ZILLOW INC
Form 10-K
March 02, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2011

OR

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

Commission File Number 001-35237

ZILLOW, INC.

(Exact name of registrant as specified in its charter)

Washington **(State or other jurisdiction of** **incorporation or organization)**	**20-2000033** **(IRS Employer** **Identification No.)**
1301 Second Avenue, Floor 31, **Seattle, Washington** **(Address of principal executive offices)**	**98101** **(Zip code)**

(206) 470-7000

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Class A Common Stock, par value $0.0001 per share **(Title of each class)**	**The Nasdaq Global Market** **(Name of each exchange on which registered)**

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes ¨ No þ

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act: Yes ¨ No þ

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 þ 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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. (Check one):

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer þ (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 Act): Yes ¨ No þ

As of June 30, 2011, the last business day of the Registrant s most recently completed second fiscal quarter, there was no established public market for the Registrant s Class A common stock and, therefore, the Registrant cannot calculate the aggregate market value of its Class A common stock held by non-affiliates as of such date. At December 31, 2011, the aggregate market value of the Registrant s Class A common stock held by non-affiliates based upon the closing price of such shares on The Nasdaq Global Market on such date was $192,926,844.

As of February 24, 2012, 19,775,373 shares of Class A common stock and 8,760,626 shares of Class B common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Report, to the extent not set forth herein, is incorporated in this Report by reference to the Registrant s definitive proxy statement relating to its 2012 annual meeting of shareholders. The definitive proxy statement will be filed with the Securities and Exchange Commission within 120 days after the end of the 2011 fiscal year.

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ZILLOW, INC.

Annual Report on Form 10-K

for the Fiscal Year Ended December 31, 2011

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

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, including the sections entitled Management s Discussion and Analysis of Financial Condition and Results of Operations, Risk Factors and Business, 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,
plural of these words or similar expressions.

These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in Part I, 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.

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PART I

Item 1. Business

Mission

Our mission is to build the most trusted and vibrant home-related marketplace to empower consumers with information and tools to make smart decisions about homes.

Overview

Zillow is the leading real estate information marketplace. In addition to our websites, including Zillow.com, we operate Zillow Mobile, our suite of mobile real estate applications, and Zillow Mortgage Marketplace, where borrowers connect with lenders to find loans and get competitive mortgage rates. Zillow was incorporated as a Washington corporation in December 2004.

Zillow provides vital information about homes, real estate listings and mortgages through our websites and mobile applications, enabling homeowners, buyers, sellers and renters to connect with real estate and mortgage professionals best suited to meet their needs. We are transforming the way people make home-related decisions. Zillow provides consumers and real estate professionals an edge in real estate .

We maintain a commitment to providing consumers free access to as much useful information as possible. Our living database of more than 100 million U.S. homes includes homes for sale, homes for rent and homes not currently on the market. Individuals and businesses that use Zillow have updated information on more than 27 million homes and added more than 65 million home photos, creating exclusive home profiles. These profiles include detailed information about homes such as property facts, listing information and purchase and sale data. We provide this information to our users through our websites and through our industry-leading mobile applications that allow consumers to access our information when they are curbside, viewing homes.

Residential real estate is one of the largest sectors of the U.S. economy and supports a large number of professionals that provide home-related services. Using complex, proprietary automated valuation models, we provide current home value estimates, or Zestimates, and current rental price estimates, or Rent Zestimates, on approximately 100 million U.S. homes. We present residential real estate data in ways that have changed the way consumers search for, find and understand home-related information and make real estate decisions.

Consumers increasingly are turning to the Internet and mobile devices for real estate information. For the three months ended December 31, 2011, more than 23.5 million average monthly unique users visited our websites and mobile applications, representing year-over-year growth of 86%. We operate the most popular suite of mobile real estate applications across all major platforms. During December 2011, nearly 100 million homes were viewed on Zillow on a mobile device.

Real estate and mortgage professionals are a critical part of the home-related marketplace. We enable consumers to connect with real estate and mortgage professionals best suited to meet their needs. We have created a trusted and transparent marketplace where consumers can search and read reviews on local real estate and mortgage professionals and contact those professionals on their own terms. Consumers initiate contact through our marketplace when they are ready to speak with real estate and mortgage professionals providing those professionals with access to highly qualified clients and providing consumers with control over their decision-making process.

Our real estate marketplace benefits from network effects. As more consumers come to our website to use our products and services, more real estate and mortgage professionals contribute content to distinguish themselves, thereby making our marketplace more useful and attracting additional consumers.

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We generate revenue from local real estate professionals, primarily on an individual subscription basis, and from mortgage professionals and brand advertisers. Our revenue has grown significantly since our initial website launch in 2006. For the year ended December 31, 2011, we generated revenue of $66.1 million, as compared to $30.5 million for the year ended December 31, 2010, representing an increase of 117%.

Industry Dynamics

The Importance of Homes

Homes are the center of peoples lives, the focus of some of their most important decisions and often their most valuable assets. Deciding where to live, which home to choose and whether and when to rent or buy are among the most important decisions a person must make. Historically, objective information and advice about the value of homes has been hard to find and keep current, even though a home s changing value can profoundly influence many financial and personal decisions. In addition to whether to buy, sell or rent, consumers make many other important home-related decisions throughout their lifetimes, including decisions relating to refinancing or home equity loans, home maintenance and home improvement.

Large Market Opportunities

Residential real estate is one of the largest sectors of the U.S. economy and supports a large number of professionals that provide services related to home purchase and sale, rental, home financing, and home maintenance and improvement.

Sales of existing and new homes in the United States in 2010 had an aggregate transaction value of approximately $1.2 trillion, according to data published in April 2011 by the U.S. Census Bureau and the National Association of REALTORS®, or NAR. In an effort to acquire new client relationships and sell homes, real estate agents and brokers spent an estimated $6.2 billion on residential advertising in 2010, according to a 2011 report published by Borrell Associates. It was projected in 2011 that mortgage providers would spend approximately $9.5 billion marketing their services and loan products to mortgage borrowers, according to a 2011 report published by Borrell Associates. Finally, there are billions of dollars more spent each year by home service and home improvement professionals, rental property managers and landlords, and other home-related professionals and businesses seeking to build client relationships and ultimately sell their products and services to our growing base of consumers.

Highly Fragmented, Local and Complex Market

The market for residential real estate transactions and home-related services is highly fragmented, local and complex. Each home has unique characteristics, including location, value, size, style, age and condition. Each consumer approaches home-related transactions with a personal set of objectives, priorities and values. Real estate agents generally operate in local markets as independent contractors with different experiences and skills. These conditions create challenges for consumers and real estate and mortgage professionals alike. Consumers are challenged to find information about homes, and to find real estate and mortgage professionals who fit their individual needs. Real estate and mortgage professionals are challenged to efficiently advertise their services and identify new clients, and to measure the effectiveness of their marketing efforts.

Absence of Consumer Orientation

Historically, consumers had minimal access to comprehensive and objective residential real estate data, even though many home-related decisions are extraordinarily information-intensive. While real estate and mortgage professionals had some data, consumers did not have free, independent and easy access to it. Even when accessible, the data was difficult to interpret and analyze.

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Increasing Role of the Internet and Mobile Technologies

Consumers are increasingly turning to the Internet and mobile devices for real estate information. With the widespread adoption of mobile and location-based technologies, consumers increasingly expect home-related information to be available on their mobile devices where, when and how they want it.

Competitive Advantages

We believe we have the following competitive advantages:

Living Database of Homes. Our dynamic and comprehensive living database includes detailed information on more than 100 million U.S. homes, and includes homes for sale, for rent and recently sold, as well as properties not currently on the market. This database is central to the value we provide to consumers and real estate and mortgage professionals. It contains extensive information that users can search, through an easy-to-use interface, to identify, analyze and compare homes. Our database is relevant to a broad range of users, including buyers, sellers, renters, homeowners, real estate agents and other real estate professionals. It includes information such as:

Property facts: Zestimate and its corresponding value range, number of bedrooms, number of bathrooms, square footage, lot size, assessed tax value and property type such as single-family, condominium, apartment, multifamily, manufactured home or land.

Listing information: price, price history and reductions, dollars per square foot, days on the market, listing type (such as for sale by agent, for sale by owner, foreclosures, new construction, rentals and Make Me Move homes) open houses, property photos and estimated monthly payment.

Purchase and sale data: prior sales information and recent sales nearby.

We synthesize data from hundreds of automated feeds, representing information from tens of thousands of public and private sources. Applying extensive computer analytics to the data, we transform it into information that is accessible, understandable and useful.

We refer to the database as living because the information is continually updated by the combination of our proprietary algorithms, synthesis of third-party data from hundreds of sources, and through improvements by us and, importantly, by our community of users. User-generated content from owners, agents and others enriches our database with photos and additional property information. For example, individuals and businesses that use Zillow have updated information on more than 27 million homes in our database and added more than 65 million home photos, creating exclusive home profiles available nowhere else. Our inimitable database enables us to create content, products and services not available elsewhere, and attracts an active, vibrant community of users. As of December 31, 2011, we had published more than 100,000 reviews of local real estate agents and nearly 10,000 reviews of mortgage professionals submitted by our users, and our users had submitted more than 500,000 questions and answers in our discussion forum, Zillow Advice. Zillow Advice allows consumers to ask questions of real estate and mortgage professionals and other consumers and quickly learn more about homes and real estate topics of interest. In particular, many of our dedicated active contributors devote substantial time sharing their expertise about Zillow and the real estate market on Zillow Advice. Real estate and mortgage professionals who participate in Zillow Advice play a key role in helping to educate consumers, and benefit from exposure to consumers and resulting referrals.

Zestimates and Rent Zestimates. We have developed industry-leading automated home valuation models that use advanced statistical methods and complex, proprietary algorithms. We use these models to provide current home value estimates, or Zestimates, and current rental price estimates, or Rent Zestimates, on approximately 100 million U.S. homes. In addition, based on our Zestimates, we produce Zillow Home Value Indexes at the neighborhood, zip code, city, metropolitan statistical area, county and national levels. Our Zillow Home Value Indexes have been cited by government entities such as the Federal Reserve Bank and the Congressional Oversight Panel, university studies and

respected national publications. For historical comparisons, we provide up to 15 years of Zestimate history on each home and valuable information about property and real estate market trends. Our Zestimates, Rent Zestimates and Zillow Home Value Indexes allow consumers to evaluate homes and neighborhoods, and to easily evaluate historical trends, as they contemplate critical home-related decisions.

