ZILLOW GROUP, INC.
Form 10-Q
August 05, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

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

Commission File Number: 001-36853

ZILLOW GROUP, INC.

(Exact name of registrant as specified in its charter)

Washington	**47-1645716**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
1301 Second Avenue, Floor 31, Seattle, Washington	**98101**
(Address of principal executive offices)	**(Zip Code)**

(206) 470-7000

https://twitter.com/zillowgroup

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x 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 x	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 x

As of July 29, 2015, 52,771,069 shares of Class A common stock and 6,217,447 shares of Class B common stock were outstanding.

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ZILLOW GROUP, INC.

Quarterly Report on Form 10-Q

For the Three Months Ended June 30, 2015

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

NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including but not limited to our ability to successfully integrate and realize the benefits of our past or future strategic acquisitions or investments, including our February 2015 acquisition of Trulia, Inc., as well as those risks, uncertainties and assumptions described in Part II, Item 1A (Risk Factors) of this report. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the effect of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this report may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

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

WHERE YOU CAN FIND MORE INFORMATION

Our filings with the Securities and Exchange Commission, or SEC, including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports are available on our website at www.zillowgroup.com, free of charge, as soon as reasonably practicable after the electronic filing of these reports with the SEC. The information contained on our website is not a part of this quarterly report on Form 10-Q.

Investors and others should note that Zillow Group announces material financial information to its investors using its press releases, SEC filings and public conference calls and webcasts. Zillow Group intends to also use the following channels as a means of disclosing information about Zillow Group, its services and other matters and for complying with its disclosure obligations under Regulation FD:

Zillow Group Investor Relations Webpage (http://investors.zillowgroup.com)

Zillow Group Investor Relations Blog (http://www.zillowgroup.com/ir-blog)

Zillow Group Twitter Account (https://twitter.com/zillowgroup)

The information Zillow Group posts through these channels may be deemed material. Accordingly, investors should monitor these channels, in addition to following Zillow Group s press releases, SEC filings and public conference calls and webcasts. This list may be updated from time to time. The information we post through these channels is not a part of this quarterly report on Form 10-Q.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

ZILLOW GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data, unaudited)

	June 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 302,272	$ 125,765
Short-term investments	322,695	246,829
Accounts receivable, net of allowance for doubtful accounts of $3,137 and $2,811 at June 30, 2015 and December 31, 2014, respectively	35,198	18,684
Prepaid expenses and other current assets	21,888	10,059
Total current assets	682,053	401,337
Restricted cash	6,635	
Long-term investments		83,326
Property and equipment, net	81,416	41,600
Goodwill	1,832,961	96,352
Intangible assets, net	565,345	26,757
Other assets	1,452	358
Total assets	$ 3,169,862	$ 649,730
Liabilities and shareholders equity		
Current liabilities:		
Accounts payable	$ 11,908	$ 9,358
Accrued expenses and other current liabilities	60,134	16,883
Accrued compensation and benefits	11,800	6,735
Accrued restructuring costs	4,186	
Deferred revenue	23,199	15,356
Deferred rent, current portion	1,148	864
Total current liabilities	112,375	49,196
Deferred rent, net of current portion	13,524	11,755
Long-term debt	230,000	
Deferred tax liabilities and other long-term liabilities	143,521	
Total liabilities	499,420	60,951

Commitments and contingencies (Note 14)			
Shareholders equity:			
Preferred stock, $0.0001 par value; 30,000,000 shares authorized as of June 30, 2015 and December 31, 2014; no shares issued and outstanding as of June 30, 2015 and December 31, 2014			
Class A common stock, $0.0001 par value; 1,245,000,000 and 600,000,000 shares authorized as of June 30, 2015 and December 31, 2014, respectively; 52,738,491 and 34,578,393 shares issued and outstanding as of June 30, 2015 and December 31, 2014, respectively	5		3
Class B common stock, $0.0001 par value; 15,000,000 shares authorized as of June 30, 2015 and December 31, 2014; 6,217,447 shares issued and outstanding as of June 30, 2015 and December 31, 2014	1		1
Class C capital stock, $0.0001 par value; 600,000,000 shares authorized as of June 30, 2015 and no shares authorized as of December 31, 2014; no shares issued and outstanding as of June 30, 2015 and December 31, 2014			
Additional paid-in capital	2,895,155		716,506
Accumulated other comprehensive income	117		
Accumulated deficit	(224,836)		(127,731)
Total shareholders equity	2,670,442		588,779
Total liabilities and shareholders equity	$ 3,169,862	$	649,730

See accompanying notes to condensed consolidated financial statements.

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ZILLOW GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data, unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	**2014**	**2015**	**2014**
Revenue	$ 171,269	$ 78,675	$ 298,542	$ 144,918
Costs and expenses:				
Cost of revenue (exclusive of amortization) (1)	17,037	6,793	30,056	12,957
Sales and marketing	87,942	48,429	147,228	83,562
Technology and development	51,740	19,508	89,065	36,243
General and administrative	43,810	14,522	81,834	29,211
Acquisition-related costs	1,679	184	14,156	184
Restructuring costs	6,652		31,717	
Total costs and expenses	208,860	89,436	394,056	162,157
Loss from operations	(37,591)	(10,761)	(95,514)	(17,239)
Other income	450	284	719	503
Interest expense	(1,580)		(2,310)	
Net loss	$ (38,721)	$ (10,477)	$ (97,105)	$ (16,736)
Net loss per share basic and diluted	$ (0.66)	$ (0.26)	$ (1.80)	$ (0.42)
Weighted-average shares outstanding basic and diluted	58,714	39,800	53,949	40,314
(1) Amortization of website development costs and intangible assets included in technology and development	$ 17,117	$ 6,857	$ 28,899	$ 13,641

See accompanying notes to condensed consolidated financial statements.

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ZILLOW GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands, unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	**2014**	**2015**	**2014**
Net loss	$ (38,721)	$ (10,477)	$ (97,105)	$ (16,736)
Other comprehensive income:				
Unrealized gains (losses) on investments	(19)		130	
Reclassification adjustment for net investment gains included in net loss	(3)		(13)	
Net unrealized gains (losses) on investments	(22)		117	
Total other comprehensive income (loss)	(22)		117	
Comprehensive loss	$ (38,743)	$ (10,477)	$ (96,988)	$ (16,736)

See accompanying notes to condensed consolidated financial statements.

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ZILLOW GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands, unaudited)

	Six Months Ended June 30,	
	2015	**2014**
Operating activities		
Net loss	$ (97,105)	$ (16,736)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	34,447	16,670
Share-based compensation expense	52,887	15,542
Restructuring costs	18,147	
Loss on disposal of property and equipment	499	353
Bad debt expense	1,605	1,225
Deferred rent	2,310	2,779
Amortization of bond premium	1,593	1,751
Changes in operating assets and liabilities:		
Accounts receivable	(5,026)	(5,876)
Prepaid expenses and other assets	8,494	(1,565)
Accounts payable	(2,516)	9,555
Accrued expenses and other current liabilities	13	1,515
Accrued compensation and benefits	(3,259)	1,923
Accrued restructuring costs	1,425	
Deferred revenue	(366)	1,739
Other long-term liabilities	2,998	
Net cash provided by operating activities	16,146	28,875
Investing activities		
Proceeds from maturities of investments	165,723	73,885
Purchases of investments	(164,718)	(159,253)
Proceeds from sales of investments	4,979	
Decrease in restricted cash	312	
Purchases of property and equipment	(25,546)	(15,373)
Purchases of intangible assets	(8,006)	(2,132)
Cash acquired in acquisition, net	173,406	
Cash paid for acquisition		(3,500)
Net cash provided by (used in) investing activities	146,150	(106,373)
Financing activities		
Proceeds from exercise of Class A Common stock options	14,722	14,027
Value of equity awards withheld for tax liability	(511)	

Net cash provided by financing activities	14,211	14,027
Net increase (decrease) in cash and cash equivalents during period	176,507	(63,471)
Cash and cash equivalents at beginning of period	125,765	201,760
Cash and cash equivalents at end of period	$ 302,272	$ 138,289
Supplemental disclosures of cash flow information		
Cash paid for interest	$ 3,163	$
Noncash transactions:		
Value of Class A common stock issued in connection with an acquisition	$ 1,883,728	$
Capitalized share-based compensation	$ 4,783	$ 3,086
Write-off of fully depreciated property and equipment	$ 13,001	$ 3,017

See accompanying notes to condensed consolidated financial statements.

