scholes-Merton model changes significantly, share-based compensation expense for future option awards may differ materially compared with the awards granted previously. In valuing our option awards, we make assumptions about risk-free interest rates, dividend yields, volatility, and weighted-average expected lives, including estimated forfeiture rates.

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Risk-free interest rate. Risk-free interest rates are derived from U.S. Treasury securities as of the option grant date.

Expected dividend yields. Expected dividend yields are based on our historical dividend payments, which have been zero to date.

Volatility. The expected volatility for our Class A common stock is estimated using a combination of our historical volatility and the published historical volatilities of industry peers in the online publishing market (primarily the financial and real estate services industries) representing the verticals in which we operate.

Expected term. We estimate the weighted-average expected life of the options as the average of the vesting option schedule and the term of the award, since, due to the limited period of time our share-based awards have been exercisable, we do not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term. The term of the award is estimated using the simplified method as the awards granted are plain vanilla share options.

Forfeiture rate. We record share-based compensation expense net of estimated forfeitures. Forfeiture rates are estimated using historical actual forfeiture trends as well as our judgment of future forfeitures. These rates are evaluated at least quarterly and any change in compensation expense is recognized in the period of the change. The estimation of option awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from our current estimates, such amounts will be recorded as a cumulative adjustment in the period in which the estimates are revised. We consider many factors when estimating expected forfeitures, including employee class and historical experience. Actual results, and future changes in estimates, may differ substantially from management s current estimates.

We will continue to use judgment in evaluating the expected volatility, expected terms, and forfeiture rates utilized for our share-based compensation expense calculations on a prospective basis. As we continue to accumulate additional data related to our Class A common stock, we may have refinements to the estimates of our expected volatility, expected terms and forfeiture rates, which could materially impact our future share-based compensation expense. In future periods, we expect our share-based compensation expense to increase as a result of our existing, unrecognized share-based compensation that will be recognized as the awards vest, and as we grant additional share-based awards to attract and retain employees.

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (FASB) issued guidance on the presentation of certain unrecognized tax benefits in the financial statements. This guidance provides that a liability related to an unrecognized tax benefit must be offset against a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. This guidance is effective for interim and annual reporting periods beginning after December 15, 2013, with earlier adoption permitted, and may be applied prospectively or retrospectively. We expect to adopt this guidance on January 1, 2014. The adoption of this guidance is not expected to have a significant impact on our financial position, results of operations or cash flows, as we have provided a full valuation allowance against our net deferred tax assets.

In February 2013, the FASB issued guidance on the reporting of amounts reclassified out of accumulated other comprehensive income. An entity must report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide additional detail about those amounts. This guidance is effective for interim and annual reporting periods beginning after December 15, 2012, with earlier adoption permitted, and must be applied prospectively. We adopted this guidance on January 1, 2013. The adoption of this guidance did not have any impact on our financial position, results of operations or cash flows, as we do not have any items of other comprehensive income in any period presented.

In June 2011, the FASB issued guidance on the presentation of comprehensive income to increase the prominence of other comprehensive income in the financial statements. An entity has the option to present the components of net income and comprehensive income in either one or two consecutive financial statements. This guidance is effective for interim and annual reporting periods beginning after December 15, 2011, with earlier adoption permitted, and must be applied retrospectively. We adopted this guidance on January 1, 2012. The adoption of this guidance did not have any impact on our financial position, results of operations or cash flows as we do not have any items of other comprehensive income in any period presented, and therefore, we are not required to report other comprehensive income or comprehensive income.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks in the ordinary course of our business. These risks primarily consist of fluctuations in interest rates.

Interest Rate Risk

We do not have any long-term borrowings as of December 31, 2013 or 2012.

Under our current investment policy, we invest our excess cash in money market funds, U.S. government agency securities, commercial paper, and corporate notes and bonds. Our current investment policy seeks first to preserve principal, second to provide liquidity for our operating and capital needs and third to maximize yield without putting our principal at risk.

Our investments are exposed to market risk due to the fluctuation of prevailing interest rates that may reduce the yield on our investments or their fair value. As our investment portfolio is primarily short-term in nature, we do not believe an immediate 10% increase in interest rates would have a material effect on the fair market value of our portfolio, and therefore we do not expect our results of operations or cash flows to be materially affected by a sudden change in market interest rates.

Inflation Risk

We do not believe that inflation has had a material effect on our business, results of operations or financial condition. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, results of operations and financial condition.

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Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Zillow, Inc.

We have audited the accompanying balance sheets of Zillow, Inc. as of December 31, 2013 and 2012, and the related statements of operations, shareholders equity and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Zillow, Inc. at December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Zillow, Inc. s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated February 18, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Seattle, Washington

February 18, 2014

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ZILLOW, INC.

BALANCE SHEETS

(in thousands, except share data)

	December 31, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 201,760	$ 150,040
Short-term investments	93,531	44,054
Accounts receivable, net of allowance for doubtful accounts of $1,850 and $965 at December 31, 2013 and 2012, respectively	15,234	8,655
Prepaid expenses and other current assets	4,987	2,652
Total current assets	315,512	205,401
Long-term investments	142,435	9,389
Property and equipment, net	27,408	16,948
Goodwill	93,213	54,284
Intangible assets, net	29,149	21,248
Other assets	346	279
Total assets	$ 608,063	$ 307,549
Liabilities and shareholders equity		
Current liabilities:		
Accounts payable	$ 4,724	$ 3,158
Accrued expenses and other current liabilities	11,377	6,318
Accrued compensation and benefits	4,440	2,514
Deferred revenue	12,298	8,349
Deferred rent, current portion	546	401
Total current liabilities	33,385	20,740
Deferred rent, net of current portion	6,882	6,492
Commitments and contingencies (Note 13)		
Shareholders equity:		
Preferred stock, $0.0001 par value; 30,000,000 shares authorized as of December 31, 2013 and 2012; no shares issued and outstanding as of December 31, 2013 and 2012		
Class A common stock, $0.0001 par value; 600,000,000 shares authorized as of December 31, 2013 and 2012; 32,934,074 and 26,414,414 shares issued and outstanding as of December 31, 2013 and 2012, respectively	3	3
Class B common stock, $0.0001 par value; 15,000,000 shares authorized as of December 31, 2013 and 2012; 6,468,892 and 7,462,526 shares issued and outstanding as of December 31, 2013 and 2012, respectively	1	1
Additional paid-in capital	651,913	351,981
Accumulated deficit	(84,121)	(71,668)
Total shareholders equity	567,796	280,317
Total liabilities and shareholders equity	$ 608,063	$ 307,549

See accompanying notes to financial statements.

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ZILLOW, INC.

STATEMENTS OF OPERATIONS

(in thousands, except per share data)

	Year Ended December 31,		
	2013	**2012**	**2011**
Revenue	$ 197,545	$ 116,850	$ 66,053
Costs and expenses:			
Cost of revenue (exclusive of amortization) (1)	18,810	14,043	10,575
Sales and marketing	108,891	49,105	25,725
Technology and development	48,498	26,614	14,143
General and administrative (2)	38,295	21,291	14,613
Total costs and expenses	214,494	111,053	65,056
Income (loss) from operations	(16,949)	5,797	997
Other income	385	142	105
Income (loss) before income taxes	(16,564)	5,939	1,102
Income tax benefit	4,111		
Net income (loss)	$ (12,453)	$ 5,939	$ 1,102
Net income (loss) attributable to common shareholders	$ (12,453)	$ 5,939	$
Net income (loss) per share attributable to common shareholders basic	$ (0.35)	$ 0.20	$
Net income (loss) per share attributable to common shareholders diluted	$ (0.35)	$ 0.18	$
Weighted-average shares outstanding basic	36,029	30,194	19,815
Weighted-average shares outstanding diluted	36,029	32,709	22,305
(1) Amortization of website development costs and intangible assets included in technology and development	$ 19,791	$ 11,179	$ 5,384
(2) General and administrative includes a facility exit charge as follows:	$	$	$ 1,737

See accompanying notes to financial statements.

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ZILLOW, INC.

STATEMENTS OF SHAREHOLDERS EQUITY

(in thousands, except share data)

	Convertible Preferred Stock						Class A Common Stock		Class B Common Stock		Class C Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Shareholders Equity
	Series A		Series B		Series C										
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
Balance at December 31, 2010	17,931,034	$ 2	6,933,103	$ 1	6,489,660	$ 1	1,290,602	$	9,528,313	$ 1	2,305,980	$	$ 96,152	$ (78,709)	$ 17,448
Issuance of Class A common stock upon exercise of stock options							1,169,121						2,917		2,917
Share-based compensation expense													2,545		2,545
Class A common stock issued in connection with an acquisition							207,100						910		910
Conversion of convertible preferred stock to Class A common stock in connection with initial public offering	(17,931,034)	(2)	(6,933,103)	(1)	(6,489,660)	(1)	9,276,190	1					3		
Conversion of Class C common stock to Class A common stock in connection with initial public offering							2,305,980				(2,305,980)				
Issuance of Class A common stock in connection with initial public offering, net of issuance costs of $8,835							3,981,300	1					70,790		70,791
Issuance of Class A common stock in concurrent private placement in connection with initial public offering							274,999						5,500		5,500
Issuance of restricted							75,000								

shares of Class A common stock		
Net income and total comprehensive income	1,102	1,102

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	Convertible Preferred Stock										Class C Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Shareholders Equity
	Series A		Series B		Series C		Class A Common Stock		Class B Common Stock						
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
Balance at December 31, 2011							18,580,292	2	9,528,313	1			178,817	(77,607)	101,213
Issuance of Class A common stock upon exercise of stock options							1,624,304						7,448		7,448
Share-based compensation expense													8,990		8,990
Conversion of Class B common stock to Class A common stock							2,065,787		(2,065,787)						
Issuance of Class A common stock in connection with public offering, net of issuance costs of $8,601							3,844,818	1					156,726		156,727
Issuance of restricted shares of Class A common stock							299,213								
Net income and total comprehensive income														5,939	5,939
Balance at December 31, 2012							26,414,414	3	7,462,526	1			351,981	(71,668)	280,317
Issuance of Class A common stock upon exercise of stock options							2,025,660						18,350		18,350
Fair value of stock options assumed in connection with an acquisition													430		430
Share-based compensation expense													27,253		27,253
Conversion of Class B common stock to Class A common stock							993,634		(993,634)						
Issuance of restricted shares of Class A common stock							252,114								
Cancellation of restricted shares of Class A common stock							(5,270)								
Issuance of Class A common stock in connection with public offering, net of issuance costs of $12,900							3,253,522						253,899		253,899
Net loss and total comprehensive loss														(12,453)	(12,453)
Balance at December 31, 2013		$		$		$	32,934,074	$ 3	6,468,892	$ 1		$	$ 651,913	$ (84,121)	$ 567,796

See accompanying notes to financial statements.