Independent Market Positions and Consumer Focus. Zillow has been built independent of any real estate industry group. We maintain an unwavering commitment to giving consumers free access to as much useful information as possible. We provide unbiased information, products and services, empowering consumers to make informed decisions about homes and the residential real estate market. We believe our independence enables us to create compelling products and services with broad consumer appeal.

Powerful Brand and Scale. We have established a powerful brand identity and built a large user community in a short time. The majority of our usage comes to us organically and for free, not the result of advertising spend.

Trusted, Transparent Marketplace. We have created a trusted and transparent marketplace where consumers can identify and connect with real estate and mortgage professionals that are best suited to meet their needs. Consumers initiate contact in our marketplace when they are ready to speak with real estate and mortgage professionals providing those professionals with access to highly qualified clients and providing consumers with control over their decision-making process. As more consumers visit Zillow, more real estate and mortgage professionals are attracted, resulting in more successful matches between real estate and mortgage professionals and consumers, which in turn attracts even more professionals and consumers to Zillow.

Consumer-Oriented Mortgage Marketplace. Unlike other sources of mortgage rate quotes, in Zillow Mortgage Marketplace consumers can anonymously submit mortgage loan requests and receive an unlimited number of personalized mortgage quotes directly from hundreds of consumer-rated lenders. Consumers can then choose to contact those lenders at their discretion. Because we operate this marketplace as part of our real estate home shopping experience, we can efficiently attract motivated users to the marketplace and prioritize the consumer s experience. In 2011, consumers submitted more than 5.5 million mortgage loan requests in Zillow Mortgage Marketplace.

Mobile Leadership. Shopping for a home is a far more meaningful consumer experience when it occurs curbside, untethered and on location, so we have developed and operate the most popular suite of mobile real estate applications across all major platforms. These applications enable people to access and analyze information where, when and how they want it. In December 2011, nearly 100 million homes were viewed on Zillow on a mobile device.

Personalized Experience. We present consumers and real estate and mortgage professionals with many opportunities to personalize their Zillow experience, leading to more informed home shopping and financing decisions. Users can save favorite homes on Zillow and receive monthly email updates on changes in those homes values, listing status, price changes and other data. Users also can customize saved searches for any neighborhood or zip code and receive daily email updates on new homes listed for sale, for rent, or price changes for existing listed homes. Once a favorite home or search parameters are saved on Zillow, a consumer or professional may access these personalized options every time they visit Zillow on our websites or through a mobile device, personalizing a Zillow experience unique to them.

Proven Management Team. We believe the broad experience and depth of knowledge of our management team are distinct competitive advantages in the complex and evolving industry in which we compete. The Zillow management team has extensive experience building successful consumer Internet companies. In particular, we believe that the shared experience of 11 of our executives, who held similar positions together at Expedia Inc., provides our management team with unique cohesion and insight.

Growth Strategies

Our growth strategies are:

- *Focus on Consumers.* Maintain our unwavering focus on consumers and leverage our industry independence to enhance existing products and services and develop new offerings with broad consumer appeal.

- *Enhance Our Living Database.* Enhance the information in our database of homes, and use it as the foundation for new analyses, insights and tools to inform consumers throughout the home ownership lifecycle.

- *Deepen and Strengthen Our Marketplace.* Deepen and strengthen our marketplace by creating new opportunities for high-quality consumer-initiated connections with real estate and mortgage professionals when consumers want their services.

- *Efficiently Increase Brand Awareness.* Expand public relations, social media and other marketing programs to efficiently increase brand awareness.

- *Expand Our Platform.* Extend our platform beyond marketing services for real estate agents to a platform that also includes other types of trade services and tools we can offer to real estate agents to help them manage and grow their business.

- *Leverage Our Sales Force.* Leverage our sales force s expertise and productivity with new advertising offerings.

- *Expand Our Mobile Leadership.* Innovate and expand our offerings for mobile devices, launching more applications and extending our brand and products across additional mobile platforms.

- *Pursue Strategic Opportunities.* Pursue strategic opportunities, including commercial relationships and acquisitions, to strengthen our market position, enhance our capabilities and accelerate our growth.

Advertising Products and Services

We provide advertising products and services for real estate and mortgage professionals that provide useful content for consumers.

Marketplace Advertising

Premier Agent Program

Real estate agents in the Premier Agent program can purchase targeted advertising on Zillow by zip code, at prices that vary based on three tiers of participation, Platinum Premier, Silver Premier and Basic Premier. The three tiers of participation were created to appeal to a broader range of agents and their marketing needs. Depending on the tier of participation, an agent s ratings, photo and contact information may be featured alongside home profiles and listings in the relevant zip code, giving the agent exposure to qualified home shoppers interested in homes in their subscribed zip code. Our multi-tiered Premier Agent advertising program, along with our Diverse Solutions agent website services and our Postlets syndication tool, serve as a foundation to extend our platform beyond just marketing services for real estate agents to a platform that also includes other types of trade services and tools we can offer to real estate agents to help them manage and grow their business.

Premier Agents may also receive other benefits, including featured listings, showcase advertisements and designation as a Premier Agent in Zillow s directory depending on their subscription tier. Premier Agent subscribers have access to a portal on our websites where we provide individualized program analytics, including detailed information on each contact and on clicks and impressions with respect to featured listings and showcase advertisements.

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Zillow Mortgage Marketplace

In Zillow Mortgage Marketplace, consumers request free, personalized quotes in response to their submission of limited anonymous data, such as specific loan amount, zip code, purchase price or estimated home value, and credit score. In 2011, consumers submitted more than 5.5 million mortgage loan requests in Zillow Mortgage Marketplace. Consumers decide if and when to contact the mortgage professionals who provide quotes. User-generated ratings and reviews of mortgage professionals are provided as a powerful tool to help consumers shop for their loans.

Display Advertising

Our display advertising primarily consists of graphical web and mobile advertising sold on a cost per thousand impressions (CPM) basis. We offer these businesses display advertising opportunities on our home page, on individual web pages through graphical displays and text links, and on our mobile applications through display ads that are optimized for the mobile experience.

Information Products and Services

We provide consumers with information products and services to enable them to make intelligent decisions about homes.

Zestimates and Rent Zestimates

Our Zestimate and Rent Zestimate valuations are computed using complex, proprietary algorithms we have developed and refined through years of statistical analysis and technological development.

A Zestimate is our estimated current market value of a home. We generate Zestimates using proprietary information, including:

- *Physical attributes:* location, lot size, square footage, number of bedrooms and bathrooms and many other details.

- *Tax assessments:* property tax information, actual property taxes paid, exceptions to tax assessments and other information provided in the tax assessors records.

- *Prior and current transactions:* actual sale prices over time of the home itself and comparable recent sales of nearby homes.

We use proprietary automated valuation models that apply advanced algorithms to analyze our data to identify relationships, within a specific geographic area, between this home-related data and actual sales prices. Home characteristics, such as square footage, location or the number of bathrooms, are given different weights according to their influence on home sale prices in each specific geography over a specific period of time, resulting in a set of valuation rules, or models, that are applied to generate each home s Zestimate.

To improve the accuracy of our Zestimates, our algorithms automatically remove or reconcile data that would otherwise inappropriately skew the valuation rules. In addition, our algorithms will automatically generate a new set of valuation rules based on the constantly changing universe of data included in our database. This allows us to provide timely home value information on a massive scale, updated three times a week.

We publicly disclose the accuracy of our Zestimates to further empower consumers in assessing a home s value. The accuracy may be impacted by a variety of factors, including the amount of data about homes we have for a particular geographic area.

A Rent Zestimate is our estimated current monthly rental price of a home, computed using similar automated valuation models we have designed to address the unique attributes of a rental home. We estimate rental prices on approximately 100 million homes, including apartments, single-family homes, condominiums and townhomes.

Rich, Searchable Home-Related Data and Analysis

We provide consumers and real estate professionals with a rich set of home-related information. Through our websites or mobile applications, users can access detailed information about homes, including:

Value Information	Zestimate	Prior sale prices
	Rent Zestimate	Historical Zestimate values
	For sale price	Historical Rent Zestimate values
	Estimated mortgage payment	Zillow Home Value Index
	Rental price	Tax-assessed value
	Make Me Move price	Property taxes paid
Home Details	Bedrooms	Number of stories
	Bathrooms	Number of units in building
	Square footage	Finished basement
	Lot size	Cooling system
	Year built	Heating system
	Property type	Heat source
	County	Fireplace
	Parcel number	Exterior material
	Legal description	Parking type
Neighborhood Information	School district	High school
	Elementary school	Walkability
	Middle school	Transit access
Listing Details	Price	Price reductions
	Listing agent information	Days on Zillow
	Listing brokerage information	MLS number
	Link to listing source	

Consumers and real estate professionals can update property information by, for example, adding home photos and personalized information regarding the neighborhood or school district, creating exclusive home profiles available nowhere else.

Our map-based user interface enables our users to search, navigate and zoom to areas of interest and find and compare home information quickly and efficiently from a variety of different perspectives across homes, neighborhoods, cities, counties and other geographical regions. Our consumer search experience supports complex search queries and filters across our data set of homes, allowing consumers to customize their searches and gain actionable insights.

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Our team of economists and statisticians generates unbiased local and national real estate data and analysis on 371 metropolitan areas and approximately 8,600 individual neighborhoods that we provide to consumers and real estate and mortgage professionals at no cost. This gives our users access to local market trends and data, such as home price cuts, list to sale price ratio and foreclosure data that was historically not easily obtained, if available at all. Users can compare these metrics across neighborhoods and different time periods using our real-time charting and filtering.

For Sale and Rental Listings

We provide comprehensive for sale and rental listings through relationships with real estate brokerages, real estate listings aggregators, multiple listing services, apartment management companies, home builders and other third-parties. In addition, we provide consumers with access to exclusive home listings, such as our Make Me Move listings, which are a homeowner s posted price at which they would be willing to move. We also show listings that may not be available on other sources, such as for sale by owner, foreclosure and rental listings. Real estate agents and landlords may feature and gain more exposure for their listings through our advertising products.

Marketplace of Real Estate Agents

We present consumers with ratings and contact information for the listing agent and local buyer s agents alongside home profiles and listings for homes to assist them in evaluating and selecting the real estate agent best suited for them. We enhance this offering by providing an online professional directory for consumers to search and contact real estate professionals that they might wish to engage. Our directory includes rich profiles of real estate professionals, including more than 100,000 ratings and reviews provided by our users, allowing consumers to evaluate these agents based on a number of criteria, including neighborhood specialization, number of listings and number of contributions to Zillow Advice.