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ZILLOW GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 1. Organization and Description of Business

Zillow Group, Inc. operates the leading real estate and home-related information marketplaces on mobile and the Web, with a complementary portfolio of brands and products to help people find vital information about homes and connect with local professionals. Zillow Group s brands focus on all stages of the home lifecycle: renting, buying, selling, financing and home improvement. The Zillow Group portfolio of consumer brands includes real estate and rental marketplaces Zillow, Trulia, StreetEasy and HotPads. In addition, Zillow Group works with tens of thousands of real estate agents, lenders and rental professionals, helping maximize business opportunities and connect to millions of consumers. We also own and operate a number of brands for real estate, rental and mortgage professionals, including Postlets, Mortech, Diverse Solutions, Market Leader and Retsly.

Acquisition of Trulia, Inc.

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

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

The total purchase price of Trulia was approximately $2.0 billion. During the three and six month periods ended June 30, 2015, Zillow Group incurred a total of $1.7 million and $14.2 million, respectively, in acquisition-related costs related to the transaction. We have included Trulia s results of operations prospectively after February 17, 2015, the date of acquisition. Further details on the acquisition of Trulia are presented in Note 6 of these condensed consolidated financial statements.

On February 17, 2015, in connection with the Mergers, Zillow Group undertook a restructuring plan that resulted in a total workforce reduction of nearly 350 employees, primarily to eliminate overlapping positions in the sales and marketing functions related to Trulia s workforce at its Bellevue, Denver, New York and San Francisco locations. The restructuring plan is a result of the integration of Trulia s business and operations with and into Zillow Group s business. Employees directly affected by the restructuring plan have been or will be provided with severance payments, stock vesting acceleration and outplacement assistance. Zillow Group expects to complete the restructuring by the end of 2015. As a result of the restructuring plan, Zillow Group recorded a restructuring charge of approximately $6.7 million and $31.7 million, respectively, during the three and six month periods ended June 30, 2015, for severance and other personnel related expenses, contract termination costs associated with certain operating leases, and non-cash expenses relating to stock vesting acceleration. Further details on the restructuring are presented in Note 15 of these condensed consolidated financial statements.

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Certain Significant Risks and Uncertainties

We operate in a dynamic industry and, accordingly, can be affected by a variety of factors. For example, we believe that changes in any of the following areas could have a significant negative effect on us in terms of our future financial position, results of operations or cash flows: our ability to successfully integrate and realize the benefits of our past or future strategic acquisitions or investments, including our February 2015 acquisition of Trulia; rates of revenue growth; engagement and usage of our products; scaling and adaptation of existing technology and network infrastructure; competition in our market; management of our growth; qualified employees and key personnel; protection of our brand and intellectual property; changes in government regulation affecting our business; intellectual property infringement and other claims; protection of customers information and privacy concerns; and security measures related to our mobile applications and websites, among other things.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements include Zillow Group, Inc. and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. These condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) and applicable rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the audited financial statements and accompanying notes as of and for the year ended December 31, 2014 included in Zillow, Inc. s Annual Report on Form 10-K, which was filed with the SEC on February 17, 2015. The condensed consolidated balance sheet as of December 31, 2014, included herein, was derived from the audited financial statements of Zillow, Inc. as of that date.

For financial reporting and accounting purposes, Zillow was the acquirer of Trulia. The results presented in the condensed consolidated financial statements and the notes to condensed consolidated financial statements reflect those of Zillow prior to the completion of the acquisition of Trulia on February 17, 2015, and Trulia s results of operations have been included prospectively after February 17, 2015.

The unaudited condensed consolidated interim financial statements, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our financial position as of June 30, 2015, our results of operations and comprehensive loss for the three and six month periods ended June 30, 2015, and our cash flows for the six month periods ended June 30, 2015 and 2014. The results of the three and six month periods ended June 30, 2015 are not necessarily indicative of the results to be expected for the year ended December 31, 2015 or for any interim period or for any other future year.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and the related disclosures at the date of the financial statements, as well as the reported amounts of revenue and expenses during the periods presented. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, website development costs, recoverability of long-lived assets and intangible assets with definite lives, share-based compensation, income tax uncertainties, including a valuation allowance for deferred tax assets, business combinations, goodwill, and restructuring, among others. To the extent there are material differences between these estimates, judgments, or assumptions and actual results, our financial statements will be affected.

Reclassifications

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

Recently Issued Accounting Standards

In April 2015, the Financial Accounting Standards Board (FASB) issued guidance related to a customer s accounting for fees paid in a cloud computing arrangement. This standard provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. This guidance is effective for interim and annual reporting periods beginning after December 15, 2015, and early adoption is permitted. We expect to adopt this guidance on January 1, 2016. We do not expect the adoption of this guidance to have a material impact on our financial position, results of operations or cash flows.

In August 2014, the FASB issued guidance on the disclosure of uncertainties about an entity s ability to continue as a going concern. This standard provides guidance about management s responsibility to evaluate whether there is substantial doubt about an entity s ability to continue as a going concern and to provide related footnote disclosures. The guidance is effective for annual reporting periods ending after December 15, 2016, and early adoption is permitted. We expect to adopt this guidance on January 1, 2017. We do not expect the adoption of this guidance to have any impact on our financial position, results of operations or cash flows.

In May 2014, the FASB issued guidance on revenue recognition. This guidance provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance also requires more detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. This guidance is effective for interim and annual reporting periods beginning after December 15, 2016, early adoption is not permitted, and must be applied retrospectively or modified retrospectively. We expect to adopt this guidance on January 1, 2017. We have not yet determined our approach to adoption or the impact the adoption of this guidance will have on our financial position, results of operations or cash flows, if any.

In April 2014, the FASB issued guidance on reporting discontinued operations and disclosures of disposals of components of an entity. This standard raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. The guidance is effective for annual reporting periods ending after December 15, 2014. Early adoption is permitted but only for disposals that have not been reported in financial statements previously issued. We adopted this guidance on January 1, 2015. The adoption of this guidance has not had a material impact on our financial position, results of operations or cash flows.

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, including money market funds, foreign government securities and certificates of deposit, 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 these assets are recorded at fair value.

Investments Our investments consist of fixed income securities, which include U.S. and foreign government agency securities, corporate notes and bonds, municipal securities, commercial paper and certificates of deposit. 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.

Restricted cash Our restricted cash consists primarily of certificates of deposit held as collateral in our name at a financial institution related to certain of our operating leases. The fair value measurement of these assets is based on observable market-based inputs.

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The following table presents the balances of assets measured at fair value on a recurring basis, by level within the fair value hierarchy, as of June 30, 2015 (in thousands):

	June 30, 2015		
	Total	Level 1	Level 2
Cash equivalents:			
Money market funds	$ 78,532	$ 78,532	$
Certificates of deposit	249		249
Short-term investments:			
U.S government agency securities	179,693	179,693	
Corporate notes and bonds	74,587		74,587
Municipal securities	43,190		43,190
Certificates of deposit	15,277		15,277
Foreign government securities	5,949		5,949
Commercial paper	3,999		3,999
Restricted cash	6,635		6,635
Total	$ 408,111	$ 258,225	$ 149,886

The following table presents the fair value, by level within the fair value hierarchy, of our cash equivalents and investments as of December 31, 2014 (in thousands):

	December 31, 2014		
	Total	Level 1	Level 2
Cash equivalents:			
Money market funds	$ 98,645	$ 98,645	$
Foreign government securities	9,035		9,035
Certificates of deposit	2,975		2,975
Short-term investments:			
U.S government agency securities	118,342	118,342	
Corporate notes and bonds	78,746		78,746
Municipal securities	26,256		26,256
Foreign government securities	8,570		8,570
Commercial paper	7,987		7,987
Certificates of deposit	6,928		6,928
Long-term investments:			
U.S government agency securities	63,515	63,515	
Municipal securities	12,917		12,917
Corporate notes and bonds	6,694		6,694
Certificates of deposit	200		200
Total	$ 440,810	$ 280,502	$ 160,308

As of December 31, 2014, the amortized cost of cash equivalents and held-to-maturity investments approximated their fair value.

See Note 9 for the carrying amount and estimated fair value of the Company s convertible senior notes.

Note 4. Cash, Cash Equivalents, Investments and Restricted Cash

On January 1, 2015 we transferred our cash equivalent and investment portfolio of approximately $440.8 million from held-to-maturity to available-for-sale, which resulted in the recognition of an insignificant loss of $0.1 million. The transfer of the investment portfolio to available-for-sale was made to provide increased flexibility in the use of our investments to support current operations. As the investments are available to support current operations, our available-for-sale securities are classified as short-term investments. Available-for-sale securities are carried at fair value with unrealized gains and losses reported as a component of accumulated other comprehensive loss in shareholders equity, while realized gains and losses and other-than-temporary impairments are reported as a component of net loss based on specific identification.

