UNITIL CORP
Form 4
January 31, 2017

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
OMB Number: 3235-0287
Expires: January 31, 2005
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(Print or Type Responses)

1. Name and Address of Reporting Person *
COLLIN MARK H

(Last) (First) (Middle)

6 LIBERTY LANE WEST

(Street)

HAMPTON, NH 03842

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
UNITIL CORP [UTL]

3. Date of Earliest Transaction (Month/Day/Year)
01/30/2017

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
SR. VP , CFO & Treasurer

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common stock, no par value.	01/30/2017		A		3,360	A	$ 0 (1)	40,145.161	D	
Common stock, no par value.								2,773.28	I	Held in trust. (2)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
COLLIN MARK H 6 LIBERTY LANE WEST HAMPTON, NH 03842			SR. VP , CFO & Treasurer	

Signatures

/s/ Mark H. Collin	01/31/2017
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Shares were granted pursuant to the Unitil Corporation Restricted Stock Plan. Shares will vest 25% per year over four years from date of grant. Shares will be valued at current market price on date of vesting.

(2) Shares are held in trust under the terms of the Unitil Corporation Tax Deferred Savings and Investment Plan.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. D> 253,899

Net loss and total comprehensive loss

(12,453) (12,453)

Explanation of Responses:

Balance at December 31, 2013

$	$	$	32,934,074	$3	6,468,892	$1	$	$651,913	$(84,121)	$567,796

Explanation of Responses:

Explanation of Responses:

See accompanying notes to financial statements.

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ZILLOW, INC.

STATEMENTS OF CASH FLOWS

(in thousands)

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

See accompanying notes to financial statements.

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ZILLOW, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Description of Business

Zillow, Inc. (the Company, we, us and our) was incorporated as a Washington corporation effective December 13, 2004, and we launched the initial version of our website, Zillow.com, in February 2006. Zillow operates the leading real estate and home-related information marketplaces on mobile and the Web, with a complementary portfolio of brands and products to help people find vital information about homes and connect with local professionals. In addition to our living database of homes, accessible on Zillow.com, we also own and operate Zillow Mobile, our suite of home-related mobile applications, Zillow Mortgage Marketplace, where borrowers connect with lenders to find loans and get competitive mortgage rates, Zillow Digs, our home improvement marketplace where consumers can find visual inspiration and local cost estimates, Zillow Rentals, a marketplace and suite of tools for rental professionals, Postlets, Diverse Solutions, Agentfolio, Mortech, HotPads and StreetEasy. Zillow provides products and services to help consumers through every stage of homeownership buying, selling, renting, borrowing and remodeling.

Certain Significant Risks and Uncertainties

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

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

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

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and the related disclosures at the date of the financial statements, as well as the reported amounts of revenue and expenses during the periods presented. Estimates are used for revenue recognition, the allowance for doubtful accounts, website development costs, goodwill, recoverability of intangible assets with definite lives and other long-lived assets, and for share-based compensation. To the extent there are material differences between these estimates, judgments, or assumptions and actual results, our financial statements will be affected. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management s judgment in its application.

Prior Period Adjustments

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

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

Concentrations of Credit Risk

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

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

Cash and Cash Equivalents

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

Investments

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

Accounts Receivable and Allowance for Doubtful Accounts

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

Property and Equipment

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

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

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

Website and Software Development Costs

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

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

Goodwill

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

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

Intangible Assets

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

We capitalize payments made to third parties for data licenses that we expect to provide future economic benefit through the recovery of the costs of these arrangements via the generation of our revenue and margins. For data license contracts that include uneven payment amounts, we capitalize the payments as they are made as

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an intangible asset and amortize the total contract value over the estimated useful life. For contracts in which we have perpetual rights to the data, the total contract value is amortized on a straight-line basis over the life of the contract plus two years, which is equivalent to the estimated useful life of the asset. For contracts in which we do not have access to the data beyond the contractual term, the total contract value is amortized on a straight line basis over the term of the contract. We evaluate data content contracts for potential capitalization at the inception of the arrangement as well as each time periodic payments to third parties are made.