Home-Related Advice and Discussions

Consumers have many questions and often seek advice during various stages of their home-ownership lifecycle. The Zillow Advice section of our Zillow.com website captures questions and discussion topics from our users, both consumers and real estate and mortgage professionals. This allows our consumers to ask questions of other consumers and real estate and mortgage professionals and quickly learn more about relevant topics. Our users have submitted more than 500,000 questions and answers to Zillow Advice as of December 31, 2011. Zillow Advice also provides real estate and mortgage professionals with an opportunity to help educate consumers and demonstrate their local expertise. These discussions and content are also indexed and searchable by geography and other custom parameters, allowing users to quickly find the information they seek. Email updates are used to provide ongoing monitoring and delivery of posts related to topics of interest.

Mobile Access

We operate the most popular suite of mobile real estate applications across all major mobile platforms. Our mobile real estate applications provide consumers and real estate and mortgage professionals with location-based access to many of our products and services, including Zestimates, Rent Zestimates, for sale and rental listings and extensive home-related data. Through our mobile applications, for example, a consumer standing curbside at a home for sale can learn about the home s for-sale price, Zestimate, number of bedrooms, square footage and past sales, as well as similar information about surrounding homes. The consumer can call a real estate professional through our mobile applications to get more information or schedule a showing. During December 2011, nearly 100 million homes were viewed on Zillow on a mobile device.

Marketing

At Zillow, marketing starts with product development. We create compelling consumer products that people want to talk about and share. This enables us to execute a robust and viral communications program that is the primary driver of our brand and traffic acquisition efforts. We launched the consumer brand with communications at the core of our marketing strategy, which has allowed us to grow to more than 23.5 million average monthly unique users for the three months ending December 31, 2011. The majority of our traffic and brand awareness comes to us organically and free, without advertising spend.

Our communications team includes former print and broadcast journalists, who have established Zillow as an authoritative source for information on a broad range of home and real estate-related subjects. A typical week includes commentary from our real estate experts across dozens of national print and broadcast media outlets, guest opinion pieces or blog posts by our chief economist, and wide-ranging national and local media coverage of Zillow products, listings, data, and consumer tips. We also produce considerable home and real estate-related content on Zillow Blog that is syndicated across numerous prominent media sites. Zillow Blog content ranges from real estate market trends, to home financing tips, to celebrity real estate listings.

We focus substantial public relations effort around the marketing of our Zillow Real Estate Market Reports, which are in-depth reports produced by our economics and analytics bureau for 165 U.S. markets. Data is released on a monthly and quarterly basis, and Zillow data is widely used by government entities such as the Federal Reserve and Congressional Oversight Panel, as well as regularly featured in respected media outlets such as the *Wall Street Journal*, *New York Times*, *Bloomberg*, *Reuters* and across numerous national network and cable news shows including CNBC, CNN, Fox News, Bloomberg and MSNBC. We believe the considerable effort we have spent on public relations and social media has allowed us to build a large and credible brand.

Our living database of homes creates significant opportunities for home-ownership lifecycle marketing. A typical person will at various times in life be a renter, buyer, homeowner, mortgage refinancer or seller, and this presents opportunities to communicate with consumers over many years, not just during a transaction. We actively segment and communicate with our users through email and social media channels. During the year ended December 31, 2011, we sent more than 175 million email messages to Zillow email subscribers, and we see substantial opportunities to grow home-ownership lifecycle marketing.

We believe Zillow has considerable opportunity to increase brand awareness and grow traffic through product development, targeted marketing programs and strategic partnerships.

Sales and Customer Support

Our sales team is responsible for generating advertising customers across our websites and mobile applications.

We primarily use a Seattle-based sales team to sell Premier Agent subscriptions to real estate agents. We attract customers through a combination of outbound calling and inbound customer requests generated from our websites and event marketing activities. We also maintain a field sales team in New York, New York, with additional offices in Chicago, Illinois and San Francisco, California, to specifically target larger advertising customers in the real estate and related content categories, such as real estate brokerages, home builders, lenders and home service providers, as well as advertisers in the telecommunications, automotive, insurance and other industries. We also have an office in Irvine, California, which we established in connection with our October 2011 acquisition of substantially all of the operating assets of Diverse Solutions, Inc.

As part of our sales and distribution strategy, we entered into a strategic relationship with Yahoo! Inc. that launched in the first quarter of 2011. Our sales team serves as the exclusive sales force for real estate agent advertising and certain graphical advertising on the Yahoo! Real Estate site.

We believe that customer support is important to our success. Our customer support team, which is located primarily in Seattle, responds to commercial, technical and consumer issues from our user community and advertisers. The Zillow Advice forum augments our direct customer support by enabling consumers to obtain answers to questions from our employees and other members of our user community, including real estate and mortgage professionals.

Technology and Infrastructure

Zillow is a data- and technology-driven company. Our technical infrastructure, websites and mobile products are built to provide consumers and real estate and mortgage professionals with access to rich real estate data and powerful online tools to help them accomplish their home-related goals. Many of our services are available through real-time web-based application programming interfaces that allow our information to be easily integrated into third-party websites. We provide HTML and Javascript-based widgets to allow easy integration of Zillow information onto other websites, with little custom programming. Our technology platform is built using industry-leading third-party software and internally developed software as well as open source technologies. This combination allows for rapid development and release of high-performance software in a cost-effective and scalable manner. For information about our research and development costs, see Note 2 of the accompanying notes to our financial statements included within this annual report.

Our websites are primarily hosted at a third-party facility located in the Seattle area. Content delivery network solutions have been put in place to ensure fast and local access to content. Development and test environments are located in a data center we manage at our corporate headquarters.

Intellectual Property

We protect our intellectual property through a combination of trademarks, trade dress, domain names, copyrights, trade secrets and patents, as well as contractual provisions and restrictions on access to our proprietary technology.

Our trademarks registered in the United States and several other jurisdictions include Zillow, Zillow.com, Zestimate and the Zillow logo. We also have filed other trademark applications in the United States and certain other jurisdictions and will pursue additional trademark registrations to the extent we believe it will be beneficial and cost-effective.

We have three patents issued in the United States, two that expire in 2026 and one that expires in 2027, and one patent issued in Australia that expires in 2027. These cover proprietary techniques that relate to determining a current value for a real estate property, performing summarization of geographic data points in response to zoom selection, the incorporation of individual aerial images and incorporating visual information into a master planar image, and the collection, storage and display of home attribute values. We have 11 patent applications pending in the United States, which seek to cover proprietary techniques relevant to our products and services. We intend to pursue additional patent protection to the extent we believe it will be beneficial and cost-effective.

We are the registered holder of a variety of domestic and international domain names that include Zillow.com, Postlets.com, DiverseSolutions.com, our other trademarks, and similar variations.

In addition to the protection provided by our intellectual property rights, we enter into confidentiality and proprietary rights agreements with our employees, consultants, contractors and business partners. Our employees and contractors are also subject to invention assignment provisions. We further control the use of our proprietary technology and intellectual property through provisions in both our general and product-specific terms of use on our websites.

Competition

We face competition to attract consumers to our websites and mobile applications and to attract advertisers to purchase our advertising products and services.

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Competition for Consumers

We compete for the attention of consumers with companies that operate, or could develop, national and local real estate and mortgage websites and mobile applications. We compete for consumers primarily on the basis of the quality of the consumer experience, the utility of the data and services we provide, the breadth, depth and accuracy of information, and brand awareness and reputation. We believe we compete favorably on these factors.

Competition for Advertisers

We compete for advertising customers with media sites, including websites dedicated to providing real estate and mortgage information and services to real estate professionals and consumers, and major Internet portals, general search engines and social media sites, as well as other online companies. We also compete for a share of advertisers overall marketing budgets with traditional media such as newspapers, television, magazines, and home/apartment guide publications, particularly with respect to advertising dollars spent at the local level by real estate agents and mortgage lenders to advertise their qualifications or listings. We compete for advertising revenue based on perceived return on investment, the effectiveness and relevance of our advertising products, pricing structure and our ability to effectively deliver types of ads to targeted demographics. We believe we compete favorably on these factors.

Government Regulation

We are affected by laws and regulations that apply to businesses in general, as well as to businesses operating on the Internet. This includes a continually expanding and evolving range of laws, regulations and standards that address information security, data protection, privacy, consent and advertising, among other things. By providing a medium through which users can post content and communicate with one another, we may also be subject to laws governing intellectual property ownership, obscenity, libel, and privacy, among other issues. In addition, the real estate agents, mortgage brokers, banks, and some of our other customers and advertisers on our websites and mobile applications are subject to various state and federal laws and regulations relating to real estate and mortgages. While we do not believe that we are currently subject to these regulations, we intend to ensure that any content created by Zillow is consistent with them by obtaining assurances of compliance from our advertisers and customers for their activities through, and the content they provide on, our websites and mobile applications. Since the laws and regulations governing real estate and mortgages are constantly evolving, it is possible that some part of our business activities could fall within the scope of regulation or be prohibited altogether at some point in the future.

Employees

As of December 31, 2011, we had 329 full-time employees.

Where You Can Find More Information

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

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Item 1A. Risk Factors

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

Risks Related to Our Business

We have incurred significant operating losses in the past and we may not be able to generate sufficient revenue to be profitable over the long term.

Since our inception in December 2004, we have incurred significant net operating losses and, as of December 31, 2011, we had an accumulated deficit of $77.6 million. Although we have experienced significant growth in our revenue, we expect that our revenue growth rate will decline in the future as a result of a variety of factors, including the maturation of our business. At the same time, we also expect our costs to increase in future periods as we continue to expend substantial financial resources to develop and expand our business, including on:

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

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

We may be unable to maintain or establish relationships with real estate brokerages, real estate listing aggregators, multiple listing services, apartment management companies, home builders and other third-party listing providers, which could limit the information we are able to provide to our users.

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

If real estate and mortgage professionals or other advertisers reduce or end their advertising spending with us and we are unable to attract new advertisers, our business would be harmed.

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

increasing the number of consumers of our products and services;

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competing effectively for advertising dollars with other online media companies;

continuing to develop our advertising products and services;

keeping pace with changes in technology and with our competitors; and

offering an attractive return on investment to our advertisers for their advertising spending with us.