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The following table presents the amortized cost, gross unrealized gains and losses, and estimated fair market value of our cash and cash equivalents, available-for-sale investments and restricted cash as of June 30, 2015 (in thousands):

	June 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
Cash	$ 223,491	$	$	$ 223,491
Cash equivalents:				
Money market funds	78,532			78,532
Certificates of deposit	249			249
Short-term investments:				
U.S government agency securities	179,647	82	(36)	179,693
Corporate notes and bonds	74,612	8	(33)	74,587
Municipal securities	43,190	12	(12)	43,190
Certificates of deposit	15,273	4		15,277
Foreign government securities	5,950		(1)	5,949
Commercial paper	3,999			3,999
Restricted cash	6,635			6,635
Total	$ 631,578	$ 106	$ (82)	$ 631,602

The following table presents available-for-sale investments by contractual maturity date as of June 30, 2015 (in thousands):

	Amortized Cost	Estimated Fair Market Value
Due in one year or less	$ 231,414	$ 231,442
Due after one year through two years	91,257	91,253
Total	$ 322,671	$ 322,695

Note 5. Property and Equipment, net

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

	June 30, 2015	December 31, 2014
Website development costs	$ 65,680	$ 65,224
Computer equipment	18,666	13,243
Leasehold improvements	30,275	10,617

Software	6,129	3,431
Construction-in-progress	18,373	9,307
Office equipment, furniture and fixtures	11,676	6,482
Property and equipment	150,799	108,304
Less: accumulated amortization and depreciation	(69,383)	(66,704)
Property and equipment, net	$ 81,416	$ 41,600

We recorded depreciation expense related to property and equipment (other than website development costs) of $3.3 million and $1.7 million, respectively, during the three months ended June 30, 2015 and 2014, and $5.5 million and $3.0 million, respectively, during the six months ended June 30, 2015 and 2014.

We capitalized $11.8 million and $5.5 million, respectively, in website development costs during the three months ended June 30, 2015 and 2014, and $21.8 million and $11.1 million, respectively, during the six months ended June 30, 2015 and 2014. Amortization expense for website development costs included in technology and development expenses was $5.8 million and $4.2 million, respectively, during the three months ended June 30, 2015 and 2014, and $10.7 million and $8.5 million, respectively, during the six months ended June 30, 2015 and 2014.

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

Note 6. Acquisition of Trulia

Effective February 17, 2015, pursuant to the Merger Agreement dated as of July 28, 2014 by and among Zillow, Zillow Group and Trulia, following the consummation of the Mergers contemplated by the Merger Agreement, each of Zillow and Trulia became wholly owned subsidiaries of Zillow Group. Prior to the closing, Zillow Group formed two wholly owned subsidiaries, Zebra Merger Sub, Inc. and Tiger 1 Merger Sub, Inc. Pursuant to the Merger Agreement, Zebra Merger Sub, Inc. merged with and into Zillow (the Zillow Merger), Zebra Merger Sub, Inc. ceased to exist, and Zillow is the surviving corporation, and Tiger 1 Merger Sub, Inc. merged with and into Trulia (the Trulia Merger), Tiger 1 Merger Sub, Inc. ceased to exist, and Trulia is the surviving corporation. The acquisition of Trulia aligns with our growth strategies, including focusing on consumers and deepening, strengthening, and expanding our marketplaces. With the addition of Trulia, we expanded our audience and added another consumer brand that offers buyers, sellers, homeowners and renters access to information about homes and real estate for free, and provides advertising and software solutions that help real estate professionals grow their business.

At the effective time of the Zillow Merger, each share of Zillow Class A common stock, other than Zillow excluded shares (as defined below), was converted into the right to receive one share of fully paid and nonassessable Zillow Group Class A common stock, and each share of Zillow Class B common stock, other than Zillow excluded shares, was converted into the right to receive one share of fully paid and nonassessable Zillow Group Class B common stock. Shares of Zillow common stock held by Zillow as treasury stock or by Zillow Group, Trulia, or any direct or indirect wholly owned subsidiary of Zillow or Trulia (Zillow excluded shares) were canceled and did not receive the Zillow merger consideration. Generally, each Zillow stock option and restricted stock unit outstanding (whether or not vested or exercisable) as of the effective time of the Zillow Merger was assumed by Zillow Group and converted into a corresponding equity award to purchase or acquire shares of Zillow Group Class A common stock, subject to the same terms, conditions and restrictions as the original option or award. Any unvested shares of Zillow Class A common stock subject to a repurchase option, risk of forfeiture or other condition as of the effective time of the Zillow Merger were exchanged for shares of Zillow Group Class A common stock that are also unvested and subject to the same repurchase option, risk of forfeiture or other condition. Each Zillow restricted unit outstanding as of the effective time of the Zillow Merger was assumed by Zillow Group and converted into the right to receive Zillow Group Class A common stock, subject to the same terms, conditions and restrictions as the original restricted unit.

At the effective time of the Trulia Merger, each share of Trulia common stock, other than Trulia excluded shares (as defined below), was converted into the right to receive 0.444 of a share of fully paid and nonassessable Zillow Group Class A common stock. Shares of Trulia common stock held by Trulia as treasury stock or by Zillow Group, Zillow, or any direct or indirect wholly owned subsidiary of Zillow or Trulia (Trulia excluded shares) were canceled and did not receive the Trulia merger consideration. Generally, each Trulia stock option, restricted stock unit, and stock appreciation right outstanding (whether or not vested or exercisable) as of the effective time of the Trulia Merger was assumed by Zillow Group and converted into a corresponding equity award to purchase, acquire shares of, or participate in the appreciation in price of Zillow Group Class A common stock, subject to the same terms, conditions and restrictions as the original option or award, subject to specified adjustments to reflect the effect of the Trulia exchange ratio. Each outstanding unvested Trulia stock option and restricted stock unit held by a member of the Trulia board of directors immediately prior to the effective time of the Trulia Merger who was not an employee of Trulia or any subsidiary of Trulia became fully vested immediately prior to the effective time of the Trulia Merger in accordance with the terms of the applicable award agreements.

Our acquisition of Trulia has been accounted for as a business combination, and assets acquired and liabilities assumed were recorded at their estimated fair values as of February 17, 2015. 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.

In all cases in which Zillow Group s closing stock price is a determining factor in arriving at the amount of merger consideration, the stock price assumed is the closing price of Zillow Class A common stock on NASDAQ on February 17, 2015 ($109.14 per share). The purchase price to effect the acquisition of Trulia of approximately $2.0 billion is summarized in the following table (in thousands):

Value of Class A Common stock issued	$ 1,883,728
Substituted stock options and stock appreciation rights attributable to pre-combination service	54,853
Substituted restricted stock units attributable to pre-combination service	27,798
Cash paid in lieu of fractional outstanding shares	41
Total purchase price	$ 1,966,420

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A total of 17,259,704 shares of Zillow Group Class A common stock were issued in connection with the acquisition of Trulia. Trulia stockholders did not receive any fractional shares of Zillow Group Class A common stock in connection with the Mergers. Instead of receiving any fractional shares, each holder of Trulia common stock was paid an amount in cash (without interest) equal to such fractional amount multiplied by the last reported sale price of Zillow Class A common stock on NASDAQ on the last complete trading day prior to the date of the effective time of the Trulia Merger.

A portion of the purchase price has been attributed to the substitution of Trulia s stock options, restricted stock units and stock appreciation rights outstanding as of February 17, 2015, for corresponding stock options, restricted stock units and stock appreciation rights to purchase, vest in or participate in the appreciation in price of shares of Zillow Group Class A common stock, all at an exchange ratio of 0.444. The fair value of Trulia s share-based awards assumed in connection with the acquisition, including stock options, restricted stock units and stock appreciation rights, which relate to post-combination service will be recorded by Zillow Group as share-based compensation expense ratably over the remaining related vesting period of the respective award. The share-based compensation expense related to stock options and stock appreciation rights assumed is estimated at the acquisition date using the Black-Scholes-Merton option-pricing model, assuming no dividends, expected volatility of 53%, a risk-free interest rate of 1.10%, and an expected life of three years. For restricted stock units assumed, Zillow Group uses the market value of Zillow s Class A common stock on the date of acquisition to determine the fair value of the award.