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ZILLOW, INC.

STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended December 31, 2013	2012	2011
Operating activities			
Net income (loss)	$ (12,453)	$ 5,939	$ 1,102
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	23,254	12,773	7,190
Facility exit charge			1,737
Share-based compensation expense	23,436	6,611	1,945
Release of valuation allowance on certain deferred tax assets	(4,111)		
Loss on disposal of property and equipment	910	353	157
Bad debt expense	1,907	1,227	594
Deferred rent	400	5,469	1,243
Amortization of bond premium	624	751	181
Changes in operating assets and liabilities:			
Accounts receivable	(7,571)	(3,458)	(2,208)
Prepaid expenses and other assets	(1,543)	650	(2,882)
Accounts payable	1,497	991	916
Accrued expenses	1,038	1,776	2,460
Deferred revenue	3,910	2,530	2,391
Net cash provided by operating activities	31,298	35,612	14,826
Investing activities			
Proceeds from investment maturities	53,000	28,434	4,750
Purchases of investments	(236,147)	(38,397)	(47,772)
Purchases of property and equipment	(22,047)	(15,991)	(7,686)
Purchases of intangible assets	(3,925)	(4,073)	(1,135)
Acquisitions, net of cash acquired of $0 in 2013, $2,879 in 2012 and $0 in 2011	(42,708)	(67,645)	(6,540)
Net cash used in investing activities	(251,827)	(97,672)	(58,383)
Financing activities			
Proceeds from exercise of Class A common stock options	18,350	7,448	2,917
Proceeds from public offering, net of offering costs	253,899	156,726	70,788
Proceeds from concurrent private placement			5,500
Net cash provided by financing activities	272,249	164,174	79,205
Net increase in cash and cash equivalents during period	51,720	102,114	35,648
Cash and cash equivalents at beginning of period	150,040	47,926	12,278
Cash and cash equivalents at end of period	$ 201,760	$ 150,040	$ 47,926
Supplemental disclosures of cash flow information			
Noncash transactions:			
Capitalized share-based compensation	$ 3,817	$ 2,379	$ 600
Class A common stock issued in connection with an acquisition	$	$	$ 910
Write-off of fully depreciated property and equipment	$ 3,697	$ 2,986	$ 2,133

See accompanying notes to financial statements.

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ZILLOW, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Description of Business

Zillow, Inc. (the Company, we, us and our) 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 living database of homes, accessible on 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, HotPads and StreetEasy. 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

These financial statements have been prepared in conformity with accounting principles generally accepted in the United States (GAAP).

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. Estimates are used for revenue recognition, the allowance for doubtful accounts, website development costs, goodwill, recoverability of intangible assets with definite lives and other long-lived assets, and for share-based compensation. To the extent there are material differences between these estimates, judgments, or assumptions and actual results, our financial statements will be affected. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management s judgment in its application.

Prior Period Adjustments

The balance sheet as of December 31, 2012 has been revised to correct an immaterial error in the presentation of property and equipment, net and current and noncurrent deferred rent, which were understated by equal amounts of $3.3 million, related to leasehold improvements made that were funded by landlord allowances.

The statement of cash flows for the year ended December 31, 2012 has been revised to correct the immaterial error in net cash provided by operating activities and net cash used in investing activities, which were understated by equal amounts of $3.3 million.

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.

Investments

Our investments consist of fixed income securities, which include U.S. government agency securities, commercial paper, and corporate notes and bonds. Securities with maturities greater than three months but less than one year are classified as short-term investments. Securities with maturities greater than one year are classified as long-term investments. Our investments are classified as held-to-maturity and are recorded at amortized cost, as we do not intend to sell the investments, and it is not more likely than not that we will be required to sell these investments prior to maturity. The amortized cost of our investments approximates their fair value.

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

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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.

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, 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

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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 five to 7.5 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 and trademarks which we recorded in connection with acquisitions. These intangible assets are amortized over the estimated useful life of the asset.

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.

Deferred Revenue

Deferred revenue consists of prepaid but unrecognized subscription revenue, advertising fees received or billed in advance of the delivery or completion of the services, 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.

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Revenue Recognition

In general, we recognize revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered to the customer, (iii) the fee is fixed or determinable, and (iv) collectability is reasonably assured. We consider a signed agreement, a binding insertion order or other similar documentation reflecting the terms and conditions under which products or services will be provided to be persuasive evidence of an arrangement. Collectability is assessed based on a number of factors, including payment history and the creditworthiness of a customer. If it is determined that collection is not reasonably assured, revenue is not recognized until collection becomes reasonably assured, which is generally upon receipt of cash.

We generate revenue from the sale of advertising services and our suite of tools to businesses and professionals primarily associated with the real estate and mortgage industries. These professionals include local real estate professionals, primarily on an individual subscription basis, and mortgage professionals and brand advertisers. Our two revenue categories are marketplace revenue and display revenue.

Marketplace Revenue. Marketplace revenue consists of real estate revenue and mortgages revenue. Real estate revenue primarily includes subscriptions sold to real estate agents under our Premier Agent program, as well as revenue generated by Zillow Rentals. Mortgages revenue primarily includes Zillow Mortgage Marketplace advertising sold to mortgage lenders on a cost-per-click, or CPC, basis. Mortgages revenue also includes revenue generated by Mortech, a company we acquired in November 2012 that provides subscription-based mortgage software solutions, including a product and pricing engine and lead management platform, for which we recognize revenue on a straight-line basis during the contractual period over which the services are delivered.

Zillow s Premier Agent program offers a suite of marketing and business technology solutions to help real estate agents grow their businesses and personal brands. The Premier Agent program allows agents to select products and services that they can tailor to meet their business and advertising needs. The program has three tiers of participation including Premier Platinum, our original flagship subscription product, as well as Premier Gold and Premier Silver, to meet different marketing and business needs of a broad range of agents. All tiers of Premier Agents receive access to a dashboard portal on our website that provides individualized program performance analytics, as well as our personalized website service, and our customer relationship management, or CRM, tool that captures detailed information about each contact made with a Premier Agent through our mobile and web platforms. Our Premier Gold product also includes featured listings whereby the agent s listings will appear at the top of search results on our mobile and web platforms. Our Premier Platinum product includes the dashboard portal on our website, our personalized website service, our CRM tool, featured listings, and inclusion on our buyer s agent list, whereby the agent appears as the agent to contact for listings in the purchased zip code.

We charge customers for our Platinum Premier Agent subscription product based on the number of impressions delivered on our buyer s agent list in zip codes purchased. Our Platinum Premier Agent subscription product includes multiple deliverables which are accounted for as a single unit of accounting, as the delivery or performance of the undelivered elements is based on traffic to our mobile applications and websites. We recognize revenue related to our impression-based Platinum Premier Agent subscription product based on the lesser of (i) the actual number of impressions delivered on our buyer s agent list during the period multiplied by the contracted maximum cost per impression, or (ii) the contractual maximum spend on a straight-line basis during the contractual period over which the services are delivered, which is typically over a period of six or twelve months and then month-to-month thereafter.

We charge a fixed subscription fee for our Premier Gold and Premier Silver subscription products. Subscription advertising revenue for our Premier Gold and Premier Silver subscription products is recognized on a straight-line basis during the contractual period over which the services are delivered, typically over a period of six months and then month-to-month thereafter.

In Zillow Mortgage Marketplace, participating qualified mortgage lenders make a prepayment to gain access to consumers interested in connecting with mortgage professionals. Consumers who request rates for mortgage loans in Zillow Mortgage Marketplace are presented with personalized lender quotes from participating lenders. We only charge mortgage lenders a fee when users click for more information regarding a mortgage loan quote. Mortgage lenders who exhaust their initial prepayment can then prepay additional funds to continue to participate in the marketplace. We recognize revenue when a user clicks on a mortgage advertisement to obtain additional information about a mortgage loan quote.

Display Revenue. Display revenue primarily consists of graphical mobile and web advertising sold on a cost per thousand impressions, or CPM basis, to advertisers primarily in the real estate industry, including real estate brokerages, home builders, mortgage lenders and home services providers. Our advertising customers also include telecommunications, automotive, insurance and consumer products companies. We recognize display revenue as impressions are delivered to users interacting with our mobile applications or websites.

There were no customers that generated 10% or more of our total revenue in the years ended December 31, 2013, 2012 or 2011.

Cost of Revenue

Our cost of revenue consists of expenses related to operating our mobile applications and websites, including associated headcount expenses, such as salaries and benefits and share-based compensation and bonuses. Cost of revenue also includes credit card fees, ad serving costs paid to third parties, revenue sharing costs related to our commercial business relationships, and data center operations costs.