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

If we do not innovate and provide products and services that are attractive to our users and to our advertisers, our business could be harmed.

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

We may be unable to increase awareness of the Zillow brand cost-effectively, which could harm our business.

We rely heavily on the Zillow brand, which we believe is a key asset of our company. Awareness and perceived quality and differentiation of the Zillow brand are important aspects of our efforts to attract and expand the number of consumers who use our websites and mobile applications. Should the competition for awareness and brand preference increase among online real estate information providers, we may not be able to successfully maintain or enhance the strength of our brand. If we are unable to maintain or enhance user and advertiser awareness of our brand cost-effectively, our business, results of operations and financial condition could be harmed.

We are dependent on the real estate industry, and changes to that industry, or declines in the real estate market or increases in mortgage interest rates, could reduce the demand for our products and services.

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

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We may be unable to maintain or establish relationships with data providers, which could limit the information we are able to provide to our users and impair our ability to attract or retain users.

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

We may in the future be subject to disputes regarding the accuracy of our Zestimates and Rent Zestimates.

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

We face competition to attract consumers to our websites and mobile applications, which could impair our ability to continue to grow the number of users who use our websites and mobile applications, which would harm our business, results of operations and financial condition.

Our success depends on our ability to continue to attract additional consumers to our websites and mobile applications. Our existing and potential competitors include companies that operate, or could develop, national and local real estate and mortgage websites. These companies could devote greater technical and other resources than we have available, have a more accelerated time frame for deployment and leverage their existing user bases and proprietary technologies to provide products and services that consumers might view as superior to our offerings. Any of our future or existing competitors may introduce different solutions that attract consumers or provide solutions similar to our own but with better branding or marketing resources. If we are unable to continue to grow the number of consumers who use our websites and mobile applications, our business, results of operations and financial condition would be harmed.

We may be unable to compete successfully against our existing or future competitors in attracting advertisers, which could harm our business, results of operations and financial condition.

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

Our dedication to making decisions based primarily on the best interests of consumers may cause us to forgo short-term gains.

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

If we fail to manage our growth effectively, our brand, results of operations and business could be harmed.

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

If use of the Internet and mobile technology, particularly with respect to online real estate products and services, does not continue to increase as rapidly as we anticipate, our business could be harmed.

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

We rely on the performance of highly skilled personnel, and if we are unable to attract, retain and motivate well-qualified employees, our business could be harmed.

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

Any significant disruption in service on our websites or in our network could damage our reputation and result in a loss of users of our products and services and of advertisers, which could harm our business, results of operations and financial condition.

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

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

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

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

We may make acquisitions and investments, which could result in operating difficulties, dilution and other harmful consequences.

We continue to evaluate a wide array of potential strategic opportunities. For example, in March 2011, we acquired the operating assets of Postlets LLC, a real estate agent and rental property manager marketing service, and in October 2011, we acquired substantially all of the assets of Diverse Solutions, Inc., a company that helps real estate agents market their businesses and improve their personal websites. Any transactions that we enter

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into could be material to our financial condition and results of operations. The process of integrating an acquired company, business or technology could create unforeseen operating difficulties and expenditures. The areas where we face risks include:

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

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

We are subject to a variety of federal and state laws, many of which are unsettled and still developing and which could subject us to claims or otherwise harm our business.

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

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

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

We may be unable to continue to use the domain names that we use in our business, or prevent third parties from acquiring and using domain names that infringe on, are similar to, or otherwise decrease the value of our brand or our trademarks or service marks.

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

We may be unable to adequately protect our intellectual property, which could harm the value of our brand and our business.

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

While we believe that our issued patents and pending patent applications help to protect our business, there can be no assurance that our operations do not, or will not, infringe valid, enforceable patents of third parties or that competitors will not devise new methods of competing with us that are not covered by our patents or patent applications. There also can be no assurance that our patent applications will be approved, that any patents issued will adequately protect our intellectual property, that such patents will not be challenged by third parties or found to be invalid or unenforceable or that our patents will be effective in preventing third parties from utilizing a copycat business model to offer the same products or services. Moreover, we rely on intellectual property and technology developed or licensed by third parties, and we may not be able to obtain licenses and technologies from these third parties on reasonable terms or at all.

Effective trademark, service mark, copyright and trade secret protection may not be available in every country in which our products and services may be provided. The laws of certain countries do not protect proprietary rights to the same extent as the laws of the United States and, therefore, in certain jurisdictions, we may be unable to protect intellectual property and our proprietary technology adequately against unauthorized third-party copying or use, which could harm our competitive position. We have licensed in the past, and expect to license in the future, certain of our proprietary rights, such as trademarks or copyrighted material, to third parties. These licensees may take actions that might diminish the value of our proprietary rights or harm our reputation, even if we have agreements prohibiting such activity. To the extent third parties are obligated to indemnify us for breaches of our intellectual property rights, these third parties may be unable to meet these obligations. Any of these events could harm our business, results of operations or financial condition.

Intellectual property disputes are costly to defend and could harm our business, results of operations, financial condition and reputation.

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

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

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

Confidentiality agreements with employees and others may not adequately prevent disclosure of trade secrets and other proprietary information.

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

We may be unable to halt the operations of websites that aggregate or misappropriate our data.

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

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If our security measures are compromised, consumers may curtail use of our products and services and advertisers may reduce their advertising on our websites.

Our products and services involve the storage and transmission of users information, some of which may be private, and security breaches could expose us to a risk of loss or exposure of this information, which could result in potential liability and litigation. For example, a hacker could steal a user s profile password and manipulate information about that user s home or post to a forum while posing as that user. Like all websites, our websites are vulnerable to computer viruses, break-ins, phishing attacks, attempts to overload our servers with denial-of-service or other attacks and similar disruptions from unauthorized use of our computer systems, any of which could lead to interruptions, delays, or website shutdowns, causing loss of critical data or the unauthorized disclosure or use of personal or other confidential information. If we experience compromises to our security that result in website performance or availability problems, the complete shutdown of our websites or mobile applications, or the loss or unauthorized disclosure of confidential information, our users and advertisers may lose trust and confidence in us, and users may decrease the use of our websites or stop using our websites in their entirety, and advertisers may decrease or stop advertising on our websites. Further, outside parties may attempt to fraudulently induce employees, users or advertisers to disclose sensitive information in order to gain access to our information or our users or advertisers information. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently, often are not recognized until launched against a target and may originate from less regulated and remote areas around the world, we may be unable to proactively address these techniques or to implement adequate preventative measures. Any or all of these issues could negatively impact our ability to attract new users and increase engagement by existing users, cause existing users to curtail or stop use of our products or services or close their accounts, cause existing advertisers to cancel their contracts, or subject us to third-party lawsuits, regulatory fines or other action or liability, thereby harming our business, results of operations and financial condition.

We are subject to a number of risks related to the credit card and debit card payments we accept.

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

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

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

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

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

We have pledged substantially all of our assets to secure indebtedness.

In March 2011, we entered into an agreement with a financial institution to establish a $4.0 million line of credit to be used for general business purposes. Indebtedness we incur under this agreement is secured by substantially all our assets other than our intellectual property. If we default on our obligations under this agreement, the financial institution may foreclose on our assets, which would materially and adversely impact our business. On March 22, 2011, we executed a standby letter of credit of $1.5 million in connection with the lease of our new Seattle offices and reserved this amount against the line of credit, which subsequently reduced the available line to $2.5 million. As of December 31, 2011, there were no other amounts outstanding under the line of credit.

We expect our results of operations to fluctuate on a quarterly and annual basis.

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

Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.

At December 31, 2011, we had federal net operating loss carryforwards of approximately $68.6 million and tax credit carryforwards of approximately $1.2 million. Under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, if a corporation undergoes an ownership change, the corporation s ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes, such as research tax credits, to offset its post-change income or income tax liability may be limited. In general, an ownership change will occur if there is a cumulative change in our ownership by certain 5-percent shareholders that exceeds 50 percentage points over a rolling three-year period. We may experience one or more ownership changes in the future as a result of future transactions in our stock. As a result, if we earn net taxable income, our ability to use our pre-change net operating loss carryforwards or other pre-change tax attributes to offset our federal taxable income or reduce our federal income tax liability may be subject to limitation.

The requirements of being a public company may strain our resources and distract our management, which could make it difficult to manage our business.

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

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act). These requirements could strain our systems and resources. The Exchange

Act also requires that we file annual, quarterly and current reports with respect to our business and financial condition. The Exchange Act requires that we maintain effective disclosure controls and procedures and internal control over financial reporting. To maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, we have committed significant resources, hired additional staff and provided additional management oversight. We have implemented additional procedures and processes for the purpose of addressing the standards and requirements applicable to public companies. Sustaining our growth will require us to commit additional management, operational and financial resources to identify new professionals to join us and to maintain appropriate operational and financial systems to adequately support expansion. These activities may divert management s attention from other business concerns and could make it difficult to manage our business, which could harm our business, results of operations, financial condition and cash flows. In addition, if we find any material weakness in our internal controls, we could lose investor confidence in the accuracy and completeness of our financial reports, which would cause the market price of our Class A common stock to decline.

Risks Related to Ownership of Our Class A Common Stock

Our stock price may be volatile, and the value of an investment in our common stock may decline.

An active, liquid and orderly market for our Class A common stock may not be sustained, which could depress the trading price of our Class A common stock. The trading price of our Class A common stock has at times experienced substantial price volatility and may continue to be volatile. For example, in 2011, the closing price of our Class A common stock ranged from $21.63 per share to $37.48 per share. The market price of our Class A common stock could be subject to wide fluctuations in response to many of the risk factors discussed in this Annual Report on Form 10-K and others beyond our control, including:

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

- sales of our Class A common stock by us or our shareholders;
- stock price and volume fluctuations attributable to inconsistent trading volume levels of our shares; and
- general economic and market conditions.

Furthermore, the stock markets in recent years have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of the equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, may negatively impact the market price of our Class A common stock. If the market price of our Class A common stock declines, you may not realize any return on your investment in us and may lose some or all of your investment. In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert management s attention from other business concerns, which could harm our business, results of operations or financial condition.

The dual class structure of our common stock as contained in our charter documents has the effect of concentrating voting control with our founders, and limits your ability to influence corporate matters.