The total purchase price 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):

Cash and cash equivalents	$ 173,447
Accounts receivable	13,093
Prepaid expenses and other current assets	20,833
Restricted cash	6,946
Property and equipment	30,189
Other assets	434
Identifiable intangible assets	549,000
Goodwill	1,737,075
Accounts payable, accrued expenses and other current liabilities	(51,063)
Accrued compensation and benefits	(8,324)
Deferred revenue	(8,300)
Long-term debt	(230,000)
Debt premium recorded in additional paid-in capital	(126,386)
Deferred tax liabilities and other long-term liabilities	(140,524)
Total preliminary estimated purchase price	$ 1,966,420

The preliminary estimated fair value of identifiable intangible assets acquired consisted of the following (in thousands):

	Preliminary Estimated Fair Value	Estimated Useful Life (in years)
Trulia trade names and trademarks	$ 351,000	Indefinite
Market Leader trade names and trademarks	2,000	2
Customer relationships	92,000	3-7
Developed technology	91,000	3-7
Advertising relationships	9,000	3
MLS home data feeds	4,000	3
Total	$ 549,000	

The preliminary estimated fair value of the intangible assets acquired was determined by Zillow Group, and Zillow Group considered or relied in part upon a valuation report of a third-party expert. Zillow Group used an income approach to measure the fair value of the trade names and trademarks and the developed technology based on the relief-from-royalty method. Zillow Group 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. Zillow Group used an income approach to measure the fair value of the advertising relationships based on a with and without analysis, whereby the fair value is estimated based on the present value of cash flows the combined business is expected to generate with and without the advertising relationships. Zillow Group used a cost approach to measure the fair value of the MLS home data feeds based on the estimated cost to replace the data feed library. These fair value measurements were based on Level 3 measurements under the fair value hierarchy.

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A portion of the total purchase price was allocated to Trulia s 2020 Notes (see Note 9). In accordance with the accounting guidance related to business combinations, the 2020 Notes are recognized at fair value as of the effective date of the Mergers. The preliminary estimated fair value of the 2020 Notes as of the date of acquisition is approximately $356.4 million. The preliminary estimated fair value of the 2020 Notes was determined by Zillow Group, and Zillow Group considered or relied in part upon a valuation report of a third-party expert. The preliminary estimated fair value of the 2020 Notes was determined through combination of the use of a binomial lattice valuation model and consideration of quoted market prices. The fair value is classified as Level 3 due to the use of significant unobservable inputs such as implied volatility of Zillow Group s Class A common stock, discount spread and the limited trading activity for the 2020 Notes. Given the preliminary fair value of the 2020 Notes of $356.4 million is at a substantial premium to the principal amount of $230.0 million, the premium amount of $126.4 million has been recorded as additional paid-in capital in the condensed consolidated balance sheet as of the effective date of the Mergers. Accordingly, Zillow Group has recognized the liability component of the 2020 Notes at the stated par amount in the condensed consolidated balance sheet as of the effective date of the Mergers. The conversion feature included in the 2020 Notes is not required to be bifurcated and separately accounted for as it meets the equity scope exception given the conversion feature (i) is indexed to Zillow Group s Class A common stock and (ii) would be classified in shareholder s equity. Further, the 2020 Notes do not permit or require Zillow Group to settle the debt in cash (in whole or in part) upon conversion.

A portion of the total purchase price was allocated to deferred tax liabilities primarily related to an indefinite-lived intangible asset generated in connection with the Mergers. Due to the recognition of a $351.0 million indefinite-lived Trulia trade name and trademark intangible asset as of the effective date of the Mergers, a deferred tax liability of $140.4 million is recognized which cannot be offset by the recognized deferred tax assets.

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 intangible assets, goodwill, accrued expenses and deferred taxes recorded in connection with the acquisition.

Acquisition-related costs incurred, which primarily included investment banker fees, legal, accounting, tax, regulatory filing and printing fees, were expensed as incurred. Acquisition-related costs of $1.7 million and $14.2 million, respectively, for the three and six month periods ended June 30, 2015 are included as a separate line item in our condensed consolidated statement of operations.

The results of operations related to the acquisition of Trulia have been included in our financial statements since the date of acquisition of February 17, 2015. However, disclosure of the amounts of revenue and earnings of the acquiree since the acquisition date is impracticable because discrete financial information is not available due to the rapid integration of Zillow s and Trulia s operations.

Unaudited Pro Forma Financial Information

The following unaudited pro forma condensed combined financial information gives effect to the acquisition of Trulia as if it were consummated on January 1, 2014 (the beginning of the comparable prior reporting period). The unaudited pro forma condensed combined financial information is presented for informational purposes only. The unaudited pro forma condensed combined financial information does not represent true historical financial information. Further, 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, 2014 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 (other than revenue for the three months ended June 30, 2015, which is presented on an as reported basis) (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015 (1)	**2014 (2)**	**2015 (3)**	**2014 (4)**
Revenue	$ 171,269	$ 142,761	$ 333,800	$ 263,493
Net loss	$ (26,731)	$ (29,648)	$ (44,585)	$ (53,454)

(1) The three months ended June 30, 2015 includes pro forma adjustments for $6.7 million to eliminate restructuring costs associated with the acquisition of Trulia reflected in the historical financial statements, $3.7 million to eliminate share-based compensation expense attributable to substituted equity awards and $1.7 million to eliminate direct and incremental acquisition-related costs reflected in the historical financial statements.

(2) The three months ended June 30, 2014 includes pro forma adjustments for $4.7 million to record additional amortization expense for acquired intangible assets, $3.3 million to eliminate Trulia s historical amortization of capitalized website development costs, $1.6 million to record additional rent expense and $1.4 million to eliminate share-based compensation expense attributable to substituted equity awards.

(3) The six months ended June 30, 2015 includes pro forma adjustments for $47.9 million to eliminate direct and incremental acquisition-related costs reflected in the historical financial statements, $37.3 million to eliminate share-based compensation expense attributable to substituted equity awards and to record additional share-based compensation expense attributable to substituted equity awards, $31.9 million to eliminate restructuring costs associated with the acquisition of Trulia reflected in the historical financial statements, $2.4 million to record additional amortization expense for acquired intangible assets and $1.1 million to eliminate Trulia s historical amortization of capitalized website development costs.

(4) The six months ended June 30, 2014 includes pro forma adjustments for $9.3 million to record additional amortization expense for acquired intangible assets, $4.1 million to eliminate Trulia s historical amortization of capitalized website development costs, $2.8 million to eliminate share-based compensation expense attributable to substituted equity awards and $1.8 million to record additional rent expense.

Note 7. Goodwill

The following table presents the change in goodwill from December 31, 2014 through June 30, 2015 (in thousands):

Balance as of December 31, 2014	$ 96,352
Goodwill recorded in connection with the acquisition of Trulia	1,737,075
Reduction of goodwill recorded in connection with the sale of a business	(466)
Balance as of June 30, 2015	$ 1,832,961

The goodwill recorded in connection with the February 2015 acquisition of Trulia, which is not deductible for tax purposes, includes intangible assets that do not qualify for separate recognition, such as the assembled workforce and anticipated synergies from complementary products, and largely non-overlapping customer bases.

Note 8. Intangible Assets

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

	June 30, 2015		
	Cost	**Accumulated Amortization**	**Net**
Purchased content	$ 32,461	$ (16,872)	$ 15,589
Customer relationships	101,225	(9,686)	91,539
Developed technology	104,418	(11,803)	92,615
Trade names and trademarks	5,224	(2,036)	3,188

Advertising relationships	9,000	(1,098)	7,902
MLS home data feeds	4,000	(488)	3,512
Total	$ 256,328	$ (41,983)	$ 214,345

	December 31, 2014		
	Cost	Accumulated Amortization	Net
Purchased content	$ 24,615	$ (13,904)	$ 10,711
Developed technology	13,595	(5,321)	8,274
Customer relationships	9,225	(3,387)	5,838
Trade names and trademarks	3,261	(1,327)	1,934
Total	$ 50,696	$ (23,939)	$ 26,757

Amortization expense recorded for intangible assets for the three months ended June 30, 2015 and 2014 was $11.3 million and $2.6 million, respectively. Amortization expense recorded for intangible assets for the six months ended June 30, 2015 and 2014 was $18.2 million and $5.2 million, respectively. These amounts are included in technology and development expenses.

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As of June 30, 2015, we have an indefinite-lived intangible asset for $351.0 million that we recorded in connection with our February 2015 acquisition of Trulia for Trulia s trade names and trademarks that is not subject to amortization. See Note 6 for further details related to the acquisition.

Note 9. Convertible Senior Notes

In connection with the February 2015 acquisition of Trulia (see Note 6), a portion of the total purchase price was allocated to Trulia s Convertible Senior Notes due in 2020 (the 2020 Notes), which are unsecured senior obligations. Pursuant to and in accordance with the Merger Agreement, Zillow Group entered into a supplemental indenture in respect of the 2020 Notes in the aggregate principal amount of $230.0 million, which supplemental indenture provides, among other things, that, at the effective time of the Trulia Merger, (i) each outstanding 2020 Note is no longer convertible into shares of Trulia common stock and is convertible solely into shares of Zillow Group Class A common stock, pursuant to, and in accordance with, the terms of the indenture governing the 2020 Notes, and (ii) Zillow Group guaranteed all of the obligations of Trulia under the 2020 Notes and related indenture. The aggregate principal amount of the 2020 Notes is due on December 15, 2020 if not earlier converted or redeemed. Interest is payable on the 2020 Notes at the rate of 2.75% semi-annually on June 15 and December 15 of each year.