Research and Development

Research and development costs are expensed as incurred. For the years ended December 31, 2013, 2012 and 2011, expenses attributable to research and development for our business totaled $41.7 million, $22.0 million and $10.7 million, respectively. Research and development costs are recorded in technology and development expenses.

Other Income

Other income consists primarily of interest income earned on our cash, cash equivalents and investments.

Share-Based Compensation

We measure compensation expense for all share-based awards at fair value on the date of grant and recognize compensation expense over the service period on a straight-line basis for awards expected to vest.

We use the Black-Scholes-Merton option-pricing model to determine the fair value for stock options. In valuing our options, we make assumptions about risk-free interest rates, dividend yields, volatility, and weighted-average expected lives, including estimated forfeiture rates. Risk-free interest rates are derived from U.S. Treasury securities as of the option grant date. Expected dividend yield is based on our historical dividend payments, which have been zero to date. The expected volatility for our Class A common stock is estimated using a combination of our historical volatility and the published historical volatilities of industry peers in the online publishing market representing the verticals in which we operate. We estimate the weighted-average expected life of the options as the average of the vesting option schedule and the term of the award, since we do not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term due to the limited period of time share-based awards have been exercisable. The term of the award is estimated using the simplified method, as awards are plain vanilla share options. Forfeiture rates are estimated using historical actual forfeiture trends as well as our judgment of future forfeitures. These rates are evaluated at least quarterly and any change in compensation expense is recognized in the period of the change. The estimation of stock options that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from our current estimates, such amounts will be recorded as a cumulative adjustment in the period the estimates are revised. We consider many factors when estimating expected forfeitures, including employee class and historical experience. Actual results, and future changes in estimates, may differ substantially from management s current estimates.

For issuances of restricted stock awards and restricted stock units, we determine the fair value of the award based on the market value of our Class A common stock at the date of grant.

Advertising Costs

Advertising costs are expensed as incurred. For the years ended December 31, 2013, 2012 and 2011, expenses attributable to advertising totaled $38.7 million, $11.1 million and $4.0 million, respectively. Advertising costs are recorded in sales and marketing expenses.

Income Taxes

We use the asset and liability approach for accounting and reporting income taxes, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement and tax bases of assets and liabilities at the applicable enacted tax rates. A valuation allowance against deferred tax assets would be established if, based on the weight of available evidence, it is more likely than not (a likelihood of more than 50%) that some or all of the deferred tax assets are not expected to be realized.

We establish reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit, new tax legislation or the change of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made.

Recently Issued Accounting Standards

In July 2013, the Financial Accounting Standards Board (FASB) issued guidance on the presentation of certain unrecognized tax benefits in the financial statements. This guidance provides that a liability related to an unrecognized tax benefit must be offset against a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. This guidance is effective for interim and annual reporting periods beginning after December 15, 2013, with earlier adoption permitted, and may be applied prospectively or retrospectively. We expect to adopt this guidance on January 1, 2014. The adoption of this guidance is not expected to have a significant impact on our financial position, results of operations or cash flows, as we have provided a full valuation allowance against our net deferred tax assets.

In February 2013, the FASB issued guidance on the reporting of amounts reclassified out of accumulated other comprehensive income. An entity must report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide additional detail about those amounts. This guidance is effective for interim and annual reporting periods beginning after December 15, 2012, with earlier adoption permitted, and must be applied prospectively. We adopted this guidance on January 1, 2013. The adoption of this guidance did not have any impact on our financial position, results of operations or cash flows, as we do not have any items of other comprehensive income in any period presented.

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In June 2011, the FASB issued guidance on the presentation of comprehensive income to increase the prominence of other comprehensive income in the financial statements. An entity has the option to present the components of net income and comprehensive income in either one or two consecutive financial statements. This guidance is effective for interim and annual reporting periods beginning after December 15, 2011, with earlier adoption permitted, and must be applied retrospectively. We adopted this guidance on January 1, 2012. The adoption of this guidance did not have any impact on our financial position, results of operations or cash flows as we do not have any items of other comprehensive income in any period presented, and therefore, we are not required to report other comprehensive income or comprehensive income.

Note 3. Fair Value Measurements

Accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. The standards also establish a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Assets and liabilities valued based on observable market data for similar instruments, such as quoted prices for similar assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity; instruments valued based on the best available data, some of which is internally developed, and considers risk premiums that a market participant would require.

We applied the following methods and assumptions in estimating our fair value measurements:

Cash equivalents Cash equivalents are comprised of highly liquid investments with original maturities of less than three months. The fair value measurement of these assets is based on quoted market prices in active markets and, therefore, these assets are recorded at fair value on a recurring basis and classified as Level 1 in the fair value hierarchy.

Short-term and long-term investments Our investments consist of fixed income securities, which include U.S. government agency securities, commercial paper, and corporate notes and bonds. The fair value measurement of these assets is based on observable market-based inputs or inputs that are derived principally from or corroborated by observable market data by correlation or other means. Our U.S. government agency securities are classified as Level 1 in the fair value hierarchy. Our commercial paper and corporate notes and bonds are classified as Level 2 in the fair value hierarchy.

Of the short-term investments and long-term investments on hand as of December 31, 2013, 39.6% mature in 2014 and the remaining 60.4% mature in 2015.

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The following tables present the balances of assets measured at fair value on a recurring basis as of the dates presented (in thousands):

	December 31, 2013		
	Total	Level 1	Level 2
Cash equivalents:			
Money market funds	$ 184,941	$ 184,941	$
U.S government agency securities	3,306	3,306	
Short-term investments:			
U.S government agency securities	78,448	78,448	
Commercial paper	3,998		3,998
Corporate notes and bonds	11,085		11,085
Long-term investments:			
U.S government agency securities	112,623	112,623	
Corporate notes and bonds	29,812		29,812
Total	$ 424,213	$ 379,318	$ 44,895

	December 31, 2012		
	Total	Level 1	Level 2
Cash equivalents:			
Money market funds	$ 143,246	$ 143,246	$
Short-term investments:			
U.S government agency securities	26,085	26,085	
Commercial paper	16,965		16,965
Corporate notes and bonds	1,004		1,004
Long-term investments:			
U.S government agency securities	7,079	7,079	
Corporate notes and bonds	2,310		2,310
Total	$ 196,689	$ 176,410	$ 20,279

We did not have any Level 3 assets measured at fair value on a recurring basis as of December 31, 2013 or 2012. There were no liabilities measured at fair value on a recurring basis as of December 31, 2013 or 2012.

Note 4. Accounts Receivable, net

The following table presents the detail of accounts receivable as of the dates presented (in thousands):

	December 31,	
	2013	2012
Accounts receivable	$ 13,793	$ 9,503
Unbilled accounts receivable	3,291	117
Less: allowance for doubtful accounts	(1,850)	(965)
Accounts receivable, net	$ 15,234	$ 8,655

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The following table presents the changes in the allowance for doubtful accounts for the periods presented (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Allowance for doubtful accounts:			
Balance, beginning of period	$ 965	$ 683	$ 501
Additions charged to expense	1,907	1,227	594
Less: write-offs, net of recoveries and other adjustments	(1,022)	(945)	(412)
Balance, end of period	$ 1,850	$ 965	$ 683

Note 5. Property and Equipment, net

The following table presents the detail of property and equipment as of the dates presented (in thousands):

	December 31,	
	2013	2012
Website development costs	$ 50,408	$ 33,448
Computer equipment	8,238	8,380
Leasehold improvements	7,320	4,145
Software	1,807	1,209
Construction-in-progress	3,289	3,093
Office equipment, furniture and fixtures	3,661	2,186
Property and equipment	74,723	52,461
Less: accumulated amortization and depreciation	(47,315)	(35,513)
Property and equipment, net	$ 27,408	$ 16,948

We recorded amortization and depreciation expense related to property and equipment other than website development costs of $3.5 million, $1.6 million and $1.8 million, respectively, during the years ended December 31, 2013, 2012 and 2011.

We capitalized $17.3 million, $11.5 million and $5.5 million, respectively, in website development costs during the years ended December 31, 2013, 2012 and 2011. Amortization expense for website development costs included in technology and development expenses was $12.2 million, $6.9 million and $4.1 million, respectively, for the years ended December 31, 2013, 2012 and 2011.

Construction-in-progress primarily consists of website development costs that are capitalizable, but for which the associated applications had not been placed in service.

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Note 6. Acquisitions

StreetEasy, Inc.

On August 26, 2013, through our wholly owned subsidiary, Strawberry Acquisition, Inc., a Delaware corporation (Merger Sub), we consummated our acquisition of StreetEasy, Inc., formerly known as NMD Interactive, Inc., d/b/a StreetEasy, a Delaware corporation (StreetEasy), pursuant to an Agreement and Plan of Merger (the Merger Agreement) by and among Zillow, StreetEasy, Merger Sub and Shareholder Representative Services LLC, acting as the stockholder representative, dated August 16, 2013. Under the terms and subject to the conditions of the Merger Agreement, Merger Sub merged with and into StreetEasy with StreetEasy remaining as the surviving company and a wholly owned subsidiary of Zillow (the Merger). On December 30, 2013, StreetEasy was merged with and into the Company, with the Company remaining as the surviving entity. The acquisition aligns with our growth strategies, including focusing on consumers and deepening, strengthening, and expanding our marketplaces. With the addition of StreetEasy, we expanded our audience and brand awareness by leveraging StreetEasy s leadership among both consumers and professionals in the New York region and, in particular, the New York for-sale and rentals market.