Since Zillow s inception, our capital structure has had authorized Class A common stock and authorized Class B common stock. Our Class A common stock has one vote per share, and our Class B common stock has 10 votes per share. All shares of Class B common stock have been and are held by our founders, Richard Barton and Lloyd Frink. As of December 31, 2011, Mr. Barton s holdings and Mr. Frink s holdings represented approximately 46.3% and 37.4%, respectively, of the voting power of our outstanding capital stock.

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

Future sales of our Class A common stock in the public market could cause our stock price to decline.

Our Class A common stock began trading on The Nasdaq Global Market on July 20, 2011; however, to date there has been a limited number of shares trading in the public market. We cannot predict the effect, if any, that market sales of shares or the availability of shares for sale will have on the prevailing trading price of our common stock from time to time. There is currently no contractual restriction on our ability to issue additional shares or on our shareholders ability to sell their shares. Our current shareholders hold a substantial percentage of our outstanding common stock and, as of January 15, 2012, are permitted to sell these shares in the public market without restriction. Sales of a substantial number of shares of our common stock could cause our stock price to fall.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

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

If we issue additional shares of common stock to raise capital, it may have a dilutive effect on shareholders investment.

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

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Anti-takeover provisions in our charter documents and under Washington law could make an acquisition of us more difficult, limit attempts by shareholders to replace or remove our management and affect the market price of our Class A common stock.

Provisions in our articles of incorporation and bylaws, as amended and restated, may have the effect of delaying or preventing a change of control or changes in our management. Our amended and restated articles of incorporation or amended and restated bylaws include provisions, some of which will become effective only after the date, which we refer to as the threshold date, on which the Class B common stock controlled by our founders represents less than 7% of the aggregate number of shares of the outstanding Class A common stock and Class B common stock, that:

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

Prior to the threshold date, our directors can be removed with or without cause by holders of our Class A common stock and Class B common stock, voting together as a single group, and vacancies on the board of directors may be filled by such shareholders, voting together as a single group. Given the dual class structure of our common stock, our founders, Richard Barton and Lloyd Frink, who hold our Class B common stock, will have the ability for the foreseeable future to control these shareholder actions. See the risk factor above titled The dual class structure of our common stock as contained in our charter documents has the effect of concentrating voting control with our founders and limits your ability to influence corporate matters.

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

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

In March 2011, we entered into a lease effective through November 2022 for approximately 66,000 square feet of office space that has housed our principal offices since August 2011. This new office space replaced our approximately 46,000 square feet of office space in Seattle under a lease that expires in February 2013. We lease additional office space in San Francisco, California, Irvine, California, Chicago, Illinois and New York, New York.

Item 3. Legal Proceedings

In March 2010, Smarter Agent, LLC (Smarter Agent), a provider of mobile real estate applications, filed a complaint against us and multiple other defendants 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 injunctive order against the alleged infringing activities and an award for damages. We have denied the allegations and asserted counterclaims seeking declarations that we are not infringing the patents and that the patents are invalid. In November 2010, the U.S. Patent and Trademark Office granted our petition for re-examination of the three patents-in-suit and its first office action found all claims invalid. In March 2011, the court stayed 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), 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.

In April 2010, First American CoreLogic (CoreLogic), a provider of information and analytic services, filed a complaint against us and multiple other defendants for patent infringement in the U.S. District Court for the Eastern District of Texas. The complaint alleged, among other things, that our website technology infringes a patent purporting to cover a Real estate appraisal using predictive modeling, and sought an injunctive order against the alleged infringing activities and an award for damages. We denied the allegations and asserted counterclaims seeking declarations that we are not infringing the patent, and that the patent is unenforceable and invalid. In December 2011, CoreLogic and Zillow entered into a settlement agreement under which each of the parties granted the other a full release from, and covenanted not to sue the other party based on, any claim relating to this litigation or conduct in the settlement negotiations prior to the effective date of the agreement. CoreLogic further covenanted not to sue us based on any claim relating to assertions of infringement of the CoreLogic patent at issue in the litigation. The parties also entered into a master license agreement with a contractual term of five years under which we license data content from CoreLogic that will be displayed on our website, including property data from various U.S. counties.

In September 2010, LendingTree, LLC, a provider of an online lending marketplace, filed a complaint against us, and other defendants, for patent infringement in the U.S. District Court for the Western District of North Carolina. The complaint alleges, among other things, that our website technology infringes two patents

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purporting to cover a Method and computer network for coordinating a loan over the internet, and seeks an injunctive order against the alleged infringing activities and an award for damages. We have denied the allegations and asserted counterclaims seeking declarations that we are not infringing the patents and that the patents are unenforceable and invalid.

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

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

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

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

Market Information and Holders

Since our initial public offering on July 20, 2011, our Class A common stock has traded on The Nasdaq Global Market under the symbol Z . Prior to that time, there was no public trading market for our Class A common stock. The initial public offering price of our common stock was $20.00 per share.

The following table sets forth, for each full quarterly period indicated, the high and low sales prices for our Class A common stock as quoted on The Nasdaq Global Market:

Year Ending December 31, 2011:	High	Low
Third Quarter 2011 (beginning on July 20, 2011)	$ 60.00	$ 23.43
Fourth Quarter 2011	33.48	21.22

From July 20, 2011 through December 31, 2011, the closing price of our Class A common stock ranged from $21.63 per share to $37.48 per share.

As of February 24, 2012, there were 150 holders and two holders of record of our Class A common stock and our Class B common stock, respectively.

Dividends

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

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

Recent Sales of Unregistered Securities

During the year ended December 31, 2011, we made sales of the following unregistered securities which were not previously disclosed in our quarterly reports on Form 10-Q or current reports on Form 8-K that were filed with the Securities and Exchange Commission:

(a) In the first quarter of 2011, we granted stock options to purchase an aggregate of 1,093,272 shares of our Class A common stock at an exercise price $3.89 per share to officers, employees, directors and consultants under our Amended and Restated 2005 Equity Incentive Plan. These transactions were exempt from the registration requirements of the Securities Act in reliance upon Rule 701 promulgated under the Securities Act or Section 4(2) of the Securities Act. The shares subject to these stock options were subsequently registered on a registration statement on Form S-8 (File No. 333-176095) under the Securities Act of 1933, as amended (the Securities Act), filed with the Securities and Exchange Commission on August 5, 2011 prior to the issuance of any shares under such stock options.

(b) On March 3, 2011, we issued 207,100 shares of our Class A common stock to an accredited investor in connection with our acquisition of the operating assets of Postlets LLC.

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(c) On October 31, 2011, we issued 75,000 restricted shares of our Class A common stock to an accredited investor in connection with our acquisition of the operating assets of Diverse Solutions, Inc. One-third of the restricted shares will vest and no longer be subject to forfeiture on the first anniversary of the vesting commencement date, which is October 31, 2011, subject to Justin LaJoie s, the controlling shareholder of Diverse Solutions, Inc., continued employment or service to Zillow until such date. The remaining shares will vest ratably over the twenty-four months following such first anniversary, subject to Justin LaJoie s continued employment or service to Zillow. In the event of Justin LaJoie s termination of service by Zillow without cause or by Justin LaJoie for good reason, any unvested shares on the date of such termination will become vested and no longer subject to forfeiture.

These transactions were exempt from registration under the Securities Act in reliance upon Section 4(2) of the Securities Act or Regulation D promulgated thereunder, or Rule 701 promulgated under Section 3(b) of the Securities Act as transactions by an issuer not involving any public offering or pursuant to benefit plans and contracts relating to compensation as provided under Rule 701. The recipients of shares of Class A common stock in these transactions represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were placed upon the stock certificates issued in these transactions. All recipients had adequate access, through their relationships with us, to information about Zillow.

Use of Proceeds

Concurrent with the closing of our initial public offering of our Class A common stock (IPO), on July 25, 2011, we completed a private placement offering to funds affiliated with Technology Crossover Ventures and PAR Investment Partners, L.P., for 274,999 shares of our Class A common stock at a price of $20.00 per share.

On July 25, 2011, in connection with our IPO, we sold and issued 3,981,300 shares of our Class A common stock, including 519,300 shares of Class A common stock pursuant to the underwriters option to purchase additional shares, at a public offering price of $20.00 per share. The aggregate gross proceeds for all shares sold by us in the IPO were $79,626,000. The offer and sale of all of the shares in the IPO were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-173570), which was declared effective by the SEC on July 19, 2011, and a prospectus filed pursuant to Rule 424(b) of the Securities Act.

There has been no material change in the planned use of proceeds from our IPO as described in our final prospectus filed with the SEC pursuant to Rule 424(b).

Purchases of Equity Securities by the Issuer

None.

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Performance Graph

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

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Item 6. Selected Financial Data

The selected financial data set forth below should be read in conjunction with the information under Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and related notes included elsewhere in this annual report. Our historical results are not necessarily indicative of our results to be expected in any future period.

	Year Ended December 31,				
	2011	2010	2009	2008	2007
	(in thousands, except per share data)				
Statement of Operations Data:					
Revenue	$ 66,053	$ 30,467	$ 17,491	$ 10,593	$ 7,106
Costs and expenses:					
Cost of revenue (exclusive of amortization) (1)(2)	10,575	4,973	4,042	4,198	3,710
Sales and marketing (1)	25,725	14,996	9,654	7,481	6,118
Technology and development (1)	14,143	10,651	11,260	15,048	12,885
General and administrative (1)(3)	14,613	6,684	5,501	5,770	6,179
Total costs and expenses	65,056	37,304	30,457	32,497	28,892
Income (loss) from operations	997	(6,837)	(12,966)	(21,904)	(21,786)
Other income	105	63	111	687	1,496
Net income (loss)	$ 1,102	$ (6,774)	$ (12,855)	$ (21,217)	$ (20,290)
Net income (loss) attributable to common shareholders	$	$ (6,774)	$ (12,855)	$ (21,217)	$ (20,290)
Net income (loss) per share attributable to common shareholders basic and diluted	$	$ (0.53)	$ (1.02)	$ (1.68)	$ (1.62)
Weighted average shares outstanding basic	19,815	12,770	12,613	12,593	12,553
Weighted average shares outstanding diluted	22,305	12,770	12,613	12,593	12,553
(1) Includes share-based compensation as follows:					
Cost of revenue	$ 189	$ 210	$ 183	$ 157	$ 154
Sales and marketing	388	445	408	408	247
Technology and development	546	389	394	412	306
General and administrative	822	671	666	544	473
Total	$ 1,945	$ 1,715	$ 1,651	$ 1,521	$ 1,180
(2) Amortization of website development costs and intangible assets included in technology and development is as follows:	$ 5,384	$ 4,184	$ 4,797	$ 5,465	$ 4,354
(3) General and administrative includes a facility exit charge as follows:	$ 1,737	$	$	$	$

	At December 31,				
	2011	2010	2009	2008	2007
	(in thousands)				
Balance Sheet Data:					
Cash and cash equivalents and short-term and long-term investments	$ 92,136	$ 13,777	$ 16,091	$ 24,270	$ 41,728
Property and equipment, net	7,227	4,929	4,409	6,249	9,253
Working capital	71,713	11,941	16,432	25,428	41,451
Total assets	116,668	24,013	24,608	34,482	54,406
Convertible preferred stock		4	4	4	4

Total shareholders equity	101,213	17,448	21,126	31,840	51,044

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

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

Overview

We are the leading real estate information marketplace. In addition to Zillow.com, we also operate Zillow Mobile, our suite of mobile real estate applications, and Zillow Mortgage Marketplace, where borrowers connect with lenders to find loans and get the competitive mortgage rates.