Holders of the 2020 Notes may convert all or any portion of their notes, in multiples of $1,000 principal amount, at their option at any time prior to the close of business on the business day immediately preceding the maturity date. In connection with the supplemental indenture in respect of the 2020 Notes, the conversion ratio immediately prior to the effective time of the Trulia Merger of 27.8303 shares of Trulia common stock per $1,000 principal amount of notes has been adjusted to 12.3567 shares of our Class A common stock per $1,000 principal amount of notes based on the exchange ratio of 0.444 per the Merger Agreement. This is equivalent to an initial conversion price of approximately $80.93 per share of our Class A common stock. In connection with the Class C Dividend, described below under Note 11, the conversion ratio will be further adjusted. Unless otherwise determined by our board of directors prior to the ex-dividend date for the Class C Dividend, which is expected to be August 17, 2015, the conversion ratio will be adjusted in accordance with Section 14.04(c) of the indenture based on the trading prices of our Class A common stock and the when-issued trading prices of our Class C capital stock during the last ten trading days prior to and including the trading day immediately preceding the ex-dividend date. The conversion ratio will be adjusted for certain dilutive events and will be increased in the case of corporate events that constitute a Make-Whole Fundamental Change (as defined in the indenture governing the notes). The conversion option of the 2020 Notes has no cash settlement provisions. The conversion option does not meet the criteria for separate accounting as a derivative as it is indexed to our own stock.

The holders of the 2020 Notes will have the ability to require us to repurchase the notes in whole or in part upon the occurrence of an event that constitutes a Fundamental Change (as defined in the indenture governing the notes, including such events as a change in control or termination of trading , subject to certain exceptions). In such case, the repurchase price would be 100% of the principal amount of the 2020 Notes plus accrued and unpaid interest, if any, to, but excluding, the Fundamental Change repurchase date. Certain events are also considered Events of Default, which may result in the acceleration of the maturity of the 2020 Notes, as described in the indenture governing the notes. There are no financial covenants associated with the 2020 Notes.

We may not redeem the 2020 Notes prior to December 20, 2018. We may redeem the 2020 Notes, at our option, in whole or in part on or after December 20, 2018, if the last reported sale price per share of our Class A common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period.

Interest expense related to the 2020 Notes for the three months ended June 30, 2015 was $1.6 million. Accrued interest related to the 2020 Notes as of June 30, 2015 is $0.3 million, and is recorded in accrued expenses and other current liabilities in our condensed consolidated balance sheet.

The estimated fair value and carrying value of the 2020 Notes were $297.0 million and $230.0 million, respectively, as of June 30, 2015. The estimated fair value of the 2020 Notes was determined through consideration of quoted market prices. The fair value is classified as Level 3 due to the limited trading activity for the 2020 Notes.

Note 10. Income Taxes

We are subject to federal and state income taxes in the United States and in Canada. During the three and six month periods ended June 30, 2015 and 2014, we did not have a material amount of reportable taxable income, and we are not projecting a material amount of reportable taxable income for the year ending December 31, 2015. We have provided a full valuation allowance against our net deferred tax assets as of June 30, 2015 and December 31, 2014 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. Therefore, no current tax liability or expense has been recorded in the financial statements. We have accumulated federal tax losses of approximately $358.6 million as of December 31, 2014, which are available to reduce future taxable income. We have accumulated state tax losses of approximately $7.2 million (tax effected) as of December 31, 2014.

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Note 11. 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 June 30, 2015 or December 31, 2014.

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 three and six month periods ended June 30, 2015, no shares of Class B common stock were converted into Class A common stock at the option of the holders. During the year ended December 31, 2014, 251,445 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.

Our Class C capital stock has no preferences or privileges, is not redeemable and, except in limited circumstances, is non-voting. There was no Class C capital stock issued and outstanding as of June 30, 2015 or December 31, 2014.

Stock Split Effected in Form of Stock Dividend

In December 2014 and in connection with the Trulia acquisition, at a Special Meeting of Shareholders of Zillow, Inc. and at a Special Meeting of the stockholders of Trulia, Inc., the shareholders of Zillow, Inc. and the stockholders of Trulia, Inc., respectively approved amendments to Zillow Group s amended and restated articles of incorporation to, among other things, create a new class of non-voting Class C capital stock. On July 21, 2015, we announced that our board of directors had approved a distribution of shares of our Class C capital stock as a dividend to our Class A and Class B common shareholders (the Class C Dividend). Holders of Class A common stock and Class B common stock as of the close of business on July 31, 2015, the record date for the dividend, will receive on August 14, 2015 a dividend of two shares of Class C capital stock for each share of Class A and Class B common stock held by them as of the record date. Outstanding equity awards to purchase or acquire shares of Class A common stock will be proportionately adjusted to relate to one share of Class A common stock and two shares of Class C capital stock for each share of Class A common stock subject to the awards as of the record date, and the exercise prices of any such awards also will be proportionately allocated between Class A common stock and Class C capital stock.

The par value per share of our shares of Class A common stock and Class B common stock will remain unchanged at $0.0001 per share after the Class C Dividend. On the effective date of the Class C Dividend, there will be a transfer between accumulated deficit and common stock and the amount transferred will be equal to the $0.0001 par value of the Class C capital stock that is issued. We will give retroactive effect to prior period share and per share amounts in our consolidated financial statements for the effect of the Class C Dividend upon issuance so that prior periods are comparable to current period presentation.

Note 12. Share-Based Awards

In connection with our February 2015 acquisition of Trulia, we assumed the obligations of Zillow, Trulia and Market Leader outstanding under pre-existing stock plans. In addition, we assumed the Zillow 2011 Incentive Plan, as amended and/or restated, and the Trulia 2012 Equity Incentive Plan, as amended and restated, for purposes of future grants, with the number and type of shares issuable thereunder appropriately adjusted to reflect the Mergers, in accordance with applicable NASDAQ exchange listing requirements. In connection with the Class C dividend discussed in Note 11 above, the share numbers presented in this Note 12 will be adjusted in accordance with the terms of the applicable plan.

Zillow Group, Inc. Amended and Restated 2011 Incentive Plan

On July 19, 2011, Zillow s 2011 Incentive Plan (as amended and/or restated from time to time, the 2011 Plan) became effective and serves as the successor to Zillow s 2005 Equity Incentive Plan (the 2005 Plan). Effective June 11, 2015, the 2011 Plan was amended and restated as the Zillow Group, Inc. Amended and Restated 2011 Incentive Plan to, among other changes: (i) increase the number of shares authorized for issuance by 1,500,000 shares, from 3,800,000 shares to 5,300,000 shares; (ii) introduce flexibility to grant Class C capital stock, in addition to or in lieu of, Class A common stock under the 2011 Plan in the event that Class C capital stock is listed on a national securities exchange (references in this discussion to common stock under the 2011 Plan generally refer to both Class A common stock and Class C capital stock); and (iii) update references to Zillow, Inc. to Zillow Group, Inc. as applicable. Shareholders approved the amended and restated 2011 Plan on June 11, 2015, and we intend that future equity grants will be made under this plan only.

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Under the 2011 Plan, 5,300,000 shares of common stock are reserved for issuance. The number of shares of common stock available for issuance under the 2011 Plan automatically increases on the first day of each of our fiscal years beginning in 2016 by a number of shares equal to the least of (a) 3.5% of our outstanding common stock on a fully diluted basis as of the end of our immediately preceding fiscal year, (b) 3,500,000 shares, and (c) a lesser amount determined by our board of directors; provided, however, that any shares from any increases in previous years that are not actually issued will continue to be available for issuance under the 2011 Plan. In addition, shares previously available for grant under the 2005 Plan, but not issued or subject to outstanding awards under the 2005 Plan as of July 19, 2011, and shares subject to outstanding awards under the 2005 Plan that subsequently cease to be subject to such awards (other than by reason of exercise of the awards) are available for grant under the 2011 Plan. 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, restricted stock units or restricted 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.

Options under the 2011 Plan are granted with an exercise price per share not less than 100% of the fair market value of our common stock on the date of grant, with the exception of substituted option awards 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, though certain options have been granted with longer terms and vesting schedules.

Trulia 2005 Stock Plan

Trulia granted options under the 2005 Stock Incentive Plan (as amended, the 2005 Plan) until September 2012 when the 2005 Plan was terminated. Stock options issued prior to the plan termination continue to be outstanding in accordance with their terms. Under the terms of the 2005 Plan, Trulia had the ability to grant incentive and nonqualified stock options, stock appreciation rights, restricted stock awards and restricted stock units. Options granted under the 2005 Plan generally vest at a rate of 25% after 12 months and ratably thereafter over the next 36 months and expire 10 years from the grant date. Certain options vest monthly over two to four years.