The amortization period for the capitalized purchased content is based on our best estimate of the useful life of the asset, which ranges from five to 7.5 years. The determination of the useful life includes consideration of a variety of factors including, but not limited to, our assessment of the expected use of the asset and contractual provisions that may limit the useful life, as well as an assessment of when the data is expected to become obsolete based on our estimates of the diminishing value of the data over time. We evaluate the useful life of the capitalized purchased data content each reporting period to determine whether events and circumstances warrant a revision to the remaining useful life. If we determine the estimate of the asset s useful life requires modification, the carrying amount of the asset is amortized prospectively over the revised useful life. The capitalized purchased data content is amortized on a straight-line basis as the pattern of delivery of the economic benefits of the data cannot reliably be determined because we do not have the ability to reliably predict future traffic to our websites and mobile applications.

Under certain other data agreements, the underlying data is obtained on a subscription basis with consistent monthly recurring payment terms over the contractual period. Upon the expiration of such arrangements, we no longer have the right to access the related data, and therefore, the costs incurred under such contracts are not capitalized and are expensed as payments are made. We would immediately lose rights to data under these arrangements if we were to cancel the subscription and/or cease making payments under the subscription arrangements.

We also have intangible assets for developed technology, customer relationships and trademarks which we recorded in connection with acquisitions. These intangible assets are amortized over the estimated useful life of the asset.

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

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

Deferred Revenue

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

Deferred Rent

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

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Revenue Recognition

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

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

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

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

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

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

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

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

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

Cost of Revenue

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

Research and Development

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

Other Income

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

Share-Based Compensation

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

We use the Black-Scholes-Merton option-pricing model to determine the fair value for stock options. In valuing our options, we make assumptions about risk-free interest rates, dividend yields, volatility, and weighted-average expected lives, including estimated forfeiture rates. Risk-free interest rates are derived from U.S. Treasury securities as of the option grant date. Expected dividend yield is based on our historical dividend payments, which have been zero to date. The expected volatility for our Class A common stock is estimated using a combination of our historical volatility and the published historical volatilities of industry peers in the online publishing market representing the verticals in which we operate. We estimate the weighted-average expected life of the options as the average of the vesting option schedule and the term of the award, since we do not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term due to the limited period of time share-based awards have been exercisable. The term of the award is estimated using the simplified method, as awards are plain vanilla share options. Forfeiture rates are estimated using historical actual forfeiture trends as well as our judgment of future forfeitures. These rates are evaluated at least

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quarterly and any change in compensation expense is recognized in the period of the change. The estimation of stock options that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from our current estimates, such amounts will be recorded as a cumulative adjustment in the period the estimates are revised. We consider many factors when estimating expected forfeitures, including employee class and historical experience. Actual results, and future changes in estimates, may differ substantially from management s current estimates.

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

Advertising Costs

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

Income Taxes

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

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

Recently Issued Accounting Standards

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

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

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

Note 3. Fair Value Measurements

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

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

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

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

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

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

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

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

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

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

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

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

Note 4. Accounts Receivable, net

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

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

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

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

Note 5. Property and Equipment, net

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

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

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

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

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

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Note 6. Acquisitions

StreetEasy, Inc.

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

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

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

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

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

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

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

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

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

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

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

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

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

Unaudited Pro Forma Financial Information

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

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

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

Note 7. Goodwill

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

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

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

Note 8. Intangible Assets

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

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

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

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

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

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

Note 9. Income Taxes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 10. Shareholders Equity

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

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

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

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

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

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

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

Note 11. Share-Based Awards

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

Stock Options

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

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

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

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

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

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

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

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

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

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

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

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

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

Restricted Stock Awards

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

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

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

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

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Restricted Stock Units

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

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

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

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

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

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

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

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Share-Based Compensation Expense

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

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

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

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

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

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

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

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

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

Total Class A common stock equivalents	3,350

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

Note 13. Commitments and Contingencies

Lease Commitments

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

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

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

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

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Purchase Commitments

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

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

Line of Credit and Letters of Credit

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

In March 2011, we