Zillow provides information about homes, real estate listings and mortgages through our websites and mobile applications, enabling homeowners, buyers, sellers and renters to connect with real estate and mortgage professionals best suited to meet their needs.

Our living database of more than 100 million U.S. homes homes for sale, homes for rent and homes not currently on the market attracts an active and vibrant community of users. Individuals and businesses that use Zillow have updated information on more than 27 million homes and added more than 65 million home photos, creating exclusive home profiles available nowhere else. These profiles include detailed information about homes, including property facts, listing information and purchase and sale data. We provide this information to our users where, when and how they want it, through our websites and through our industry-leading mobile applications that enable consumers to access our information when they are curbside, viewing homes. Using industry-leading automated valuation models, we provide current home value estimates, or Zestimates, and current rental price estimates, or Rent Zestimates, on approximately 100 million U.S. homes.

The following is a listing of significant milestones for the year ended December 31, 2011:

- In February 2011, we launched a strategic relationship with Yahoo! Real Estate through which we provide real estate listings to Yahoo! Real Estate and have exclusive rights to sell real estate agent advertising and certain graphical advertisements for display throughout the Yahoo! Real Estate site.

- In March 2011, we acquired the operating assets of Postlets LLC, a listings distribution and marketing service for real estate agents.

- In March 2011, we launched Rent Zestimates, which provide estimated rent prices for approximately 100 million homes and apartments across the country.

- In March 2011, we launched the Zillow Blackberry App for Research in Motion® s BlackBerry smartphones.

- In April 2011, we launched a strategic advertising relationship with Century 21 Real Estate. These listings also appear on the Yahoo!/Zillow Real Estate Network.

- In June 2011, we expanded and improved our living database of homes, adding more than 25 million new Zestimate home valuations and improving Zestimate accuracy nationwide.

- In July 2011, we closed our initial public offering and began trading on The NASDAQ Global Market under the symbol Z .

In September 2011, we announced our partnership with Curbed ® (curbed.com), whereby Curbed.com visitors can search for local listings nationwide.

In October 2011, we launched a strategic relationship with AOL Real Estate which brings the Zillow Mortgage Marketplace shopping experience to the AOL Real Estate and DailyFinance websites.

In October 2011, we acquired substantially all of the operating assets of Diverse Solutions, Inc., a company that helps real estate agents market their businesses and improve their personal websites.

In October 2011, we expanded the Zillow iPhone® App by adding the experience of Zillow Mortgage Marketplace.

In November 2011, we launched a free real estate application for the Android Tablet.

We generate revenue from local real estate professionals, primarily on an individual subscription basis, and from mortgage professionals and brand advertisers. Our revenue includes marketplace revenue, consisting of subscriptions sold to real estate agents and advertising sold on a cost per click, or CPC, basis to mortgage lenders, and display revenue consisting of advertising placements sold primarily on a cost per thousand impressions, or CPM, basis.

We have experienced significant revenue growth over the past three years. In 2009, 2010 and 2011 we focused on growing our marketplace revenue, which accounted for the majority of our revenue growth over that period. The increase in marketplace revenue resulted from growth in our Premier Agent program and the commencement of charging mortgage lenders for participation in Zillow Mortgage Marketplace. Our Premier Agent program established a significant source of more predictable subscription-based revenue that complements our display revenue, and created a more diversified revenue mix.

For the years ended December 31, 2011, 2010 and 2009, we generated revenue of $66.1 million, $30.5 million and $17.5 million, respectively, representing year-over-year growth of 117%, 74% and 65%, respectively. We believe achieving these levels of revenue growth were primarily the result of significant growth in the following areas:

Traffic to our owned and operated websites and mobile applications indicated by the average number of monthly unique users for the three months ended December 31, 2011, 2010 and 2009 of 23.5 million, 12.7 million and 7.6 million, respectively, representing year-over-year growth of 86%, 66% and 38%, respectively;

Marketplace revenue due to the launch of our Premier Agent program in 2008 and the commencement of charging mortgage lenders for participation in Zillow Mortgage Marketplace in January 2010; and

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

Key Growth Drivers

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

Unique Users

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

	Average Monthly Unique Users for the Three Months Ended December 31,			2011 to 2010	2010 to 2009
	2011	2010	2009	% Change	% Change
	(in thousands)				
Unique Users	23,507	12,666	7,611	86%	66%

Premier Agent Subscribers

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

	At December 31,			2011 to 2010 %	2010 to 2009
	2011	2010	2009	Change	% Change
Premier Agent Subscribers	15,799	8,102	2,764	95%	193%

Basis of Presentation

Revenue

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

Marketplace Revenue. Marketplace revenue consists of subscriptions sold to real estate agents under our Premier Agent program and CPC advertising related to our Zillow Mortgage Marketplace sold to mortgage lenders.

Our Premier Agent program allows local real estate agents to establish a persistent online and mobile presence on Zillow in the zip codes they serve. We present contact information for each Premier Agent alongside home profiles and home listings within the agent s zip code, assisting consumers in evaluating and selecting the real estate agent best suited for them. Pricing for our Premier Agent subscriptions varies by zip code and the tier level of participation, Platinum Premier, Silver Premier and Basic Premier. Subscription advertising revenue is recognized on a straight-line basis during the contractual period over which the advertising is delivered. Typical terms of our Premier Agent subscription contracts are six months. Growth in our subscription advertising product is based on our ability to continue to attract agent subscribers and drive consumer traffic to those agents on our websites and through our mobile applications.

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 on their links 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.

Display Revenue. Display revenue primarily consists of graphical web and mobile advertising sold on a CPM basis to advertisers primarily in the real estate industry, including real estate brokerages, home builders, mortgage lenders and home services providers. Our advertising customers also include telecommunications,

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automotive, insurance and consumer products companies. We recognize display revenue as impressions are delivered to users interacting with our websites or mobile applications. Growth in display revenue depends on continuing growth in traffic to our websites and mobile applications and migration of advertising spend online from traditional broadcast and print media.

Costs and Expenses

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

Sales and Marketing. Sales and marketing expenses consist of headcount expenses, including salaries, commissions, benefits, share-based compensation expense and bonuses for sales, sales support, customer support, marketing and public relations employees. Sales and marketing expenses also include other sales expenses related to promotional and marketing activities and facilities costs allocated on a headcount basis.

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

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

Other Income

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

Income Taxes

We are subject to U.S. federal income taxes. As of December 31, 2011 and 2010, we did not have taxable income and therefore no tax liability or expense has been recorded in the financial statements. We have provided a full valuation allowance against our net deferred tax assets as of December 31, 2011 and 2010 because there is significant uncertainty around our ability to realize the deferred tax assets in the future. We have accumulated tax losses of approximately $68.6 million as of December 31, 2011, which are available to reduce current future taxable income.

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Results of Operations

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

	Year Ended December 31, 2011	2010	2009
	(in thousands, except per share data)		
Statements of Operations Data:			
Revenue	$ 66,053	$ 30,467	$ 17,491
Costs and expenses:			
Cost of revenue (exclusive of amortization) (1)(2)	10,575	4,973	4,042
Sales and marketing (1)	25,725	14,996	9,654
Technology and development (1)	14,143	10,651	11,260
General and administrative (1)(3)	14,613	6,684	5,501
Total costs and expenses	65,056	37,304	30,457
Income (loss) from operations	997	(6,837)	(12,966)
Other income	105	63	111
Net income (loss)	$ 1,102	$ (6,774)	$ (12,855)
Net income (loss) attributable to common shareholders	$	$ (6,774)	$ (12,855)
Net income (loss) per share attributable to common shareholders basic and diluted	$	$ (0.53)	$ (1.02)
Weighted-average shares outstanding basic	19,815	12,770	12,613
Weighted-average shares outstanding diluted	22,305	12,770	12,613
Other Financial Data:			
Adjusted EBITDA (unaudited) (4)	$ 11,869	$ 140	$ (4,908)

(1) Includes share-based compensation as follows:

Cost of revenue	$ 189	$ 210	$ 183
Sales and marketing	388	445	408
Technology and development	546	389	394
General and administrative	822	671	666
Total	$ 1,945	$ 1,715	$ 1,651

(2) Amortization of website development costs and intangible assets included in technology and development is as follows:	$ 5,384	$ 4,184	$ 4,797
(3) General and administrative includes a facility exit charge as follows:	$ 1,737	$	$

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

	Year Ended December 31, 2011	2010	2009
Percentage of Revenue:			
Revenue	100%	100%	100%
Costs and expenses:			
Cost of revenue	16	16	23
Sales and marketing	39	49	55
Technology and development	21	35	64
General and administrative	22	22	31

Total costs and expenses	98	122	174
Income (loss) from operations	2	(22)	(74)
Other income	0	0	1
Net income (loss)	2%	(22%)	(73%)

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Adjusted EBITDA

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

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

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

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

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

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

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

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

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

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

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

	Year Ended December 31,		
	2011	**2010**	**2009**
		(in thousands)	
Reconciliation of Adjusted EBITDA to Net Income (Loss):			
Net income (loss)	$ 1,102	$ (6,774)	$ (12,855)
Other income	(105)	(63)	(111)
Depreciation and amortization expense	7,190	5,262	6,407
Share-based compensation expense	1,945	1,715	1,651
Facility exit charge	1,737		
Adjusted EBITDA (unaudited)	$ 11,869	$ 140	$ (4,908)

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Revenue

	Year Ended December 31, 2011	2010	2011 to 2010 % Change
	(in thousands)		
Marketplace revenue	$ 42,190	$ 13,228	219%
Display revenue	23,863	17,239	38%
Total	$ 66,053	$ 30,467	117%

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	Year Ended December 31, 2011	2010
Percentage of Revenue:		
Marketplace revenue	64%	43%
Display revenue	36%	57%
Total	100%	100%

Overall revenue grew by $35.6 million, or 117%, in 2011 compared to 2010. Marketplace revenue grew by 219%, and display revenue grew by 38%.