Trulia 2012 Equity Incentive Plan, as Amended and Restated

On September 19, 2012, Trulia s 2012 Equity Incentive Plan (the 2012 Plan) became effective. The 2012 Plan provides for the grant of incentive and nonqualified stock options, restricted stock, restricted stock units, stock appreciation rights, performance units and performance shares to employees, directors and consultants. Upon adoption of the 2012 Plan, a total of 2,370,000 shares of common stock were reserved for issuance (subsequently increased in 2013 by 2,000,000 shares) plus up to 1,000,000 shares from the expiration or termination of awards under the 2005 Plan. The shares available are increased at the beginning of each fiscal year beginning in 2014 by the least of (i) 2,100,000 shares, (ii) 4% of outstanding Trulia common stock on the last day of the immediately preceding fiscal year, or (iii) such number determined by Trulia s board of directors. Under the 2012 Plan, stock options are granted at a price per share not less than 100% of the fair market value per share of the underlying stock at the grant date. The plan administrator determines the vesting period for each option award on the grant date, and the options generally expire 10 years from the grant date or such shorter term as may be determined for the options.

Market Leader Amended and Restated 2004 Equity Incentive Plan

In connection with Trulia s acquisition of Market Leader in 2013, Trulia assumed Market Leader s 2004 Equity Incentive Plan (the 2004 Plan), including all outstanding shares of restricted stock, all outstanding stock appreciation rights, all outstanding options, and all shares available for future issuance under the 2004 Plan. Trulia granted equity awards, to the extent permissible by applicable law and New York Stock Exchange rules, under the 2004 Plan until it expired on December 9, 2014. The equity awards issued prior to the 2004 Plan s expiration continue to be outstanding in accordance with their terms.

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Option Awards and Stock Appreciation Rights

The following table summarizes option award and stock appreciation rights activity for the year ended December 31, 2014 and the six months ended June 30, 2015:

	Number of Shares Subject to Existing Options and Stock Appreciation Rights	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2014	5,156,706	$ 27.09	5.43	$ 283,009
Granted	2,219,458	97.06		
Exercised	(1,323,509)	18.08		
Forfeited or cancelled	(252,891)	62.76		
Outstanding at December 31, 2014	5,799,764	54.37	5.32	311,040
Assumed Trulia options and stock appreciation rights in connection with February 2015 acquisition of Trulia	1,053,255	41.37		
Granted	2,693,757	102.22		
Exercised	(648,942)	22.73		
Forfeited or cancelled	(301,619)	81.96		
Outstanding at June 30, 2015	8,596,215	69.19	5.97	220,072
Vested and exercisable at June 30, 2015	2,690,680	36.44	3.67	137,977

The fair value of options granted, excluding options granted under the Stock Option Grant Program for Nonemployee Directors and certain options granted to the Company s executives in January and February 2015, 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Expected volatility	55%	54%	55%-56%	53%-54%
Expected dividend yield				
Risk-free interest rate	1.30%-1.48%	1.35%-1.49%	1.08%-1.48%	1.29%-1.52%
Weighted-average expected life	4.58 years	4.58 years	4.58 years	4.58 years
	$42.46	$49.25	$47.34	$39.62

Weighted-average fair value of options granted	

The assumptions included in the table above exclude Trulia s stock options and stock appreciation rights assumed in connection with the February 17, 2015 acquisition (see Note 6).

As of June 30, 2015, there was a total of $188.4 million in unrecognized compensation cost related to unvested stock options and stock appreciation rights.

Restricted Stock Awards

The following table summarizes restricted stock award activity for the year ended December 31, 2014 and the six months ended June 30, 2015:

	Shares of Restricted Stock	Weighted-Average Grant-Date Fair Value
Unvested outstanding at January 1, 2014	230,127	$ 30.43
Granted	3,255	80.91
Vested	(146,547)	30.48
Forfeited or cancelled		
Unvested outstanding at December 31, 2014	86,835	32.25
Granted	1,391	121.35
Vested	(20,429)	39.15
Forfeited or cancelled		
Unvested outstanding at June 30, 2015	67,797	32.00

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The fair value of the outstanding shares of restricted stock awards will be recorded as share-based compensation expense over the vesting period. As of June 30, 2015, there was $1.4 million of total unrecognized compensation cost related to restricted stock awards.

Restricted Stock Units

The following table summarizes activity for restricted stock units for the year ended December 31, 2014 and the six months ended June 30, 2015:

	Restricted Stock Units	Weighted-Average Grant-Date Fair Value
Unvested outstanding at January 1, 2014	121,123	$ 64.07
Granted	102,264	102.95
Vested	(64,935)	76.28
Forfeited or cancelled	(32,850)	72.40
Unvested outstanding at December 31, 2014	125,602	85.67
Assumed Trulia restricted stock units in connection with February 2015 acquisition of Trulia	1,266,319	109.14
Granted	179,418	98.27
Vested	(264,168)	105.91
Forfeited or cancelled	(173,028)	105.46
Unvested outstanding at June 30, 2015	1,134,143	106.10

In April 2015, Zillow Group granted to certain employees supporting our Trulia brand retention restricted stock units for a total of 105,358 shares of our Class A common stock, of which 12.5% of the retention restricted stock units vest approximately 6 months after the vesting commencement date of February 18, 2015, and the remaining retention restricted stock units vest quarterly thereafter for approximately 3.5 years, subject to the recipient s continued full-time employment or service to Zillow Group. The total grant date fair value of the retention restricted stock units is approximately $10.2 million.

The fair value of the outstanding restricted stock units will be recorded as share-based compensation expense over the vesting period. As of June 30, 2015, there was $88.3 million of total unrecognized compensation cost related to restricted stock units.

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):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Cost of revenue	$ 1,110	$ 418	$ 2,062	$ 791
Sales and marketing	8,784	1,698	12,993	3,001
Technology and development	7,005	3,056	12,771	5,081
General and administrative	12,981	3,238	25,061	6,669
Restructuring costs	3,584		14,004	
Total	$ 33,464	$ 8,410	$ 66,891	$ 15,542

For the three months ended June 30, 2015, approximately $1.1 million, $0.8 million, and $1.7 million, respectively, of share-based compensation expense is included in sales and marketing expenses, technology and development expenses, and general and administrative expenses related to change in control equity acceleration for certain former executives of Trulia pursuant to Zillow Group s February 2015 restructuring plan (see Note 15). For the six months ended June 30, 2015, approximately $1.8 million, $1.4 million, and $6.7 million, respectively, of share-based compensation expense is included in sales and marketing expenses, technology and development expenses, and general and administrative expenses related to change in control equity acceleration for certain former executives of Trulia pursuant to Zillow Group s February 2015 restructuring plan. Certain executives of Trulia are entitled to partial and/or full double trigger equity acceleration upon a termination without cause or a resignation for good reason, each within twelve months of the Mergers, pursuant to pre-existing offer letters and/or equity award agreements entered into with Trulia.

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Note 13. Net Loss Per Share

Basic net loss per share is computed by dividing net loss by the weighted-average number of common shares (including Class A common stock and Class B common stock) outstanding during the period. In the calculation of basic net loss per share, undistributed earnings are allocated assuming all earnings during the period were distributed.

Diluted net loss per share is computed by dividing net loss by the weighted-average number of common shares (including Class A common stock and Class B 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 stock appreciation rights and Class A common stock underlying unvested restricted stock awards and unvested restricted stock units using the treasury stock method.

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):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Class A common stock issuable upon the exercise of option awards and stock appreciation rights	2,306	3,012	2,502	3,024
Class A common stock underlying unvested restricted stock awards and restricted stock units	294	119	330	114
Class A common stock issuable upon conversion of the 2020 Notes	2,843		2,843	
Total Class A common stock equivalents	5,443	3,131	5,675	3,138

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 preferred stock have been satisfied. We have not presented net loss per share under the two-class method for our Class A common stock and Class B common stock because it would be the same for each class due to equal dividend and liquidation rights for each class.

Note 14. Commitments and Contingencies

Lease Commitments

We have various operating leases for office space and equipment.

Seattle, Washington

In March 2011, we entered into a lease agreement for office space that houses our corporate headquarters in Seattle (as amended from time to time, the Seattle Lease). Pursuant to the terms of the Seattle Lease, we currently occupy a total of 155,042 square feet, and we are obligated to make escalating monthly lease payments that began in December 2012 and continue through December 2024. In November 2014, we entered into a lease amendment under which we will lease an additional 113,470 square feet of office space. The Company has taken possession of a portion of the additional office space and will continue to take possession as space becomes available through 2017 under the same terms and conditions.

