

ZILLOW INC
Form 10-Q
November 06, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

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

Commission File Number: 001-35237

ZILLOW, INC.

(Exact name of registrant as specified in its charter)

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Washington
(State or other jurisdiction of
incorporation or organization)

20-2000033
(I.R.S. Employer
Identification Number)

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

98101
(Zip Code)

(206) 470-7000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of October 31, 2012, 25,908,828 shares of Class A common stock and 7,524,276 shares of Class B common stock were outstanding.

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ZILLOW, INC.

Quarterly Report on Form 10-Q

For the Three Months Ended September 30, 2012

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As used in this Quarterly Report on Form 10-Q, the terms Zillow, the Company, we, us and our refer to Zillow, Inc., unless the context indicates otherwise.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including Part I, Item 2 (Management's Discussion and Analysis of Financial Condition and Results of Operations), contains forward-looking statements based on our management's beliefs and assumptions and on information currently available to our management. Forward-looking statements include all statements that are not historical facts and generally may be identified by terms such as believe, may, will, estimate, continue, anticipate, intend, could, would, project, plan, expect or the negative or plural of expressions.

These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including but not limited to, our ability to maintain and effectively manage an adequate rate of growth; the impact of the real estate industry on our business; our ability to innovate and provide products and services that are attractive to our users and advertisers; our ability to increase awareness of the Zillow brand in a cost-effective manner; our ability to maintain or establish relationships with listings and data providers; our ability to attract consumers to our mobile applications and websites; our ability to successfully integrate and realize the benefits of our past or future strategic acquisitions or investments; our ability to compete successfully against existing or future competitors; the reliable performance of our network infrastructure and content delivery process; and our ability to protect our intellectual property. Further discussion of factors that may affect our business and results of operations is included in Part II, Item 1A (Risk Factors) in our Quarterly Report on Form 10-Q for the three months ended June 30, 2012 and in Part I, Item 1A (Risk Factors) in our Annual Report on Form 10-K for the year ended December 31, 2011. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the effect of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this report may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should not rely on forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur. Moreover, except as required by law, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements, and we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this report to conform these statements to actual results or to changes in our expectations.

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

	September 30, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 188,858	\$ 47,926
Short-term investments	40,024	28,925
Accounts receivable, net of allowance for doubtful accounts of \$878 and \$683 at September 30, 2012 and December 31, 2011, respectively	8,639	5,638
Prepaid expenses and other current assets	3,223	3,214
Total current assets	240,744	85,703
Long-term investments		15,285
Property and equipment, net	12,878	7,227
Goodwill	35,375	3,676
Intangible assets, net	9,069	4,532
Other assets	286	245
Total assets	\$ 298,352	\$ 116,668
Liabilities and shareholders equity		
Current liabilities:		
Accounts payable	\$ 2,660	\$ 1,681
Accrued expenses and other current liabilities	5,387	4,893
Accrued compensation and benefits	2,393	1,587
Deferred revenue	8,720	5,769
Deferred rent, current portion	92	60
Total current liabilities	19,252	13,990
Deferred rent, net of current portion	2,950	1,347
Other non-current liabilities		118
Commitments and contingencies (Note 12)		
Shareholders equity:		
Preferred stock, \$0.0001 par value; 30,000,000 shares authorized as of September 30, 2012 and December 31, 2011; no shares issued and outstanding as of September 30, 2012 and December 31, 2011		
Class A common stock, \$0.0001 par value; 600,000,000 shares authorized as of September 30, 2012 and December 31, 2011; 25,847,566 and 18,580,292 shares issued and outstanding as of September 30, 2012 and December 31, 2011, respectively	3	2
Class B common stock, \$0.0001 par value; 15,000,000 shares authorized as of September 30, 2012 and December 31, 2011; 7,563,276 and 9,528,313 shares issued and outstanding as of September 30, 2012 and December 31, 2011	1	1
Additional paid-in capital	348,363	178,817
Accumulated deficit	(72,217)	(77,607)

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Total shareholders' equity	276,150	101,213
Total liabilities and shareholders' equity	\$ 298,352	\$ 116,668

See accompanying notes to condensed financial statements.

Table of Contents**ZILLOW, INC.****CONDENSED STATEMENTS OF OPERATIONS****(in thousands, except per share data, unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenue	\$ 31,915	\$ 19,057	\$ 82,513	\$ 46,162
Costs and expenses:				
Cost of revenue (exclusive of amortization) (1)	3,623	3,084	10,237	7,614
Sales and marketing	14,118	7,035	34,586	18,150
Technology and development	6,687	3,849	17,535	10,148
General and administrative (2)	5,192	5,695	14,869	10,151
Total costs and expenses	29,620	19,663	77,227	46,063
Income (loss) from operations	2,295	(606)	5,286	99
Other income	39	36	104	79
Net income (loss)	\$ 2,334	\$ (570)	\$ 5,390	\$ 178
Net income (loss) attributable to common shareholders	\$ 2,334	\$ (570)	\$ 5,390	\$
Net income (loss) per share attributable to common shareholders - basic	\$ 0.08	\$ (0.02)	\$ 0.19	\$
Net income (loss) per share attributable to common shareholders - diluted	\$ 0.07	\$ (0.02)	\$ 0.17	\$
Weighted-average shares outstanding - basic	30,040	24,020	29,115	17,141
Weighted-average shares outstanding - diluted	32,230	24,020	31,493	20,220
(1) Amortization of website development costs and intangible assets included in technology and development is as follows:	\$ 3,198	\$ 1,461	\$ 7,576	\$ 3,918
(2) General and administrative includes a facility exit charge as follows:	\$	\$ 1,737	\$	\$ 1,737

See accompanying notes to condensed financial statements.

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

	Nine Months Ended September 30,	
	2012	2011
Operating activities		
Net income	\$ 5,390	\$ 178
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,702	5,429
Facility exit charge		1,737
Share-based compensation expense	4,355	1,291
Loss on disposal of property and equipment	114	18
Bad debt expense	550	385
Deferred rent	1,630	496
Amortization (accretion) of bond premium (discount)	586	(2)
Changes in operating assets and liabilities:		
Accounts receivable	(3,546)	(2,516)
Prepaid expenses and other assets	(7)	(453)
Accounts payable	758	2,984
Accrued expenses	1,026	2,022
Deferred revenue	2,942	2,450
Net cash provided by operating activities	22,500	14,019
Investing activities		
Proceeds from maturities of investments	3,600	4,750
Purchases of investments		(3,251)
Purchases of property and equipment	(9,652)	(7,460)
Purchases of intangible assets	(2,525)	(1,005)
Acquisitions, net of cash acquired of \$2,029 in 2012 and \$0 in 2011	(36,405)	(1,000)
Net cash used in investing activities	(44,982)	(7,966)
Financing activities		
Proceeds from exercise of Class A common stock options	6,688	1,194
Proceeds from public offering, net of offering costs	156,726	
Proceeds from initial public offering, net of offering costs		70,788
Proceeds from concurrent private placement		5,500
Net cash provided by financing activities	163,414	77,482
Net increase in cash and cash equivalents during period	140,932	83,535
Cash and cash equivalents at beginning of period	47,926	12,278
Cash and cash equivalents at end of period	\$ 188,858	\$ 95,813

Supplemental disclosures of cash flow information

Noncash transactions:

Capitalized share-based compensation