Marketplace revenue was $42.2 million in 2011 compared to $13.2 million in 2010, an increase of $29.0 million. Marketplace revenue represented 64% of total revenue in 2011 compared to 43% of total revenue in 2010. The increase in marketplace revenue was primarily attributable to growth in the number of subscribers in our Premier Agent program to 15,799 as of December 31, 2011 from 8,102 as of December 31, 2010, an increase of 95%, as well as an increase in the average price for new Premier Agents and for existing Premier Agents who renewed their subscriptions for additional six-month terms. We believe the increase in subscribers and the increase in the average price in our Premier Agent program was driven by our increased development of our marketplace program with the support of our sales team and the overall growth in the number of unique users of our websites and mobile applications.

Display revenue was $23.9 million in 2011 compared to $17.2 million in 2010, an increase of $6.6 million. Display revenue represented 36% of total revenue in 2011 compared to 57% of total revenue in 2010. The increase in display revenue was primarily the result of an increase in unique users to our websites and mobile applications which increased to 23.5 million average monthly unique users for the three months ended December 31, 2011 from 12.7 million average monthly unique users for the three months ended December 31, 2010, an increase of 86%. The growth in unique users increased the number of graphical display impressions available for sale and advertiser demand for graphical display inventory. This resulted in increased advertising spend by larger businesses and industry-endemic advertisers such as real estate brokers, builders and lending institutions.

Cost of Revenue

Cost of revenue was $10.6 million in 2011 compared to $5.0 million in 2010, an increase of $5.6 million, or 113%. The increase in cost of revenue was primarily attributable to revenue sharing costs related to our strategic relationship with Yahoo! Real Estate, which launched in February 2011, as well as a $0.8 million increase in credit card and ad serving fees and increases in other miscellaneous costs related to revenue growth, primarily in our marketplace revenue category. We expect our cost of revenue to increase in future years as we continue to incur more expenses that are associated with growth in revenue.

Sales and Marketing

Sales and marketing expenses were $25.7 million in 2011 compared to $15.0 million in 2010, an increase of $10.7 million, or 72%. The increase was primarily a result of growth in headcount related expenses of $5.4 million driven by increases in the size of our sales team to promote our marketplace business, as well as a $4.3 million increase in marketing and advertising expenses, including tradeshows and related travel costs. The remaining increase of $1.0 million was primarily the result of consulting costs and additional depreciation expense. We expect our sales and marketing expenses to increase in future years as we continue to invest more resources in growing our sales team and in marketing and advertising. Although these expenses may increase as a percentage of revenue in the near term, we expect these expenses will decrease as a percentage of revenue in the long term.

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Technology and Development

Technology and development expenses, which include research and development costs, were $14.1 million in 2011 compared to $10.7 million in 2010, an increase of $3.5 million, or 33%. Approximately $1.5 million of the increase was related to growth in headcount related expenses, and approximately $1.2 million of the increase was the result of amortization of intangible assets, including website development costs, purchased content and acquired intangible assets. The remaining increase of $0.8 million was primarily the result of consulting costs and additional depreciation expense. Amortization expense included in technology and development for capitalized website development costs was $4.1 million and $3.6 million, respectively, for the years ended December 31, 2011 and 2010. Amortization expense included in technology and development for purchased data content intangible assets was $0.9 million and $0.6 million, respectively, for the years ended December 31, 2011 and 2010. Other data agreement expense was $0.8 million and $0.7 million, respectively, for the years ended December 31, 2011 and 2010. Amortization expense included in technology and development related to intangible assets recorded in connection with acquisitions was $0.4 million for the year ended December 31, 2011. There was no amortization expense related to intangible assets recorded in connection with acquisitions for the year ended December 31, 2010. While we expect our technology and development expenses to increase over time as we continue to build new website and mobile functionality, we expect these expenses will decrease as a percentage of revenue.

General and Administrative

General and administrative expenses were $14.6 million in 2011 compared to $6.7 million in 2010, an increase of $7.9 million, or 119%. Approximately $1.7 million of the increase was the result of a facility exit charge we recorded in the third quarter of 2011. In August 2011, we relocated our headquarters in Seattle, Washington to accommodate growth in our business. The fluctuation in general and administrative expenses was also a result of an increase of $1.8 million in professional services and consulting fees, which primarily arose from becoming a public company, an increase of $1.7 million in headcount-related costs, including share-based compensation, driven by growth in headcount, an increase of $1.3 million in rent and utilities expense primarily related to rent and utilities expense recorded for our new corporate headquarters in Seattle, Washington, a $0.7 million increase related to the settlement of legal matters, a $0.4 million increase in bad debt expense, a $0.2 million increase in travel costs, and a $0.8 million increase in various other miscellaneous expenses. The increases were partially offset by a $0.7 million decrease in local, business and occupational and gross receipts taxes, approximately $0.3 million of which was the result of a tax credit we received relating to a refund of certain state and local taxes from 2006 to 2009. We expect general and administrative expenses to decline as a percentage of revenue in the near term and going forward.

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Revenue

	Year Ended December 31,		2010 to 2009
	2010	2009	% Change
	(in thousands)		
Marketplace revenue	$ 13,228	$ 3,912	238%
Display revenue	17,239	13,579	27%
Total	$ 30,467	$ 17,491	74%

	Year Ended December 31,	
	2010	2009
Percentage of Revenue:		
Marketplace revenue	43%	22%
Display revenue	57%	78%
Total	100%	100%

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Overall revenue grew by $13.0 million, or 74%, in 2010 compared to 2009. Marketplace revenue grew by 238% and display revenue grew by 27%.

Marketplace revenue was $13.2 million in 2010 compared to $3.9 million in 2009, an increase of $9.3 million. Marketplace revenue represented 43% of total revenue in 2010 compared to 22% of total revenue in 2009. The increase in marketplace revenue was primarily attributable to growth in the number of subscribers in our Premier Agent program to 8,102 as of December 31, 2010 from 2,764 as of December 31, 2009, representing an increase of 193%. We believe the increase in subscribers in our Premier Agent program was driven by our increased development of our marketplace program with the support of the sales team, and the overall growth in the number of unique users of our websites and mobile applications. Marketplace revenue also increased as we began to charge mortgage lenders for participation in Zillow Mortgage Marketplace in January 2010.

Display revenue was $17.2 million in 2010 compared to $13.6 million in 2009, an increase of $3.7 million. Display revenue represented 57% of total revenue in 2010 compared to 78% of total revenue in 2009. We believe this growth was primarily the result of increased unique users to 12.7 million average monthly unique users for the three months ended December 31, 2010 from 7.6 million average monthly unique users for the three months ended December 31, 2009, representing an increase of 66%. The growth in unique users increased the number of graphical display impressions available for sale and advertiser demand for graphical display inventory.

Cost of Revenue

Cost of revenue was $5.0 million in 2010 compared to $4.0 million in 2009, an increase of $0.9 million, or 23%. The increase was the result of $0.5 million greater ad serving costs, credit card fees and other costs and an increase of $0.3 million in headcount expenses for employees supporting the operation of our websites.

Sales and Marketing

Sales and marketing expenses were $15.0 million in 2010 compared to $9.7 million in 2009, an increase of $5.3 million, or 55%. The increase is primarily related to growth in headcount expenses and related commissions of $5.1 million, primarily for our sales team to promote sales of our Premier Agent program, as well as tradeshows, conferences and related travel expenses.

Technology and Development

Technology and development expenses, which include research and development costs, were $10.7 million in 2010 compared to $11.3 million in 2009, a decrease of $0.6 million, or 5%. The decrease was the result of a reduction of $1.2 million in depreciation and amortization expense as historical purchases of computer equipment reached the end of their depreciable lives and significant components of capitalized website development costs being fully amortized, offset by a $0.6 million increase in headcount expenses and consulting expenses. Amortization expense included in technology and development for capitalized website development costs was $3.6 million and $4.2 million for the years ended December 31, 2010 and 2009, respectively. Amortization expense included in technology and development for purchased data content intangible assets was $0.6 million and $0.6 million for the years ended December 31, 2010 and 2009, respectively. Other data agreement expense was $0.7 million and $0.7 million for the years ended December 31, 2010 and 2009, respectively.

General and Administrative

General and administrative expenses were $6.7 million in 2010 compared to $5.5 million in 2009, an increase of $1.2 million, or 22%. The increase was primarily driven by an increase in headcount expenses of approximately $1.0 million. Legal expenses also increased by $0.4 million in 2010 compared to 2009 due to an increase in litigation activity relating to lawsuits filed against us in 2010.