San Francisco, California

In connection with our February 2015 acquisition of Trulia, we assumed a lease agreement for office space in San Francisco (as amended from time to time, the San Francisco Lease), which houses Trulia s corporate headquarters and beginning in March 2015, also houses Zillow s personnel located in San Francisco. Pursuant to the terms of the San Francisco Lease, we lease a total of approximately 79,000 square feet, and we are obligated to make escalating monthly lease payments that began in November 2014 and continue through September 2023. In July 2014, Trulia entered into a lease amendment under which we will lease an additional 26,620 square feet of office space commencing in October 2015 under the same terms and conditions.

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. In March 2015, we ceased use of this space in connection with our February 2015 acquisition of Trulia, and in May 2015, we sublet this office space to another occupant.

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New York, New York

In February 2014, we entered into an operating lease in New York (as amended from time to time, the New York Lease). Pursuant to the terms of the New York Lease, we lease a total of approximately 39,900 square feet, and we are obligated to make escalating monthly lease payments that began in August 2014 and continue through November 2024.

Denver, Colorado

In connection with our February 2015 acquisition of Trulia, we assumed a lease agreement for office space in Denver. Pursuant to the terms of the lease, we lease a total of approximately 65,000 square feet, and we are obligated to make escalating monthly lease payments that began in November 2014 and continue through October 2021.

Bellevue, Washington

In connection with our February 2015 acquisition of Trulia, we assumed a lease agreement for office space in Bellevue. Pursuant to the terms of the lease, we lease a total of approximately 72,000 square feet, and we are obligated to make escalating monthly lease payments that began in October 2014 and continue through September 2021. We currently utilize approximately half of the total square feet available in Bellevue (see Note 15).

Irvine, California

In April 2012, we entered into a lease agreement for office space in Irvine (as amended from time to time, the Irvine Lease). Pursuant to the terms of the Irvine Lease, we lease a total of approximately 60,000 square feet under which we are obligated to make escalating monthly lease payments which began in August 2012 and continue through July 2022.

We lease additional office space in Chicago, Illinois, Lincoln, Nebraska and Vancouver, British Columbia. We believe our facilities are sufficient for our current needs.

Future minimum payments for all operating leases as of June 30, 2015 are as follows (in thousands):

Remainder of 2015	$ 8,804
2016	20,056
2017	24,033
2018	27,206
2019	23,734
All future years	103,394
Total future minimum lease payments	$ 207,227

Rent expense for the three months ended June 30, 2015 and 2014 was $4.0 million and $1.6 million, respectively. Rent expense for the six months ended June 30, 2015 and 2014 was $7.4 million and $3.1 million, respectively. Total minimum rentals to be received in the future under noncancelable subleases as of June 30, 2015 was $4.4 million.

Purchase Commitments

As of June 30, 2015, we had non-cancelable purchase commitments for content related to our mobile applications and websites totaling $108.6 million. The amounts due for this content as of June 30, 2015 are as follows (in thousands):

Remainder of 2015	$ 14,859
2016	28,570
2017	34,700
2018	14,000
2019	6,000
All future years	10,500
Total future purchase commitments	$ 108,629

Letters of Credit

As of June 30, 2015, we have outstanding letters of credit of approximately $3.8 million, $1.8 million, $1.5 million, $1.1 million and $1.1 million, respectively, which secure our lease obligations in connection with the operating leases of our San Francisco, Seattle, Bellevue, New York and Denver office spaces. Certain of the letters of credit are unsecured obligations, and certain of the letters of credit are secured by certificates of deposit held as collateral in our name at a financial institution. The secured letters of credit are classified as restricted cash in our condensed consolidated balance sheet.

Surety Bonds

In the course of business, we are required to provide financial commitments in the form of surety bonds to third parties as a guarantee of our performance on and our compliance with certain obligations. If we were to fail to perform or comply with these obligations, any draws upon surety bonds issued on our behalf would then trigger our payment obligation to the surety bond issuer. We have outstanding surety bonds issued for our benefit of approximately $2.0 million as of June 30, 2015. There were no surety bonds outstanding as of December 31, 2014.

Legal Proceedings

We are involved in a number of legal proceedings concerning matters arising in connection with the conduct of our business activities, some of which are at preliminary stages and some of which seek an indeterminate amount of damages. We regularly evaluate the status of legal proceedings in which we are involved to assess whether a loss is probable or there is a reasonable possibility that a loss or additional loss may have been incurred to determine if accruals are appropriate. We further evaluate each legal proceeding to assess whether an estimate of possible loss or range of loss can be made if accruals are not appropriate. For certain cases described below, management is unable to provide a meaningful estimate of the possible loss or range of possible loss because, among other reasons, (i) the proceedings are in preliminary stages; (ii) specific damages have not been sought; (iii) damages are, in our view, unsupported and/or exaggerated; (iv) there is uncertainty as to the outcome of pending appeals or motions; (v) there are significant factual issues to be resolved; and/or (vi) there are novel legal issues or unsettled legal theories presented. For these cases, however, management does not believe, based on currently available information, that the outcomes of these proceedings will have a material effect on our financial position, results of operations or cash flow.

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 alleges, among other things, that our mobile technology infringes three patents held by Smarter Agent purporting to cover: a Global positioning-based real estate database access device and method, a Position-based information access device and method and a Position-based information access device and method of searching, and seeks an injunction against the alleged infringing activities and an unspecified 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, including through appeals to the Patent Trial and Appeal Board. 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, Market Leader (a subsidiary of Trulia), 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 December 14, 2012, we acquired HotPads, and took responsibility for the Smarter Agent complaint against HotPads. On August 26, 2013, we acquired StreetEasy, and took responsibility for the Smarter Agent complaint against StreetEasy. On February 17, 2015, we acquired Trulia, and took responsibility for the Smarter Agent complaint against Market Leader. The Patent Office recently issued a Notice of Intent to Issue Reexamination Certification indicating that it will cancel all claims in one of the three patents. We expect to receive similar Notices for the other two patents. We have not recorded an accrual related to these complaints as of June 30, 2015 or December 31, 2014, as we do not believe a loss is probable or reasonably 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 alleged, among other things, that our website technology infringes two patents purporting to cover a Method and computer network for coordinating a loan over the internet. The complaint sought, among other things, a judgment that we infringed certain patents held by LendingTree, an injunction against the alleged infringing activities and an award for damages. We denied the allegations and asserted defenses and counterclaims seeking declarations that we are not infringing the patents and that the patents are invalid. In March 2014, a federal jury found that Zillow does not infringe the patents and that the patents asserted by LendingTree are invalid. In April, 2014, LendingTree filed two motions for judgment as a matter of law and for a new trial, all of which we opposed. In October 2014, the Court issued an order upholding the jury verdict and denying LendingTree s motions. In November 2014, LendingTree filed a notice of appeal. We have not recorded an accrual related to this complaint as of June 30, 2015 or December 31, 2014, as we do not believe a loss is probable or reasonably estimable.

In March 2014, Move, Inc., the National Association of Realtors and three related entities, filed a complaint against us and Errol Samuelson, our Chief Industry Development Officer, in the Superior Court of the State of Washington in King County, alleging, among other things, that Zillow and Mr. Samuelson misappropriated plaintiffs trade secrets in connection with Mr. Samuelson joining Zillow in March 2014. The complaint seeks, among other things, an injunction against the alleged misappropriations and Mr. Samuelson working for us, as well as unspecified damages. In April 2014, the court denied the plaintiffs motion for a preliminary injunction prohibiting Mr. Samuelson from working for us. Plaintiffs renewed their motion for a preliminary injunction and on September 30, 2014, the court granted that request and entered a preliminary injunction. Zillow filed a motion requesting that the court reconsider that decision, which the court denied. On September 22, 2014, Zillow filed a notice for discretionary review by the Washington Court of Appeals, followed by a motion for discretionary review on October 7, 2014. Samuelson also filed a motion for discretionary review. Zillow s and Samuelson s motions for discretionary review were granted on November 19, 2014. On January 26, 2015, the plaintiffs filed a contempt motion for alleged violation of the preliminary injunction, which Zillow and Samuelson opposed. On February 3, 2015, the parties entered into a stipulation, later adopted by order of the court that Zillow and Samuelson shall withdraw the appeal and the last of the terms of the preliminary injunction will expire on March 22, 2015. The trial date has been extended to June 2016. On February 11, 2015, the Superior Court issued an Order to Show Cause regarding plaintiffs contempt motion and set a schedule for discovery, briefing and a hearing. In February 2015, plaintiffs filed an amended complaint that, among other things, added Curt Beardsley, our Vice President of MLS Partnerships, as a defendant in the matter. On March 27, 2015, the parties entered into a stipulation, later adopted by order of the court, that plaintiffs shall withdraw their request that the Superior Court find Zillow and Mr. Samuelson in contempt of the preliminary injunction. We deny the allegations of any wrongdoing and intend to vigorously defend the claims in the lawsuit. We have not recorded an accrual related to these complaints as of June 30, 2015 or December 31, 2014, as we do not believe a loss is probable. There is a reasonable possibility that a loss may be incurred; however, the possible loss or range of loss is not estimable.