The total Merger consideration payable to StreetEasy equity holders was approximately $50 million in cash, less certain transaction expenses and as adjusted at closing based on StreetEasy s net working capital, cash and debt. All vested options to purchase shares of StreetEasy s common stock were cancelled and, in settlement of such cancellation, the holders of such options became entitled to receive cash payments representing a portion of the Merger consideration as described in the Merger Agreement. A portion of the Merger consideration has been attributed to the substitution of unvested stock options of StreetEasy outstanding as of the closing for stock options to purchase shares of our Class A common stock at an exchange ratio implied by the Merger consideration as described in the Merger Agreement. In connection with the closing, $5 million of the Merger consideration otherwise payable to StreetEasy stockholders and holders of vested stock options has been deposited in a third-party escrow account to secure certain indemnification obligations of those equity holders. As of December 31, 2013, accrued expenses and other current liabilities includes $5.5 million payable to certain equity holders of StreetEasy who have not yet claimed their Merger consideration in connection with the acquisition, and prepaid expenses and other current assets includes $0.5 million related to an adjustment to StreetEasy s net working capital.

Our acquisition of StreetEasy has been accounted for as a business combination, and assets acquired and liabilities assumed were recorded at their estimated fair values as of August 26, 2013. Goodwill, which represents the expected synergies from combining the acquired assets and the operations of the acquirer, as well as intangible assets that do not qualify for separate recognition, is measured as of the acquisition date as the excess of consideration transferred, which is also measured at fair value, and the net of the fair values of the assets acquired and the liabilities assumed as of the acquisition date. The purchase price was approximately $48.2 million, as summarized in the following table (in thousands):

Cash payable for the outstanding stock of StreetEasy	$ 42,821
Cash payable for the cancellation of vested options to purchase shares of StreetEasy s common stock	2,989
Certain transaction expenses and other costs incurred by StreetEasy	1,924
Substituted unvested stock options attributable to pre-combination service	430
Total purchase price	$ 48,164

The fair value of StreetEasy s unvested stock options substituted in connection with the acquisition that relate to post-combination services will be recorded as share-based compensation expense over the related vesting periods.

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Identifiable intangible assets acquired consisted of the following (in thousands):

		Estimated Amortization Period (in years)
Developed technology	$ 4,500	5
Customer relationships	4,900	5
Trademarks	2,200	5
Total intangible assets acquired	$ 11,600	

The preliminary estimated fair value of the intangible assets acquired was determined by the Company, and we considered or relied in part upon a valuation report of a third-party expert. We used a cost approach to measure the fair value of the developed technology based on the estimated cost to recreate the technology. We used an income approach to measure the fair value of the customer relationships based on the excess earnings method, whereby the fair value is estimated based upon the present value of cash flows that the applicable asset is expected to generate. We used an income approach to measure the fair value of the trademarks based on the relief-from-royalty method. These fair value measurements were based on Level 3 measurements under the fair value hierarchy. Net tangible assets were valued at their respective carrying amounts, as we believe that these amounts approximate their current fair values.

The total purchase consideration has been allocated to the assets acquired and liabilities assumed, including identifiable intangible assets, based on their respective fair values at the acquisition date. Based upon the fair values determined by us, in which we considered or relied in part upon a valuation report of a third-party expert, the total purchase price was allocated as follows (in thousands):

Accounts receivable	$ 917
Prepaid expenses and other current assets	191
Property and equipment	1,138
Other identifiable tangible assets	144
Total tangible assets	2,390
Accounts payable	(72)
Accrued expenses and other current liabilities	(175)
Accrued compensation and benefits	(223)
Other identifiable liabilities	(174)
Net deferred tax liability	(4,111)
Total liabilities	(4,755)
Net acquired liabilities	(2,365)
Identifiable intangible assets	11,600
Goodwill	38,929
Total purchase price allocation	$ 48,164

Our estimates and assumptions related to the purchase price allocation are preliminary and subject to change during the measurement period (up to one year from the acquisition date) as we finalize the amount of goodwill recorded in connection with the acquisition, which may be impacted by an adjustment in StreetEasy s acquisition date working capital.

Acquisition-related expenses incurred of $0.4 million for the year ended December 31, 2013, including legal and accounting fees and other external costs directly related to the acquisition, were expensed as incurred, and are included in general and administrative expenses.

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The results of operations related to the acquisition of StreetEasy have been included in our financial statements since the date of acquisition of August 26, 2013, and are not significant.

Unaudited Pro Forma Financial Information

The following unaudited pro forma condensed combined financial information gives effect to the acquisition of StreetEasy as if it were consummated on January 1, 2012 (the beginning of the comparable prior reporting period), and includes pro forma adjustments related to the amortization of acquired intangible assets, share-based compensation expense and direct and incremental transaction costs reflected in the historical financial statements. The unaudited pro forma condensed combined financial information is presented for informational purposes only. The unaudited pro forma condensed combined financial information is not intended to represent or be indicative of the results of operations that would have been reported had the acquisition occurred on January 1, 2012 and should not be taken as representative of future results of operations of the combined company.

The following table presents the unaudited pro forma condensed combined financial information (in thousands, except per share amounts):

	Year Ended December 31, 2013	2012
Revenue	$ 202,086	$ 122,547
Net income (loss)	$ (14,121)	$ 4,940
Net income (loss) per share basic	$ (0.39)	$ 0.16
Net income (loss) per share diluted	$ (0.39)	$ 0.15

Note 7. Goodwill

The following table presents the change in goodwill from December 31, 2012 through December 31, 2013 (in thousands):

Balance as of December 31, 2012	$ 54,284
Goodwill recorded in connection with the acquisition of StreetEasy	38,929
Balance as of December 31, 2013	$ 93,213

The goodwill recorded in connection with the acquisition of StreetEasy is not deductible for tax purposes.

Note 8. Intangible Assets

The following tables present the detail of intangible assets subject to amortization as of the dates presented (in thousands):

	December 31, 2013		
	Cost	Accumulated Amortization	Net
Purchased content	$ 12,968	$ (8,846)	$ 4,122
Developed technology	18,835	(4,417)	14,418
Customer relationships	9,775	(1,799)	7,976
Trademarks	3,261	(628)	2,633
Total	$ 44,839	$ (15,690)	$ 29,149

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	December 31, 2012		
	Cost	Accumulated Amortization	Net
Purchased content	$ 9,044	$ (6,015)	$ 3,029
Developed technology	14,335	(1,534)	12,801
Customer relationships	4,875	(387)	4,488
Trademarks	1,061	(131)	930
Total	$ 29,315	$ (8,067)	$ 21,248

Amortization expense recorded for intangible assets for the years ended December 31, 2013, 2012 and 2011 was $7.6 million, $4.3 million and $1.3 million, respectively, and these amounts are included in technology and development expenses. The remaining weighted-average amortization period for all intangible assets as of December 31, 2013 and 2012 was approximately 4.5 years and 4.9 years, respectively.

Estimated future amortization expense for intangible assets, including amortization related to future commitments, as of December 31, 2013 is as follows (in thousands):

2014	$ 10,341
2015	10,074
2016	9,074
2017	7,343
2018	4,935
All future years	1,261
Total	$ 43,028

Note 9. Income Taxes

We are subject to federal and state income taxes in the United States. For the years ended December 31, 2013, 2012 and 2011, we did not have reportable taxable income and, therefore, no related tax liability or expense has been recorded in the financial statements. We recorded an income tax benefit of $4.1 million for the year ended December 31, 2013 due to a deferred tax liability generated in connection with Zillow s August 26, 2013 acquisition of StreetEasy that can be used to realize certain deferred tax assets for which we had previously provided a full valuation allowance.

The following table summarizes the components of our income tax benefit for the periods presented (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Federal	$ 3,783	$	$
State	328		
Deferred income tax benefit	$ 4,111	$	$

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The following table presents a reconciliation of the federal statutory rate and our effective tax rate for the periods presented:

	Year Ended December 31,		
	2013	**2012**	**2011**
Tax expense at federal statutory rate	(34.0%)	34.0%	34.0%
State income taxes, net of federal tax benefit	(5.8%)	0.0%	0.0%
Nondeductible expenses	3.1%	9.2%	10.0%
Share-based compensation	0.2%	3.5%	37.1%
Research and development credits	(23.3%)	0.0%	(32.6%)
Valuation allowance	35.0%	(46.7%)	(48.5%)
Effective tax rate	(24.8%)	0.0%	0.0%

Deferred federal income taxes reflect the net tax impact of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and such amounts for tax purposes. The following table presents the significant components of our deferred tax assets and liabilities as of the dates presented (in thousands):

	December 31,	
	2013	**2012**
Deferred tax assets:		
Federal and state net operating loss carryforwards	$ 24,152	$ 19,899
Share-based compensation	4,467	2,712
Goodwill	1,776	591
Start-up and organizational costs	491	554
Research and development credits	5,123	1,255
Accruals and reserves	901	792
Other	3,415	1,606
Total deferred tax assets	40,325	27,409
Deferred tax liabilities:		
Website and software development costs	(4,927)	(2,934)
Intangibles	(6,519)	(3,037)
Depreciation and amortization	(1,579)	(67)
Net deferred tax assets before valuation allowance	27,300	21,371
Less: valuation allowance	(27,300)	(21,371)
Net deferred tax assets	$	$

Realization of deferred tax assets is dependent upon the generation of future taxable income, if any, the timing and amount of which are uncertain. We have provided a full valuation allowance against the net deferred tax assets as of December 31, 2013 and 2012 because, based on the weight of available evidence, it is more likely than not (a likelihood of more than 50%) that some or all of the deferred tax assets will not be realized. The valuation allowance increased by $5.9 million during the year ended December 31, 2013 and decreased by $3.6 million during the year ended December 31, 2012.