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Quarterly Results of Operations

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

	Three Months Ended							
	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
	(in thousands, except per share data, unaudited)							
Statement of Operations Data:								
Revenue	$ 19,891	$ 19,057	$ 15,845	$ 11,260	$ 9,573	$ 8,229	$ 7,334	$ 5,331
Costs and expenses:								
Cost of revenue (exclusive of amortization) (1) (2)	2,961	3,084	2,713	1,817	1,326	1,263	1,222	1,162
Sales and marketing (1)	7,576	7,035	5,630	5,484	4,071	4,060	3,748	3,117
Technology and development (1)	3,994	3,849	3,304	2,996	2,711	2,528	2,878	2,534
General and administrative (1) (3)	4,463	5,695	2,627	1,828	1,958	1,902	1,483	1,341
Total costs and expenses	18,994	19,663	14,274	12,125	10,066	9,753	9,331	8,154
Income (loss) from operations	897	(606)	1,571	(865)	(493)	(1,524)	(1,997)	(2,823)
Other income	25	36	5	39	7	14	25	17
Net income (loss)	$ 922	$ (570)	$ 1,576	$ (826)	$ (486)	$ (1,510)	$ (1,972)	$ (2,806)
Net income (loss) attributable to common shareholders	$ 922	$ (570)	$	$ (826)	$ (486)	$ (1,510)	$ (1,972)	$ (2,806)
Net income (loss) per share attributable to common shareholders basic and diluted	$ 0.03	$ (0.02)	$	$ (0.06)	$ (0.04)	$ (0.12)	$ (0.16)	$ (0.22)
Weighted average shares outstanding basic	27,748	24,020	13,940	13,347	12,972	12,803	12,660	12,640
Weighted average shares outstanding diluted	30,592	24,020	24,106	13,347	12,972	12,803	12,660	12,640
Other Financial Data:								
Adjusted EBITDA (4)	$ 3,312	$ 3,654	$ 3,852	$ 1,051	$ 1,279	$ 246	$ (202)	$ (1,183)

	Three Months Ended							
	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
	(in thousands, unaudited)							
(1) Includes share-based compensation as follows:								
Cost of revenue	$ 54	$ 48	$ 46	$ 41	$ 42	$ 61	$ 53	$ 54
Sales and marketing	129	85	67	107	113	117	111	104
Technology and development	235	135	90	86	86	102	106	95
General and administrative	236	220	210	156	165	188	159	159
Total	$ 654	$ 488	$ 413	$ 390	$ 406	$ 468	$ 429	$ 412
(2) Amortization of website development costs and intangible assets included in technology and development is as follows	$ 1,466	$ 1,461	$ 1,234	$ 1,223	$ 1,076	$ 1,030	$ 1,107	$ 970
(3) General and administrative includes a facility exit charge as follows	$	$ 1,737	$	$	$	$	$	$

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

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

	Three Months Ended							
	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
	(in thousands, unaudited)							
Revenue:								
Marketplace revenue	$ 13,746	$ 11,840	$ 9,723	$ 6,881	$ 5,114	$ 3,628	$ 2,632	$ 1,854
Display revenue	6,145	7,217	6,122	4,379	4,459	4,601	4,702	3,477
Total	$ 19,891	$ 19,057	$ 15,845	$ 11,260	$ 9,573	$ 8,229	$ 7,334	$ 5,331

	Three Months Ended							
	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
Percentage of Revenue:								
Marketplace revenue	69%	62%	61%	61%	53%	44%	36%	35%
Display revenue	31	38	39	39	47	56	64	65
Total	100%	100%	100%	100%	100%	100%	100%	100%

Revenue increased sequentially in all quarters presented. The strong increase in consumer adoption of our websites and mobile applications in 2011 was reflected in the significant growth in unique users over the year. The composition of revenue continues to shift from display revenue to marketplace revenue, as we continue to dedicate more of our advertising placements on search, map and home detail pages for our marketplace products, which provide consumers with services that tend to be more relevant to home-related searches. Due to the shift in revenue categories, we have experienced less quarterly seasonality overall as compared to the same periods in 2010 and prior. However, we have currently and historically experienced greater revenue in the fourth quarter of the year as a result of increased traffic to our websites and mobile devices.

Adjusted EBITDA

The following table sets forth a reconciliation of Adjusted EBITDA to net income (loss) for each of the eight quarters presented below. See Adjusted EBITDA under Results of Operations above in this Item 7 for additional information about why we have included Adjusted EBITDA in this annual report and how we use Adjusted EBITDA.

	Three Months Ended							
	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
	(in thousands, unaudited)							
Reconciliation of Adjusted EBITDA to Net (Income) Loss:								
Net income (loss)	$ 922	$ (570)	$ 1,576	$ (826)	$ (486)	$ (1,510)	$ (1,972)	$ (2,806)
Other income	(25)	(36)	(5)	(39)	(7)	(14)	(25)	(17)
Depreciation and amortization expense	1,761	2,035	1,868	1,526	1,366	1,302	1,366	1,228
Share-based compensation expense	654	488	413	390	406	468	429	412
Facility exit charge		1,737						
Adjusted EBITDA	$ 3,312	$ 3,654	$ 3,852	$ 1,051	$ 1,279	$ 246	$ (202)	$ (1,183)

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Key Growth Drivers

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

	Average for the Three Months Ended							
	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
	(in thousands)							
Unique Users	23,507	24,238	20,758	17,306	12,666	12,061	10,751	9,301

	Period Ended							
	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
Premier Agent Subscribers	15,799	14,876	13,385	10,710	8,102	6,448	4,777	3,438

Liquidity and Capital Resources

Prior to our initial public offering, we funded our operations primarily from the issuance of common and preferred stock, and for the year ended December 31, 2011, from cash generated from operations. Through 2007, we raised approximately $81.0 million through various offerings of our convertible preferred stock and approximately $5.9 million from the sale of our common stock.

On July 25, 2011, we sold and issued 3,981,300 shares of our Class A common stock, including 519,300 shares of Class A common stock pursuant to the underwriters option to purchase additional shares, at a public offering price of $20.00 per share, and we sold and issued 274,999 shares of our Class A common stock at a price of $20.00 per share in a private placement. As a result of the offerings, we received net proceeds of approximately $76.3 million, after deducting underwriting discounts and commissions of approximately $5.6 million and additional offering-related expenses of $3.3 million, for total expenses of $8.9 million. The net offering proceeds have been invested into money market funds, certificates of deposit and U.S. treasury securities.

As of December 31, 2011 and 2010, we had cash and cash equivalents and short-term and long-term investments of $92.1 million and $13.8 million, respectively. Cash and cash equivalents balances consist of operating cash on deposit with financial institutions and money market funds. Short-term and long-term investments as of December 31, 2011 and 2010 consisted of U.S. government agency securities. Amounts on deposit with third-party financial institutions exceed the applicable Federal Deposit Insurance Corporation and the Securities Investor Protection Corporation insurance limits, as applicable. We believe that cash from operations and cash and cash equivalents and short-term and long-term investment balances will be sufficient to meet our ongoing operating activities, working capital, capital expenditures and other capital requirements for at least the next 12 months.

During March 2011, we entered into a loan and security agreement with a financial institution to establish a line of credit of $4.0 million, secured by substantially all our assets other than our intellectual property, to be used for general business purposes. The line of credit contains financial and non-financial covenants. As of December 31, 2011, we were in compliance with all covenants. The line of credit is available through March 2013. During March 2011, we executed a standby letter of credit of $1.5 million in connection with the lease of our new Seattle offices and reserved this amount against the line of credit, which reduces the available line to $2.5 million. As of December 31, 2011, there were no other amounts outstanding under the line of credit.

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The following table presents selected cash flow data for the years ended December 31, 2011 and 2010:

	Year Ended December 31,		
	2011	2010	2009
		(in thousands)	
Cash Flow Data:			
Cash flows provided by (used in) operating activities	$ 14,826	$ 2,258	$ (4,217)
Cash flows provided by (used in) investing activities	(58,383)	4,631	(14,494)
Cash flows provided by financing activities	79,205	950	100

Cash Flows Provided By (Used In) Operating Activities

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

For the year ended December 31, 2010, net cash provided by operating activities was $2.3 million. This was driven primarily by an increase in the deferred revenue balance of $2.5 million.

Cash Flows Provided By (Used In) Investing Activities

Our primary investing activities include the purchase and maturity of short-term and long-term investments and the purchase of property and equipment and intangible assets.

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

For the year ended December 31, 2010, net cash provided by investing activities was $4.6 million. This was the result of $10.2 million of net proceeds from investments partially offset by $5.5 million for the purchase of property and equipment and intangible assets.

Cash Flows Provided By Financing Activities

Our financing activities have primarily resulted from the exercise of employee non-qualified stock options, as well as proceeds from our initial public offering and our concurrent private placement for the year ended December 31, 2011.

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

The proceeds from the issuance of Class A common stock from the exercise of stock options for the year ended December 31, 2010 was $1.0 million.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of December 31, 2011.

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Contractual Obligations

The following table provides a summary of our contractual obligations as of December 31, 2011:

		Payment Due By Period			
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
			(in thousands)		
Operating lease obligations	$ 21,798	$ 1,800	$ 3,965	$ 3,663	$ 12,370
Purchase obligations	8,768	2,207	3,776	2,785	
Total	$ 30,566	$ 4,007	$ 7,741	$ 6,448	$ 12,370

We have various operating leases for office space and equipment. We have entered into an operating lease for our current headquarters in Seattle, Washington under which we will be obligated to make payments beginning in December 2012 through November 2022. Our prior headquarters in Seattle, Washington is under an operating lease expiring in February 2013. We also have purchase obligations for content related to our websites. We do not have any debt or capital lease obligations. The contractual commitment amounts in the table above are associated with agreements that are enforceable and legally binding. Obligations under contracts that we can cancel without a significant penalty are not included in the table above.

Critical Accounting Policies and Estimates

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

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

Revenue Recognition

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

Our marketplace revenue consists of subscriptions sold to real estate agents under our Premier Agent program, and CPC advertising related to our Zillow Mortgage Marketplace sold to mortgage lenders. Subscription advertising revenue is recognized on a straight-line basis during the contractual period over which the advertising is delivered. Typical terms of our Premier Agent subscription contracts are six months. For Zillow Mortgage Marketplace, we recognize revenue when a user clicks on a mortgage advertisement or on a link to obtain additional information about a mortgage loan quote.

Display revenue primarily consists of graphical advertising sold on a CPM basis to advertisers. We recognize display revenue as impressions are delivered to users interacting with our websites or mobile applications.

Allowance for Doubtful Accounts

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.

Website and Software Development Costs

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

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

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 a reporting unit is less than its carrying amount. If we determine that it is not more likely than not that the fair value of a 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 a 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.

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

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

Share-Based Compensation

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

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

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

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

Volatility. We have estimated volatility of our share price based on the published historical volatilities of industry peers in the online publishing market (primarily the financial and real estate services industries) representing the verticals in which we operate.

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

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

Recent Accounting Pronouncements

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 will have the option to present the components of net income and comprehensive income in either one or two consecutive financial statements. The new guidance is effective for interim and annual reporting periods beginning after December 15, 2011, with earlier adoption permitted. The guidance must be applied retrospectively. We have not early adopted this guidance; however, the adoption of this guidance is not expected to have a material effect on our financial condition and results of operations.

In September 2011, the FASB issued guidance on testing goodwill for impairment to permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. This guidance is effective for fiscal years beginning after December 15, 2011 with earlier application permitted. We early adopted this guidance for our annual goodwill impairment test performed in our fourth quarter of 2011. The adoption of this guidance did not have any impact on our financial position, results of operations or cash flows.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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