In August 2014, four purported class action lawsuits were filed by plaintiffs against Trulia and its directors, Zillow, and Zebra Holdco, Inc. in connection with Zillow s proposed acquisition of Trulia. One of those purported class actions, captioned Collier et al. v. Trulia, Inc., et al., was brought in the Superior Court of the State of California for the County of San Francisco, however on October 7, 2014, plaintiff in the Collier action filed a new complaint in the Delaware Court of Chancery alleging substantially the same claims and seeking substantially the same relief as the original complaint filed in California. On October 8, 2014, plaintiff in the Collier action filed a request for dismissal of the California case without prejudice. The other three of the purported class action lawsuits, captioned Shue et al. v. Trulia, Inc., et al., Sciabacucci et al. v. Trulia, Inc., et al., and Steinberg et al. v. Trulia, Inc. et al., were brought in the Delaware Court of Chancery. All four lawsuits allege that Trulia s directors breached their fiduciary duties to Trulia stockholders, and that the other defendants aided and abetted such breaches, by seeking to sell Trulia through an allegedly unfair process and for an unfair price and on unfair terms. All lawsuits seek, among other things, equitable relief that would enjoin the consummation of Zillow s proposed acquisition of Trulia and attorneys fees and costs. The Delaware actions also seek rescission of the Merger Agreement (to the extent it has already been implemented) or rescissory damages and orders directing the defendants to account for alleged damages suffered by the plaintiffs and the purported class as a result of the defendants alleged wrongdoing. On September 24, 2014, plaintiff in the Sciabacucci action filed (1) a motion for expedited proceedings, (2) a motion for a preliminary injunction, (3) a request for production of documents from defendants, and (4) notice of depositions. On October 13, 2014, the Delaware Court of Chancery issued an order consolidating all of the Delaware actions into one matter captioned In re Trulia, Inc. Stockholder Litigation. On October 13 and 14, 2014, the above-referenced motions were refiled under the consolidated case number. On November 14, 2014, plaintiffs again refiled their motion for a preliminary injunction challenging the proposed acquisition. On November 19, 2014, the parties entered into a Memorandum of Understanding, documenting the agreement-in-principle for the settlement of the consolidated litigation, pursuant to which Trulia agreed to make certain supplemental disclosures in a Form 8-K. The Memorandum of Understanding was filed with the Chancery Court that same day. The parties have concluded confirmatory discovery and are negotiating a stipulation of settlement. We have recorded an accrual for an immaterial amount related to these lawsuits as of June 30, 2015. There is a reasonable possibility that an additional loss in excess of amounts accrued may be incurred; however, the possible additional loss or range of additional possible loss is not estimable. We did not record an accrual related to these lawsuits as of December 31, 2014.

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 addition, we have agreements that indemnify certain issuers of surety bonds against losses that they may incur as a result of executing surety bonds on our behalf. For our indemnification arrangements, 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 15. Restructuring

On February 17, 2015, in connection with the February 2015 acquisition of Trulia, Zillow Group undertook a restructuring plan that resulted in a total workforce reduction of nearly 350 employees, primarily to eliminate overlapping positions in the sales and marketing functions related to Trulia s workforce at its Bellevue, Denver, New York and San Francisco locations. The restructuring plan is a result of the integration of Trulia s business and operations with and into Zillow Group s business. Employees directly affected by the restructuring plan have been or will be provided with severance payments, stock vesting acceleration and outplacement assistance. Zillow Group expects to complete the restructuring by the end of 2015. As a result of the restructuring plan, Zillow Group recorded a restructuring charge of approximately $6.7 million during the three months ended June 30, 2015. Zillow Group recorded a restructuring charge of approximately $31.7 million during the six months ended June 30, 2015, including approximately $12.0 million for severance and other personnel related expenses, approximately $5.5 million for contract termination costs associated with certain operating leases, and approximately $14.0 million of non-cash expenses relating to stock vesting acceleration or a reduced remaining requisite service period, for which share-based compensation expense is recognized over the remaining requisite service period, which in some cases may result in immediate expense recognition if no substantive future service is required. Zillow Group recognized certain contract termination costs primarily associated with Trulia s Bellevue operating lease, as well as Zillow s San Francisco operating lease, as Zillow s employees in San Francisco were relocated into Trulia s San Francisco office space. The restructuring costs for contract termination costs for the six months ended June 30, 2015 include approximately $4.0 million, primarily related to the write-off of certain leasehold improvements.

In connection with our February 2015 acquisition of Trulia, we also assumed certain restructuring reserves due to Trulia s restructuring that commenced in June 2014 as an ongoing effort to fully integrate Market leader s operations. The Market Leader restructuring resulted in a reduction of headcount of approximately 80 employees in 2014, as well as the recognition of certain contract termination costs associated with Trulia s Bellevue and Denver operating leases.

A summary of accrued restructuring costs as of and for the six months ended June 30, 2015 is shown in the table below (in thousands):

	One-Time Termination Benefits	Contract Termination Costs	Other Associated Costs	Total
Restructuring reserves assumed in connection with February 2015 acquisition of Trulia	$ 81	$ 2,544	$ 136	$ 2,761
Restructuring costs	9,015	1,319	110	10,444
Cash payments	(2,612)	(387)	(375)	(3,374)
Change in estimate	(67)		137	70
Accrued restructuring costs as of March 31, 2015	6,417	3,476	8	9,901
Restructuring costs	2,580	34	199	2,813
Cash payments	(5,209)	(762)	(189)	(6,160)
Change in estimate	282	(27)		255
Accrued restructuring costs as of June 30, 2015	$ 4,070	$ 2,721	$ 18	$ 6,809

The restructuring reserves, which total $6.8 million as of June 30, 2015, are recorded as part of accrued restructuring costs and deferred tax liabilities and other long-term liabilities in our condensed consolidated balance sheet. We expect to complete the restructuring plan by the end of 2015.

Note 16. Related Party Transactions

In February 2015, we paid approximately $0.3 million in filing fees directly to the Federal Trade Commission (the FTC), on behalf of and in connection with filings made by Mr. Richard Barton, our Executive Chairman, under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (HSR Act), which filings were required due to Mr. Barton s ownership of Zillow, Inc. s common stock. Also, in February 2015, we paid approximately $0.1 million in filing fees directly to the FTC, on behalf of and in connection with a filing made by Mr. Lloyd Frink, our Vice Chairman and President, under the HSR Act, which filing was required due to Mr. Frink s ownership of Zillow, Inc. s common stock.

In April 2015 and June 2015, we paid a total of approximately $0.2 million to Mr. Frink for reimbursement of costs incurred by Mr. Frink for use of a private plane by certain of the Company s employees and Mr. Frink for business travel.

Note 17. Self-Insurance

We are self-insured for a portion of our medical and dental coverage for certain employees of Trulia. The medical plan carries a stop-loss policy, which will protect from individual claims during the plan year exceeding $100,000 or when cumulative medical claims exceed 125% of expected claims for the plan year. We record estimates of the total costs of claims incurred based on an analysis of historical data and independent estimates. Our liability for self-insured medical and dental claims is included within accrued compensation and benefits in our condensed consolidated balance sheet and was $0.6 million as of June 30, 2015. We did not have any self-insurance prior to our February 2015 acquisition of Trulia.

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Note 18. Employee Benefit Plan

Effective January 1, 2015, Zillow Group established a defined contribution 401(k) retirement plan covering employees who have met certain eligibility requirements (the Zillow Group 401(k) Plan). In addition, in connection with our February 2015 acquisition of Trulia, we adopted a defined contribution 401(k) retirement plan that covers Trulia and Market Leader employees who have met certain eligibility requirements (the Trulia 401(k) Plan). Eligible employees under each of the plans may contribute pretax compensation up to a maximum amount allowable under the Internal Revenue Service limitations. Employee contributions and earnings thereon vest immediately. We currently match up to 1.5% of employee contributions under the Zillow Group 401(k) Plan and up to 4% of employee contributions under the Trulia 401(k) Plan. The total expense related to defined contribution 401(k) retirement plans was $1.3 million and $2.1 million, respectively, for the three and six month periods ended June 30, 2015. We did not have any expense related to defined contribution 401(k) retirement plans for the three or six month periods ended June 30, 2014.

Note 19. 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.

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):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Marketplace revenue:				
Real estate	$ 122,558	$ 56,051	$ 215,870	$ 102,646
Mortgages	10,393	6,565	19,951	13,694
Market Leader	12,530		18,587	
Total Marketplace revenue	145,481	62,616	254,408	116,340
Display revenue	25,788	16,059	44,134	28,578