We have accumulated federal tax losses of approximately $236.5 million and $115.7 million as of December 31, 2013 and 2012, respectively, which are available to reduce future taxable income. We have accumulated state tax losses of approximately $6.1 million (tax effected) as of December 31, 2013. As of December 31, 2013, approximately $167.9 million of our net operating loss carryforwards relate to tax deductible share-based compensation in excess of amounts recognized for financial reporting purposes. To the extent that net operating loss carryforwards, if realized, relate to share-based compensation, the resulting tax benefits will be

recorded to shareholders equity rather than to the statement of operations. Additionally, we have research and development credit carryforwards of $5.1 million and $1.3 million, respectively, as of December 31, 2013 and 2012, which are available to reduce future tax liabilities. The tax loss and research and development credit carryforwards begin to expire in 2025. Under Sections 382 and 383 of the Internal Revenue Code, if a corporation undergoes an ownership change, the corporation s ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes, such as research tax credits, to offset its post-change income or income tax liability may be limited. In connection with our August 2013 public offering of our Class A Common stock, we experienced an ownership change that triggered Sections 382 and 383, which may limit our ability to utilize net operating loss and tax credit carryforwards.

We are currently not under audit in any tax jurisdiction. Tax years from 2010 through 2013 are currently open for audit by federal and state taxing authorities.

Changes for unrecognized tax benefits for the periods presented are as follows (in thousands):

Balance at January 1, 2011	$ 866
Gross increases current-period tax positions	359
Balance at December 31, 2011	$ 1,225
Gross increases prior-period tax positions	30
Balance at December 31, 2012	$ 1,255
Gross increases prior and current-period tax positions	3,868
Balance at December 31, 2013	$ 5,123

We do not anticipate that the amount of existing unrecognized tax benefits will significantly increase or decrease within the next 12 months. Accrued interest and penalties related to unrecognized tax benefits are recorded as income tax expense and are zero.

Note 10. Shareholders Equity

Our board of directors has the authority to fix and determine and to amend the number of shares of any series of preferred stock that is wholly unissued or to be established and to fix and determine and to amend the designation, preferences, voting powers and limitations, and the relative, participating, optional or other rights, of any series of shares of preferred stock that is wholly unissued or to be established, subject in each case to certain approval rights of holders of our outstanding Class B common stock. There was no preferred stock issued and outstanding as of December 31, 2013 or 2012.

Upon the effectiveness of our registration statement on Form S-1 (File No. 333-173570) on July 19, 2011, all of the outstanding shares of convertible preferred stock and all of the outstanding shares of Class C common stock automatically converted into 9,276,190 and 2,305,980 shares of Class A common stock, respectively. Our Class A common stock has no preferences or privileges and is not redeemable. Holders of Class A common stock are entitled to one vote for each share.

Our Class B common stock has no preferences or privileges and is not redeemable. At any time after the date of issuance, each share of Class B common stock, at the option of the holder, may be converted into one share of Class A common stock, or automatically converted upon the affirmative vote by or written consent of holders of a majority of the shares of the Class B common stock. During the year ended December 31, 2013, 993,634 shares of Class B common stock were converted into Class A common stock at the option of the holders. Holders of Class B common stock are entitled to 10 votes for each share.

In September 2012, we sold 3,844,818 shares of our Class A common stock, including 419,818 shares of our Class A common stock pursuant to the underwriters option to purchase additional shares, and certain shareholders sold 575,000 shares of our Class A common stock, at a price of $43.00 per share. We received net proceeds of $156.7 million after deducting underwriting discounts and commissions and offering expenses payable by us. We received no proceeds from the sale of our Class A common stock by the selling shareholders.

In August 2013, we sold 3,253,522 shares of our Class A common stock, including 753,522 shares of our Class A common stock pursuant to the underwriters option to purchase additional shares, and certain shareholders sold 2,523,486 shares of our Class A common stock, at a price of $82.00 per share. We received net proceeds of $253.9 million after deducting underwriting discounts and commissions and offering expenses payable by us. We received no proceeds from the sale of our Class A common stock by the selling shareholders.

The following shares of Class A common stock have been reserved for future issuance as of the dates presented:

	December 31, 2013	December 31, 2012
Class A common stock options outstanding	5,156,706	5,462,672
Class A common stock available for grant under equity plan	1,513,264	306,535
Restricted stock units outstanding	121,123	296,004
Shares issuable upon conversion of outstanding Class B common stock	6,468,892	7,462,526
Total	13,259,985	13,527,737

Note 11. Share-Based Awards

On July 19, 2011, our 2011 Incentive Plan (as amended and/or restated from time to time, the 2011 Plan) became effective and replaced our 2005 Equity Incentive Plan. The 2011 Plan was subsequently amended and restated effective as of June 1, 2012, to, among other things, increase the total number of authorized shares and include the material terms of performance goals for performance-based awards. The 2011 Plan was further amended effective as of May 31, 2013 to increase the number of authorized shares of Class A common stock available for awards under the 2011 Plan by 1,500,000 shares. The 2011 Plan is administered by the compensation committee of the board of directors. Under the terms of the 2011 Plan, the compensation committee may grant equity awards, including incentive stock options, nonqualified stock options, restricted stock or restricted stock units, to employees, officers, directors, consultants, agents, advisors and independent contractors. The compensation committee has also authorized certain senior executive officers to grant equity awards under the 2011 Plan, within limits prescribed by the compensation committee.

Stock Options

All stock options granted from inception through December 31, 2013 are nonqualified stock options, with the exception of substituted incentive stock options for 15,143 shares of Zillow s Class A common stock that were granted in connection with the December 14, 2012 acquisition of HotPads, Inc. Options under the 2011 Plan are granted with an exercise price per share not less than 100% of the fair market value of our Class A common stock on the date of grant, with the exception of substituted stock options granted in connection with acquisitions, and are exercisable at such times and under such conditions as determined by the compensation committee. Under the 2011 Plan, the maximum term of an option is ten years from the date of grant. Any portion of an option that is not vested and exercisable on the date of a participant s termination of service expires on such date. Employees generally forfeit their rights to exercise vested options after 3 months following their termination of employment or 12 months in the event of termination by reason of death, disability or retirement. Options granted under the 2011 Plan are typically granted with seven-year terms and typically vest 25% after 12 months and ratably thereafter over the next 36 months, except for options granted under the Stock Option Grant Program for Nonemployee Directors (Nonemployee Director Awards), which are fully vested and exercisable on the date of grant, and except for certain options granted to the Company s chief executive officer in December 2012 and January 2013 (the Executive Awards).

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The following table summarizes stock option activity for the year ended December 31, 2013:

	Shares Available for Grant	Number of Shares Subject to Existing Options	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2013	321,678	5,462,672	$ 14.48	4.88	$ 78,912,364
Authorized increase in plan shares	2,887,064				
Granted	(1,984,157)	2,009,542	43.87		
Exercised		(2,026,829)	9.03		
Forfeited or cancelled	288,679	(288,679)	31.93		
Outstanding at December 31, 2013	1,513,264	5,156,706	27.09	5.43	283,008,505
Vested and exercisable at December 31, 2013		1,575,015	12.02	3.93	109,787,836

The shares available for grant identified in the above table exclude stock option awards for an aggregate of 25,385 shares, which stock option awards were granted in substitution of stock option awards previously granted by StreetEasy. Pursuant to the terms of the 2011 Plan, such substituted stock option awards do not reduce the number of shares available for future issuance under the 2011 Plan. As of December 31, 2013, the numbers above do not include 96,792 shares of restricted stock and 121,123 restricted stock units granted pursuant to our 2011 Plan.

As of December 31, 2013, there was a total of $42.3 million in unrecognized compensation cost related to unvested stock options, which is expected to be recognized over a weighted-average period of 3.2 years. The total intrinsic value of options exercised during the years ended December 31, 2013, 2012 and 2011 was $114.4 million, $49.7 million and $11.3 million, respectively.

The fair value of options granted, excluding Nonemployee Director Awards and the Executive Awards, is estimated at the date of grant using the Black-Scholes-Merton option-pricing model, assuming no dividends and with the following assumptions for the periods presented:

	Year Ended December 31, 2013	Year Ended December 31, 2012	Year Ended December 31, 2011
Expected volatility	50% 54%	49% 52%	49% 52%
Expected dividend yields			
Average risk-free interest rate	0.70% 1.27%	0.53% 0.76%	0.79% 1.87%
Weighted-average expected life	4.58 years	4.58 years	4.58 years
Weighted-average fair value of options granted	$ 21.26	$ 13.79	$ 4.66

In March 2013, stock options for an aggregate of 30,690 shares of our Class A common stock were granted as Nonemployee Director Awards, which are fully vested and exercisable on the grant date. The fair value of options granted for the March 2013 Nonemployee Director Awards, $16.29 per share, is estimated at the date of grant using the Black-Scholes-Merton option-pricing model, assuming no dividends, expected volatility of 51%, a risk-free interest rate of 0.36%, and a weighted-average expected life of 3.5 years. During the year ended December 31, 2013, share-based compensation expense recognized in our statement of operations related to the March 2013 Nonemployee Director Awards was $0.5 million, and is included in general and administrative expenses.

On January 24, 2013, an option for 500,000 shares of our Class A common stock was granted to the Company s chief executive officer as an Executive Award. One-eighth of the total number of shares subject to the option will vest and become exercisable on the three-year anniversary of the grant date. An additional 1/96th of the total number of shares subject to the option will vest and become exercisable monthly thereafter over the next three years so that this portion of the award will be vested and exercisable six years from the grant date.

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One-eighth of the total number of shares subject to the option will vest and become exercisable on the four-year anniversary of the grant date. An additional 1/96th of the total number of shares subject to the option will vest and become exercisable monthly thereafter over the next three years so that this portion of the award will be vested and exercisable seven years from the grant date. The option has a ten-year term. The fair value of the option, $19.00 per share, is estimated at the date of grant using the Black-Scholes-Merton option-pricing model, assuming no dividends, expected volatility of 51%, a risk-free interest rate of 0.70% and a weighted-average expected life of 7.3 years.

The fair value of stock options vested for the years ended December 31, 2013, 2012 and 2011 was $1.2 million, $0.8 million and $1.0 million, respectively.

The following table summarizes information about options outstanding and vested and exercisable stock options as of December 31, 2013:

	Options Outstanding			Options Vested and Exercisable	
Exercise Price or Range	**Number Outstanding**	**Weighted-Average Remaining Contractual Life (Years)**	**Weighted Average Exercise Price**	**Number Exercisable**	**Weighted Average Exercise Price**
$0.08 $3.85	839,063	3.24	$ 3.43	706,969	$ 3.47
$3.89 $5.98	683,918	4.15	3.89	341,559	3.89
$6.32 $29.50	830,733	5.58	25.38	173,466	20.26
$29.69 $30.46	527,311	5.07	30.40	177,099	30.38
$30.60 $36.30	284,158	5.15	32.12	112,581	31.41
$36.36	1,393,635	7.14	36.36	2,013	36.36
$36.72 $89.09	518,204	6.24	57.18	61,328	42.52
$90.05 $96.24	65,328	6.59	94.84		
$96.25	13,756	6.69	96.25		
$99.09	600	6.67	99.09		
Total	5,156,706	5.43	27.09	1,575,015	12.02

Restricted Stock Awards

The following table summarizes restricted stock award activity for the year ended December 31, 2013:

	Shares of Restricted Stock	**Weighted-Average Grant-Date Fair Value**
Unvested outstanding at January 1, 2013	340,103	$ 30.37
Granted	3,673	44.66
Vested	(108,379)	30.94
Forfeited or cancelled	(5,270)	25.92
Unvested outstanding at December 31, 2013	230,127	30.43

The total fair value of shares of restricted stock awards vested for the years ended December 31, 2013, 2012 and 2011 was $3.4 million, $1.0 million and $0, respectively.

The fair value of the outstanding restricted stock awards will be recorded as share-based compensation expense over the vesting period. As of December 31, 2013, there was $6.9 million of total unrecognized compensation cost related to restricted stock awards, which is expected to be recognized over a weighted-average period of 2.1 years.

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Restricted Stock Units

The following table summarizes activity for restricted stock units for the year ended December 31, 2013:

	Restricted Stock Units	Weighted-Average Grant-Date Fair Value
Unvested outstanding at January 1, 2013	295,737	$ 38.76
Granted	97,804	81.12
Vested	(253,384)	42.53
Forfeited or cancelled	(19,034)	59.26
Unvested outstanding at December 31, 2013	121,123	64.07

In April 2013, pursuant to the terms of a Restricted Stock Unit Award Notice and Restricted Stock Unit Award Agreement between Zillow and a former employee, 218,071 unvested restricted stock units held by such employee became vested, such that the former employee received one share of Zillow s Class A common stock for each outstanding restricted stock unit. As a result of the accelerated vesting of the restricted stock units, we recognized approximately $7.1 million of share-based compensation expense during the year ended December 31, 2013, which is included within sales and marketing expense.

In September 2013, pursuant to the terms of a Restricted Stock Unit Award Notice and Restricted Stock Unit Agreement entered into between Zillow and an employee, Zillow granted to the employee restricted stock units for 26,000 shares of our Class A common stock. One twelfth of each restricted stock unit award will vest on each one-month anniversary of the vesting commencement date of September 20, 2013, subject to the recipient s continued full-time employment or service to Zillow. In the event of termination of service during the first six months of employment by Zillow without cause or upon the resignation by such employee for good reason, 13,000 of the restricted stock units, less the number of restricted stock units that already vested prior to termination, will become vested units, and such employee will be entitled to receive one share of Zillow s Class A common stock for each then outstanding unit. The grant date fair value of the restricted stock units is approximately $2.3 million.

In connection with our acquisition of StreetEasy, in October 2013 we granted restricted stock units for an aggregate 54,929 shares of our Class A common stock to certain former employees of StreetEasy who accepted employment with Zillow. The grant date fair value of the restricted stock units is approximately $4.4 million. In general, each restricted stock unit award will vest in substantially equal installments on each one-month anniversary of the vesting commencement date over a four-year period, subject to the recipient s continued employment with or service to Zillow.

The total fair value of vested restricted stock units was $10.8 million, $0 million and $0 million, respectively, for the years ended December 31, 2013, 2012 and 2011.

The fair value of the outstanding restricted stock units will be recorded as share-based compensation expense over the vesting period. As of December 31, 2013, there was $7.8 million of total unrecognized compensation cost related to restricted stock units, which is expected to be recognized over a weighted-average period of 2.78 years.

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Share-Based Compensation Expense

The following table presents the effects of share-based compensation in our statements of operations during the periods presented (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Cost of revenue	$ 737	$ 380	$ 189
Sales and marketing	10,969	2,433	388
Technology and development	4,660	1,886	546
General and administrative	7,070	1,912	822
	$ 23,436	$ 6,611	$ 1,945

Note 12. Net Income (Loss) Per Share Attributable to Common Shareholders

Basic net income (loss) per share attributable to common shareholders is computed by dividing net income (loss) attributable to common shareholders by the weighted-average number of common shares (including Class A common stock, Class B common stock and Class C common stock) outstanding during the period. In the calculation of basic net income (loss) per share attributable to common shareholders, undistributed earnings are allocated assuming all earnings during the period were distributed. Prior to our IPO in July 2011, net income is first allocated to the Series A, Series B and Series C convertible preferred shareholders, as the convertible preferred stock is a participating security and the preferred shareholders have contractual preferential rights to distributions. For the year ended December 31, 2011, all income was allocated to Series A, Series B and Series C convertible preferred shareholders, and as a result, there was no income attributable to common shareholders.

Diluted net income (loss) per share attributable to common shareholders is computed by dividing net income (loss) attributable to common shareholders by the weighted-average number of common shares (including Class A common stock, Class B common stock and Class C common stock) outstanding during the period and potentially dilutive Class A common stock equivalents, except in cases where the effect of the Class A common stock equivalent would be antidilutive. Potential Class A common stock equivalents consist of Class A common stock issuable upon exercise of stock options and Class A common stock underlying unvested restricted stock and restricted stock units using the treasury stock method.

For the periods presented, the following Class A common stock equivalents were included in the computation of diluted net income (loss) per share attributable to common shareholders because they had a dilutive impact (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Class A common stock issuable upon the exercise of stock options		2,469	2,490
Class A common stock underlying unvested restricted stock awards and restricted stock units		46	
Total Class A common stock equivalents		2,515	2,490

For the periods presented, the following Class A common stock equivalents were excluded from the calculations of diluted net loss per share because their effect would have been antidilutive (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Class A common stock issuable upon the exercise of stock options	3,179		
Class A common stock underlying unvested restricted stock awards	171		

Total Class A common stock equivalents	3,350

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In the event of liquidation, dissolution, distribution of assets or winding-up of the Company, the holders of all classes of common stock have equal rights to receive all the assets of the Company after the rights of the holders of the preferred stock have been satisfied. We have not presented net income (loss) per share attributable to common shareholders under the two-class method for our Class A common stock, Class B common stock and Class C common stock because it would be the same for each class due to equal dividend and liquidation rights for each class.

Note 13. Commitments and Contingencies

Lease Commitments

We have various operating leases for office space and equipment. In March 2011, we entered into a lease for approximately 66,000 square feet of office space that houses our corporate headquarters in Seattle, Washington, for which we are obligated to make escalating monthly lease payments that began in December 2012 and continue through November 2022. In June 2012, we entered into a lease amendment for our corporate headquarters in Seattle, Washington, which increased the rentable area of the premises by 21,575 square feet, for which we are obligated to make escalating monthly lease payments that began in January 2013 and continue through November 2022. In April 2013, we entered into a second lease amendment for our corporate headquarters in Seattle, Washington, which increased the rentable area of the premises by 22,583 square feet as of October 1, 2013, and will increase the rentable area of the premises by an additional 22,583 square feet as of September 1, 2014, for which we are obligated to make escalating monthly lease payments beginning in January 2014 and December 2014, respectively, and continuing through November 2022. In April 2012, we entered into an operating lease in Irvine, California for 20,025 square feet under which we are obligated to make escalating monthly lease payments which began in August 2012 and continue through July 2022. In September 2013, we entered into a lease amendment for our operating lease in Irvine, California, which increased the rentable area of the premises by 20,024 square feet, for which we are obligated to make escalating monthly lease payments beginning in February 2014 and continuing through July 2022. In November 2012, we entered into an operating lease in San Francisco, California for 18,353 square feet under which we are obligated to make escalating monthly lease payments which began in December 2012 and continue through November 2018. We lease additional office space in Chicago, Illinois, Lincoln, Nebraska, and New York, New York.

Future minimum payments for all operating leases as of December 31, 2013 are as follows (in thousands):

2014	$ 5,353
2015	7,005
2016	7,368
2017	7,446
2018	7,494
All future years	23,505
Total future minimum lease payments	$ 58,171

Rent expense for the years ended December 31, 2013, 2012 and 2011, was $4.1 million, $2.6 million and $2.1 million, respectively.

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Purchase Commitments

As of December 31, 2013, we had non-cancelable purchase commitments for content related to our mobile applications and websites totaling $13.6 million. The amount due for this content as of December 31, 2013 is as follows (in thousands):

2014	$ 4,546
2015	4,650
2016	3,600
2017	817
2018 and all future years	
Total future purchase commitments	$ 13,613

Line of Credit and Letters of Credit

During March 2011, we entered into a loan and security agreement with a financial institution to establish a line of credit of $4.0 million. In April 2012, we amended our loan and security agreement to increase our line of credit from $4.0 million to $25.0 million. In September 2013, we terminated the loan and security agreement.

In March 2011, we executed a standby letter of credit of $1.5 million in connection with the lease of our Seattle, Washington offices, and in July 2012, we amended the standby letter of credit to increase the amount to approximately $1.7 million. In connection with the April 2013 amendment to the lease of our Seattle, Washington offices, we amended our standby letter of credit to increase the amount from approximately $1.7 million to approximately $2.0 million. The letter of credit is secured by our investments and is effective until 60 days after the expiration date of the lease.

Legal Proceedings

In March 2010, Smarter Agent, LLC (Smarter Agent) filed a complaint against us and multiple other defendants, including HotPads, Inc. (HotPads), for patent infringement in the U.S. District Court for the District of Delaware. The complaint seeks, among other things, a judgment that we have infringed certain patents held by Smarter Agent, an injunctive order against the alleged infringing activities and an award for damages. In November 2010, the U.S. Patent and Trademark Office granted our petition for re-examination of the three patents-in-suit, and, to date, all claims of all three patents remain rejected in the re-examination proceedings. In March 2011, the court granted a stay of the litigation pending the completion of the re-examination proceedings. In addition, in October 2011, Smarter Agent filed a substantially similar complaint against Diverse Solutions, Inc. (Diverse Solutions), StreetEasy, and other defendants, for patent infringement in the U.S. District Court for the District of Delaware. On October 31, 2011, we acquired substantially all of the operating assets and certain liabilities of Diverse Solutions, including the Smarter Agent complaint against Diverse Solutions. On August 26, 2013, we acquired StreetEasy, including the Smarter Agent complaint against StreetEasy. On December 14, 2012, we acquired HotPads, including the Smarter Agent complaint against HotPads. We have not recorded an accrual related to these complaints as of December 31, 2013 or 2012, as we do not believe a material loss is probable. It is a reasonable possibility that a loss may be incurred; however, the possible loss or range of loss is not estimable.

In September 2010, LendingTree, LLC (LendingTree) filed a complaint against us for patent infringement in the U.S. District Court for the Western District of North Carolina. The complaint seeks, among other things, a judgment that we have infringed certain patents held by LendingTree, an injunctive order against the alleged infringing activities and an award for damages. We have denied the allegations and asserted counterclaims seeking declarations that we are not infringing the patents and that the patents are unenforceable and invalid. The LendingTree matter currently is subject to a trial by jury that began on February 10, 2014. We have not recorded an accrual related to this complaint as of December 31, 2013 or 2012, as we do not believe a material loss is probable. It is a reasonable possibility that a loss may be incurred; however, the possible loss or range of loss is not estimable.

In November 2012, a securities class action lawsuit was filed against us and certain of our executive officers seeking unspecified damages in the U.S. District Court for the Western District of Washington at Seattle. The complaint purports to state claims for violations of federal securities laws on behalf of a class of those who purchased our common stock between February 15, 2012 and November 6, 2012. A consolidated amended complaint was filed in June 2013. In general, the complaint alleges, among other things, that during the period between February 15, 2012 and November 6, 2012, we issued materially false and misleading statements regarding our business practices and financial results. In August 2013, we moved to dismiss the lawsuit. That motion to dismiss is pending. We intend to deny the allegations of any wrongdoing and vigorously defend the claims in the lawsuit. We have not recorded an accrual related to this lawsuit as of December 31, 2013 or 2012, as we do not believe a material loss is probable. It is a reasonable possibility that a loss may be incurred; however, the possible loss or range of loss is not estimable.

In January 2013, a shareholder derivative lawsuit was filed against certain of our executive officers and directors seeking unspecified damages on behalf of Zillow in the U.S. District Court for the Western District of Washington at Seattle. In general, the complaint alleged, among other things, that the defendants breached their fiduciary obligations owed to Zillow, and that as a result of the breach of such fiduciary duties, Zillow wasted corporate assets defending itself in the securities class action lawsuit described above, and that defendants were unjustly enriched by selling shares of our common stock on the basis of knowledge of adverse trends before such information was publicly disclosed. The shareholder derivative lawsuit was dismissed without prejudice on September 26, 2013, and we therefore have not recorded an accrual related to this lawsuit as of December 31, 2013 or 2012.

In addition to the matters discussed above, from time to time, we are involved in litigation and claims that arise in the ordinary course of business. Although we cannot be certain of the outcome of any litigation and claims, nor the amount of damages and exposure that we could incur, we currently believe that the final disposition of such matters will not have a material effect on our financial position, results of operations or cash flow. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

Indemnifications

In the ordinary course of business, we enter into contractual arrangements under which we agree to provide indemnification of varying scope and terms to business partners and other parties with respect to certain matters, including, but not limited to, losses arising out of the breach of such agreements and out of intellectual property infringement claims made by third parties. In these circumstances, payment may be conditional on the other party making a claim pursuant to the procedures specified in the particular contract. Further, our obligations under these agreements may be limited in terms of time and/or amount, and in some instances, we may have recourse against third parties for certain payments. In addition, we have indemnification agreements with certain of our directors and executive officers that require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers. The terms of such obligations may vary.

Note 14. Segment Information and Revenue

We have one reportable segment. Our reportable segment has been identified based on how our chief operating decision-maker manages our business, makes operating decisions and evaluates operating performance. The chief executive officer acts as the chief operating decision-maker and reviews financial and operational information on an entity-wide basis. We have one business activity and there are no segment managers who are held accountable for operations, operating results or plans for levels or components. Accordingly, we have determined that we have a single reporting segment and operating unit structure.

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The chief executive officer reviews information about revenue categories, including marketplace revenue and display revenue. The following table presents our revenue categories during the periods presented (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Marketplace revenue:			
Real estate	$ 132,396	$ 75,900	$ 36,749
Mortgages	21,812	10,770	5,441
Total Marketplace revenue	154,208	86,670	42,190
Display revenue	43,337	30,180	23,863
Total revenue	$ 197,545	$ 116,850	$ 66,053

Note 15. Subsequent Events

In January 2014, we amended our operating lease for our principal offices in Seattle, Washington, to increase the rentable area of the premises by 22,694 square feet as of October 1, 2016, for which we are obligated to make escalating monthly lease payments beginning in January 2017 and continuing through November 2022. Future minimum payments for the additional space are as follows (in thousands):

Remainder of 2014	$
2015	
2016	
2017	955
2018	978
All future years	4,047
Total future minimum lease payments	$ 5,980

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company carried out an evaluation, with the participation of our management, and under the supervision of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined under Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2013.

Management s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined under Rule 13a-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework). Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2013.

We intend to regularly review and evaluate the design and effectiveness of our disclosure controls and procedures and internal control over financial reporting on an ongoing basis and to improve these controls and procedures over time and to correct any deficiencies that we may discover in the future. While we believe the present design of our disclosure controls and procedures and internal control over financial reporting are effective, future events affecting our business may cause us to modify our controls and procedures.

The Company s independent registered public accounting firm has issued an attestation report regarding its assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2013.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the three months ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Zillow, Inc.

We have audited Zillow, Inc. s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Zillow, Inc. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Zillow, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets of Zillow, Inc. as of December 31, 2013 and 2012, and the related statements of operations, shareholders equity and cash flows for each of the three years in the period ended December 31, 2013 of Zillow, Inc. and our report dated February 18, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Seattle, Washington

February 18, 2014

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Item 9B. Other Information

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated by reference to our definitive proxy statement relating to our 2014 annual meeting of shareholders. The definitive proxy statement will be filed with the Securities and Exchange Commission within 120 days after the end of the 2013 fiscal year.

We have adopted a Code of Ethics that applies to our Chief Executive Officer, Chief Financial Officer, principal accounting officer and controller and persons performing similar functions. The Code of Ethics is posted on our website at http://investors.zillow.com/Governance.cfm. We intend to satisfy the disclosure requirements under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of the Code of Ethics by posting such information on our website at the address specified above.

Item 11. Executive Compensation

The information required by this item is incorporated by reference to our definitive proxy statement relating to our 2014 annual meeting of shareholders. The definitive proxy statement will be filed with the Securities and Exchange Commission within 120 days after the end of the 2013 fiscal year.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated by reference to our definitive proxy statement relating to our 2014 annual meeting of shareholders. The definitive proxy statement will be filed with the Securities and Exchange Commission within 120 days after the end of the 2013 fiscal year.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated by reference to our definitive proxy statement relating to our 2014 annual meeting of shareholders. The definitive proxy statement will be filed with the Securities and Exchange Commission within 120 days after the end of the 2013 fiscal year.

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated by reference to our definitive proxy statement relating to our 2014 annual meeting of shareholders. The definitive proxy statement will be filed with the Securities and Exchange Commission within 120 days after the end of the 2013 fiscal year.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) *Financial Statements*

We have filed the financial statements listed in the Index to Financial Statements as a part of this Annual Report on Form 10-K.

(a)(2) *Financial Statement Schedules*

All financial statement schedules have been omitted because they are not applicable, not material or the required information is presented in the financial statements or the notes thereto.

(a)(3) *Exhibits*

The list of exhibits included in the Exhibit Index to this Annual Report on Form 10-K is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	ZILLOW, INC.	
Date: February 18, 2014	By:	/s/ Chad M. Cohen
	Name:	**Chad M. Cohen**
	Title:	**Chief Financial Officer and Treasurer**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated below on February 18, 2014.

Signature	Title
/s/ Spencer M. Rascoff **Spencer M. Rascoff**	Chief Executive Officer (Principal Executive Officer) and Director
/s/ Chad M. Cohen **Chad M. Cohen**	Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)
/s/ Richard Barton **Richard Barton**	Executive Chairman and Director
/s/ Lloyd D. Frink **Lloyd D. Frink**	Vice Chairman, President and Director
/s/ Erik Blachford **Erik Blachford**	Director
/s/ J. William Gurley **J. William Gurley**	Director
/s/ Jay C. Hoag **Jay C. Hoag**	Director
/s/ Gregory B. Maffei **Gregory B. Maffei**	Director
/s/ Gordon Stephenson **Gordon Stephenson**	Director

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EXHIBIT INDEX

Certain of the following exhibits have heretofore been filed with the Securities and Exchange Commission and are incorporated by reference from the documents described in parentheses. Certain others are filed herewith. The exhibits are numbered in accordance with Item 601 of Regulation S-K. In reviewing the agreements included as exhibits to this Annual Report on Form 10-K, please remember that they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about the Company or the other parties to the agreement. The agreements may contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other party or parties to the applicable agreement and (i) should not in all instances be treated as categorical statements of fact, but rather as a means of allocating the risk to one of the parties if those statements prove to be inaccurate; (ii) may have been qualified by disclosures that were made to the other party or parties in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement; (iii) may apply standards of materiality in a manner that is different from what may be viewed as material to you or other investors; and (iv) were made only as of the date of the applicable agreement or other date or dates that may be specified in the agreement and are subject to more recent developments. Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about the Company may be found elsewhere in this Annual Report on Form 10-K and the Company s other public filings, which are available without charge through the SEC s website at http://www.sec.gov.

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated May 2, 2012, by and among Zillow, Inc., RentJuice Corporation, Renegade Acquisition, Inc. and Shareholder Representative Services LLC (Filed as Exhibit 2.1 to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 2, 2012, and incorporated herein by reference).
2.2	Agreement and Plan of Merger, dated August 16, 2013, by and among Zillow, Inc., NMD Interactive, Inc., d/b/a StreetEasy, Strawberry Acquisition, Inc. and Shareholder Representative Services LLC (Filed as Exhibit 2.1 to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on August 19, 2013, and incorporated herein by reference).
3.1	Amended and Restated Articles of Incorporation, dated July 20, 2011 (Filed as Exhibit 3.1 to Zillow, Inc. s Quarterly Report on Form 10-Q (SEC File No. 001-35237) filed on August 25, 2011, and incorporated herein by reference).
3.2	Amended and Restated Bylaws, dated July 25, 2011 (Filed as Exhibit 3.2 to Zillow, Inc. s Quarterly Report on Form 10-Q (SEC File No. 001-35237) filed on August 25, 2011, and incorporated herein by reference).
4.1	Specimen of Class A Common Stock Certificate (Filed as Exhibit 4.1 to Zillow, Inc. s Amendment No. 3 to Registration Statement on Form S-1 (SEC File No. 333-173570) filed on June 20, 2011, and incorporated herein by reference).
4.2	Second Amended and Restated Investors Rights Agreement, dated September 7, 2007 (Filed as Exhibit 4.2 to Zillow, Inc. s to Registration Statement on Form S-1 (SEC File No. 333-173570) filed on April 18, 2011, and incorporated herein by reference).
4.3	Common Stock Purchase Agreement among Zillow, Inc., TCV V, L.P., TCV Member Fund, L.P., and PAR Investment Partners, L.P. dated June 16, 2011 (Filed as Exhibit 4.3 to Zillow, Inc. s Current Report on Form 8-K (SEC File No. 001-35237) filed on July 29, 2011, and incorporated herein by reference).
4.4	Agreement, Waiver and Amendment With Respect to Initial Public Offering and Common Stock Financing, dated as of April 16, 2011 (Filed as Exhibit 4.14 to Registrant s Registration Statement on Form S-3 (SEC File No. 333-183111) filed with the Securities and Exchange Commission on August 7, 2012, and incorporated herein by reference).

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Exhibit Number	Description
10.1*	Form of Indemnification Agreement between Zillow, Inc. and each of its directors and executive officers (Filed as Exhibit 10.1 to Zillow, Inc. s Registration Statement on Form S-1 (SEC File No. 333-173570) filed on April 18, 2011, and incorporated herein by reference).
10.2*	Form of Stock Option Grant Notice and Stock Option Agreement under the Zillow, Inc. Amended and Restated 2005 Equity Incentive Plan (Filed as Exhibit 10.6 to Zillow, Inc. s Registration Statement on Form S-1 (SEC File No. 333-173570) filed on April 18, 2011, and incorporated herein by reference).
10.3*	Form of Stock Option Grant Notice and Stock Option Agreement under the Zillow, Inc. 2011 Incentive Plan (Filed as Exhibit 10.3 to Zillow, Inc. s Amendment No. 3 to Registration Statement on Form S-1 (SEC File No. 333-173570) filed on June 20, 2011, and incorporated herein by reference).
10.4*	Zillow, Inc. Amended and Restated 2005 Equity Incentive Plan (Filed as Exhibit 10.5 to Zillow, Inc. s Amendment No. 3 to Registration Statement on Form S-1 (SEC File No. 333-173570) filed on June 20, 2011, and incorporated herein by reference).
10.5*	Zillow, Inc. Amended and Restated 2011 Equity Incentive Plan (Filed as Appendix A to Zillow s Definitive Proxy Statement filed with the Securities and Exchange Commission on April 17, 2012, and incorporated herein by reference).
10.6*	Amendment No. 1 to the Zillow, Inc. Amended and Restated 2011 Incentive Plan (Filed as Appendix A to Zillow s Definitive Proxy Statement filed with the Securities and Exchange Commission on April 16, 2013, and incorporated herein by reference).
10.7	Office Lease between The Northwestern Mutual Life Insurance Company and Zillow, Inc. dated March 22, 2011 (Filed as Exhibit 10.10 to Zillow, Inc. s Registration Statement on Form S-1 (SEC File No. 333-173570) filed on April 18, 2011, and incorporated herein by reference).
10.8	Amendment to Office Lease by and between FSP-RIC LLC and Zillow, Inc., dated as of June 27, 2012 (Filed as Exhibit 10.1 to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on June 29, 2012, and incorporated herein by reference).
10.9	Second Amendment to Lease by and between FSP-RIC, LLC and Zillow, Inc., dated as of April 16, 2013 (Filed as Exhibit 10.1 to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on April 22, 2013, and incorporated herein by reference).
10.10	Third Amendment to Lease by and between FSP-RIC, LLC and Zillow, Inc., dated as of January 10, 2014.
10.11	Listings and Sales Agreement by and among Yahoo! Inc., Yahoo! Realty Inc. and Zillow, Inc. dated July 2, 2010 (Filed as Exhibit 10.1 to Registrant s Form 10-Q filed with the Securities and Exchange Commission on August 6, 2013, and incorporated herein by reference).
10.12	Amendment No. 1 to the Listings and Sales Agreement by and among Yahoo! Inc., Yahoo! Realty Inc. and Zillow, Inc. dated August 30, 2011 (Filed as Exhibit 10.1 to Registrant s Form 10-Q filed with the Securities and Exchange Commission on May 4, 2012, and incorporated herein by reference).
10.13	Amendment No. 2 to the Listings and Sales Agreement by and among Yahoo! Inc., Yahoo! Realty Inc. and Zillow, Inc., dated February 7, 2012 (Filed as Exhibit 10.2 to Registrant s Form 10-Q filed with the Securities and Exchange Commission on May 4, 2012, and incorporated herein by reference).
10.14	Amendment No. 3 to the Listings and Sales Agreement by and among Yahoo! Inc., Yahoo! Realty Inc. and Zillow, Inc., dated June 28, 2012 (Filed as Exhibit 10.3 to Registrant s Form 10-Q filed with the Securities and Exchange Commission on August 7, 2012, and incorporated herein by reference).

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Exhibit Number	Description
10.15*	Forms of Confidential Information, Inventions, Nonsolicitation and Noncompetition Agreement for the officers of Zillow, Inc. (Filed as Exhibit 10.13 to Zillow, Inc. s Amendment No. 1 to Registration Statement on Form S-1 (SEC File No. 333-173570) filed on May 23, 2011, and incorporated herein by reference).
10.16*	Executive Employment Agreement by and between Spencer M. Rascoff and Zillow, Inc. (Filed as Exhibit 10.14 to Zillow, Inc. s Amendment No. 1 to Registration Statement on Form S-1 (SEC File No. 333-173570) filed on May 23, 2011, and incorporated herein by reference).
10.17*	Executive Employment Agreement by and between Chad M. Cohen and Zillow, Inc. (Filed as Exhibit 10.15 to Zillow, Inc. s Amendment No. 1 to Registration Statement on Form S-1 (SEC File No. 333-173570) filed on May 23, 2011, and incorporated herein by reference).
10.18*	Executive Employment Agreement by and between Kathleen Philips and Zillow, Inc. (Filed as Exhibit 10.16 to Zillow, Inc. s Amendment No. 1 to Registration Statement on Form S-1 (SEC File No. 333-173570) filed on May 23, 2011, and incorporated herein by reference).
10.19*	Stock Option Grant Program for Nonemployee Directors under the Zillow, Inc. 2011 Incentive Plan.
10.20	Platform Services Agreement, dated April 7, 2011, by and between Zillow, Inc. and Threewide Corporation (Filed as Exhibit 10.18 to Registrant s Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 22, 2013, and incorporated herein by reference).
10.21	Amended and Restated Loan and Security Agreement, dated April 30, 2012, by and among Zillow, Inc. and Silicon Valley Bank (Filed as Exhibit 10.1 to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 2, 2012, and incorporated herein by reference).
23.1	Consent of independent registered public accounting firm.
31.1	Certification of Chief Executive Officer pursuant to Rule 13-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

* Indicates a management contract or compensatory plan or arrangement.
Portions of this exhibit have been omitted pursuant to a confidential treatment order by the Securities and Exchange Commission.